Taking HR to the next level

A structured approach to developing and executing an effective HR strategy
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Executive summary

Talent shortages and global competition have put people issues at the top of the Chief Executive Officer’s (CEO) agenda. Yet many business leaders aren’t sure the Human Resources (HR) function is up to the challenge. In fact, a recent global survey by Deloitte Touche Tohmatsu and the Economist Intelligence Unit shows that while 72 percent of senior business executives believe people and talent are critical to their company’s results, only 8 percent are confident in the way their company currently manages talent. Moreover, 46 percent of the surveyed executives said their company’s HR capabilities are adequate, but need to improve, while another 31 percent believe significant improvement is needed.¹

What must HR do to regain the confidence of its business colleagues? And how can HR provide the critical services and capabilities that allow a company to achieve its aggressive growth goals? This point of view describes a 10-step approach to help HR meet these challenges. The approach centers on creating and executing a comprehensive HR strategy to develop and deliver services that align with the company’s changing needs. Our discussion includes a detailed example based on Deloitte Consulting LLP’s (Deloitte Consulting) experience helping clients around the world in their efforts to develop and execute effective HR strategies.

A roadmap for HR strategy

In the past, HR was viewed primarily as an administrative function and its strategies were fairly simple. But now, perception has changed. Today, most companies recognize that people are vital to every aspect of business performance and the HR function needs a sound strategy to provide services that significantly enhance the value of this critical resource.

Of course, developing a clear and robust HR strategy is just the beginning. In the end, achieving the desired results of any strategy hinges on effective execution. The following framework outlines the 10 major steps we believe are necessary for developing and executing an effective HR strategy.

Although the specific approach varies from one situation to the next, we believe this general framework can help any HR function develop and deliver the kinds of services and capabilities that today’s companies need to survive and grow.

**Figure 1: Deloitte HR Strategy Framework**

1. Understand business strategy
2. Define HR strategy
3. Identify HR’s primary performance levers
4. Segment stakeholders
5. Prioritize HR investments
6. Design HR services
7. Establish a delivery model for HR services
8. Upgrade the company’s HR capabilities
9. Continuously improve HR operations
10. Communicate the value of HR services
Define value

The first step toward an effective HR strategy is to define “value” and to understand how business value is created. This requires deep insights into the overall business environment — including general market forces and trends — as well as a clear understanding of the company’s overall business strategy. In fact, HR strategy is most effectively developed as an integral part of business strategy — taking into account workforce trends and how HR can help the company create value. If this is not done at the outset, individual business units are likely to develop their own HR strategies, leading to duplication of effort, potential confusion among managers and staff, and higher HR costs.
1. Understand business strategy

Understand customer needs, market forces, and trends. Model their impact on resource planning and workforce performance.

Understand business strategy and strategic priorities. Plan and model the impact on resource planning and workforce growth.

Understand the implications of the overall business strategy and market environment on governance, compliance, and risk.

Different business strategies require different workforce strategies. How a company chooses to compete — and the current and projected strengths and weaknesses of its talent pool — will largely dictate the kinds of human capital investments and actions necessary to achieve desired results in the marketplace. For example, a strategy based on innovation has different workforce requirements than a strategy based on outstanding customer service levels or low prices. Similarly, an organic growth strategy requires very different people practices than an aggressive growth strategy based on mergers and acquisitions.

A company’s HR strategy, just like its overall business strategy, must be grounded in a solid understanding of market forces and trends. In developed countries, demographic trends, such as Baby Boomer retirements, aging workforces, and a declining interest in science and technology education, are creating a chronic shortage of critical talent. At the same time, the labor pool is becoming increasingly global, driven by new workplace practices and technologies that make it possible to tap talent pools that were previously inaccessible.

In addition, actions taken by customers, competitors, and suppliers can have a big impact on a company’s workforce requirements. For example, as competition in the telecommunications industry continues to squeeze profits, companies are steadily shifting their operations to lower-cost offshore locations. Similarly, in the technology sector, the emergence of high-profile companies is forcing incumbents to find new ways to attract and retain top talent.

