

An evidence-based approach to developing HR strategy: transformation in Royal Mail

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Introduction

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Over recent years the desire for HR to act as a strategic partner within organisations has become a key goal for senior practitioners.

Achieving this status requires HR directors and managers to converse in the language of their wider business, rather than operating solely as specialists, as was traditionally the case. In line with this, a growing body of research has sought to demonstrate the impact of strategic human resource management on the financial performance of organisations.

Through the 1990's and 2000's a large number of organisational-level studies across numerous sectors demonstrated measureable relationships between business performance and the adoption of progressive HR practices (e.g. objective assessment in recruitment, investing in development, appraisal and performance management, team-based working, etc).

For instance, Mark Huselid's (1995) seminal study related the adoption of HR practices across 968 US companies with their financial performance (controlling for performance in previous years). His findings revealed that on average, organisations possessing a more comprehensive HR system (based on scoring one standard deviation higher on his 'HRM' measure) demonstrated 7% lower labour turnover, \$27k higher productivity/employee and \$4.7k higher profitability /employee.

As this body of research has grown, it also has also been subject to meta-analysis. Combs, et al. (2006) aggregated 92 large scale studies conducted at the organisational level to produce a robust analysis across a large sample. This research revealed that on average, having a progressive HR system (e.g. objective selection, training, appraisals, employee surveys, etc.) related to an average of 4% higher revenue/employee where five or six major HR practices were in place within an organisation.

Taking an evidence-based approach in this way has been of great importance in making the business case for HR, and providing a measurement-driven basis for demonstrating return on investment. Whilst research of this nature is helpful to make the case, being able to develop HR strategy grounded in the key business metrics relevant to a particular organisation is particularly valuable.

This is firstly to ensure that the strategy developed is firmly linked to what drives performance within the specific organisation and hence generate maximum value, rather than taking an 'off the shelf' strategy without adapting it to the context. Secondly, it is vital for the HR function to be able to act as a credible and convincing strategic partner that understands the drivers of performance for the wider business and can make its case on those terms.

HRM authors such as Becker and Huselid (2006) emphasise the need for HR strategy to be clearly linked to the business strategy and for the constituent HR practices to operate in a joined-up way, this being seen as key in order for the strategy to be focused on what matters, avoid duplication and optimise outcomes.

In practice, however, achieving these aims can be complex as there may be a range of different business objectives to consider and stakeholder perspectives involved at the functional level in organisations. In this regard, the HR may add greatest value by not only supporting the stated business strategy, but helping shape it and ensuring it is realistic and achievable given any people-related constraints.

The HR function therefore has a key partnership role in both understanding how key stakeholders envisage the business goals will translate into practical action from an operational or commercial perspective, and identifying the opportunities and barriers from a people perspective which may need to be taken into account and subsequently shape the final approach.

This case study briefly outlines the approach taken to developing an evidence-based, metric-driven approach to formulating HR strategy within the Royal Mail, the government-owned postal operator in the UK. Firstly, it is important to understand the context which involves a number of significant constraints on strategic options. Following this, the approach taken and benefits are described. Finally, implications for HR practitioners are considered.

The context within Royal Mail

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The commercial nature of the postal industry is changing rapidly due to the substitution of traditional mail with e-mail and ever increasing use of the internet for commercial activities.

Growth in markets such as internet shopping, where retailers require a trusted delivery partner to support their fulfilment solutions, is one key area of opportunity for Royal Mail, alongside developing mail as a marketing medium.

Increasing liberalisation of the market for postal services in the UK has also impacted on Royal Mail through increased competition with new entrants, many of them established global postal operators. In particular, the regulatory requirement to meet the Universal Service Obligation involving delivering to every address, six days a week, throughout the UK, means that there is a significant fixed cost base which has to be maintained, unlike competitors.

This places significant pressure on the organisation to leverage economies of scale and invest in mail processing technologies to be competitive. In relation to the latter in particular, the final sorting of mail for each postmen's walk has to date been largely completed manually. Rolling out technology to automate this activity as well as optimising processing of mail upstream in the pipeline is a key part of improving underlying cost efficiency.

