

The Importance of Understanding the Business for HR Professionals



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Introduction

The vital importance of the active participation of HR has emerged while formulating business strategies of an organization, in the current business context. One of the important roles of an HR Professional is to work as a strategic partner, in addition to the role as a business partner at the operational level. Therefore sufficient understanding of the business strategy, business context and functional activities of the organization are very important for an HR professional and it will be useful to formulate HR Strategies, in line with the business strategy. Without this understanding of the business, HR professional will not be able to provide the support service to other departments or functions to meet their expectations. In other words, application of HR theories & practices will not be fruitful.

Importance of Strategic Role of HR Professional

Strategic Human Resource Management is an approach to the development and implementation of HR strategies that are integrated with business strategies and enable the organization to achieve its goals (Armstrong, 2008).

Strategic human resource management is management of human resources that provides a strategic framework to support long-term business goals and outcomes. Strategic HRM ensures the availability of skilled, competent and highly motivated work force to achieve sustained competitive advantage. SHRM provides directions to the organization so that both the business needs of the organization and individual and collective needs of its workforce are met.

Role of the HR professional as a strategic partner is to help the corporate governance to formulate a successful business strategy.

Once the HR is equipped & organized, it can play a significant role in the strategic planning of the organization to properly align HR with an organization's strategy. It is the human capital that leverages all other areas of an organization. Therefore the HR needs to ensure the human capital is effectively aligned with the strategy that is chosen by the organization. To capitalize on this leverage, organizations need to adopt a new perspective of HR.

Aligning HR Strategy with the Business Strategy

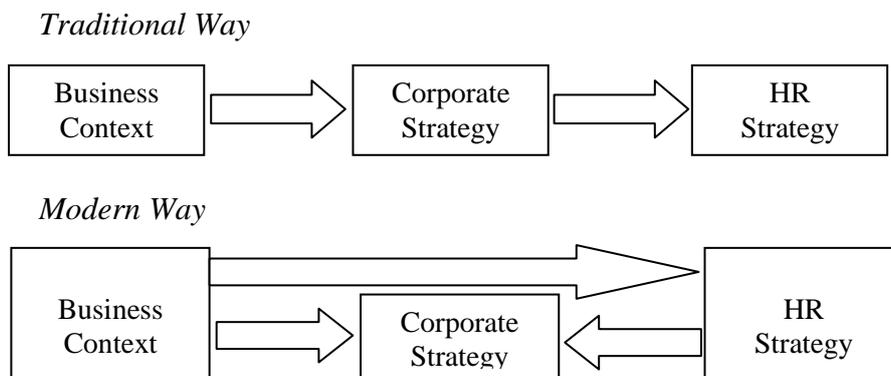
One of the steps in aligning HR with strategy is to recognize that the HR department and its duties are a strategic asset, instead of the traditional administrative function of being a cost center, focused on compliance. This administrative mindset needs to evolve into a focus on value creation. In order to achieve this focus, HR must first recognize that it needs to play a strategic role, and top management must support HR's role by accepting HR into the strategic planning initiatives.

The alignment between HR and the strategy of an organization begins with a strategy-focused professional. Secondly, the HR system needs to be created in alignment with the organization's strategy. HR needs to ensure that employees are strategically focused (Becker & Huselid, 2001).

Too often the perspective of HR is internally focused. For example, it is common for HR departments to measure their value to the organization by the amount of hires made, performance reviews completed, or training courses delivered (Ulrich, 2000).

If employees are connected to company strategy and goals and are acknowledged for high performance, the goals are more easily met. Engaged employees are vital to company productivity. HR can be a key player at the strategy table if it develops performance management goals based on company objectives.

Figure 01: HR Contribution to business strategy



Developed by Author

Why HR Professionals should be Familiar with the Business

Business strategies depend on various facts such as country's economy, political situations, management, market conditions etc., Modern way of formulating the HR strategy must be far beyond the Traditional way which followed the business strategy and goals set by the management. HR must be ready in advance by understanding the business context.

It is a must for HR professionals be familiar with the business to achieve results in their main activities such as hiring right people, preparing training plans, managing performance appraisals etc. Even for day today operation, HR has to make decisions; HR input is required. Incorrect input or decision in this sensitive area could make a huge impact on the whole business. Therefore HR professionals must understand the operational realities, to be successful in their roles. Then only HR can customized & map up their internal processes.

What HR Professionals should know on Different Functions?

It is a well-known fact that there is no unique Management structure which all Organizations follow. Even though different organizations follow different types of Management structures, (may be with differentiated function or department names) it could be depicted in a generalized form. However HR should have a wider knowledge on the main functions which are found in any type of organizations.

Within a highly competitive, rapid changing, demand driven business environment, Sales & Marketing function has a greater role to play. In understanding this role in respect of a particular organization, the first step for HR will be identifying the products or services and the target market. Depending on the nature of the product or services of the organization, activities, processes & strategies could be different. In most of the cases, the Sales &

Marketing workforces are managed in a different way. Their training needs, performance measurement, incentive structures could be very specific. However HR professional should be able to cater, not only the current, even the future needs of this Sales & marketing function. Without the knowledge of these integral aspects of the function, HR will not be able to serve the changing needs.

In any Organization, operational area, which is also known as Supply Chain under the broader classification, will represent the core business. Planning, Raw material sourcing, maintaining the inventory, production, Finished Goods storage & distribution activities are generally under the Supply Chain. Therefore thorough understanding of the operational area will be very useful for a HR professional to make the necessary contribution in managing the Human Resources of the particular organization. For an example, in case of a manufacturing organization HR should be aware of the main processes or activities of the Supply Chain and the role of each individual in the respective processes or sub – processes. In case of Service organization, those are the direct processes performed to fulfill the service requirement of the client. Whether it is manufacturing or service, if there are critical processes where human resources with special skills or characteristics are required, it should be useful information for HR database.