When developing an HR strategy, all of these forces and trends must be factored into the equation. Figure 2 shows a simple, but effective framework to help HR align its strategies and capabilities with the strategies and priorities of the company.

![Figure 2: Aligning HR with the Company (case study):](source: Deloitte Consulting strategic analysis for a telecommunications client.)
2. Define HR strategy

Determine the most effective ways to attract, motivate, develop, and retain new and existing talent given the business environment.

Define a set of key people initiatives to support the overall business strategy.

Develop guidelines and approaches for governance, compliance, and risk mitigation.

An effective HR strategy provides a roadmap for creating value through the company’s workforce. It also includes guidelines that the company will follow when competing for new talent or trying to retain existing talent. These guidelines can cover a broad range of issues, such as which skills and competencies are most critical for achieving future goals and objectives, how to source talent (grow or buy), and how to create and maintain a high-performance culture. The latter might include insights about the types of behaviors to be rewarded, the appropriate mix of monetary and non-monetary incentives, and how to handle underperforming employees.

Of course, it is very difficult for a company to be good at everything. The key to developing an effective strategy is deciding what to focus on — and what to ignore. An effective HR strategy defines a small set of initiatives that are critical to the overall business strategy. It also describes the types of products and services associated with these critical initiatives — for example, compensation and training — and provides a broad outline for how these products and services will be delivered.

Deloitte Enterprise Value Map™ for Human Capital (figure 3) shows the link we see between specific human capital dimensions (such as workforce planning, rewards, compliance, change management, and leadership development) and key business drivers (revenue growth, operating margin, asset efficiency, and expectations). This type of analysis can help company leaders understand the relationship between business strategy and HR and make it easier to develop an HR strategy that aligns with the needs of the company (figure 3).

A comprehensive HR strategy also incorporates a view of the company’s people-related risks in operations, reporting, and compliance. These include everything from succession planning and employee retention to bonus accruals, retirement planning, and rule changes in tax and accounting. An awareness of these issues can give a company an edge in the marketplace by allowing it to manage risk more effectively.

Figure 3: Deloitte Enterprise Value Map™ for Human Capital

Source: Enterprise Value Map™ for Human Capital. Copyright © 2004 Deloitte Development LLC.
3. Identify HR’s primary performance levers

Develop HR performance measures that align with business objectives and provide a baseline to track performance and drive improvement.

Implement reporting and analytic capabilities to provide business insight, not just data.

To develop HR services that align with the company’s vision, it’s important to develop performance measures that show how HR can contribute to business value. In recent years, many companies have made substantial progress in defining and implementing performance measures and scorecards for HR — particularly around cost-related measures, such as total payroll and total compensation. These performance measures are a step in the right direction; however, there is still much more to be done.

As HR becomes more strategic, it must focus on value-related measures, such as management time spent on managing people issues and time to efficiency for new managers and employees (see figure 4).

HR’s performance measures should focus on business impact, not just on HR operating efficiency. For example, one of the most effective ways to see if a company is leveraging the value of its people is to analyze its workforce productivity — revenue per employee divided by profit per employee — and then compare the result to other companies in the industry. Other value-oriented HR metrics include new hire turnover and promotion rates, bench depth/breadth ratios, lateral mobility ratios, retention rates for critical workforce segments, and pay-for-performance ratios.

Figure 4: Value-Related HR Benchmarks

Which of the following benchmarks does your company track now, and which are you likely to begin tracking in the next three to five years?

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Today</th>
<th>In 3-5 years</th>
<th>Not likely to track</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector productivity ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time to efficiency for new managers and employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management time spent on managing people issues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total compensation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Results based on all participants

Source: “Aligned at the Top” survey, Deloitte Touche Tohmatsu and the Economist Intelligence Unit.

