The Evolution of HR: Developing HR as an Internal Consulting Organization

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As the role and impact of the HR profession continue to evolve, we have reached a critical crossroad. Together and now, business leaders and HR professionals have the opportunity to understand the history that brings us to our current situation, to be informed by predictable trends, and to make the transformation necessary to result in organizational competitive advantage and HR functional viability. Over the last hundred years, the HR profession evolved dramatically, usually in response to external conditions. Unquestionably we are changing—the issue in front of us is whether we will define that future or simply react to the changes that continue to occur in the economy and in our business models.

If we do not step forward with compelling HR leadership, the future will be determined for us. When the June 2005 *Business Week* reports "Why HR Gets No Respect," the August 2005 *Fast Company* proclaims "Why We Hate HR," and the "evil personnel director" in *Dilbert* continues to get knowing laughs, something is going on that the HR profession needs to address. This set of issues goes beyond the never-ending lamentations about lacking a seat at the table for the top HR person—this is about the future of HR in total.

We present a historical review and conclude that *HR's greatest opportunity is to develop the organizational capability to be a relevant and respected internal consulting organization focused on talent*. The good news is that the knowledge, skills, and abilities needed to do this exist now and are teachable. A virtual army of HR professionals "get this" and are ready, willing, and able to develop in this way.

"No Respect"

It is laughably easy to characterize HR as the Rodney Dangerfield of the C-Suite ("I don't get no respect"). HR is not, however, a monolithic thing. Some individuals and companies still cling to an old style of personnel administration and policy police, and some leaders and companies more fully recognize the connection between talent and results, and the function of HR is well integrated with the implementation of business strategy. We know that HR professionals are experiencing the negative views of the function directly. In a recent study, Kahnweiler (2006) identified five key challenges faced by successful HR professionals:

1. Lack of power;
2. Walking a tightrope;
3. Dealing with skeptical customers who view HR negatively;
4. Vulnerability; and
5. Being overwhelmed.

In addition, the Society for HR Management (SHRM) Global Forum report on "The Maturing Profession of Human Resources Worldwide" (2004) showed that over half (54.8%) of HR professionals say the most frequently encountered obstacle to career advancement is HR's not being held in high esteem by the organization.

One thing is certain, HR is evolving and the profession will either be driven reactively by external changes or will more proactively define its own future. The Bureau of National Affairs (2004) reports that 38 percent of HR professionals have had responsibilities added during the preceding year (e.g., monitoring corporate ethics, managing external partnerships, protecting intellectual capital or knowledge management). The same report shows that HR staff per 100 employees has remained at 1.0, roughly the same average as for the last 10 years, regardless of automation, efficiencies, scale, or outsourcing. The content of the roles in HR continue to increase and shift, while resources are constrained. In the face of these growing responsibilities, we have not developed a way to describe adequately or consistently our value added in terms of effectiveness, or even to show significant improvements in efficiency—although it must be said that enterprise software systems have greatly improved the ability to report on efficiency improvements.

Sadly, this is not a new lament. More than 25 years ago, a noted Harvard Business School professor wrote an article entitled "Big Hat, No Cattle: Managing Human Resources" (Wickham, 1981). You can guess the point: Despite the external trappings, HR was not delivering "the beef." Over 10 years ago, an article in *Fortune* magazine (Stewart, 1996) began with an uncomplimentary view of HR as "the last bureaucracy" wherein the author then proposes:

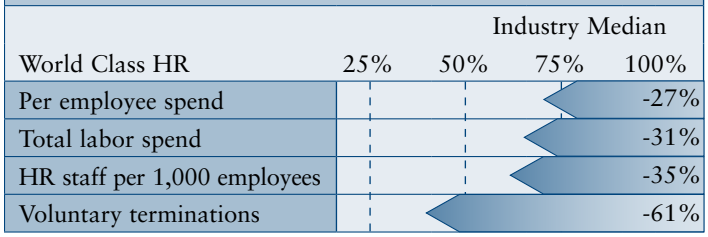
> I am describing, of course, your human resources department, and have a modest proposal: Why not blow the sucker up? I don't mean improve HR. Improvement's for wimps. I mean abolish it. Deep-six it. Rub it out; eliminate, toss, obliterate, nuke it; give it the old heave-ho, force it to walk the plank, turn it into road kill.

The emotional content of this presentation reveals the gut-level issues involved.

As HR leaders we are challenged to guide the many changes needed to continue the HR evolution. It surely looks worth the effort: The Hackett Group in *Best Practices in HR* (2004) showed that companies they defined as having "world class HR" spent 27 percent less per employee annually, spent 31 percent less on total labor, had 35 percent fewer HR staff per 1,000 employees, and experienced 61 percent fewer voluntary terminations (see Exhibit 1). So, it *is* possible to improve both the effectiveness and the efficiency of HR.

EXHIBIT 1

HR Best Practices Pay Off



Defining the Problem with HR

HR is at the crossroads we have described for many interrelated reasons:

1. HR as a *profession* does not have the same "grounding" in legally mandated processes and reporting as does Finance, so there continues to be more "art" than "science" and much greater variability in the quality and completeness of how the work is defined and delivered. In addition, professions like Finance that have their roots in Accounting (and are grounded in FASB and many other legal requirements, most recently Sarbanes-Oxley) have mastered the transactional arena and have continued to evolve into more of a strategic decision science, for example, using ROI principles to allow leaders to think about how they manipulate certain variables to get desired business outcomes (Boudreau & Ramstad, 2006 and 2007). Arguably, HR has improved in its ability to deliver efficient transactional processing, but has not yet grown into a strategic decision science even though variables like talent in certain positions (right seat on the bus) or organizational capability and culture in support of business strategies can have a direct impact on business outcomes.
2. HR in the *C-Suite* has not been uniformly accepted. CFO Research Services (2003) found that HR reports to the CEO in only about 52 percent of companies. HR reports to the COO

in about 17 percent and to the CFO in about 13 percent of the cases. In addition, boards of directors have differed widely in the extent of their utilization of the HR leader in the strategy of the organization.

