

# Why Did We Ever Go Into HR?

Two recent Harvard MBAs who chose human resources as a career explain why it's the next big thing.

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We have embarked on a career path that others don't quite understand. When we chat about our jobs with Harvard Business School classmates, six years after graduation, they often smile bemusedly and nearly always ask the same question: "You're doing *what?*" Both of us are in the field of human capital management, helping major companies select, retain, and groom their cadre of rising stars. Translation: We work in HR.

A career in human resources isn't the typical destination of a Harvard MBA. We're supposed to be employed as strategy consultants or investment bankers or, in the true spirit of the degree, general managers. We once had jobs like those, but we don't now, and we know what our classmates are thinking: "It's a work/life balance thing." "They don't have the stomach for 'real' business." "If you can't do, teach." And, of course, our favorite: "If they're so interested in helping people, why don't they just go into social work?" Well, the answer is simple—and we relish providing it. HR today sits smack-dab in the middle of the most compelling competitive battleground in business, where companies deploy and fight over that most valuable of resources—workforce talent.

Don't laugh. We share your healthy skepticism. We, too, have become a bit cynical hearing companies grandly proclaim, "People are our greatest asset!" only to watch most of them show little true commitment to developing and leveraging those people's abilities. We are also aware of the less-than-flattering stereotypes of HR professionals—you know, "administrivators"—and of the reality that many traditional HR activities, such as benefits management, are increasingly being outsourced.

But the staggering cost of finding and hiring top talent today—not to mention the millions of dollars' worth of productivity that can be left unrealized when a company's employees aren't engaged with their jobs—highlights the need to devote more time and resources to developing and managing this greatest asset. The stakes are becoming ever higher as the human-capital-intensive services sector continues to grow; as workers' mobility increases and moving laterally becomes more attractive to some people than moving up; as baby boomers vacate their corner offices, decreasing the supply of experienced managers; and as the Millennial generation brings new expectations to the workplace. In short, the long-held notion that HR would become a truly strategic function is finally being realized.

We have therefore been puzzled that although almost every successful CEO who visited our business school classes declared the importance of attracting and developing talent—and many said that the 10% to 20% of their time spent on this was the most rewarding part of their jobs—we heard little about how to actually do it in practice.

Things are changing, though. As talent management becomes a make-or-break corporate competency, the HR function is responding with a shift from managing the monetary levers of human resources—compensation, benefits, and other expenses—to increasing the asset value of human capital, as measured by intangibles such as employee engagement. A new kind of HR professional is emerging to manage this transformed function, someone who deeply understands not only talent-management processes but also an organization’s strategy and business model—someone who is responsible for, say, hiring and training marketing managers but who also knows how to put together an effective marketing plan.

From our current vantage points inside two major companies at the forefront of this trend, and in our prior roles at two other such firms, we’ve seen the “New HR” in action. We have participated in the sort of nitty-gritty tasks that constitute this redefined HR and have observed the practical results—all the while weighing the implications for our own careers. (Though acquaintances in business school, we didn’t compare notes until relatively recently.) True, our experience is primarily with professional services firms. But such people-dependent businesses are at the cutting edge of talent management because they face some of the most daunting challenges in that area, including employee turnover rates that require some organizations to replenish virtually their entire ranks every five years.

In business school, we were trained to seek out underappreciated investment opportunities and to create value in surprising places. Unlike our peers searching for bargains in private equity or at hedge funds, though, we see the deepest discounts in the complex task of identifying, attracting, developing, and deploying people. We also see an undervalued and underpriced asset in the HR function itself, one that is poised to appreciate significantly. Like the smart value investors we learned to be in business school, we wanted to get in early.

## **Daisy’s Story**

It’s 10 AM in London, and the fixed-income trading floor is abuzz. Salespeople shout out prices while the digital ticker overhead scrolls unrelentingly. I spent five years before business school in debt syndications, so the scene is familiar. But today I’m here doing something quite different: With a British colleague, I’m scouting potential *action-learning projects* for the top 100 vice presidents at Goldman Sachs. The projects involve groups of six to eight VPs who tackle current business challenges. The aim is to develop their ability to lead complicated initiatives across business and geographic lines and, at the same time, generate real (read: P&L) value for the firm. One project we’re considering would involve assessing the market potential of an underbanked country that has significant raw resources. As a VP on the Pine Street team, the firm’s senior leadership-development group, I’d help structure the project to achieve the program’s dual goals.

A London managing director originally from the country being considered quickly takes us through the business case for pushing into the market: the regulatory situation, the

economic growth picture, the possible first-mover advantages. During his pitch, my mind is already on which people I could assign to the project: a brilliant trader who needs international experience, a technology whiz who could assess the country's infrastructure. I'll continue mulling over the possibilities for the next few days, weighing both macro issues (what's right for Goldman Sachs?) and individuals' development needs (what's the right way to give that young private equity expert needed experience in the financing business?).