Finally, the industrial relations context for Royal Mail has historically been challenging with a number of government reviews identifying the need to improve how managers and unions work together. Any strategy needs to enable positive change in the organisation in a manner which takes account of the variety of stakeholder needs.

The context outlined above illustrates the significantly challenge facing Royal Mail in terms of transforming itself to be successful in a rapidly changing market place, and in particular the significant regulatory constraints and people-related challenges.

The approach to HR strategy development

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It was imperative that the HR strategy was clearly linked to business outcomes; that it focused on what mattered most and was implemented in a cost effective and efficient way.

The approach taken to developing the HR strategy involved the following five phases:

- Identifying the priorities for the HR strategy based on key business objectives
- Conducting an analysis of the current state in the organisation and identifying the opportunities and barriers to moving forward
- Development of the HR strategy supported by robust analysis and clearly defined metrics
- Reviewing the proposed approach against data and with key stakeholders

There was a clear desire from the Royal Mail Letters executive team to ensure that the HR strategy should be demonstrably evidence-based and designed to complement and support the strategic plans for both the operational and commercial functions within the business. This was helpful in providing both initial sponsorship and as a backdrop to engaging other stakeholders.

The first stage of identifying the key priorities from an HR perspective involved a review of the existing operational and commercial strategic plans alongside stakeholder interviews with key leaders outside of HR to clarify their key business objectives.

This identified five key goals that the HR strategy would need to help enable:

Building a productive and right-sized workforce

Data indicated competitors had an advantage in terms of cost of handling per item of mail. Ensuring that productivity and workforce planning were optimised was essential to deliver this business goal.

Standardisation and continuous improvement

Linked in part to greater use of automated mail processing, the focus here was on creating an organisation built around 'lean' principles with effective standardised processes.

Growth

In order to adapt successfully to the emerging shape of the postal industry and lead the way, ensuring the organisation possessed the right skills and capabilities to develop new products effectively and grow into new markets was seen as vital.

Ability to change

Linked to all of the above, a need was identified for the organisation to become fundamentally more flexible and adaptable to change. This had significant implication for the model for leadership, engaging employees in change and processes to support this.

The approach to HR strategy development cont.

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Managing headcount

In line with the business adapting to the external environment, an effective strategy for managing headcount in ways which meet business goals and was considered fair and reasonable from the perspective of employees and trade unions was key.

This activity established the key business needs relating to people, supported by objectives in quantitative terms, for instance costs of handling each mail item, growth targets for particular activities etc. The next strand of activity then related to conducting an objective analysis of the current state, taking an evidence-based approach. This involved accessing a range of different data sources:

- Operational scorecard across units in Processing and Delivery, including productivity, cost, safety, absence and regulatory compliance measures
- Employee opinion survey results
- Annual leaders survey
- Customer satisfaction survey
- 360-degree feedback data
- Data from internal assessment projects
- Detailed literature review of HRM practices within lean organisations
- Existing reports and reviews conducted for Royal Mail

These sources of information were analysed in relation to the business objectives to assess the true nature of the current state situation. This was particularly important in allowing an evidence-based assessment of the gap that would need to be closed to deliver the business objectives, as well as helping spot particular opportunities or barriers to improvement.

Conducting a data-driven review of this nature revealed a number of important subtleties in interpreting data. For instance, 360-degree feedback data tended to be somewhat more flattering than employee survey data on similar questions, illustrating that the context in which employee feedback data is collected can impact greatly on the results. Key opportunities were also revealed, such as highlighting those units with strong operational and people-related performance (e.g. productivity and engagement) to help identify best practice.

In addition to the analysis of the data sources above, it was vital in developing the HR strategy that there were strong externally-oriented information in relation to understanding competitor approaches, along with labour market data which was crucial for assessing the relative availability of labour for different resourcing models (e.g. full time versus part time roles). A comprehensive desktop review of publicly available information relating to how both competitor's and relevant best practice organisations approached managing people was also a helpful benchmarking source and helpful to support arguments as to why particular approaches could work well within Royal Mail.

