

# THE ROUND

NEWS THAT MATTERS



## It's Time for HR to Step Up!

By Dan Hawkins

The middle market continues to expand despite worldwide economic uncertainty and relatively slow U.S. employment growth. The dollar is strengthening, deals continue to close and growth remains the priority of midsize companies and their investors.

Unfortunately, most midsize companies are not equipped for the growth needs of the business, and external volatility only makes matters worse. Leadership and human capital are constraints. Human resources departments are responsible for driving the organization's agenda, yet they're not rising to the occasion. Consider the evidence:

- In The Hackett Group's 2015 [study](#) of HR functions across the United States, the majority of HR organizations were reportedly "underprepared to address their enterprises' most critical strategies and goals."
- Deloitte's Global Human Capital Trends 2015 [report](#) reveals that 61 percent of chief human resources officers, or CHROs, (confidentially) admit that their HR programs and solutions are lagging behind the needs of the organization.

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When you look deeper into the middle market, the picture is even worse. Last year, [APQC](#) conducted a proprietary analysis of HR functions in larger companies (more than 1,000 employees) versus smaller companies (fewer than 1,000 employees). Smaller company HR departments spend far more time and resources on administrative and policy management activities. In addition, the HR organizations in these smaller companies have very little involvement in strategy, business needs, human capital planning, talent management, culture and employee engagement. Leaders of small and midsize businesses report very little strategic partnering activities with their HR leadership.

In my own experience, I've observed firsthand how HR often fails to make the strategic impact it should for midsize companies. Too often I meet with PE investors who comment that fewer than 10 to 15 percent of their portfolio companies have any type of forward-thinking human capital approach or progressive HR leadership. The head of HR is typically not a professionally trained HR executive, lacks business acumen and leadership, and may not even be invited to engage in strategic matters of the company. This weakness results in poor leadership pipelines, a lack of talent when and where it's needed most, an inability to retain the best people, a misaligned culture and strategy, and dysfunctional or ineffective leadership teams.

The history of HR's impact has been spotty; however, the old personnel department needs to grow up. Now is the time to change the role HR plays in a middle-market company for a variety of reasons:

1. The middle market continues to expand and is feeling the pain of not having the leadership or organizational capacity to grow.
2. The labor market is tightening significantly and will continue to pose a challenge with the impending retirement of baby boomers over the next five years.
3. In our knowledge-based economy, human capital trumps all other assets a company can invest in, manage and improve. Customers are buying capabilities more than products today.
4. Finally, the good news: HR is beginning to develop the skills and leadership to add more value in areas such as assessing potential leaders, talent analytics, culture transformation and human capital. It is beginning to develop into a professional, value-added function.

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It is time, however, for HR to step up and meet the challenge. HR leaders and their organizations must get ahead of talent and organizational needs in the business and stop waiting to be told what to do. Much less time should be spent on transactional activities, such as payroll, policies, benefits and administration. More time should be devoted to engaging senior leaders, asking tough questions about organization readiness, assessing talent and providing solutions for future business needs. This is not only important but imperative!

Several actions are suggested for investors and CEOs to ensure the HR organization is ready to step up and become a significant player in the business:

- **Expect more.** Do not be satisfied with the HR team that merely transacts payroll and plans company events. Demand that it provide new ideas and solutions for your business needs. Invite the HR leader to strategy and business reviews and expect him or her to have a point of view. If your HR leader is unable to meet this expectation, see the next point.
- **Upgrade your HR leader.** Many well-trained HR leaders in big companies (think divisional HR heads) would love taking the No. 1 spot in a midsize company. Do not place your human capital strategy in the hands of a glorified executive assistant. Look for skills in leadership assessment, business acumen, talent development and influencing.
- **Put a premium on leadership.** Ensure your HR leader has the courage and communication chops to be an influential member of the leadership team. As the CEO or lead investor of a middle-market company, you get no value from a yes man. The main goal of your HR leader is to change the organization for the future, not maintain the status quo.
- **Ensure HR leverages data.** HR is no longer a touchy-feely function. Regardless of company size, HR should be integrating analytics into talent assessment, predicting future workforce needs and even justifying significant HR investments. All companies have reams of data to extract, analyze and use for future decision-making. Not all of them are ready for regression models to predict a talent gap in five years, but companies should know exactly which HR investments will yield the greatest return. //

— **Dan Hawkins**, a former chief human resources officer, founded **Summit Leadership Partners** after 25 years in the corporate world. His firm helps business leaders implement strategy and organization performance.



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