Action-learning projects like this one are among the numerous leadership-enhancement programs for senior executives that we use to simultaneously meet individual development and overall business goals. Not all the initiatives achieve this perfect blend, of course, but several have yielded new lines of business and notable cost savings.

A year later, I have moved to Lehman Brothers, where I'm one of two VPs in the firm's brand-new Human Capital Management Strategy group. I spend much of my time on analytic work in front of a computer, evaluating where the firm is in its deployment of talent and designing new programs to get us where we need to be. Is our pipeline of seasoned managers sufficient in a particular function? Could a non-compensation-based reward system improve performance in another? Do our individual programs constitute a cohesive response to the firm's overall human capital needs?

I do, though, get the chance to interact face-to-face with the talent that is the focus of our strategic work. For example, we have a program, called Encore, that targets Wall Street professionals who've taken time off from their careers for personal reasons, such as the birth of a baby or an illness in the family. One afternoon I find myself in our executive dining room playing a Wall Street power version of speed dating, moving from table to table around the room trying to match the talents and interests of dozens of accomplished professionals, such as derivatives experts and pharmaceutical industry equity analysts, with Lehman Brothers' needs. (It's like being back on the trading floor, but matching "bids" and "asks" for people rather than securities.) The program, launched in 2005 and now widely copied by other firms, offers a previously overlooked pool of talent—people with nonlinear career paths—an effective on-ramp back into the financial services field while significantly reducing our recruiting costs and enhancing our "employer brand." Encore has been rolled out globally, and it is just one of a whole tapestry of programs—related to recruiting, mobility, wellness, work-life balance, and other issues—designed to get the right people in the right seats and to help them be as productive as possible.

My job is one of the coolest I can imagine. It mashes together three things I find endlessly interesting—psychology, organizational behavior, and hard-core finance. What's more, only a few years out of business school, I have seen decision making at the very highest levels at two major firms.

## **Matthew's Story**

Months of hard work are on the line at Genesis Park, the global leadership-development program at PricewaterhouseCoopers. The full-time, five-month program demands that

participants immediately apply newly acquired leadership and strategy skills to high-priority projects—in this case, analyzing whether the firm should enter a potentially high-growth new business. And this action-learning team of seven—representing six countries and PwC’s three main businesses—is deadlocked over what plan of action to recommend. A former consultant, I am tempted to vault over the table and get the job done myself. But as a senior manager at Genesis Park, that isn’t my role. I’m supposed to equip others to make things happen—to facilitate innovation, not dictate my point of view.

Once I resist the urge to take over, I’m able to help the team members step back a bit. They’ve spent months assessing every angle of this opportunity, meeting with top people at the firm and external experts. They’ve worked to adopt an enterprisewide perspective that trumps the interests of their individual groups. Now comes what’s supposed to be the fun part: delivering a creative solution, not just talking about it. Refocused on what originally energized them, they come up with compelling recommendations that are received favorably at the highest levels of PwC and that help challenge conventional wisdom and drive innovation at the firm.

No less important an outcome is that these seven individuals should be able to replicate their success and act as catalysts for change as they assume leadership roles at PwC and for years thereafter—which highlights yet another benefit. Because Genesis Park alumni bring back to their day jobs influential global networks of peers and top executives that would be hard to replicate at other firms, the program serves not only as a leadership-development engine and an incubator of new ideas but also as a powerful means of retaining the firm’s most prized talent.

A few years later, I’m at MasterCard as it makes the transition from a private company that grew out of a nonprofit association of banks to an agile and innovative public firm in the ultracompetitive financial services sector. As vice president for management and leadership development, I’m charged with building a corporate culture in which employees at all levels of the organization are expected to exercise leadership—solving persistent problems and spotting new business opportunities to create competitive advantage for MasterCard.

In business school, I was trained to lead teams that would reach the summit of business success. Today, I still aspire to achieve those heights, but not as a Sir Edmund Hillary. I’m now a Tenzing Norgay, Hillary’s Sherpa guide on the history-making Everest climb, coaching others on how to craft strategy, navigate the terrain, and get to the top. Like a good Sherpa, I’m constantly trying to “scale” this approach with a range of techniques to maximize my impact. At MasterCard, we have designed programs to address the specific challenges of leadership at every key point along the spectrum—from frontline contributor to senior executive. By targeting the sweet spots where corporate strategy and individual development needs meet, we are building the leadership bench and helping to increase shareholder value.

One program grew out of two important realizations: The vast majority of learning occurs on the job; and, despite their best intentions, most managers do not take advantage of “coachable moments,” when instruction has the greatest impact. So we designed a project that aims to teach over 1,000 managers across the company how to coach. The first pilots were underwhelming. We had overengineered the approach by giving managers too many techniques to digest. We simplified the model, focusing on moments when a manager’s quick coaching delivers a return on the investment of managerial time that exceeds that of any other learning method.

