

HR Strategy and Planning: From Birth to Business Results

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Human Resource strategy and planning has changed and grown significantly during the last 25 years. We can track these developments from functional strategies in the 1980's to capabilities strategies in the 1990's to results strategies today. Strategic shifts in HR mirror the business and labor market conditions of the times and follow influential breakthroughs in business thinking, from the 7-S model to competing on core competencies to the

current rise of operating models and execution. Longer-term changes in the employment relationship, from relational to transactional employment, and the current emerging three-part workforce of elites, profit makers and costs, provide another important context for HR strategy and a way to view the future. Looking ahead we can see differentiated, results-based strategies and plans for different workforce segments. We also can envision the need for more vital contributions from HR in HR and business strategy and ethical and cultural leadership.

Present at the Creation

What do the following people have in common? Ray Kroc, the Beatles, Ronald Reagan and our esteemed HRPS colleague, Jim Walker. Give up? Each took something that had been forming for a while, and through their efforts gave it a structure, focus and practice not existing before, thus allowing it to grow and flourish. Perhaps human resource strategy and planning is not quite on the same par with fast food, rock n' roll bands and modern conservatism, but the development of our field could not have started without the publication of Jim's classic book, *Human Resource Planning* (Walker, 1980).

It's rare to be able to pinpoint the beginning of a discipline, but, almost 25 years later, we can see clearly the journey that Jim's book helped launch. His book may not have been the first call to HR professionals to think strategically, but it surely was the first to tell them how to do it, and it was, by far, the most complete. I remember reading it then and

thinking that doing this would pose a huge challenge, but that was the point. Doing strategy is hard work, which is precisely why it can bring such big rewards.

Jim's voice was not alone. About the same time, two best-selling books ascribed a much higher weight to the value of people in business success than ever before. *In Search of Excellence* (Peters and Waterman, 1982) and *Corporate Cultures* (Deal and Kennedy, 1982) talked about people, organization and culture in ways that previous business books hadn't contemplated. Empowered by these mega-sellers, and the reigning strategy tool of the day, McKinsey's 7-S model (which included shared values, staffing and skills), academics, consultants and practitioners who wanted to raise the thinking and profile of our field had a popular platform on which to base their work.

Perhaps this doesn't seem like such a big thing today, but back then it all seemed new. Talking about aligning business strategy and people was heady stuff for a function that started as part of the purchasing department (Anderson, 1997) and still often was labeled Personnel. Early conversations about people-to-business alignment usually brought confused looks to the faces of line executives; not to mention the question, "Why are we talking about this?" There was far more concern with the hot new trend of the time—401(k) plans, and cafeteria benefit plans still were being introduced only a few years after their creation at TRW in the 1970's.

Change, Continuity and Context

Twenty-five years of progress enables us to look at HR strategy and planning to see where's it's been, where it's at and where it may be going. Throughout this survey, we'll keep in mind three intertwining elements: Change, continuity and context. In HR strategy and planning the overriding changes are big ones: From very little strategic thinking before 1980 to **functional** strategies throughout the '80's and early '90's to **capability** strategies in the 1990's to **results** strategies, which are emerging today.



Functional strategies describe HR processes that usually are synonymous with parts of the HR department. So we have training strategies or compensation and benefit strategies, depending on which HR programs are most in need of attention or seen as the answer to some particular organizational issue.

Capability strategies address the culture, competencies and commitments the business need to succeed and what and how HR has to do to secure them. If the business strategy is to become a leader in a new technology, this means organizing and recruiting a new

generation of engineers and scientists to launch a research and development group. Or, if the company needs to improve customer service in its call center, it means becoming a leader in work/life programs to attract and retain more highly skilled customer service representatives who are able to get more flexible work arrangements.

Results strategies are comprised of the HR-related business outcomes that are part of companies' overall business strategies. For a mega discount retailer, a HR results strategy is a specific level of speed and cost in recruiting and hiring, designed to provide people at the right time, volumes and prices. For an insurance company, it's the timely development of a particular number of agents to grow the business. Often these strategies are part of a balanced portfolio of performance measures.