The development of the strategy itself was hence informed by a robust, evidence-based review of the scale of the task, or the 'inconvenient truth' as one colleague put it. Having clearly identified the key business goals, it was possible to then frame the proposed HR activities in terms of how they would enable the delivery of these objectives. For instance, these related to how the proposed actions deliver improved productivity and by how much. In some areas the role of the HR strategy was to act as a vital enabler, creating the opportunity for positive change and affording the benefits from major operational investments to be extracted.

This clear focus on how the HR strategy would enable the achievement of business goals was important in building confidence within the executive team.

Benefits of the approach

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There were a number of key reasons why the approach outlined above was successful in supporting the development of the HR strategy.

Identifying the right metrics

Through the thorough review of business needs and what really mattered, the right metrics could be identified and used as the basis for the strategy. These will vary depending on organisational context so the process taken to establishing what matters is key. Rather than relying on simply what intuitively seemed right, or copying best practice from elsewhere, the metrics used could be clearly traced back to fundamental drives of the business. Significantly, the metrics included those which mattered to leaders in other parts of the business.

Engagement with and facilitation across stakeholders

As well as there being formalised statements of business strategy, what is considered important is often rather more fluid and develops in real-time amongst the leadership population. Engaging widely with key business stakeholders was essential to ensuring the HR strategy was appropriately inclusive, did not miss key topical issues and reflected emergent strategic thinking.

Robust, evidence-based approach

Whilst HR as a profession is increasingly becoming more focused on measurement and metrics, it has traditionally been less focused on this than other functions. The approach taken here went a significant way to rectifying this.

Business rather than HR focus

In order to build credibility and acceptance, it was very important for the HR strategy to be founded on measurement which was expressed in quantifiable terms using the language of the other business stakeholders, such as relating to productivity and enabling growth.

Implications for practice

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The process of strategy development outlined was built around a strong focus on metrics as well as an emphasis on analytical thinking to develop a robust approach. There are a number of implications for HR practitioners.

Firstly, taking this approach needs to be underpinned by the necessary analyst skills, both in relation to handling quantitative data and also working with qualitative information, to conduct the requisite gap analyses and make the case convincingly as to how HR interventions will help

Traditionally this has not been a key focus for the HR profession, so with the increasing need for these capabilities it is important that the organisation can draw on people who are suitably trained and experienced. In particular, this necessitates a multi-disciplinary approach because of the need to combine both 'hard' data analysis relating to financial and operational performance measures alongside the ability to analyse 'soft' data such as employee opinion and assessment data.

Secondly, the quality of the HR strategy is perhaps only as good as the ability of the team involved to understand the wider business strategy and evaluate the implications it may have for how people in the organisation may respond and need to be managed. In this regard, it is a vital element of the HR partnering process to understand the business metrics and what factors influence these. HR partners need to be able to view the wider business as a system, appreciating that there will be different stakeholders with particular goals and perspectives. They need to be able to identify the implications for the whole business, rather than simply supporting individual stakeholders in a tactical manner.

Thirdly, there are implications for the approach to partnering. Engaging a wide range of stakeholders, including both leaders in different functional areas as well as employee groups, trade unions and appreciating the customer perspective, is important to play the strategic partner role effectively. This necessitates not only having an adequate depth of understanding of the issues facing key stakeholders, but also being able to communicate the impact of people issues on valued business outcomes.

For instance, achieving the financial benefits of large scale automation may be contingent on how the parallel people-related challenges are managed so articulating this is crucial. Making the case for investment in HR interventions on these terms is critical to build support.

Finally, credibility within the wider business is key and confidence is the basis for this. It can be tempting to simply follow the latest HR fashion or best practice, without due attention to the specific business needs of the organisation. Taking a data-driven approach to developing HR strategy, which combines robust analysis of internal data with external benchmarking of competitors is a key first step. This provides a solid basis for articulating the gaps which HR activities need to address, expressed in measures that have meaning for the wider business. Being confident about the facts provides the essential start point for HR to play a leading, constructive strategic partnering role.

In summary, this example of developing HR strategy demonstrates the importance of building strategy on rigorous analysis. Ensuring that HR strategy is built around measurable, business-related goals and can be convincingly shown to bridge the gap between current state and future goals was key. Doing so both ensured the quality of the strategy itself was high, and built the commitment of stakeholders in the wider business by communicating in terms that matter to them.



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