One anecdotal sign of our success so far: At a recent workshop, an initially skeptical participant scratched his head and said, “I get it now—if I shift from director to coach, we’ll get things done with better results and more-energized employees.” Exactly.

## **Defining the New HR**

At the four top-tier firms where we have witnessed innovative approaches to talent management in action—and at another half dozen from which our colleagues and former classmates have shared their experiences—we’ve identified five characteristics that persist regardless of a company’s size, industry, location, and culture. Here’s how we define the New HR that’s emerging at these firms:

### **It looks like a business school.**

Over the past decade or so, many MBA programs have shifted their focus from technical training to leadership training and their teaching methods from classroom lectures to teams of students actively grappling with real-world business cases. The same shift is occurring in corporate learning departments, with their new focus on action learning and on executive-led dialogue about business challenges facing the organization. The best-known proponent of this approach is General Electric, whose renowned Crotonville leadership center closely resembles a business school, including a Harvard-style case study classroom dubbed “The Pit.” (The influence also runs in the other direction: In 2006, J. Frank Brown, the former global leader for advisory services at PwC and a cofounder of Genesis Park, became dean of Insead, Europe’s largest business school.)

### **It has a P, not just an L.**

Forward-looking companies treat HR as an engine for both savings and revenue, deliberately blurring the lines between business activity and people development. At Lehman Brothers, for example, a strategic university-relations function marries campus recruiting to business opportunity. Colleges and universities nationwide are treated as valued clients with which skilled managers should carefully cultivate relationships. Providing financial advice for a university’s endowment fund, partnering with the institution to bring promising research efforts to a wider marketplace, and recruiting students for jobs at Lehman are activities conceived as a single package rather than as disparate touch points to be placed in revenue and nonrevenue categories.

### **It hatches and harvests ideas.**

Every company talks about innovation, but too few extend it beyond the R&D function. Ironically, HR, long perceived to lack innovation, can become both catalyst and facilitator of mechanisms that foster creativity across organizational boundaries. Like outside consultants' services, action-learning projects generate potential solutions to real business problems, but with the added benefit of a project team that knows how to get things done internally. In another approach, Google promotes innovation by asking its workforce to adhere to its 70/20/10 rule. An employee is expected to spend 70% of her time on her own job, 20% on "continuous innovation" within that job, and 10% on "discontinuous innovation" in any area she deems productive.

### **It makes big places smaller.**

HR is poised to become the Facebook of the modern corporation. Many knowledge-management initiatives have failed because employees weren't inspired to use them. Yet the rise of social-networking sites points to a widespread desire to connect with others who share your goals and interests. HR is uniquely positioned to connect people—and therefore knowledge, expertise, and mentorship possibilities—across an organization. For instance, leadership-development program alumni can participate in annual reunions hosted by a firm's top brass and serve as advisers to current program students. Follow-ups such as these—and the programs themselves—help build networks of people from disparate parts of the organization and with vastly different areas of expertise.

### **It focuses on the upside.**

HR often gets trapped in a policing role, mediating employee grievances, monitoring compliance with employment laws, and enforcing codes of conduct. What's more, the function often has seen its mission as one of helping workers overcome deficiencies that hinder their performance. Without ignoring these tasks, the New HR concentrates on the positive. How can we enhance revenue by doing more to engage employees? Instead of trying to "fix" a chronic employee weakness, how can we tailor a role that matches and capitalizes on strengths? For example, rather than belabor, in performance review after performance review, a talented marketing executive's lack of deep finance skills, seek to leverage that person's creative talents in a broader marketing role—one that helps the company expand in key overseas markets.

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So a few Harvard MBAs chose an atypical career path: Who really cares? We have certainly wondered whether we, our companies, and our colleagues are isolated examples. We have considered the possibility that the New HR may be a model championed by only a handful of people that will take root at just a few unusual organizations with investment dollars to spare.

It would be presumptuous for us, as relative newcomers to the field, to offer definitive pronouncements on it. Yet the more we learn from our peers, the more we become convinced that a sea change is occurring. We see that firms with the best track records of attracting and retaining top people are those with the most innovative talent-management programs—not only the firms where we've worked but also companies like McKinsey and Fidelity (which, it's worth noting, also hired people from our business school class to work in HR).

By necessity and design, these companies are ahead of the curve. That's because they are in the most talent-intensive fields, and they know they must attract top people or fail. Yet as more and more businesses become services-focused and HR-intensive, this model may soon become the standard across industries. What an enlightened consulting or financial services firm does today, most companies will need to do tomorrow.

If we, as two recent MBAs, can get in early on a field poised to take off—and spend 100% of our time on the activity that CEOs told us was the most rewarding 10% to 20% of their jobs—why wouldn't we?