Continuity refers to the three challenges always in front of HR. These are:

1. To attract, develop and retain talent
2. To align, engage and measure and reward performance, and
3. To continually control or reduce HR program and people spending

These challenges are timeless, and it's possible to arrange every HR function under one of them. You might even say these are why HR exists—these are tasks it fulfills for the organization. Because of this, HR leaders have to be good at all three, and HR strategists need to pay attention to all of them, not something they always do. Truly, how much strategy is directed at cost control? Usually it's not even seen as a strategic issue. Yet it's easy to argue now that the biggest HR trend of the last 10 years, at least as measured in program dollars, has been outsourcing key HR processes. And this trend is likely to continue until the last dollar of excess costs has been saved.

What's particularly intriguing is how these challenges wax and wane depending on the economy. All three are always present, but which one dominates depends largely on the robustness of the economy and the job market. When jobs are plentiful and talent is in shorter supply, attracting, developing and retaining moves to the forefront and somewhat less attention is paid to the other two. When there are more people than jobs, and there are pressures on profits, increasing productivity through measurement, reward and cost controls/reductions take the main stage.

This argues for a high level of economic knowledge and awareness among HR leaders and strategists. They should be able to make a nimble reading of the economic situation—macro, industry, company and division—to know what to emphasize. We could argue about how many are really knowledgeable and able to react to changing economic conditions, but it's easy to agree that few writings on HR strategy even broach the topic.

The economy and the job market, of course, are part of the **context** in which HR operates. But it's not the only one. Over the last 20 years we have seen dramatic shifts in technology, globalization and workforce demographics and values. Each of these impacts HR strategy and planning in very large ways. Some of these impacts can only be seen over a long period of time and appear to be quite gradual (Capelli, 2003). Others seem to

appear in the blink of an eye. How many among us were talking about the permanent loss of high knowledge jobs to developing countries as little as 12 months ago?

If we are truly strategic thinkers, we'll try to keep in mind how all of these elements—the changes from functional to capability to results strategies, the three constant challenges or tasks of HR and the power of contextual influences (the economy, technology, globalization and the changing workforce)—interact as we survey past, present and future in HR strategy and planning. We probably will fall short in drawing all the connections and implications of these powerful variables. After all, as Jim Walker pointed out in 1980, strategic thinking is really hard work.

Looking Back: The 1980's and '90's

Reagan, Bush I, Clinton, inflation, recession, tax cuts, the defense build-up, Japanese management, the productivity crisis, TQM, Kaizen, mounting deficits, baby boomers, restructuring, downsizing, generation X, the information revolution, the rise of the knowledge worker, the balanced budget, the European Union, the rush to China, WTO and trade agreements, the roaring '90's, the internet bubble, stock options, the celebrity CEO, free agent nation, the war for talent....

As the 1980's dawned, there wasn't much HR strategy, but there were a few companies doing workforce planning and labeling it HR strategy. AT&T and IBM probably were the prime examples, along with some of the larger oil companies. The sheer size of those organizations demanded some types of workforce forecasting. AT&T, in particular, gained notice for its succession planning, assessment centers and career development. Of course, that was before 1984 and the judicial decree that broke up the company, when managers could still think about having a long-term career at AT&T. That completely evaporated by the end of the decade.

Functional Strategies

Other companies who were trying to do strategic HR were advancing into functional strategies. Functional strategies may not have been that broad, but in many ways they matched up nicely with the 7-S model. Need skills improvement? A typical functional strategy might be to “develop and implement a training strategy to improve supervisory skills.” That's what HR strategies looked like then. Need more clarity around shared values? The strategy might be to “create and execute a communication plan around mission and vision.” This type of thinking and doing dominated higher-level HR work in those days, gathering people and resources around particular functional issues and creating new and better approaches.

Such strategies worked fine as long as the year's emphasis resided neatly in one work unit. For example, if 1985 was the year of supervisory development, then Training and Development was going to be awfully busy. For the rest of HR, it may have been business-as-usual while you waited for your next turn to shine.