Align HR services

Once a strategic direction has been defined, the company must review its HR policies, programs, and practices to confirm that they align with overall business objectives. This exercise needs to be data-driven and generally involves choosing a small number of HR service offerings from a vast array of options, and then determining which stakeholder group will receive which kinds of services. It also involves prioritizing investments to focus on business areas that make the most significant contribution to overall performance and results.
4. Segment stakeholders

Define and segment the company’s workforce, external talent pools, and other stakeholders.

Determine which segments are most critical to achieving desired results.

Assess the needs of each segment.

Decide which services to deliver to each segment — and how.

Different stakeholder groups make different contributions to the company and receive different levels of benefit from HR's various programs and services. It's important to understand each group's strategic impact and to map that impact against their use of the rewards, development opportunities, and other services that the company offers its workforce. This process is analogous to the way a company segments its customer base. High-impact, high-value customers are offered the highest level of service; low-impact, low-value customers are offered a lower level of service.

HR programs typically segment stakeholders or “customers” along four general dimensions:

- Stakeholder groups — e.g., applicants, regular employees, managers, executives, retirees, third parties
- Stakeholder needs — e.g., compelling employer brand, strong talent pipeline, globally mobile workforce, consistent people data, low transaction costs
- Service levels — e.g., response time, custom applications vs. off-the-shelf solutions
- Access channels — e.g., face-to-face consultation, self-service, call centers

In addition to the traditional ways of grouping stakeholders by their role or relationship to the company, there is another element that is even more important. Critical workforce segments (figure 5) consist of employees who make an extraordinary contribution to overall performance and business value — and who are extremely difficult to replace. In some cases, the same service levels and access channels can be used to serve each segment efficiently and effectively. But in other cases, a company must make hard choices so that the needs of its critical workforce segments are properly met.

**Figure 5: Critical Workforce Segments**

<table>
<thead>
<tr>
<th>Difficulty of replacing skills</th>
<th>Impact on value chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Core Workforce</td>
</tr>
<tr>
<td>4</td>
<td>Critical Workforce Segments</td>
</tr>
<tr>
<td>3</td>
<td>Flexible Labor</td>
</tr>
<tr>
<td>2</td>
<td>Specialists</td>
</tr>
<tr>
<td>1</td>
<td>1 2 3 4 5</td>
</tr>
</tbody>
</table>

Source: Deloitte Consulting Workforce Analysis Framework
5. Prioritize HR investments

Analyze the cost, benefit, and risk of delivering each offering across the workforce life cycle from acquisition through development, rewards, and retirement.

Develop prioritization criteria that align with the company’s strategic objectives.

Allocate funding for various parts of the people services portfolio.

Every company attempts to focus its time and money where they will do the most good. To properly allocate its scarce resources, HR must identify all new and existing projects, and then understand the expected costs, benefits, and primary focus. The Human Capital Value Map™ for Human Capital, which was described earlier, includes a tool to assess the value and risk of four types of projects:

- **Maintenance** — Keeping basic HR systems and processes up and running.
- **Productivity** — Improving efficiency and effectiveness in HR and the workforce.
- **Innovation** — Generating new ideas and creating a culture of innovation.
- **Growth** — Directly supporting company growth strategies, such as new market entry and Mergers and Acquisitions.

While maintenance projects will consistently be a substantial part of the overall mix, HR functions should strive to increase their focus on productivity, innovation, and growth initiatives that align with overall business objectives. Figure 6 is an example from a large pharmaceuticals client that shows how each project in the company’s portfolio can be mapped along the dimensions of value and risk to guide investment decisions for specific HR offerings and services.

This risk/value analysis often involves employee surveys or focus groups with key employees and executives. The prioritization process generally produces a smaller yet more effective portfolio of HR services. It also gives the company an opportunity to improve its understanding of workforce needs and helps demonstrate the powerful impact that the appropriate HR solutions can have on business performance.