3. The role of HR as a *function* within organizations might best be described as a scattergram. There are huge variations by industry, global geography, and CEO preferences on what HR is asked to do. One cannot attend most HR conferences without smelling the inferiority complex inherent in the "how do we get a seat at the table" kinds of topics. When one hears of "outsourcing HR" and delves into it, one finds that the HR elements that can be outsourced are really the transactional and administrative part of HR, not the other more strategic and value-added parts that relate to business partner and change agent roles (the transformational business relevant part).
4. HR as a *personal skill set* must also continue to grow and develop. The activities and skills to deliver the transactional parts of HR are quite different than those required to deliver the transformational parts of HR. "Letting go" of the transactional part can be personally pretty scary when one's value in the past was "how quickly I can go do what you asked me to do." When either an outsourced agency or manager and employee self-service systems handle those issues, then what is left for me to do? The truth is, some HR people should migrate toward the delivery of those outsourced transactional services because that fits better with their skills and interests; others should develop the internal consulting skill sets that enable the transformational part of HR. Many organizations are struggling with this now, or will be in the near future.
5. The role of HR as *policy police* has to be put on the table. In mid-2005, Fast Company ran an article entitled "Why We Hate HR" in which Keith Hammonds laid out some facts and drew some journalistically sensational conclusions. He describes HR as a "henchmen for the chief financial officer" and as a "dark bureaucratic force that blindly enforces nonsensical rules, resists creativity, and impedes constructive change." Wow, he must have had a bad day. For many people the article simply rang true, and as the success of the evil HR Director in *Dilbert* also attests, we cannot afford to dismiss this caricature too quickly. Yes, HR must represent defensible policies to keep the organization in compliance, but that is not all they must do.

Taken together, these observations present the HR profession with some real challenges (summarized in Exhibit 2). At the heart of it, HR must get relevant now or risk continued marginalization.

These are huge challenges and the fate of our profession rests in the balance, but these challenges can be met and mastered. We have the talent and the motivation. Now we need a roadmap, which the remainder of this article attempts to provide through the following topics:

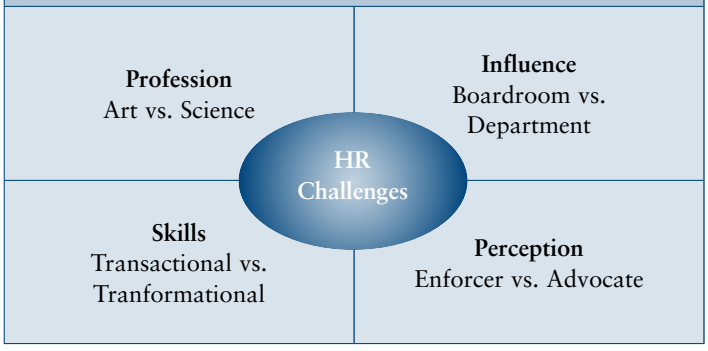
1. Evolution of HR Accountabilities—using the Ulrich model and other research to show "where we have been" and where we need to be headed.

Some HR people should migrate toward the delivery of those outsourced transactional services because that fits better with their skills and interests; others should develop the internal consulting skill sets that enable the transformational part of HR.

2. HR as an Internal Consulting Organization—showing how this future roadmap is consistent with where boards and CEOs expect HR to make a contribution.
3. Outsourcing Transactions and Insourcing Transformations—exploring more deeply what it means to be an internal consulting organization.
4. Content Areas for Internal Consulting—internal consulting is a process; this section addresses the right value-added content on which to work.
5. First Steps—Strategy, Structure, and Skills—"how to" transform HR in an organization.

EXHIBIT 2

HR Challenges



Evolution of HR Accountabilities

HR has evolved over the last hundred years in reaction to significant changes in the way organizations get their work done. Putting the evolution of business and the evolution of the HR name changes into one table (Exhibit 3) shows how reactive the profession has been to changes in the social and economic realities of the time. The challenge for HR today is to define our own future based on the trends that are eminently predictable now and to step up to the challenge of creating our own future.

One other key historical point: The boom and bust economic history of the last 20+ years has formed in large part what HR was asked to support. The HR function went from being challenged with creative recruitment, retention, and compensation strategies during boom times to being challenged with creative restructuring, downsizing, and outplacement during bust times and in the latest

EXHIBIT 3

The Reactivity of HR in Its Evolution

Decade	*Business Realities*	*HR Name Changes*	*Issues*
Pre-1900	Small Business & Guilds	Did not yet even exist	Owners owned the HR issues
1900	Industrial Revolution	Labor Relations	People as interchangeable parts
1920	Civil Service & WWI	Industrial Relations	Workers' rights and more formalized processes
1940	Scientific Management & WWII	Personnel Administration	Efficiency experts and more highly evolved HR processes
1960	Civil Rights & Compliance	Personnel	Legal compliance and reporting; "policy police"
1980	Human Relations, the Knowledge/ Service Economy, and Mergers & Acquisitions	Human Resources People	Relevance in a fast-changing world; motivation and "human relations" theories abound
2000	Modern Organizations	Organization Effectiveness? Human Capital? Organizational Capability?	No new official names, but lots of "morphing" as the transactional parts get outsourced and the transformational parts get defined
2010	Global Economy and E-Enabled Technologies	TBD	Still Evolving, Focus on Talent; Capability; Culture; Consulting—Challenged to Be an Effective Internal Consulting Organization

wave of mergers and acquisitions. The HR priorities during these "bust" times were not conducive to discussions of talent and hot spots: They were more about survival and cost-cutting efficiencies.

HR has reactively dealt with the evolving business issues but has rarely independently implemented "game changing strategies" for the function or for employees. HR too often reacts to a problem or request, and has too rarely anticipated issues and proposed solutions. We in HR did not strategically design the changing "deal" between employers and employees, but we were the ones to alter the pensions and benefits, and to execute downsizing and restructuring. It is one thing to be service oriented (which HR must be); it is another to be a simple order taker. The evolution we are undergoing requires not only the intellectual and strategic capability to envision a different role, but also the intestinal fortitude to step out, lead, and enact a new role.

Just as the role of the HR professional has changed over the years of this business evolution, so too has the role of the line manager. There continues to be a shift in the activities and accountabilities we expect *managers* to own based on their management role, what we expect *leaders* to own in their leadership roles, and what we expect *employees* to own as they take on greater responsibility for their own learning, growth, and self-management. HR can be the professional HR process designer and owner, and oversee implementation and rollup reporting, but in most cases the "work" of the process is done by employees and managers (e.g., recruiting, selection, performance appraisal, career development, succession planning, merit increases, stock option distributions). So, who is accountable: the leader, manager, employee, or HR? All have a stake in the success of these processes but companies vary greatly in the extent to which these performance expectations are made explicit as part of a manager's job.

This evolution has one other common link. Throughout the development of the HR profession, there has been a tension between the roles of "employee advocate" and "business leader." This is a razor's-edge predicament. HR must serve the needs of the business (and, for example, must plan and enact downsizing and outplacement) while serving the needs of employees (to be the fair and impartial third-party advocate and ombudsman where needed). Sometimes those two hats are hard to wear at the same time; yet, the recent egregious failures and lapses by leaders of large companies in areas like compensation and people management have shown that HR must be ready to step up to the real issues of ethics in organizations and integrity in leadership. To be a great business partner does not mean to be co-opted; sometimes we are the ones who must blow the whistle.