Of course, HR sibling rivalries broke out when processes crossed unit lines. The biggest catfights erupted over who owned “pay-for-performance” programs, which were new for

salaried employees in the 1980's. The pay piece usually belonged to Compensation, while the performance appraisal elements often belonged in Training or sometimes in the newly created Organization Development area. Ed Lawler may have written *Pay and Organizational Development* (Lawler, 1981) to try to integrate the two topics, but that didn't stop the responsible units from fighting over who was in charge. Programs even failed because of internecine warfare. In the late 1980's some companies, like Amoco and Cargill, created positions of Director of Performance Management to avoid these battles. PepsiCo hired Industrial/Organizational Psychologists into their business divisions into a new Management Development function, to work across HR to design integrated, strategically-focused HR systems

The generally tough economy of the times put HR's focus on increasing performance and productivity, hence the growing popularity of performance-based reward programs. Technology was just starting to shape HR work in the introduction of HRIS and the administration of the new 401(k) plans. Those plans, in turn, were the result of new ERISA rules, the rising cost to established businesses of the growing retiree population and the increasing interest by more mobile and displaced employees to have some control over and portability in their retirement savings. Downsizing and restructuring gained momentum as the decade progressed, so employees needed that portability to keep some of what they had accumulated.

Still, even functional HR strategies were starting to grow broader and more strategic because of the first impact of globalization—the rapidly growing economic strength of Japan. For a while it seemed that Japan, Inc. was everywhere and Japanese investors would own everything—they even bought Rockefeller Center and the Pebble Beach golf course. What could be more valuable?



TQM as the Bridge

Most of us perceived that the Japanese miracle was built on quality, with techniques like statistical process control, as introduced to them by the American Edwards Deming, and quality circles, in which eager groups of assembly workers met to discuss how to improve processes and products. How could we fight back since we already had rejected the industrial engineering of Taylorism as too inhumane, and all we had left were suggestion boxes that no one took seriously?

Ultimately we responded with employee involvement programs (Lawler, 1986) that we married to new and improved quality measurement and problem-solving techniques. Anyone remember the fishbone diagram? It was only when we combined the human aspects of employee participation with the cold, hard facts of measuring error variance that total quality management (TQM) took hold in American companies and became part of the way we did business (Mohrman, Ledford and Lawler, 1992).

With hindsight we now can see TQM as the transition that started HR strategy and planning moving from narrow functionalism to broader business considerations, eventually leading to capability strategies. TQM, though full of faddishness, was indeed born of business necessity—the need to improve quality and recapture customers. And, people took it seriously. Recall the ferocious competition and astounding publicity for the Malcolm Baldrige awards. Since it was process-based, TQM forced us to look beyond the individual job, unit or department to see how end products actually were produced. As we know now, simply improving quality wasn't enough to save American companies; we also needed to greatly increase efficiency and productivity.

The logical extension of process-based thinking to these problems led to *Re-engineering the Corporation* (Hammer and Champy, 1993), despite its often illogical and disappointing consequences. But even the re-engineering binges of the early 1990's had some benefits for strategic HR thinking. In many companies attempting to re-engineer, HR leaders were required to look at everything their departments did, as well as how employees were managed, through the lenses of making processes faster, more efficient and error-free and increasing effectiveness and productivity—all critical business imperatives. Better business thinking builds more strategic HR thinking.

Of course, by now employees had caught on that re-engineering often meant de-jobbing. The great downsizings and dislocations of US workers were spreading upward from blue-collar to white and unemployment was peaking in the early 1990's. The first President Bush learned that, "It's the economy, stupid," and waited too long to pass a highway bill that helped create jobs for his successor, Bill Clinton. HR leaders assumed the responsibility for explaining these stark changes wrought by re-engineering and downsizing to affected employees, particularly older middle managers and Generation X workers who had just joined the workforce. This forced HR leaders to move out of their functional comfort zones and understand the psychology of change and its impacts on people and organizations. William Bridges' brilliantly simple formulation, *Managing Transitions* (Bridges, 1991) was the guidebook many of them used.

