

SPOTLIGHT ON RETHINKING HUMAN RESOURCES

## SPOTLIGHT

ARTWORK Do Ho Suh, *Floor*, 1997–2000, PVC figures, glass plates, phenolic sheets, polyurethane resin; modules 100 x 100 x 8 cm  
Installation view at Lehmann Maupin Gallery, New York

# Why We Love to Hate HR ...and What HR Can Do About It

by Peter Cappelli





# Recent complaints about the HR function have touched a nerve in a large, sympathetic audience, particularly in the United States. The most vocal critics say that HR managers focus too much on “administrivia” and lack vision and strategic insight.

These feelings aren't new. They've erupted now and in the past because we don't like being told how to behave—and no other group in organizational life, not even finance, bosses us around as systematically as HR does. We get defensive when we're instructed to change how we interact with people, especially those who report to us, because that goes right to the core of who we are. What's more, HR makes us perform tasks we dislike, such as documenting problems with employees. And it prevents us from doing what we want, such as hiring someone we “just know” is a good fit. Its directives affect every person in the organization, right up to the top, every single day.

The complaints also have a cyclical quality—they're driven largely by the business context. Usually when companies are struggling with labor issues, HR is seen as a valued leadership partner. When things are going more smoothly all around, managers tend to think, “What's HR *doing* for us, anyway?”

This doesn't mean that HR is above reproach. Quite the contrary: It has plenty of room to improve, and this is a moment of enormous opportunity. Little has been done in the past few decades to examine the value of widely used practices that are central to how companies operate. By separating the effective from the worthless, HR leaders can secure huge payoffs for their organizations. But it's important to understand HR's tumultuous history with business leaders and the economy before turning our attention to what the function should be doing now and in the future.

## The “Personnel” Pendulum

How top executives feel about HR pretty reliably reflects what's going on in the U.S. economy. When the economy is down and the labor market is slack, they see HR as a nuisance. But sentiments change when labor tightens up and HR practices become essential to companies' immediate success.

Think back to the Great Depression. People would put up with nearly anything to stay employed. Line managers complained that personnel departments were getting in the way of better performance, which they thought could be achieved with the “drive” system: threatening workers and sometimes even hitting them if they failed to measure up.

Similarly, business leaders didn't put a lot of stock in HR during the 2001 and 2008 recessions, because employees—keenly aware of how replaceable they were—stayed put and more or less behaved themselves. Because companies had a large pool of job seekers to draw from, wages stayed flat and productivity rose. More employees were working harder for the sake of security. And that remains true in our “jobless recovery” from the latest financial crisis. Although 83% of people in a Salary.com survey said they would look for a new job in 2014, the number who are actually quitting has not yet spiked. So it's still easy for leaders to push back on all those annoying HR policies. They seem superfluous.

Consider, in contrast, times when labor wasn't so plentiful. In the 1920s—when the economy was booming, and keeping workers was both hard to do and crucial to business—personnel departments started to make supervisors treat their employees well. And after World War II, U.S. industry suffered a talent shortage unlike anything since. Many of the men (it was always men) who might have gone into business had fought instead. It didn't help matters that talent development had received little or no attention during the Depression. The postwar question “What happens if the boss gets hit by a bus?” pointed to a huge concern. About one-third of executives died in office—many of them from heart attacks—and no one was around to take their place. A lot of small companies went out of business, and many big ones had to be sold.

## Idea in Brief

## THE PROBLEM

When talent is in short supply, business leaders see HR as a valuable strategic partner. But when the labor market loosens up, HR suddenly seems like a nuisance, because we don't like being told how to behave—and we see no immediate benefit to complying.

## THE OPPORTUNITY

Instead of sitting tight until the next market shift changes leaders' perception, HR managers should set the talent agenda now. They have the required perspective and expertise.

## THE SOLUTION

HR managers can score big wins for their companies by rethinking programs that have been around since the 1950s, making a business case for the initiatives that matter, and cutting loose pet programs that lack impact.

In that leadership void, modern HR was born, ushering in practices such as coaching, developmental assignments, job rotation, 360-degree feedback, assessment centers, high-potential tracks, and succession plans. They sound routine now, but they were revolutionary then. And they arose from an urgent need to develop and retain talent in the 1950s.