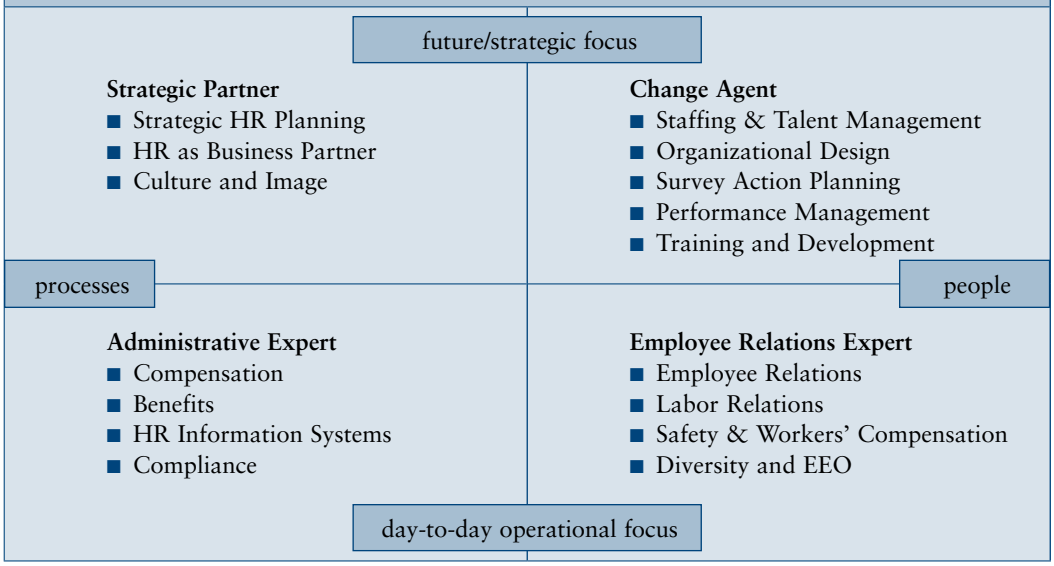
The "Extended" Ulrich Model

The most well articulated and accepted model for modern HR was presented by Dave Ulrich in his 1997 book *Human Resource Champions*. Ten years later, the model still works well (and he extended it with his 2005 book, *The HR Value Proposition*). Ulrich presents a simple 2x2 model, in which the horizontal axis is a focus on either process or people and the vertical axis is a day-to-day operational focus or a future-strategic focus (see Exhibit 4). In the lower left quadrant (process and operational focus) is the administrative expert role; in the lower right quadrant (people and operational focus) is the employee relations expert role; in the upper left (process and strategic focus) is the strategic partner role; and in the upper right (people and strategic focus) is the change agent role. This focus on changing roles has provided a vocabulary to allow a deeper discussion of the evolution that is occurring in HR. Nobody would argue that the day-to-day operational focus is not important. When this is done well, nobody notices; yet, if it is fouled up it leads to a lot of attention, lawsuits, or even front-page headlines. This is also most often the content for the "outsourcing of HR."

Let us take some license with Ulrich's model by adding more detail. The four role definitions are fully described in the *HR Champions* book, to which we have added the further detail of

EXHIBIT 4

Four Roles and Sixteen Accountabilities



16 accountabilities for which HR is typically held responsible. In Exhibit 4, we have sorted these 16 accountabilities into the four roles so we can explore and differentiate the transactional parts of HR (ripe for outsourcing in some way) and the transformational parts of HR (essential for adding value to the organization, and key to the internal consulting role).

In addition, the 16 accountabilities can be placed on a graph in which the horizontal axis is time (over the last 100 years) and the vertical axis represents HR's impact on or contribution to the business (from limiting liability and protecting against the downside of usually legally mandated things, up to adding value and maximizing the upside of a strategically differentiated employment proposition). Exhibit 5 shows the result of this analysis; note that the author published an earlier version of this summary (Vosburgh, 2004).

Some important caveats are relevant as we explore Exhibits 4 and 5:

1. Within any of the 16 accountabilities are elements of both the strategic and transactional; as with most models, this is an oversimplification (consider, for example, the 5 percent strategic work in compensation that carries 95 percent of the impact versus the 95 percent of the volume work that is more administrative—administrative work can be outsourced, but most organizations would internally hold dear the design work);
2. All of the 16 are important and their placement in the exhibits does not indicate relative importance;
3. The two-dimensional picture itself is too linear and cannot adequately show the myriad inter-relationships and multidimensional complexity that exist among these accountabilities; and
4. Key issues such as diversity, inclusion, and ethics weave through all these topics in substantial ways.

Exhibit 5 shows that over time (100 years), the name of the function has evolved in step with the kinds of accountabilities expected of us. Today it is a world of AND: Having to do the lower-left legally required transactional parts AND the upper-right value-added transformational parts of HR. Note that the lower-left accountabilities tend to be the "hygiene factors" that if done perfectly are not noticed, but if messed up will attract a lot of attention. In contrast, the upper-right accountabilities tend to be the ones that when done well give the organization a great strategic advantage. When they are not done well, many often do not notice, largely because organizations vary so greatly in the ways they define HR and their strategic expectations of it. This is, unfortunately, part of the indictment of HR: Opportunities for impacting business results are not always recognized or acted upon.

The "lower left" content represents important technical expertise that often can be delivered in transactional kinds of ways. The "upper right" content also requires technical expertise, but can be delivered only if the HR professional has established a level of internal consulting skills and personal credibility. An obvious analogy can be drawn with the success profile of an externally focused consultant within a professional services firm. The client expects the technical knowledge but is only really "won over" when consulting skills and personal credibility leads to trusted advisor status. This important parallel is explored later in more detail.

Research Support from Others

Others have explored this HR evolution issue and drawn somewhat similar conclusions, particularly as they regard business impact. Jay Jamrog and Miles Overholt (2004) explored the "past, present, and future" of HR in "Building a Strategic HR Function." They concluded that for HR to continue to evolve, we need to put far more emphasis on human capital as the differentiator. They argued that a key competency we must develop is the ability to measure organizational effectiveness. This requires HR professionals to think, act, and measure in more of a systems way (how actions create outcomes that we care about)—another way of saying we need to progress in our ability to be a "decision science" by measuring the right things, and to be more effective internal consultants.