Despite the increasing sophistication and business focus, functional and operational issues still commanded the lion's share of attention for HR leadership. Even those who wanted to spend their time thinking strategically had to cope with fast rising health care costs. The early savings realized by the spread of HMO's and managed care had leveled off by the early 1990's, and costs were starting to rise again. Generation X-age parents were entering their peak childbearing years when the Clintons launched their ill-fated study of national health insurance in 1994. Not able to wait for the federal government, many states also experimented with their plans to try to provide better coverage at more affordable costs. Ten years later, we're still trying to figure this one out.

The Rise of Capabilities

Just as *In Search of Excellence* formed a foundation from which HR functional strategies emerged; the next wave of business strategy thinking provided the path to HR capability strategies. In 1994 Gary Hamel and C.K. Prahalad published an article, The Core Competence of the Corporation and then a book, *Competing for the Future*, which

described the core competency approach to competitive strategy. Figure out what you're good at and then go do it better than anyone else to win. George Stalk of Boston Consulting had introduced this concept earlier (Stalk and Sirkin, 1990), but it really took off with *Competing for the Future*.

Actually, there had been some discussion of organizational capabilities earlier in HR. In 1990 Dave Ulrich and Dale Lake published *Organizational Capability*, appropriately subtitled: *Competing from the Inside Out*. It's a rich book, and like a lot of first books, maybe it tried to do too much, spanning the corporation from strategy and customer intelligence all the way to the competency model of managing human resources and an agenda for the training department. It was the first book in Ulrich's strategic arc of thinking and writing that dominated the field for the next decade.

Organizational Capability, while influential in the HR community, also shows that revolutions in strategic thinking aren't begun in HR. It takes major developments and publications in the broader business world to do that. Changes in HR strategy occur following or in concert with changes in business strategy. At its heart, HR is and always has been about implementation and execution, responding to business needs and the economic climate, and less about independent origination.

The capabilities perspective has a huge component of internal focus, so it didn't take very long for HR to latch on to it. Internal focus is both a long-time strength and a major weakness of HR leaders. In fact, a lot of the capability strategy work done in HR in the mid-to-late 1990's was directed at the HR department itself. HR spent a lot of time developing its own competencies and structural changes as it tried to move from being an employee champion and administrative expert to a change agent and strategic partner, as prescribed by Ulrich in *Human Resource Champions* (Ulrich, 1997).

There were several reasons for this internal focus. Some HR departments were finally getting around to re-engineering themselves, having successfully avoided it during the TQM rush. They needed to become more efficient and effective. Also, Dave Ulrich, Ed Lawler, Jim Walker and others were active during this period urging HR people to increase their professionalism so they could "get a seat at the strategy table." You couldn't help but come away from most big conferences thinking you had to get moving.

Additionally, during the mid-1990's profits and employment were stabilizing and starting to increase, so money and resources were available to the department. Maybe the biggest reason of all was the rise of technology. The PC was really starting to come into its own—prices on hardware, software and processing power were falling and data analysis and communication capabilities were rapidly increasing. It was possible to go beyond mainframe batch processing of payroll, 401(k) and employment information. Above all, outsourcing was taking hold, and consulting firms were coming around to absorb as many regular functions as possible, including some very complex benefit transactions. They also built call center capacities to take over employee service.

Technology enabled HR departments to create capabilities strategies to increase their delivery prowess. The theory was that if HR could offload or compartmentalize administrative work, it could center more energy on becoming more strategic. Soon HR departments wanted to divide into three parts: 1) Centers of Excellence to handle specialty work—compensation, benefits, labor relations, etc. 2) HR Service Centers to handle administrative tasks—some outsourced, some self-service, some kept in-house and 3) HR Business Partners—a role that combined some parts HR generalist with some parts organization effectiveness consultant. HR Business Partners were assigned to business units and expected to marshal departmental resources and provide one-stop shopping for their clients.

An enormous amount of time, energy and money went into recreating HR along these lines, and there's evidence it was somewhat successful. Certainly HR people felt better about their work and thought they had finally settled on a new paradigm for the function—eliminating the last vestiges of the Personnel function. Centers of Excellence could be managed for innovation; Service Centers could be managed for efficiency and Business Partners could be managed for service outcomes. Finally, HR was acting more like a business. Many of these structures are still in place today.