In that “gray flannel suit” era, 90% of positions (and virtually all those in the top ranks) were filled from within—and 96% of large companies dedicated an entire department to planning for workforce needs. Those numbers reflect an intense commitment to development, which paid large dividends. HR was a powerful function, voted the most glamorous area in business by executives.

Things have changed quite a bit. Only a third or so of today's hires are internal. Companies engage executive search firms to fill most senior-level vacancies. One in four CEOs comes from the outside. And companies spend less time and effort than they used to mapping out the talent they'll need in the years to come: By the mid-2000s only a third were doing any planning in this area.

What happened? The economic slowdown of the 1970s practically eliminated labor shortages, and business leaders began dismantling those postwar programs designed to identify and develop good managers and workers. Corporations that held on to them, such as GE, were the exception. New companies, particularly in tech, could hire all the executives they needed when—thanks to layoffs and stalled advancement—people left the great organizations. Microsoft became the largest company in the world in terms of market capitalization, with virtually no investment in developing management skills. Others followed its example. As one CEO said to me at the time, “Why should I train people when my competitors are willing to do it for me?”

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Meanwhile, supervisors spent less and less time on their direct reports. They had too many people under them to manage everyone carefully, and other tasks were given higher priority. In his book *The Leadership Factor*, the Harvard Business School professor John Kotter reported on this phenomenon at a leading New York bank in the early 1980s. Junior managers complained that their people-management tasks were distracting them from their more important roles as individual contributors, so the bank's leaders allowed them to devote less energy to evaluation and coaching.

Thus employees weren't getting the investment and attention they needed to grow. Even HR's brief resurgence during the dot-com boom—corporate recruiters, rather than IT workers, had the hottest job in the United States then, according to the Bureau of Labor Statistics—was limited to hiring and retention.

At the same time, more and more tasks that had traditionally been performed by HR (from hiring to development to compensation decisions) were pushed onto line managers, on top of their other work. And that's been the case ever since. HR is now in the position of trying to get those beleaguered managers to follow procedures and practices without having any direct power over them. This is euphemistically called “managing with ambiguous authority,” but to those on the receiving end, it feels like nagging and meddling.

I recently participated in a debate of HR leaders staged by Will Peachey, the head of HR transformation for Capgemini. He kicked it off with a provocative question: Is HR as a function doing more harm than good by prompting line managers to take their responsibilities as supervisors more seriously? The position that carried the day was that things would be much worse for employees without HR's involvement. But there was also a palpable sense that in

many organizations HR is simply slapping bandages on problems that will persist until top executives make talent issues a clear priority for managers.

### What HR Should Be Doing Now

As the economy continues to recover, businesses may very well wait for labor to become scarce again before looking to HR for meaningful support. But HR can speed things up by assuming the reins now. It has the expertise to help companies get ahead of the market shift that we should all see coming. Here are the basic but powerful steps HR leaders can take:

**Set the agenda.** Like any other function, HR must show why the issues it addresses matter to the business and that it has sensible ways to manage them. A few years ago the head of HR at a leading corporation—someone who had survived lots of restructurings—was asked about the key to his success. He said, “I do whatever the CEO wants.” Though doing things the boss *doesn’t* want is certainly a career-limiting strategy, too many HR managers wait to be told which issues to tackle. If a company starts a wellness program after the chief executive has a heart attack, or launches a women’s initiative after his daughter takes a job in the business, you can be sure that the HR team is not leading the charge.

CEOs and other operating executives are rarely experts on workplace issues. They often have no

relevant experience, now that fewer of them are coming up through training programs and rotational assignments in which they could have learned effective people-management practices from knowledgeable peers. So the HR team can show these executives what they should care about and why. That means articulating a point of view on every people-related topic relevant to the business. For instance:

- **Layoffs.** According to a report published near the beginning of the 2008 recession, only about a third of HR departments said they were consulted on company decisions about which people to let go. That’s a stunning lack of influence in an area where HR has the most expertise of any function.
- **Recruiting.** HR understands that structured interviews help identify the best candidates. Yet many organizations allow managers with no training in interviewing to go with their gut in asking questions and deciding whom to hire—which increases the risk of litigation as well as the cost of poor hires.
- **Flexible work arrangements.** Line managers who want to retain control often resist flextime and working from home. But HR leaders know that these arrangements can be highly effective.
- **Performance management.** Forced ranking—imposed by top executives who thought supervisors weren’t tough enough in their evaluations—was the rage about a decade ago. Now most companies

## HR’s Activities Closely Track the Labor Market



(including GE, where the practice became famous) are stepping away from it as they realize what HR has long known: Supervisors need the training, the time, and the incentives to have serious conversations with subordinates about performance and growth.