![Figure 6: Risk/Value Matrix (case study)](image-url)

*Note: Size of bubbles indicative of relative project effort*

*Source: Deloitte Consulting Human Capital Value Map*
6. Design HR services

Design and implement HR solutions for every phase of the workforce life cycle, from recruiting to retirement.

Develop advanced capabilities to address strategic challenges, such as mergers, divestitures, globalization, change management, and regulatory compliance.

Most companies offer a solid set of basic HR services; however, in our experience many have yet to develop a full set of offerings specifically designed to address the company’s most pressing people challenges. According to the recent “Aligned at the Top” survey by Deloitte Touche Tohmatsu and the Economist Intelligence Unit, the people-related issues that are most critical to achieving results are leadership development, talent management, creating a high-performance culture, and training (figure 7). These are the types of issues HR must address.

Here are some ways HR can increase its contribution to the company in these vital areas:

• Help develop the next generation of leaders by collaborating with business schools and other third parties to develop and deliver cutting-edge leadership training.
• Manage talent by offering personalized career paths and development opportunities, while placing less emphasis on financial incentives.
• Foster a high-performance culture by targeting programs at critical workers who are role models for the rest of the workforce.
• Make training and development an ongoing part of everyday operations, instead of something that happens only once or twice a year.

![Figure 7: People Management Issues](image)

Which of the following people management issues are the most critical to your organization’s success?

- **Leadership development and pipeline**
  - HR Leaders: 82.7%
  - Senior Business Executives: 76.1%

- **Talent management**
  - HR Leaders: 71.2%
  - Senior Business Executives: 76.1%

- **Creating a high-performance culture**
  - HR Leaders: 71.2%
  - Senior Business Executives: 79.4%

- **Training/development**
  - HR Leaders: 70.1%
  - Senior Business Executives: 62.6%

Deliver value

Converting HR strategies and initiatives into tangible business value requires the appropriate delivery approach, as well as a solid foundation of HR capabilities and infrastructure. It also requires business-driven performance measures to track whether the expected results are being delivered.
7. Establish a delivery model for HR services

Determine the service delivery approach that most effectively meets the company’s needs.

Define specific roles, governance mechanisms, and delivery options.

Identify key delivery enablers, including systems, processes, and infrastructure.

Today, companies have a wide range of choices for how HR services are delivered. Options include in-house staff, outsourcing, HR shared services centers, self-service, and centers of excellence — to name just a few. In fact, in our experience, most companies end up with a hybrid model that combines a variety of approaches to satisfy their unique demands.

The framework in figure 8 shows all of the major elements that we believe go into an effective HR service delivery model. Companies can use this framework to help them think through their people-related business challenges and to design a solution that fits.

The design process begins with business and HR strategies and with the requirements of the company’s internal and external stakeholders — e.g., employees, managers, executives, recruits, and retirees. It then looks at HR’s various roles and at the technology and business enablers required to tie everything together.

All of these elements work together to deliver HR solutions that efficiently and effectively meet the strategic and administrative requirements of the company.

Figure 8: HR Service Delivery Model

Source: Deloitte Consulting’s Human Capital Service Area
8. Upgrade the company’s HR capabilities

Identify the skills and competencies needed to deliver on the HR strategy.

Conduct a skills analysis and develop training and recruiting plans to fill any critical gaps.

Link staff development and performance evaluation to the overall strategy.

Because the HR function plays a central role in delivering people solutions to the company, the capabilities of the HR function and its staff are critical to achieving goals and objectives. These days, efficiency improvements, centralization, and outsourcing are allowing HR to focus more time and attention on strategic business challenges. Yet as HR functions strive to become more strategic and business-driven, many, in our experience, are discovering that they lack the advanced skills and capabilities required to fulfill this new role.

To close the gap, HR leaders must identify the knowledge and skills that HR staff will need in the future, and then compare those requirements against the HR function’s current capabilities (see example assessment results in figure 9). This insight can help HR train existing staff — and recruit new staff — to satisfy the company’s future needs.