On the other hand, there's not a lot of evidence that HR ever really became a strategic partner (Lawler and Mohrman, 2003), employee satisfaction with service levels increased, or that line management cared much for this approach, other than when the Service Center saved money. Lawler's triennial research of HR in medium and large organizations shows little progress toward fulfilling the strategic partner role. On another front, managers complained that their existing relationships with familiar generalists or favorite specialists often were disrupted by this change. Usually, the line didn't care enough about HR structure to want to learn new roles and relationships. And, finally, many HR staffers targeted for the business partner role lacked the skills to do it. They needed a lot of training, though often that wasn't enough. They lacked the attitude and personality for it too.

We can look back on this time most charitably as a period of HR muscle building. Or, maybe it was just a matter of HR finally getting some resources to spend after being hit so hard during the early 1990's. Either way, it turned out to be quite useful since it got the function into much better shape to handle what came next—two powerful forces that had organizations feeling all shook up—the first big wave of globalization and the internet bubble which directly led to the talent shortage.

Capabilities Turn Outward

Ahh...the mid-to-late 1990's when everything seemed possible. Corporate profits were rising quickly, the US was pursuing strong dollar, free trade and disciplined fiscal policies led by an extremely sophisticated Treasury Secretary, Robert Rubin, and investors were wide-eyed over the promise of huge riches inspired by far-flung markets in a world shrunk by the internet. People had more money to spend, and the quality movement made the public into demanding consumers. With all this work to do, our

economy became a job creation machine unlike anything we'd seen since the end of World War II.

Companies became more externally focused, and strategy books started talking about markets and customers again—competing from the outside in (Treacy and Wiersema, 1995). Increasingly, HR strategies had to become more externally focused or become irrelevant. Everybody wanted talent to implement ambitious plans. If HR couldn't obtain it, then line managers would go out and get it themselves, offering “whatever it takes” packages to the best and the brightest, and sometimes even just to warm bodies.

From 1996-2000 attracting, developing and retaining talent began to outweigh HR's other two ongoing challenges. Accountability seemed less important to many than innovation and growth—both company and personal. Stock options didn't cost the company anything directly, so give them out, regardless of performance. If you had to spend more on training, benefits and the work experience, so be it—anything to get and keep the right people.

HR capabilities strategies highlighted initiatives designed to make companies more powerful magnets for talent. In the knowledge economy, talent is the key to value creation and competitive differentiation. At first these strategies seemed generic, most everybody was pursuing better work/life policies, more training, increased diversity, richer rewards, etc. Companies that had no business even thinking about it decided to apply for Fortune's 100 best places to work list. The influence of Silicon Valley—the seat of American entrepreneurship—stimulated everything from casual dress and broad-based stock options to “bring your dog to work days.”

Gradually things became more sophisticated, and HR and business leaders realized that who your customers are and how you competed for them should dictate how you attract, manage and reward people (Gubman, 1998). Companies that needed scientists to invent new drugs created different workforce strategies than companies that needed marketers and sales people to sell computers. HR became smarter about how to align business strategies and people strategies, formulating specific strategies for unique value propositions.

Here's an example of a people strategy from a pharmaceutical company from that period. This was a company and an HR group that knew what it needed to get done.

Our strategic intent for our workforce is to:

- Hire and develop people who can discover great products
- Enable people to execute as high-performing global teams
- Break down organizational barriers to create faster, more effective decision-making
- Provide an environment that kindles and maintains the creative spark

To execute on this intent this year, we will:

- Identify the competencies and behaviors associated with breakthrough innovation and discovery
- Revise our selection, training and development, and promotional criteria and programs to use those competencies globally
- Reorganize, as appropriate, into worldwide compound teams focused on specific steps of discovery and development
- Measure and reduce the speed of decision-making for bringing new drugs through each step in our pipeline
- Survey our employees and implement new ways to share information about discovery and development, and reward and recognize product development milestones and achievements in ways satisfying to them

Very Modern History: 2000 to Now

The bubble bursts, Bush II, Enron, Tyco, WorldCom, etc., tax cuts, more tax cuts, September 11, 3 million jobs lost, the war in Iraq, mutual funds scandal...