HR should be in front of every one of these issues, saying, “Here’s how we should be managing this task, and here’s the evidence behind that view.”

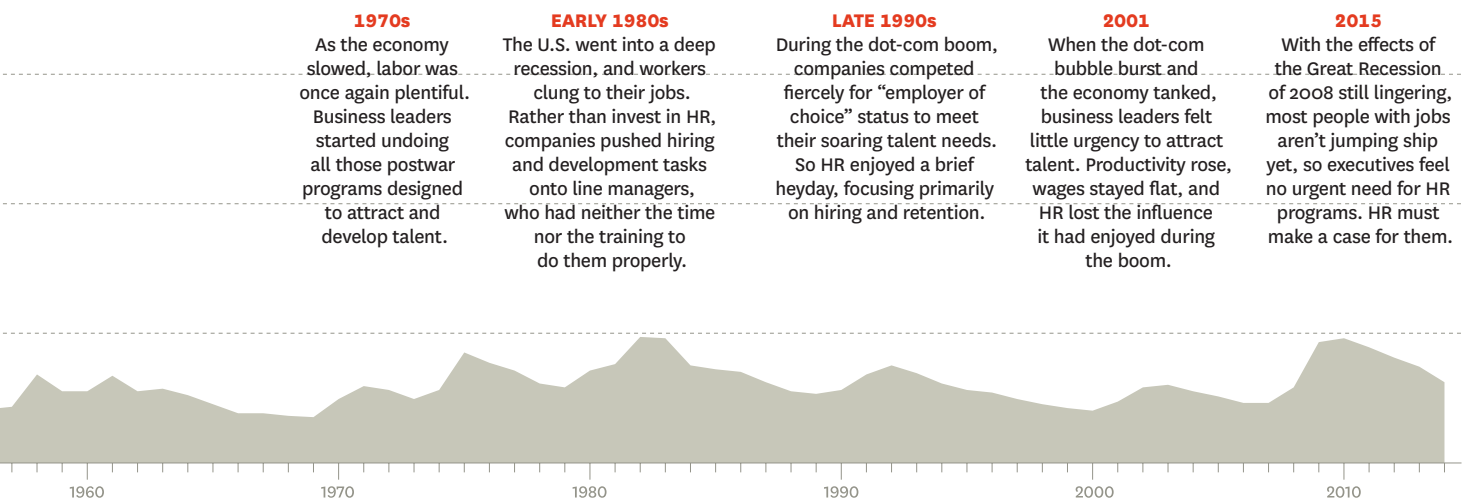
**Focus on issues that matter in the here and now.** Many U.S. businesses still follow the talent-management playbook written in the 1950s. For example, even though elaborate succession plans are rarely used, companies keep creating them. Instead of copying what large corporations did decades ago, HR should craft company-specific (and industry-specific) policies that respond to today’s challenges.

If you’re wondering why that’s not obvious, think of the simmering debate within HR about whether it should be a profession like accounting, with universal practices. This view has been championed by the Society for Human Resource Management and driven by its very successful certification programs, which teach and then document knowledge in designing compensation systems and other specialties.

Detailed knowledge of practices is essential, but it’s more important to understand *what works when and where*. For example, rather than just knowing how to put a broad-based stock option plan in place,

one ought to understand its pluses and minuses in various circumstances. Such plans add volatility to compensation that can be difficult for the business to control, so they may not be the top choice in an economy that’s already unstable or even one that’s in recovery but subject to unpredictable swings. And they are effective only when employees feel that they have sufficient autonomy and authority to influence stock performance.