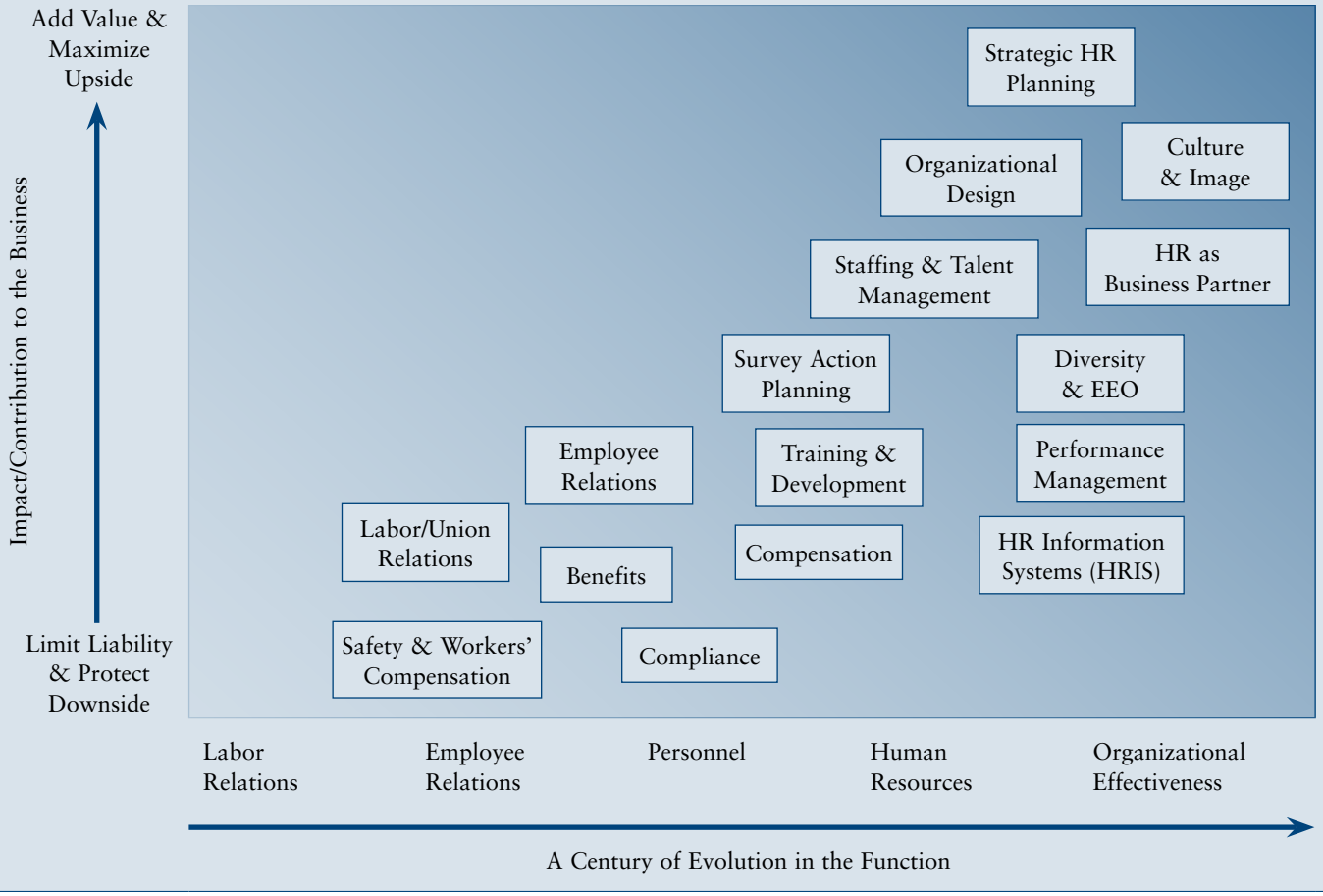
Similarly, Ed Gubman (2004) explored "HR Strategy and Planning: From Birth to Business Results," also concluding that HR must start to measure its impact on business outcomes rather than HR activities, with greater focus on customer and market growth rather than on cost reductions and efficiency measures.

Even Wikipedia (2007) defines the objective of HR "to maximize the return on investment from the organization's human capital," yet few HR organizations have the kind of metrics that can support that objective.

Perhaps the most complete and ongoing research and writing on this HR evolution topic comes from John Boudreau and Pete Ramstad (2007). The first chapter of their book (*Beyond HR: The New Science of Human Capital*) is entitled "The Essential Evolution: Personnel, Human Resources, Talentship." They call for a shift from a focus on the services that HR provides to the decisions

EXHIBIT 5

HR Continues to Evolve



that HR informs and supports. Specifically, they argue "the mission of the HR function is to increase the success of the organization by improving decisions that depend on or impact people" (p. 9). That is actually more complex than it appears on first consideration, but they go on to give many examples of how the HR profession can seize the opportunity to become more of a decision science that is focused more squarely on talent.

Research also shows a disconnect between how far we think we have come as a profession and how far we have really come. Lawler, et al. (2006), report an interesting finding in a longitudinal study that was repeated in 1995, 2001, and 2004. In 2004, HR professionals reported that compared to five to seven years earlier, they were spending much more time as a strategic business partner (23.5% vs. 9.6%) and far less time maintaining records (13.2% vs. 25.9%). This would be reason for optimism if not for the fact that the actual percentage of time reported when the study was done all three times shows almost no change in the amount of time spent as a strategic business partner (21.9%, 23.2%, and 23.3%) or on maintaining records (15.4%, 14.9%, and 13.4%). We want to believe we have advanced, but the facts state otherwise. This finding provides a significant note of caution regarding declaring victory in our HR evolution too quickly!