Where were you when the bubble burst? Now we know it was March 2000, but how many of us knew it then? Very few, judging from the trillions of dollars lost in stock market holdings. And it was easy to think things would turn around—after all, US unemployment kept going down until October 2000 when it bottomed out at 3.9%.

Once again, HR strategy mirrored business strategy and developments and followed the times. Now the demand was for real results, not pro forma numbers inflated by creative accounting techniques. The two most influential business books of recent years were *Good to Great* (Collins, 2001) and *Execution* (Bossidy and Charan, 2003). Both extol the virtues of the right people implementing the right things to get real results. *Execution* even leaves you thinking that strategy is mostly about how things get done, not what things you should be doing. Though parts of *Good to Great* are uplifting, most of modern business writing and thinking felt like the morning after a great binge, which in many ways it was.

Results Strategies

In this grim time, leading HR strategies became results oriented too. The intellectual foundation for this was laid with Kaplan and Norton's aptly titled, *The Balanced Scorecard: Translating Strategy into Action* (1996). This classic showed how the scorecard could be used to implement strategy; it didn't dwell on how to develop strategies or what strategies to pursue. Kaplan and Norton never intended this, but since their book appeared the portfolio of measures a company might pursue became its strategy, with much less, if any, discussion around which customers and markets to pursue, what trade-offs to make in resources, what changes must be introduced, what external threats, exist, etc. In many ways the operating model replaced business strategy. Cutting costs and making numbers reigned supreme in a world where Wal-Mart defined success.

Soon after *The Balanced Scorecard*, HR consultants and writers came forward to tell us how to apply the balanced scorecard to HR purposes. Some talked about people management and organizational capability (Ulrich, Zenger and Smallwood, 1999), while others concentrated on the HR function (Becker, Huselid and Ulrich, 2001). Data show that companies using a balanced set of measures outperformed companies that only used financial measures (Gubman, 1998) and were more likely to make the Fortune best employers list (Gubman, 2003).

Here are the categories of a balanced business scorecard for a growing company in the hospitality industry.

Financial Measures: Profit Improvement and Revenue Growth	Customers Measures: The Guest Experience
Associate Measures: Hiring and Development	Operational Measures: Occupancy, Build Out and Risk Management

Still, many companies found that balanced scorecards were too likely to create long lists of performance measures, creating problems with complexity and lack of focus and alignment. It's not atypical to have four categories with four to six measures each. The next thing you know, you have 24 measures, way too many for management to track. The challenge was always to get the number of measures down to a workable few, particularly on the top-page with other measures at the department level.

Additionally, too many HR scorecards still focused on operational metrics: Time to hire, cost per hire, % of appraisals completed, etc. While important to track, attending to these kinds of measures won't get HR to the strategic partner role. All they do is reinforce the view of HR as an administrative function. Key HR measures need to be central to business success.

A better way to address setting HR measures is to focus on the same two things financial analysts do when thinking about a company: Return and Growth. If you think about it from a strategic perspective, there are only three sources of real economic return in HR—things that create concrete economic value. They are **retention** (or turnover), **productivity** (defined as revenues/total compensation) and **HR department and program spending**. Results from things like superior customer service and innovation all ultimately show up in productivity. Not coincidentally these three match up exactly to our three HR challenges: 1) attract, develop and retain; 2) align, engage, measure and reward performance; and 3) control/reduce HR costs.

Growth measures are harder to assign real economic value but, like another growth measure, market share, they show you clearly whether you are trending in the right direction and should forecast higher returns in the future. Today the most important growth measures are: 1) **leadership development**, measured as the number of unique candidates in the talent pool ready to assume executive and pivotal roles; 2) **engagement**, measured by surveying and assessing your employees' level of intellectual and emotional commitment to their work; and 3) **diversity**, the number of women and people of color in your talent pipelines. Each company situation requires tailor made measures.

Using fewer measures of return and growth on the HR part of the balanced scorecard should provide better clarity for HR's mission and role in a company and help the advancement to strategic partner.