Alternatively, some companies might choose to separate strategic people issues from HR operations by creating a separate function for each, just as they typically separate Marketing from Sales or Finance from Accounting. In this scenario, the HR function might retain responsibility for people-related administration and transactions, similar to how Accounting functions generally focus on tactical activities, such as managing the books, external reporting, and regulatory compliance. Meanwhile, another group — either a new people-related function or perhaps a select group of managers within the company — might be responsible for addressing strategic people challenges, similar to how Finance functions generally focus on strategic issues, such as debt structure and ROI.1

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1 “Aligned at the Top”, Deloitte Touche Tohmatsu and the Economist Intelligence Unit, 2007
9. Continuously improve HR operations

Implement robust systems and leading practices to deliver HR services. Establish appropriate service levels and performance targets. Maintain a competitive cost structure relative to industry benchmarks.

Effective service delivery requires HR staff with the right skills and capabilities. However, it also requires tools, processes, and infrastructure to help the HR staff succeed. Key enablers include: robust policies and procedures, integrated technologies, self-service capabilities, service-level agreements, reporting and analytic tools, and effective governance.

Operational excellence in HR isn’t a destination — it’s a journey that never ends. Here are some keys to achieving desired results:

• Establish an “operational excellence” team to drive continuous improvement. Consider certifying team members in Six Sigma or similar techniques.
• Define standard operating procedures to provide consistency.
• Manage processes from end to end, rather than in piecemeal fashion.
• Rationalize fragmented HR applications, prioritizing information needs and taking full advantage of ERP integration.
• Develop training programs that emphasize continuous learning.
• Establish rigorous governance processes to improve financial discipline and accountability.
• Measure HR’s performance against service-level agreements and industry benchmarks.

Figure 10 shows a sample framework that can be used to develop an HR scorecard for performance management. The scorecard has four main categories, each containing a number of related metrics. An overall score is calculated for each category based on its associated performance measures.
10. Communicate the value of HR services

Understand the value of HR services.

Develop execution plans for specific constituencies.

Implement an integrated communication process and obtain feedback.

Communicating with the company leadership about HR’s improved capabilities and services is the final element of developing and executing an effective HR strategy. But, communication needs to happen consistently every step of the way. HR should communicate with business leaders and key stakeholders at the outset to understand their needs, and then involve them on a regular basis to reinforce their sense of ownership and commitment. Keeping the company in the dark until everything is complete is a recipe for failure.

At the same time, it’s important to recognize that communication is not a substitute for action. In the past, we have seen some HR functions make the mistake of rebranding themselves as “strategic” without developing the enhanced capabilities to deliver on the promise. If HR can’t address the company’s strategic people challenges, all the communication in the world won’t make a bit of difference.
Case Study: Creating competitive advantage through HR strategy

A large retail bank had an ambitious growth strategy based on aggressive acquisitions and improved customer retention. Over the preceding two years, however, it had been unable to significantly grow its customer base and share of wallet per customer. To achieve its strategic goals, the bank needed an HR strategy that aligned with its overall business strategy.

1. Define Value

Overall strategic objectives:
- Increase yield per relationship
- Grow market share

The bank analyzed the market and identified a number of critical market forces that were expected to shape its future strategy. Key market assumptions:
- **Commoditization** — Increasing commoditization of financial products will cause margins to become thinner.
- **Consolidation** — Industry consolidation will continue, increasing competitive pressure in the market while forcing companies to become more effective in managing integration of people, processes, and systems.
- **Customer loyalty** — In its quest for loyalty, the bank must transform itself into a truly customer-centric company, focusing on convenience, value, and service as the primary levers for enhancing the customer experience.
- **Markets and customer base** — As the population ages and wealthy Baby Boomers prepare to retire, new and different types of products and services will be required.