To appreciate the importance of context, consider what’s happening in consulting and tech firms, where developing skills and human capital is crucial to success. PwC and Juniper Networks have already abandoned traditional performance appraisals—perhaps the most reviled standard practice in all of management—and moved toward a model of ongoing conversation designed to improve skills and results. (See “Bright, Shiny Objects and the Future of HR,” on page 72.) Microsoft and Deloitte are moving in a similar direction. Concerned about retaining key talent, Deloitte broke up the traditional promotion ladder, providing a more open and flexible framework for career advancement that accommodates both employee interests and changing business demands. (See “Reinventing Performance Management,” HBR, April 2015.) And Infosys, in India, has figured out how to use the classroom to deliver the kind of contextual knowledge people previously assumed had to be



## Why HR Is Still Hot Everywhere but in the U.S.

acquired on the job. The company teaches managers how to do business in other cultures and in particular industries—for instance, how to tailor their IT services to chemical companies in Germany.

All this is a matter of looking more closely at the environment in which the organization operates. It's about continually identifying new challenges and designing tools to meet them.

**Acquire business knowledge.** HR has (and should have) deep knowledge about workplace issues. But it should also bring first-rate analytic minds into the function to help companies make sense of all their employee data and get the most from their human capital.

In a recent survey by Deloitte, HR leaders said they felt least prepared in the area of analytics—but some are doing exciting work on that front. Not surprisingly, Microsoft and Google mine their own data to predict good hires, and IBM uses its enormous employee database to create project teams more effectively. But companies outside the tech sector, too, are bringing analytics into HR. Cigna uses sophisticated data to minimize its own health care costs and identify its best performers. Managers of Cornerstone OnDemand (formerly Evolv) and other providers of call center software are parsing simple jobs in a hundred ways to predict and then improve performance.

In many businesses, CIOs and their teams are the ones wrestling with big data to solve classic HR problems, such as how to find the best candidates and which practices increase productivity. If HR is to set the agenda on people management, it must either staff up to handle those analyses itself or partner with people in the company who can do the work. Otherwise, the answers to fundamental HR questions will come from elsewhere in the business, and HR might as well pack it in.

**Highlight financial benefits.** During the tight labor market of the late 1990s, an HBR article described how the HR team at Sears, Roebuck had demonstrated that improved employee attitudes led to a better customer experience and, in turn, to higher store profits. (See “Employee-Customer-Profit Chain at Sears,” January–February 1998.) Few HR departments since have felt compelled to make the case that any of their practices could drive profits. Many don't calculate ROI, even though other functions have been expected to do so for at least a generation. That just feeds into business leaders' view of HR as a cost center where the goal is always to cut, cut, cut.

Back in the 1950s, HR controlled the promotions and career of every manager at every level. For precisely that reason, William H. Whyte wrote in *The Organization Man*, it was the most glamorous job in business. The only other time that was true in the United States was in the late 1990s, when the labor market tightened up again and companies vied to become the “employer of choice.”

HR hasn't fallen out of favor in other countries, however. In Japan it is still the preferred track to the C-suite. And in India, my studies with colleagues suggest, it's arguably the most powerful of all the functions. Indeed, across Southeast Asia, top executives are investing in the training and development of employees and more-sophisticated systems, especially for hiring. Even in Europe, which has a talent glut, HR appears to be growing in influence as companies recognize the importance of organizational culture, knowledge management, and so forth. The U.S. is the outlier.

The main reason HR is more vital elsewhere is that organizational power goes to the group that deals with the biggest problems—an idea dating back at least to the great economist Alfred Marshall. Businesses in the rest of the world

have to deal with aggressive government regulation of the workplace, strong unions, political support for workers' interests, and often a real shortage of people who can even be trained for key jobs. Among developed countries the U.S. has the most favorable environment for employers—and the least incentive to make changes.

Ideology plays a role as well, though. The leaders who ran U.S. corporations after World War II had broad training in and appreciation for management and used a governance model based on balancing the interests of stakeholders, who included employees. Those leaders have been replaced by people disproportionately from financial backgrounds, whose model of governance—maximizing shareholder value—awards no special role to the interests of employees.