Looking Ahead: HR Strategy for the Rest of the Decade

We can make a few predictions about what HR strategy will look like in the coming years, as long as we put them in a time capsule and truly forget about them. However, before going ahead, we must stop and look at the biggest long-term change in HR strategy and planning over the past 25 years, the changing employment relationship, since it sheds an especially bright light on the future.

The Market-Based Employment Relationship

For the last 25 years, the employment relationship between company and employee has shifted radically (Gubman, 1995; Capelli, 1999), and it continues to change with every new turn in the economy. To list just a few of the most important changes:

- Companies have moved more risk in pay, retirement savings and health care to employees.
- Employment security and loyalty are long gone, except at a relatively small number of mostly private companies.
- Women and minorities have entered the workforce in huge numbers.
- More and more people are choosing to be self-employed or work part-time. This is especially true for women.
- Skilled people continue to be highly mobile even in tough job markets.
- The Internet has created a workforce that is constantly “scanning” for new opportunities.
- The attitude of a large percentage of employees, particularly Generations X and Y, is “I work to live”, not the “I live to work” of previous eras and generations.

One big result of these changes is both employer and employee constantly ask the other, “What have you done for me lately?” This leads to a constant power shift. When jobs are scarce, employees have the power. When jobs are tight, employers hold the upper hand. There’s not much trust in such a highly transactional relationship.

Many people were optimistic that work life had changed for the better and that these improvements would be long lasting during the tight employment market of the late 1990’s. That ended abruptly with the recession of 2000-2001. With jobs in relatively tighter supply at the end of 2003, many companies who wanted to be employers of choice in 1998-2000 have slipped back into their old, nastier ways. No wonder job satisfaction is at an all-time low (Conference Board, 2003).

It appears now, with employers holding more power amid the intense drive to cut costs, that companies are thinking about their employees in three groups:

- The **Elite** group—This is a small number of current and future leaders, ostensibly the source of growth ideas and direction. There are almost no restrictions on how well this group gets treated or what gets spent on these people—they’re the ones who go golfing at an exclusive resort while asking mid-level people to cut back. They get all the best executive education and perks and get rich by managing a large organization. Elites are the only really loyal people left. Who wouldn’t be? They take care of their own. If you live in a big company, this is the club to join.
- The **Profit** group—Here’s where the money is made. These are the college-educated specialists: scientists, sales people, engineers, nurses, professionals, as well as the skilled trades and technicians—all the folks who do something that actually generates revenue. Companies will spend on these people as long as there is a payback. They are managed for ROI. This is where the ebb and flow of the economy hits the most—from a shortage of IT to a surplus of IT. These are also the most skilled and most willing to become “free agents” living off their skills (Pink, 2001). As a result, this is the group that must be engaged while they work for you (Gubman, 2003). Mid-managers—the generalists in this group—have the fewest marketable skills, are the most dependent on large organizations for employment, have the hardest times switching jobs and are an endangered species.
- The **Cost** group—This is the lower level in organizations, sometimes the shop or store floor, the call center, the back room. The work of this group is on a non-stop march to be standardized, managed for costs and efficiencies and outsourced whenever face-to-face contact isn’t valued. There is permanent downward pressure on wages and benefits and no stability of employment. People in this group live on the margins of the economy in constant fear of losing their jobs. They most need to upgrade their skills and are least able to do it. Education is the only way out, but no guarantee.

As draconian as this appears, this is what changes in globalization, technology, workforce values, demographics and the constantly shifting economy has created, at least in large and mid-sized public organizations. This is why job satisfaction and trust in leadership is

so low, why executive compensation continues to go up regardless of results and why the fastest growing group in American industry is the self-employed or contingent workforce (Pink, 2001). This triaged workforce will become the corporate norm over the next few years.

The Next HR Strategy

What does this mean for the next wave of change in HR strategy and planning? We have to think about what the workforce looks like when considering how we'll formulate HR strategy. After all, the workforce is often the reason for and the target of our planning.

