

Organisational Risk And Capability – HR’s Biggest Untapped Opportunity

The more that I have worked with different organisations over the years, the more I have found myself pondering a dilemma – why is it that business leaders appear to be so ‘in the dark’ about organisational capability, and HR functions, frequently so disconnected from business strategy? Surely the two things must be considered in the same breath, and at the same time, not separately and on completely different planning cycles.

The more I thought about this, and the more people I spoke to, the more I could see an obvious but gaping gap in how most businesses operated. The more I pondered this gap, the more an exciting opportunity began to emerge which had the potential to add enormous value in terms of competitive advantage, strategy delivery and organisational prioritisation and alignment. Furthermore, it seemed to hold the key to unlocking that most sought-after enigma – how can HR articulate its value offer to business beyond that of a basic personnel function?

If you sit a hundred CEOs down and connect them to polygraphs, you may not see a discernible movement of the needle when you ask them questions like “what do you think about performance management?” and “we want you to endorse a line management capability programme”. But the use of one word is guaranteed to get that needle scratching across the graph paper every time – and that word is “risk”.

It occurred to me that, when we talk about leadership or performance or talent or skills or culture; what we’re really talking about is risk, but too indirectly. Risk that the strategy will not be delivered, risk that the business will not be profitable, risk that we will come second, risk that we will fall foul of the regulators, risk that people will not want to invest in our business or that the share price will fall. Talking overtly about “organisational risk” as a partner to “strategy” is so simple and powerful a concept, yet so rarely is it done.

There is a wonderful logic to it which goes something like this – pretty much every business has a strategy. If your competitors are operating in similar

markets with similar customers, then their strategy may well be similar to your own – and guess what – they hire smart people too. So who is going to win? Ultimately, winning is more about the organisation – how quickly and efficiently strategy can be executed through the people, structures, systems, processes, skills and behaviours which your organisation has or needs to get the job done. As such, business strategy and organisational capability are two complementary halves of what is needed to be successful, and need to be in continual balance, or else strategy is diluted, delayed or blocked completely.

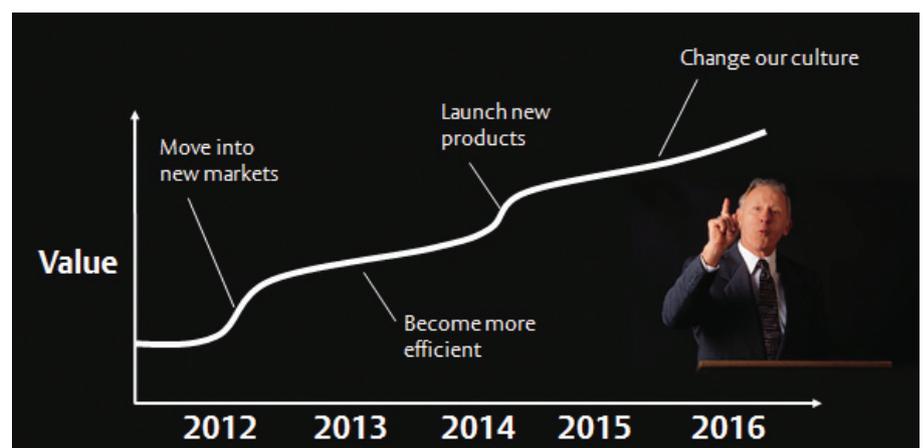
To this end, a good awareness of the organisational capability risks associated with the business strategy surely becomes a critical element of competitive advantage, and a pre-requisite for being an effective senior leader. But how often is this the case?

Next time you have the chance to ask a question of your CEO, ask them this – “When you stand up in front of analysts, shareholders and potential investors and talk about growth plans predicated on geographical expansion and new product launches, explaining exactly why the market should have confidence in our

strategy – do you actually have confidence that it is actually likely to happen? Do you know what that strategy means for the organisation, where the risks are and know how they are being managed?”

What you will generally find I suspect is that the leaders of businesses are very well-informed as to external risks to strategy, such as competitor activity, economic factors, buying trends, pending regulation etc., but have rather non-specific and largely uninformed views on the ability of their own organisation to deliver the strategy. They are effectively making promises based on only half the information that they need.

There is a second drawback associated with business strategy and organisational capability being considered separately, or being considered at different times, and that is that a disconnect is created in the planning cycle. A business strategy is usually accompanied by a financial forecast, but this forecast very rarely includes a solid view of the true organisational costs of delivering the strategy. For example, the launch of new products may be enormously costly in terms of external recruitment or training, or moving production from one country





to another could be delayed by months due to local employment legislation issues. Considered separately, there is a real danger that the financial parameters become constraints to doing what is needed to equip the organisation to deliver. Even more relevantly, there may be some elements of the strategy which (given a reasonable view of the organisational implications) may no longer stack up in terms of benefit versus cost.

Put all this together and there is a pretty water-tight case for saying that a consideration of organisational risk is a critical element of any business strategy process. It allows what are often two separate processes (a “strategy discussion” at senior levels, and an “activity prioritisation” discussion at functional level) to be joined up and to inform each other both “upwards” (a consideration of organisational capability and risk as part of strategy creation and planning) and “downwards” (an alignment and prioritisation of functional and individual activity to addressing critical risks to strategy delivery).