In most of the organizations, within the operational area there are specific, unique value creation activities which the organization differentiates from their competitors. HR should be familiar with these aspects especially in the core business area as HR decisions related this area may impact the quality of the product or service.

Depending on the Organization specific structure, there could be other functions or departments which do not come under either Sales & Marketing or Supply chain. Finance department is a classic example.

Even though Finance is also classified as a Business Support Service under modern Multinational Company Structures, the role of Finance is very critical as all business managers have to ultimately focus on the bottom line. Therefore it is a must for HR professional to be aware of the activities taken place in Finance and its language. Capability of reading & understanding the Income statement, Balance sheet and Financial ratios will enrich an HR professional. The details of talents needed to prepare those statements, timeliness of information, statutory requirements and seasonal patterns related to those activities

There are instances in certain specific industries and functions where general HR guidelines, procedures are customized to suit the specific needs.

In general terms HR professional should be able to handle all key result areas from man power planning onwards for all functions of the organization. Each area or function of the business has HR needs in different perspectives. The main responsibility of the HR is to provide the necessary Business Support Service with HR expertise. It could be related to Sourcing of employees, Training & Development or setting Key Objectives to evaluate their performance for the future period. HR professional will be able to do the value addition, only if he or she has the comprehensive business orientation about the organization.

In case of formulation of long term strategies, this knowledge will be a driver towards correct direction. For the preparation of mid & short term HRM plans, this knowhow will be very useful as it relates to the operational plans. In execution of those plans and for day today

operation, this knowledge on other functions will be essential as HR has work as part of the business or rather business partner.

HR should take the lead in driving change management to keep ready the work force to face the changes in business strategies. Change is a given in today's competitive world, and the company that manages change best will most likely best its competitors. The HR should train the company workforce to figure out how to capitalize on a changing business environment and train company leaders to embrace the opportunities change can bring. Therefore HR professionals are required to be ready for the future organizational strategy changes by knowing where the business is directed.

Face the Future Challenges by Understanding the Business

Business managers are responsible for communicating the company's objectives, goals and production targets to the employees in ways that makes them feel that they are partners in the process and play a key role in the success of the company's business strategy. HR is responsible for communicating employee concerns and problems to the business managers in ways that allow the managers to address the concerns and solve problems without sacrificing productivity and profits.

HR departments also have a responsibility in educating younger workers and helping them recognize their responsibility in supporting the organization's business strategy, objectives, budget requirements and operations. As new technologies develop, training, accountability and transparency become increasingly important management skills.

Having understood the future trends of the business, the HR department and the management team must cooperate in developing an effective program for employee training and development, performance appraisal and employee rewards. Management development is also an important component of this process. Organizational development, employee selection and recruitment and proper manpower planning are key components of management training. When problems arise, the HR department and the business-management team must work together to find solutions that keep employees satisfied and keep the business on track to meet its financial and strategic goals.

Business managers and the HR department must work together to design alternatives for employees who do not or cannot perform their jobs satisfactorily. Labor laws, company policies, training procedures, disciplinary steps and good business practices are all factors that must be considered as part of the company's strategic planning to establish a fair and equitable system that rewards good employees and disciplines unsatisfactory employees. Employees who see the system as inherently unfair or inequitably applied become disgruntled employees. Managers who believe their hands are tied by a system that protects unsatisfactory employees become resentful of the workers. Neither of these attitudes is good for business.

Dessler has (2000, p16) has described the role of new HR Manager as follows;

As you can see, being an HR manager today is a challenging task, and requires several proficiencies. One study found four categories of proficiencies: HR proficiencies, Business proficiencies, Leadership proficiencies and learning proficiencies. HR proficiencies represent traditional knowledge and skills in areas such as employee selection, Training & Compensation. Business proficiencies reflect

the new role of HR Professionals in creating profitable enterprises that serve customers effectively. Thus, Today's Managers need to be familiar with how companies operate, including strategic planning, Marketing production and finance They must be able to participate in a management team that formulates plans for how the company will respond to competitive pressures. Today's HR managers must be able to "Speak the CFO's Language" by measuring and explaining HR activities in terms managers understand, such as return on investment, payback period and cost per unit of service

Common Issues & Concerns in the Industry

Even though all the policies, procedures, systems and guidelines are provided and available, still there are issues and concerns among the other business managers and employees and any HR professional should be mindful on those.

Some of the common concerns are

- Company HR literature is too lengthy & complicated to follow practically.
- HR needs of different segments of employees of the organization are not properly differentiated.
- Communication & interpretation is not properly taken place at the shop floor level.
- More HR contribution is required in critical issues.
- Performance appraisal does not capture the activities beyond Job Description at professional level.

On the other way HR professionals also have many issues and concerns which more attention is required from above parties mentioned. However the understanding of Business backed by HR theory will be helpful for HR professional to minimize current and future issues.

Conclusion

HR is making exceptional contributions in strategic areas, including talent management, succession planning, engagement, recruitment and retention. Understanding the business or the big picture of the business is very important while participating for strategy formulating process for a HR Professional. Therefore role of the HR Professional is vital to business success.

As a business partner, HR should be strong enough to provide the necessary support service to all the other functions of the business for their operational activities. Desired results of the strategic plans could be achieved only if those plans are executed properly at the operational areas on regular, short term basis. Functional Managers will face many HR issues on day today basis, during the execution process. HR professional with a sound knowledge of business operation of the respective organization will be able provide solutions, while earning the recognition.

There are no boundaries for HR professionals with this background and they can look forward for careers beyond HR, which is a proven fact in both international & local business arena in the recent past.

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