Using the past as a guide and taking into account current conditions, here are some predictions:

- As the US and world economy continues to grow in 2004 and beyond, profits will rise, and people will become more optimistic, in contrast to our most recent period.
- The pendulum of power will swing back somewhat toward employees. As the economy grows and US demographics play out, we'll see dramatic labor and skill shortages in this country, despite exporting more jobs to cheaper countries. In response, companies will do two things. First, more employers will try again to become better places to work, providing richer rewards, training and work/life benefits. Second, all the while, they'll still be trying to outsource as many jobs as they can and trade labor for technology. A corporate job will be an enriching but tenuous experience.
- Sometime in the middle of this decade, someone will write a new book on business strategy and organization that will capture our imagination and become a best seller. This person or people probably already has written some well-regarded article, but hasn't hit it really big yet. We can't say what it will be about, but it will be more upbeat than we are now and describe a way to make money besides selling stuff as cheaply as possible. Perhaps it will sketch a model of a new type of organization; maybe an electronic community-based company like ebay. Or, it will show how to compete by providing real value instead of having to offer incentives—the way Honda and Toyota sell cars versus Ford, Chrysler and GM. Maybe it will describe news way to profit from intangible assets—R&D, Brand, Customer Loyalty, and HR (Schmidt, 2003). Probably it will show us how to use technology to customize our offerings to more and more specific buyers. Whatever the message, it will get us back to thinking about customers and markets instead of grinding on costs and people.
- Soon after, books and articles will appear applying these ideas to HR. HR leaders and strategists will jump on the bandwagon and expand these new models.
- These models will be applied to wherever we are with the workforce at the time. Big workforce changes go slowly, so three to five years from now we likely will be marching down the road to the triaged or three-part workforce . This suggests that there no longer will be one HR strategy for a company or division. Instead, there will be several strategies that speak to each employee group . There will be separate sets of strategies for the elites, profit makers and cost group. For example, we might have **leadership development strategies for the elites,**

engagement strategies for the profit group and operational excellence strategies for the cost group.

- Our abilities to measure the outcomes and impacts of these strategies will be stronger than they are today. We will be able to forecast the impacts of making changes with each group—say a new incentive plan for the elites that actually pays for real economic performance, or an improved individual contracting approach to recruiting profit makers—and their relative contributions to the bottom-line. This will become the new scorecard for HR, based on real payback of investments in each segment of human capital.
- This approach to HR strategy and planning will last about another 10 years, through another set of economic ups-and-downs, until the next great idea comes along.

The Future for HR Leaders

If the future looks even remotely like this, then the challenges for HR leaders will be enormous and, potentially, deeply satisfying. We will have to become much better business people—shrewder, more strategic, more nimble and more accountable. And we'll have to become stronger leaders—more ethical and more willing to speak out.

We'll need to keep moving our organizations forward. Today some organizations still do functional strategies, some are at capabilities and some are doing results. Some do a mix of all three. Wherever your company is, you need to keep moving it up the strategy curve, providing more demonstrated value by creating real business results. Experience also suggests you can't skip a step, like jumping from functional strategies to results. Capabilities strategies force you to improve processes and set the stage for business-workforce strategic alignment.

We'll need to keep moving ourselves forward, toward the strategic partner role. We do this by becoming better profit-and-loss business leaders. We can be the ones to lead our companies back into thinking externally, about customers and markets, and how to create unique value for them. What a surprising and powerful role that would be for HR leaders! We also need to start measuring HR impacts on real business results, not HR activities. Instead of measuring time to hire, let's measure the people aspects of opening up a new market and the returns they generate.

We'll need to become stronger as spokespeople for ethics and advocates for healthy corporate cultures. The recent corporate scandals revealed no HR heroes, just complicity. Shame on us for being so willing to yield to executive excesses! Corporations don't act unethically—people do. If HR is the steward for people in an organization, it should be the steward for ethics. There should be no need for a Chief Ethics Officer—it should be the HR leader. And, with the continuing move to just-in-time, three-part workforces, there will be an even strong tendency to do more for the elites and less for everyone else. Yet companies with powerful, shared values are more financially successful than others. HR is best suited to make the business and human case for positive, integrated cultures.

These challenges suggest wonderful opportunities for HR leaders to emerge as dominating, strategic business leaders. What a great story that will make when the next review is written.

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