The market analysis led the bank to identify three strategic initiatives:
- **Customer service** — Master the hire-train-motivate cycle. Improve employee performance and retention to boost customer loyalty and cross-selling (e.g., cross-selling from loans to insurance).
- **Call center effectiveness** — Staff and train call center agents to provide full advisory services over the phone. Become the most efficient at serving the growing number of customers who avoid branches and want to receive advice by phone.
- **M&A** — Focus on culture, knowledge-sharing, and service mentality. Perform effective, consistent post-merger integration during all upcoming acquisitions.

2. Align HR Services

In support of the bank’s strategic priorities, HR identified a variety of new services and operational improvements. Many of these initiatives centered on critical workforce segments:
- **Sales people and other customer-facing staff** — people who are integral to the strategic priorities of improved customer service and call center effectiveness and who are key to achieving the overall strategic objectives of improving cross-selling and yield per relationship.
- **Various technology, operations, and project management roles** — jobs that relate to the strategic priority placed on mergers and acquisitions and that are important to achieving the strategic objective of market share growth.

The new or enhanced HR services fell into three broad categories:

**Workforce planning and recruiting**
- Focus on recruiting top talent in customer-facing roles, such as sales, branches, and call centers.
- Focus on recruiting top talent for M&A-related roles in technology, operations, and project management.
- Tap new talent pools. Focus on personality rather than technical skills. Improve entry diagnostics and the on-boarding experience.
- Align workforce diversity with the diversity of customers in various market segments.
2. Align HR Services (continued)

Learning and development
- Implement a comprehensive sales force effectiveness program that is integrated with performance management and compensation.
- Establish a new training program to help call center agents identify target customers.
- Create short product training modules to be consumed on-demand and through various media (e.g., online training while at work, podcast-based training while commuting).
- Establish project management curriculum. Create an HR M&A toolkit to improve speed and quality of merger integration (e.g., standard tools for core HR data and compensation mapping and for culture assessment). Build internal change management capabilities.
- Offer clear and attractive career paths.

Compensation and benefits
- Redesign the compensation system to include client penetration measures, profit sharing, and a deferred compensation program. Change compensation plans to focus on billings versus bookings, because billings growth drives business growth.
- Improve the work environment and fringe benefits. Implement flexible work arrangements.
- Communicate to employees the value of “total rewards” package.

3. Deliver Value

In this case study, the HR function already had a well-defined service delivery model and sufficiently robust IT architecture. This solid foundation allowed HR to focus on value-added services, rather than infrastructure.

Specific efforts to tie HR’s delivery performance back to the value initiatives defined at the beginning of the initiative include:
- **HR scorecard** — Measure impact of development initiatives and incentives on business results. Communicate value to bank executives and employees.
- **Expanded perspective** — Use various sources (e.g., large-scale surveys, feedback from employee portals, line manager feedback) to understand employee needs, perceived value of rewards, and level of commitment to the company.

### Performance Indicators

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>Customer Service</th>
<th>Call Center</th>
<th>M&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased employee commitment by 18%</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Reduced employee attrition by 12%</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Increased workforce diversity (including management) by 35%</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Increased customer loyalty by 4%</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Increased sales per sales representative by 4%</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Increased cross-selling by 5%</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Listed as “employer of choice”</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Achieved retention targets for key executives and overall staff on all acquisitions</td>
<td>x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Putting it all together

People and talent issues are now widely recognized as critical to business success. Monumental demographic shifts, entry into new and emerging markets, virtual and globally mobile workforces, and ever-changing risks are forcing companies to take bold, definitive action to improve how HR supports the business.

Yet based on our experience and the “Aligned at the Top” survey, it seems that many business leaders aren’t convinced that HR is up to the challenge. To regain their trust – and become a true “strategic partner” within the company – we believe HR must go beyond traditional approaches to “transforming” itself.

We believe that a truly business-driven approach requires HR to develop new capabilities that directly support the company’s strategy and growth objectives. The 10 steps outlined above can help HR develop and execute a strategy to more effectively tackle the company’s most pressing people challenges and to position the company for continued growth and achievement of its goals and objectives.

Acknowledgements

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