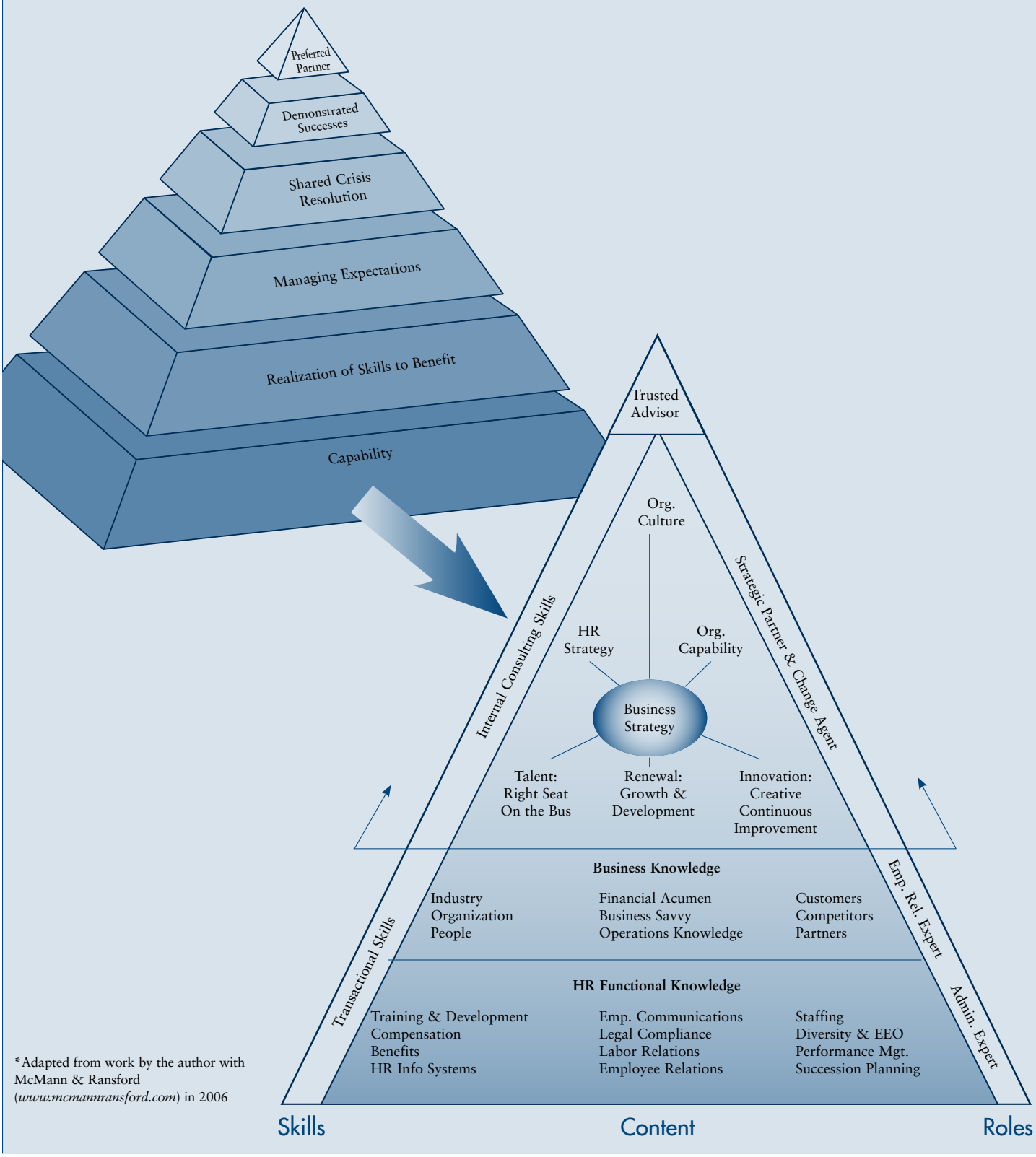
The Global Perspective on HR Evolution

The global picture of the development of HR over time is also compelling. Recent McKinsey research (Lawson, et al., 2005) found that "European companies appear to be struggling to find human resources professionals with the right mix of skills to support business unit managers" (p. 13). They found problems both with the "inefficient and ineffective delivery of HR services" and with the "service focused skills in order to become a true partner of the business" (p. 14). They concluded that "To deliver on what the business needs, HR must put its own house in order, starting with the skills and capabilities of its staff" (p. 14). Similarly, Bear (2005) concludes that "the stages of HR evolution differ globally" (p. 9), with many structures still led by "personnel administration" officials with a heavy focus on union relations.

In addition, some fast-growing Asian countries, such as China, do not yet have one generation's experience with the free enterprise system and HR beyond personnel administration. Before China opened up to the West, "personnel" often acted as the Communist Party's spies within the state-owned companies. Talk about "policy

EXHIBIT 6

The HR Effectiveness Pyramid: Developing HR as an Internal Consulting Organization*



*Adapted from work by the author with McMann & Ransford (*www.mcmannransford.com*) in 2006

police"! This leads to the current high reliance on Mandarin-speaking Chinese-descent expatriates from Hong Kong, Singapore, and elsewhere to handle HR duties while a new generation of Chinese nationals gets their experience levels up.

India's explosion as the "back office to the world" of necessity led to quick development of broad-based selection and training systems, benefiting from hundreds of years of history as a British colony operating in a free enterprise system—so with more of an infrastructure on which to build. If anything, the global picture of the issues facing HR is an even more dramatic enactment of our conclusion that HR must deliver both the basic operational services in an efficient, scalable, low-cost way *and* deliver the internal consulting role that provides business relevant HR solutions.

HR as an Internal Consulting Organization

Bottom line, for HR to address its most compelling challenges, the one common hurdle is that *HR must first ensure that the transactional and legally mandated parts of the HR job are managed in some way, then the "big leap" opportunity is to develop the strategy, structure and skills to evolve into an effective internal consulting organization that addresses talent and strategic, change-oriented issues*. The good news is that these are learnable skills, there is an established body of knowledge and experience regarding external consulting effectiveness that can be applied to the development of the HR professional, and many HR professionals are poised as "ready, willing, and able" to make this transformation. The bad news is that few organizations are teaching their HR professionals these necessary skills, or evolving their strategy and structure to take the next step.

Our graduate programs in HR and related disciplines such as industrial/organizational psychology also have not kept up with some key content areas. When I went to graduate school (many years ago!), we asked the faculty to give us a class on executive presentation skills, because that seemed hugely missing and our ability to be successful in the real world organizational setting pivoted fairly quickly on that capability. Our graduate students today should be clamoring for consulting skills training.

Professional services firms and consulting organizations of all types have created and institutionalized programs to train their externally facing consultants to develop the client relationships that lead to "preferred partner" status in the eyes of the customer. Our model (see Exhibit 6) shows that there is an easy transition in adapting these programs to help our HR professionals reach "trusted advisor" status with their internal clients.

The smaller pyramid on the left indicates additional steps that can be taught to any consultant; the larger pyramid focuses on the HR internal consultant specifically. Going up the larger pyramid, a person must first master the HR functional accountabilities and do so with the business knowledge that makes the actions relevant to the organization. The lower sections of the pyramid are the "price of admission" and are related to the concept of operational excellence: keeping the trains running. Above that is what we term transformational excellence: applied internal consulting. If HR delivers on all this, then the top of the pyramid is the attainment of trusted advisor status within your organization. As one example, a review of the SHRM certification content shows that most of the current HR training available externally addresses the HR functional knowledge part of the pyramid—this is a necessary but not sufficient condition for success.

Internal Consulting Is Consistent with What Boards and CEOs Expect of HR

What do boards and CEOs expect of HR? Surprisingly, not much research has been done to answer this question. A recent study was conducted by Ed Lawler and John Boudreau of the University of Southern California's Center for Effective Organizations. The funding was partly from the Human Resource Planning Society (*www.hrps.org*), and the results are published in the *Human Resource Planning* journal (2006), entitled "HR Support for Corporate Boards." Input from over 100 HR senior executives and over 75 non-HR executives provided the data. One key conclusion was that boards and CEOs are limited by their own experiences as to what they expect of HR, so they tend to ask for input on areas in which they are more historically comfortable (e.g., executive compensation and succession planning). So, what boards expect and what they should expect from HR are two separate things.