No doubt most HR departments were initially caught off guard by questions about whether practices such as expat and rotational assignments actually pay off. The information they gathered tended to focus on individual outcomes, such as job satisfaction; they didn't feel equipped to estimate financial returns. But that excuse no longer holds. The enterprise resource planning systems of most organizations contain copious data on turnover, productivity, and other factors that suggest which talent development programs merit investment.

Take IBM's recent decision to retrain IT consultants whose skills were obsolete. The company said it would provide on-site training during working hours one day a week for anyone who wanted to participate, but employees would share the costs by forgoing pay for the days they participated. With that requirement baked in, it was relatively easy to make a financial case for offering the program: The savings in hiring would be more than twice the costs of the training.



Quantifying costs and benefits in this way turns talent decisions into *business* decisions.

**Walk away from the time wasters.** HR invests heavily in many programs that lack impact. Consider the current preoccupation with generational differences. There's little compelling evidence that they even exist: Young employees today appear to be remarkably like young employees decades ago, and they've always been a challenge to older managers. Their supervisors aren't having any unusual problems with them now. Nevertheless, many HR departments spend a lot of energy worrying about how Millennials want to work. Given all the other things to worry about, it shouldn't be a priority to learn how to manage one subset of subordinates differently. Everyone wrestles with engagement and satisfaction; Millennials aren't alone in that. But even if they *were* unique in their preferences, HR couldn't make managers tailor the supervision of them—it doesn't have the authority.

The same is true for diversity programs. Employment law prohibits diversity mandates in hiring and promotion practices, so companies try to change line managers' attitudes and priorities instead. But such efforts are effective only if top executives lead them, transforming the culture. Otherwise HR is just a cheerleader for an initiative it can neither enforce nor measure; its leaders will end up pleading with line managers to take on yet another set of tasks, burning up more social capital in the process.

## The Way Forward

One of traditional HR's biggest difficulties has been supporting business strategy, because it's such a moving target these days. Companies seldom have long-term plans with straightforward talent requirements. Instead they generate streams of projects and initiatives to address successive needs.

But HR is by nature a long-term play. Developing talent, heading off problems with regulations and turnover, building corporate culture, and addressing morale problems all take time. Often, leadership teams and priorities change before such initiatives have paid off. And when companies don't meet their performance goals for the quarter, those programs are among the first to go.

How can HR bring the long view back into organizations? By reconciling it with the immediate pressures that businesses face, which those one-at-a-time projects are designed to address. Even when

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company leaders say, "We will do this without our own employees, by outsourcing or engaging contractors," HR folks should be involved, because they're best able to assess whether those engagements will succeed. (After all, outsourcing is just paying to use another company's human capital and becoming reliant on it.) But meanwhile, HR should also keep stepping back to study those initiatives in the aggregate: What emerging needs do they point to? How do those needs map to the organization's talent pipeline and practices? Which capabilities need shoring up? How are things likely to change in the marketplace, and what will be needed then? Why don't we have the ability to handle those tasks internally? That's the kind of analytic counsel the "new HR" should provide. Then its job is to help organizations act on the insights.

Consider the recent decision at Comcast to bring world-class IT capabilities in-house, which will allow the company to develop its own software for managing and delivering online entertainment. The HR challenge there is clear: attracting and retaining the best talent in Philadelphia, which is not known as an IT center. But with HR's guidance, the company is addressing that in creative ways, such as building and supporting an IT start-up community and targeting IT students and recent graduates raised in Philadelphia for internships and jobs. This big bet on the future rests on HR's ability to pull all that off.

Tech companies such as Google, Microsoft, and Apple are now on the front lines of HR innovation, largely because they have an acute need for specialized talent. Human capital is practically their only major asset; talent is in short supply; and competitors are eager to lure employees away. There's been some creative HR thinking in financial services as well, to predict and ward off unethical behavior. JPMorgan, for instance, is using an algorithm to identify employees who are likely to break the rules.

No crisis or scandal is necessary for HR to transform its practices, though. Nor should the function focus solely on innovations in hiring. Discretionary effort—by employees who are engaged and willing to give their best—is at the heart of organizational success, and managing and developing people is the way to drive and sustain that effort. So the time is ripe for reimagining human capital much more broadly. Business leaders will see that—if HR makes a compelling, evidence-based case for what matters, and jettisons what doesn't. ▀

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