And here is the icing on the cake. Since HR should naturally be at the centre of the organisational capability and risk discussion, filling this gap suddenly gives context for everything from recruitment to employer brand, allowing them to be optimised and aligned to something tangible. Now, HR activity has a strategic relevance which it may have lacked before. Now, HR people can talk with confidence about the value that they are adding – they are managing people and organisational risks to the business strategy.

Bridging this gap has to be given real focus by HR. There are some green shoots, for example, the frequency with which Strategic Workforce Planning is

being talked about these days, but even this is often with the mindset of “we need the business to be clear about what it needs first”. As such, there is a danger of this ending up more like downstream “recruitment planning” than an upfront exploration of the organisational implications of various strategic options. A “risk” is exactly what it says on the tin – something which may happen, something which we should plan to mitigate before it happens, so that it is a risk no more.

Analysts, shareholders and investors no longer ask questions like “what is your strategy?” They ask “How are you going to deliver it?”, since market confidence depends on their view of whether your strategy is achievable. In 2010, over 60% of the market capitalisation of companies was attributed to “intangibles”. Price-Earning Ratios (PE ratios – effectively the ratio of total share value to earnings) are impacted heavily by factors such as availability of talent and succession to Board level, organisational structure and culture. A failure to meet strategic milestones or deliver against market expectations is massively damaging to a business, yet how often is organisational capability and risk discussed around the Board table?

A Board typically comprises leaders from the various business disciplines. By definition, they bring their own slice of the pie to the table, so how does the CEO gain an appreciation of organisational risk from such disparate pieces. This must surely be the remit of the HRD. As leader of a function which not only spans other functions, but which owns the conscience of most of the levers for people and organisational performance, a concise articulation of the capability needed to deliver strategy and the attendant risks must surely be top of their list of objectives.

Nobody else has the functional remit or capability to provide it in the same way – so if HR are not doing it, likelihood is that nobody is, and your business strategy is therefore at risk. In the same way that Finance are experts at the numbers, people and organisation is HR’s area of expertise. So if HR is not connecting this expertise with the strategic imperatives in the same way that Finance is connecting its numbers with the business plan, then it should not be surprised that it continues to suffer from “Finance envy”!

So, what needs to happen? I would encourage any HRD to think about the following ten questions:

1. Are you engaging with your Board from a “Risk” perspective? Can you and your function understand and articulate the link between what happens (or should happen) in HR and the strategic value chain? If not, start thinking about how you can.
2. How early are you getting involved in the strategic debate? If you are currently a “receiver”, then there is a significant risk that there are risks to the strategy which, if they materialise, cannot be mitigated in time or within cost parameters. How do you get to play in the upstream discussion?
3. Does HR have the tools and skills to draw out, diagnose, categorise and prioritise the organisational capability needs and risks from the business strategy? How proficient are they at OD, how wide a business perspective can they bring to bear and how up-to-date is their view of external market supply capacity? How comfortable are your key HR people in working with ambiguity, scenario planning and macro data? Think about how you can plug skills gaps in these areas.
4. Is there anything existing in your organisation which can tangibly be described as a “Strategic Capability Plan”? Something which concisely expresses the big ticket organisational capability needs and risks, and what needs to be done, and something which is referred to regularly at Exec level to provide confidence that the strategy is on track. If not, produce it.
5. Have you aligned the HR processes, downstream suppliers, employer brand and metrics to “speak to” the key organisational capability needs

and risks? Is there an evident and tangible connection between the strategy, and what you are asking your operational people processes to do? Consider reviewing activity, processes and downstream supply chains against organisational capability priorities and risks to see where you are aligned and where you are not.

6. Is your CEO able to answer questions from the market about the “How” of the strategy in a way which builds confidence? Have a conversation about how you and your function can help them do this.
7. Around the Board table, are you personally seen as a vital element in turning strategy into delivery? Start staking your claim in the organisational strategy space.
8. Think about how HR can work “horizontally” across its process verticals like Recruitment, Talent, Performance, L&D and Reward, to provide an integrated organisational capability offer to business.
9. Make friends with Finance to ensure that the costs of the organisational needs are properly reflected in the financial forecasts.
10. Is the credibility of your HR

function where you want it to be? Make sure that there is no “translation gap” between the things you think are important, and the things your internal customers think are important.

So, in summary, many HR functions are trying hard to connect what they are doing to the strategy but perhaps still falling short in doing this to the degree which allows them to be seen as a vital cog in the corporate machine. In my view, engaging with the concept of organisational risk offers a route to being able to do this more effectively, more coherently and in a way which builds credibility quicker and more easily. Once this is done, not only does this allow a much more effective connection between strategic demand and operational supply, but there is the opportunity to inform the strategy itself, and to build greater confidence in your business in the market into the bargain. It doesn't cost lots of money to do it, but there are skills implications which should be considered and addressed if needed – but these don't detract from the fact that moving fully into the organisational capability and risk space should be considered a massive opportunity for both HR and the wider business and a priority in terms of competitive advantage.



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