Areas of HR contribution that correlated most strongly with the board's belief that "HR meets our needs" were in the upper transformational section of our Exhibit 6 pyramid: HR drives change management, has a human capital strategy that is integrated with business strategy, partners with line management in developing business strategy, and makes rigorous data-based decisions about human capital management. Sounds like great internal consulting!

In the design of HR organizations, the features that correlated most strongly with the board's belief that "HR meets our needs" were:

1. HR service teams that represent *centers of excellence* as opposed to decentralized HR—one key to the "structure" that can support developing HR as an internal consulting organization; and
2. Information technology systems that provide relevant data for decision making—essential in the lower transactional parts of the pyramid, but also can provide important data for the strategic analysis required in the upper transformational parts of the pyramid.

Within HR metrics and analytics, the capabilities that correlated most strongly with the board's belief that "HR meets our needs" were all about "upper quadrant" talent and strategy:

1. Identifying where talent has the greatest potential for strategic impact;
2. Making decisions and recommendations that reflect the competitive situation;
3. Contributing to decisions about business strategy and human capital management; and
4. Assessing the feasibility of new business strategies.

With all this attention on strategy, one must not lose sight of basic execution. In reviewing HR skills ratings by non-HR executives, the one skill that correlated most strongly with their belief that "HR meets our needs" was "process execution and analysis," the basic "keep the trains running" kind of expectation.

The authors observed that HR is generally responsive to board requests for information, but rarely proactive about "marketing" the information they may have that would be relevant to some of the areas described here. If the board has no insight into the availability or relevance of these kinds of information, it tends to ask for the traditional information only (e.g., executive compensation and succession planning). By the preceding lists, the boards clearly value the strategic business partner and change agent roles that

reflect internal consulting but also expect execution of the basic processes.

Outsourcing Transactions and Insourcing Transformations

The simplest roadmap feature of this HR evolution is the insight that strength comes in outsourcing transactions and insourcing transformations. That means we need to get better at a new set of skills. On the transactions side, this often means managing outsourced vendors to service level agreements, leaving HR with the client manager role (AKA consultant). On the transformation side, the new skills are the internal consulting skills that relate to the business partner and change agent roles.

Outsourcing Transactions

Returning to the bottom part of the HR effectiveness pyramid (Exhibit 6), the delivery of HR tools, processes, and systems accounts for 18 percent of the impact of HR on business performance, and effectively using HR technology accounts for 5 percent of the impact (Ulrich & Brockbank, 2005). This is the lower area of the pyramid that, if done perfectly, nobody notices, and it adds nothing to the strategic advantage of the organization; however, when there are problems in execution, this area can get ALL the attention and undermine other efforts toward more strategic contributions. Some problems in basic execution (pay, EEO, labor relations, safety) can land someone on the front page of the headlines and create huge morale problems internally. In the end, the operational and transactional aspects of HR need to be handled well and completely. No matter what other strategic and transformational work is being done, the trains still need to run on time.

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This area may offer opportunities for manager and employee self-service web-based support, low-cost back office "contact HR" support centers, or outsourcing of basic services. Whatever approach is taken, the solution should be highly efficient and scalable so the infrastructure costs can remain relatively constant as the organization grows. The processes that managers need to spend time on should be greatly simplified and automated; for example: goal setting, performance planning and feedback, appraisals, and salary administration. There are many current examples in the marketplace of software solutions designed to simplify these processes.

To be effective in this "lower part of the pyramid," one must be:

1. Seen as knowing the business—one's industry, one's company—and possessing the financial acumen to understand the "gives and takes" of business decision making;
2. Seen as a business person first (with a general manager mindset), and as a functional expert second;
3. Aware of the analyst reports on one's company and what, in their view, is creating shareholder value or holding the company back from it;
4. Knowledgeable about both competitors and customers.

When HR is seen as operating from this point of view, HR is taken much more seriously "at the table."

The alternative to doing it yourself internally is to outsource many of these transactional HR services. Rather than needing skills in direct delivery of services, the HR professional now needs a different set of skills (and acronyms!):

1. Human resources outsourcing (HRO): Specifying which services to outsource;
2. Business process outsourcing (BPO): Agreeing on exactly what activities will be outsourced and what will be retained internally;
3. Request for proposal (RFP): Reviewing multiple providers and deciding on a partner;
4. Statement of work (SOW): Clarity on exactly what services are provided;
5. Service level agreements (SLA): Metrics to measure, report, and hold accountable;
6. Recruiting process outsourcing (RPO): Sourcing, managing and retaining talent;
7. Learning process outsourcing (LPO): For training and development systems.

Transitioning to a new method of delivery means taking over a "client manager" role with the internal clients that HR supports. It is essential to involve key business partners in this transition so they understand and support internal HR in its new role.

Insourcing Transformations via Internal Consulting Skills

Turn to the "upper part" of the HR effectiveness pyramid (Exhibit 6). To be a strong internal consultant, business partner, or change agent, one must first have personal credibility. Research shows that personal credibility accounts for close to one quarter of HR's impact on business performance (Ulrich & Brockbank, 2005). Note that the following characteristics also represent the characteristics of personal credibility inherent in a successful consultant:

1. Effective interpersonal relationships and skills (emotional intelligence);
2. Understanding the issues and delivering the results;
3. Great communication skills: up, down, across, inside, and outside; and
4. A reputation for meeting commitments (say what you mean and do what you say).

Internal consulting involves selling services. "Selling" HR interventions is unique and different from other types of selling, yet the internal consulting role has many things in common with the external selling of professional services. Both situations deal with the art of agreeing on intangibles in ways in which both parties comprehend the issues and possible solutions and are happy with

the agreement. The goal is to develop long-term client relationships, not just big one-hit deals. This type of sale is accomplished by taking the role of an advisor and becoming trusted in that role. In addition to the personal chemistry and rapport that is needed, this work requires three things:

1. Creating solutions that work;
2. Educating clients on what is possible; and
3. Operating successfully in an ever-changing environment.

An analogy can be drawn to the business of professional services organizations. For HR, becoming relevant may lay in fully understanding and applying the things that professional services organizations already know about creating strong and abiding relationships as externally focused consultants, leading to trusted advisor status. Just as this is the goal for externally focused revenue-generating businesses in professional services, so this could also be the goal for internally focused HR organizations that are committed to helping their internal clients become more successful in the revenue and profit goals that they must deliver.

The skills that support consulting effectiveness are known and well tested. For example, one consulting organization has for years supported those three capabilities through programs called *Service Chains*™, *Taking Ideas to Market*™, and *Role Selling*™ (McMann, 2007). HR has not yet evolved into the "science" that even effective management consulting has developed, yet these are the new skills required of HR professionals in organizations. One can simply not be a business partner and change agent without exhibiting these internal consulting skills. These are knowable and teachable. They are the "how" of the work; the "what" will vary with the situation and rely on the technical knowledge of the HR professional. So, the technical knowledge of the specialty areas in HR is a necessary but not sufficient condition for success in the eyes of one's internal clients.

To be an effective internal consultant, both content knowledge and style are important. Regarding content knowledge, it helps to have had experience with organizational change from a variety of perspectives (strategy shifts, mergers, acquisitions, spinoffs), and to have a point of view well beyond structure changes. It helps to have models that can be shared with the organization to allow others to think about organizational change and engage in supporting it. There are many such models, with management gurus such as John Kotter (1996), Rosabeth Moss Kanter (1983), William Bridges (2003), Warren Bennis (1995), W. Warner Burke (2002), and Ed Schein (2004), providing excellent time-tested guidance. Classic models such as the McKinsey 7-S Model (Peters & Waterman, 1982), which take a dynamic systems view, have withstood the test of time. Pick one that works for you and your business that resonates with your current situation. A model gives managers a common vocabulary to talk about the change and guides them in how to engage employees to be part of the change, rather than feeling like something scary is being imposed from above. Effective internal consultants and change agents have a blend of political skills, system skills, analytic skills, people skills, and business skills.

Internal consultant, business partner, change agent—All relate to each other based on common skill sets and bodies of knowledge. Much is known and teachable in this area that would allow HR professionals to become more effective in the transformational area of their accountabilities, yet, it is rarely part of their basic training in either organizations or graduate university HR programs (Ramlall & Sheppeck, 2006). That needs to change.

Content Areas for Internal Consulting

Both general internal consulting skills and specific technical knowledge are needed for effectiveness. Six content areas in which HR can make the greatest impact on organizational success include:

1. HR Strategy Aligned to Business Strategy;
2. Talent: Right Seat on the Bus;
3. Organizational Capability: Delivering Business Results;
4. Organizational Culture: Mirroring the Customer's Value Proposition;
5. Renewal: Growth and Development;
6. Innovation: Creative, Continuous Improvement.

Organizational culture and capability (HR domain) can have as much impact on business strategy attainment, especially in areas like customer support, as does the budget (the finance domain). The challenge is to claim it, have the right conversations on these topics, and watch the impact.

All of these require internal consulting skills to maximize the success of the HR professional. The focus of this article is on the development of HR as an internal consulting organization, so not all these content areas are reviewed here. The first two areas are briefly summarized to give an example of how the internal consulting skills contribute to the content area. One thing is clear: These are not the functional areas in which HR is traditionally structured.

HR Strategy Aligned to Business Strategy

Contribution to business strategy is HR's highest calling and greatest opportunity for impact, accounting for 43 percent of HR's impact on business performance, with business knowledge accounting for another 11 percent (Ulrich & Brockbank, 2005). Taken together, these form the area in which HR has the greatest opportunity to develop. This requires stepping back from the day-to-day delivery of services and reactionary fire-fighting to engage with business leaders in a different way.

Most organizations have some formal way to develop business strategies. The finance function almost always directly connects to the strategy work because of the obvious budget implications. The HR function has varied dramatically in the extent to which it provides an equally compelling connection to the business strategy work—for example, by exploring with the business leaders the HR

EXHIBIT 7

Aligning HR Strategies to Business Strategies

Leadership: Do we have the leadership in place that can deliver this business strategy? If not, what needs to change? Is the "leadership structure" right to deliver the strategy? Do employees rate their senior leaders highly on being in touch and effective?

Culture: Does our internal employee culture line up in support of the external customer marketing messages? The two should be a mirror image. If we promise our customers "speed, agility, and innovation" do we practice that internally as well; e.g., is our culture all about "speed, agility, and innovation"? How does that show up every day? Have we provided the "vocabulary" of how to talk about the culture in a way that focused choices can be made that shows up in our mission, vision, and values? Would employees state that our organization has a clearly defined culture?

Communication & Engagement: Both "top down" and even more importantly, "bottoms up": Are people feeling actively informed, involved and engaged? Do employees feel like their voice is heard?

Workforce Planning: Do we have the right numbers of people with the right skill sets in the right place at the right time to deliver on the business strategy? What needs to change?

Talent: Does the business strategy require some new type of talent? How will we develop or acquire that talent? If we are to develop the talent, what training and development processes are needed? If we are to acquire talent, what recruitment processes are needed? Do employees feel that they can use their most valued skills and abilities?

Retention: Will turnover undermine the business strategy? Rather than trying to fix "all turnover," where is the turnover that will most affect delivery of the business strategy? What needs to change in leadership, working conditions, or pay to have an impact on retention? Do employees feel like they are valued and that they make a difference for the company?

Performance Management: Have the tools and processes for performance management been revised to reflect this year's business strategy? What might that look like? Should everyone in the organization share one or two goals in common? Do people have "line of sight" between what they do every day and the business strategy? How can HR contribute to large scale performance improvement programs (such as GE's Work-Out, Change Acceleration, or Six Sigma programs)?

Team Development: Are the spaces between boundaries being managed well? Is the work within and between teams progressing smoothly? What could improve effectiveness across the entire cycle of work so the customer notices the difference?

implications of the business strategy. As a positive example, one deceptively simple part of the PepsiCo Human Resource Planning process in the 1980s was the page with two columns: "Business Strategy" and "HR Implications." By making this a required page for each function and the company as a whole, it transformed and elevated the discussion into one that propelled HR into a strategic internal consulting role. To assist others in doing this, refer to Exhibit 7 as an example of the kinds of questions internal HR consultants should explore with the business leaders they support.

The list could be longer, and can involve any and every lever that is within HR's traditional domain, or it can go well beyond the boundaries of traditional HR, for example:

1. Opening up internal leadership and development programs to customers to build relationships;
2. Including customers in the design of sales incentive programs; or
3. Implementing a more effective senior leadership team agenda.

The point is that organizational culture and capability (HR domain) can have as much impact on business strategy attainment, especially in areas like customer support, as does the budget (the finance domain). The challenge is to claim it, have the right conversations on these topics, and watch the impact.

Talent: Right Seat on the Bus

Jim Collins (2001), in *From Good to Great*, clearly describes the critical importance to organizational success of having the right people on the bus, and having those people in the right seats based on their talent. Buckingham and Vosburgh (2001) further explored this in an article entitled "The 21st Century Human Resources Function: It's the Talent, Stupid!" Consider also McKinsey's classic 1997 report and later book (Michaels, et al, 2001) on *The War for Talent;* clearly this is a prime area HR must own and leverage.

Combine increasing talent shortages with looming demographic trends, the changing work life balance expectations of the up and coming workforce, and the changes in the organizational "deal" with employees, and we have a ticking time bomb. Organizations that understand this evolution and develop unique talent strategies will win the game, with or without the help of the traditional HR function in the organization. General managers whose success depends on meeting client needs with talented employees will no doubt lead the charge if HR as a function does not step up to the plate.

If indeed "It's the Talent, Stupid," then HR practice needs to explore more deeply how talent is ignited within organizations. Lynda Gratton's recent work on Hot Spots (Gratton, 2007) illuminates why some teams, workplaces, and organizations buzz with energy and others do not. One can feel the difference when walking into a place that has it versus one that does not. She gives great advice on how leaders can help create and support hot spots, where creativity and energy deliver business results, and how HR can help design organizations that have people who are (1) eager to cooperate, (2) across boundaries (3) with an igniting purpose—the three essential elements. This goes well beyond traditional organizational development practice, with implications for selection, training, rewards, engagement, and leadership development. It is a wave we cannot afford to miss.

How can HR better manage talent in an organization?

1. *Make it a priority but keep it simple*. The CEO and senior leaders need to believe it, talk it, and walk it.
2. *Link talent to business strategies*. Show the connection in multiple compelling ways.
3. *Develop disciplined systems for assessment*. Require leaders to know their people's talents and conduct regular reviews (e.g., quarterly updates) as well as an annual deep dive.
4. *Use the data*. Integrate talent assessments and organizational needs back into internal search or recruitment, retention and motivation programs, professional and leadership development programs, performance management, and workforce planning.

First Steps: Strategy, Structure, and Skills

Bottom line, HR's challenges include delivering the transactional and administrative services required in a low cost way (requiring the HR functional knowledge and the business knowledge in the lower part of the Exhibit 6 pyramid), and delivering the more transformational business partner and change agent roles that are depicted in the upper part of the Exhibit 6 pyramid. Technical, functional, and business skills will always be important and are the price of admission, but the development of internal consulting skills is essential to delivering on the total HR promise. These skills will lead to the development of trusted advisor status for HR.

At least three initial steps can be taken to develop HR as an internal consulting organization:

1. HR *Strategy* Aligned to Business Priorities—As described in the preceding section.
2. HR *Structure* via Centers of Excellence—The structure to deliver the lower pyramid transactional issues are described in the operational excellence section, in which leverage is on self-service, efficiency, and scalability. The structure to deliver internal consulting in the content areas defined here might best be addressed by centers of excellence related to each content area.
3. HR *Skills* Related to Internal Consulting—Explored in more detail later.

Successful external consultants do some things that are equally important for internal consultants, which represent the upper pyramid part of the HR accountabilities. One must show:

1. Knowledge and understanding of the industry and the organization;
2. Quality of ideas;
3. Ability to solve major business problems;
4. High quality work;
5. Ability to develop creative solutions to difficult problems;
6. Ability to complete projects on time and on budget.

In addition, rapport building is essential. Critical in establishing credibility is *willingness to listen*: Demonstrate knowledge and understanding by the questions asked. One knows intuitively that:

1. Talking more than you listen is the quickest way to lose your internal client.
2. You must acknowledge that the client's situation is personal and unique and be willing to listen to their story.
3. You demonstrate how well you listen by asking appropriate clarifying questions; you show that you have "done your homework" on the issue.
4. It is helpful to relate similar first-hand experiences with successful outcomes.

One also needs to *understand the client's frame of reference*, meaning the background, experiences, and personal biases that influence how he or she thinks about issues. It is important to develop an understanding of their communications preferences: Do they prefer detailed factual arguments or one great symbolic story? Understanding the client's frame of reference allows one to take the next step, which is to *build empathy*. This can be done by:

1. Paying attention to the emotion around the factual issues.
2. Reflecting back that you understand how important this is to them, and that you care also.
3. Specifically asking "why do you care so deeply about this issue?"

Finally, to become a good internal consultant one must *distinguish oneself*. Rather than "push an HR agenda," simply help the client solve a difficult problem that is important to them. One can:

1. Provide key information to help solve a problem.
2. Make him or her look good in front of management and peers.
3. Bail him or her out of a tight spot.
4. Leverage resources to demonstrate the willingness to "invest" in the relationship.

Ultimately, successful internal consultants show predictable characteristics. They:

1. Are predisposed to focus on the client, rather than on themselves.
2. Focus on the client as an individual, not as a person fulfilling a role.
3. Believe that a continued focus on problem definition and resolution is more important than technical or content mastery.
4. Show a strong competitive drive aimed not at competitors, but at constantly finding new ways to be of greater service to the client.
5. Are motivated more by an internalized drive to do the right thing than by their own organization's rewards and dynamics.
6. View methodologies, models, techniques, and business processes as a means to an end; they are useful if they work, and are to be discarded if they do not; the test is effectiveness here and now, for this client.
7. Believe that success in client relationships is tied to the accumulation of quality experiences; as a result, they seek out (rather than avoid) client-contact experiences, and take personal risks with clients rather than avoid them.
8. Believe that both selling and serving are aspects of professionalism; both are about proving to clients one's dedication to helping them with their issues.

The successful internal consultant is selfless, and gives up his or her own agenda in service to the needs of their client. The internal consultant who helps make the client more successful has done his or her job.

The good news is that a variety of training options exist to assist with this transformation, varying from contracted externally delivered training to internal train-the-trainer approaches that allow an organization to bring the delivery in-house. In addition, organizations that have long successfully delivered consultant training to externally focused professional services firms now have the opportunity to leverage this content to address the internal consultant development needs for the modern Human Resources professional.

Overall, we have reason for optimism as our evolution continues.

BIOGRAPHICAL SKETCH

Dr. Richard Vosburgh is SVP-HR, Mirage Resorts, for MGM MIRAGE with responsibility for properties in Las Vegas (Bellagio, Mirage, New York-New York, Treasure Island, Circus Circus), Reno (Circus Circus), and Mississippi (Beau Rivage and Gold Strike), and is planning CityCenter, the largest privately funded development in the United States, where 12,000 new jobs are being created. Previously, he was HP's VP-HR for Asia Pacific with responsibility for 14 country HR leaders and for HR shared services across the four business groups from consumer to enterprise. Prior to the HP merger and moving to Singapore, Richard was VP-HR for Compaq's North America region. In the 25 years since finishing his Ph.D. in industrial/organizational psychology, he has held executive positions in Campbell Soup Company, VW in Germany, the Gallup Organization, and PepsiCo. He has authored numerous journal articles and one book entitled *Career Development for Engineers and Scientists*. Richard is on the board of the Human Resource Planning Society and is executive editor for the *Human Resource Planning* journal.

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