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

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Abstract

Purpose – This case study aims to describe the benefits of an evidence-based, metrics-driven approach to formulating HR strategy.

Design/methodology/approach – The approach taken to developing the HR strategy at Royal Mail Letters involved five phases: identifying the priorities for the HR strategy based on key business objectives; conducting an analysis of the current state in the organization; developing the HR strategy supported by robust analysis; reviewing the proposed approach against data and with key stakeholders; and finalizing the HR strategy.

Findings – Four factors were key to successfully delivering a successful HR strategy: identification of the right metrics; engagement with and facilitation across stakeholders; adopting a robust, evidence-based approach; and adopting a business rather than HR focus.

Practical implications – Firstly, HR functions need the requisite analyst skills, combining “hard” data analysis relating to financial and operational performance measures alongside “soft” analysis of data such as employee opinion and assessment results. Secondly, understanding of the wider business strategy is critical. To act as a strategic partner, proactive engagement across stakeholders is vital. The credibility of HR in the business then flows from a reputation for robust analysis.

Originality/value – The paper outlines in practical terms how an HR strategy can be developed that is fundamentally based in the business strategy and uses objective analysis to help achieve a consensus among key stakeholder groups as the basis for action.

Keywords Organizational change, Management strategy, Human resource strategies

Over recent years the desire for HR to act as a strategic partner within organizations 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 organizations.

Through the 1990s and 2000s a large number of organizational-level studies across numerous sectors demonstrated measurable 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). For instance, Mark Huselid’s (Huselid, 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 organizations possessing a more comprehensive HR system (based on scoring one standard deviation higher on his “HRM” measure) demonstrated 7 percent lower labor turnover, $27k higher productivity/employee and $4.7k higher profitability/employee.

As this body of research has grown, it has also been subject to meta-analysis. Combs et al. (Combs et al., 2006) aggregated 92 large-scale studies conducted at the organizational
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) related to an average of 4 percent higher revenue/employee where five or six major HR practices were in place within an organization.

Linking HR strategy to the business

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. While 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 organization is particularly valuable. This is firstly to ensure that the strategy developed is firmly linked to what drives performance within the specific organization and hence generates 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 (Becker and Huselid, 2006) emphasize 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 optimize 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 organizations. In this regard, HR may add greatest value by not only supporting the stated business strategy, but also 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 that may need to be taken into account and subsequently shape the final approach.

This case study briefly outlines the development of an evidence-based, metrics-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 that 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

The commercial nature of the postal industry is changing rapidly due to the substitution of traditional mail with email 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 fulfillment solutions, is one key area of opportunity for Royal Mail, alongside developing mail as a marketing medium.

Increasing liberalization of the market for postal services in the UK has also impacted on Royal Mail through increased competition from 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 that has to be maintained, unlike
competitors. This places significant pressure on the organization 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 postman’s walk has to date been largely completed manually. Rolling out technology to automate this activity as well as optimizing 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 organization in a manner that takes account of the variety of stakeholder needs.

The context outlined above illustrates the significant 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. This piece of work relates specifically to Royal Mail Letters, which is the core mail sorting and delivery business dealing with letters and packets across the UK and internationally. The Letters business had a turnover of £6.7 billion in 2008 and represents over 70 percent of the group’s annual revenues. The HR function operates a partnering model, which relates to the operational regions and specialist functions. This incorporates several hundred HR professionals in partnering, strategic, specialist, change transformation and transactional roles supporting an overall headcount in Royal Mail Letters of over 160,000 employees.

The approach to HR strategy development

The approach taken to developing the HR strategy at Royal Mail Letters involved the following five phases:

1. Identifying the priorities for the HR strategy based on key business objectives.
2. Conducting an analysis of the current state in the organization and identifying the opportunities and barriers to moving forward.
3. Development of the HR strategy supported by robust analysis and clearly defined metrics.
4. Reviewing the proposed approach against data and with key stakeholders.
5. Finalizing the HR strategy.

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

1. **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 optimized was essential to deliver this business goal.
2. **Standardization and continuous improvement.** Linked in part to greater use of automated mail processing, the focus here was on creating an organization built around “lean” principles with effective standardized processes.
3. **Growth.** In order to adapt successfully to the emerging shape of the postal industry and lead the way, ensuring the organization possessed the rights skills and capabilities to develop new products effectively and grow into new markets was seen as vital.
4. Ability to change. Linked to all of the above, a need was identified for the organization to become fundamentally more flexible and adaptable to change. This had significant implications for the model for leadership and engaging employees in change, as well as the processes to support this.

5. Managing headcount. In line with the business adapting to the external environment, an effective strategy for managing headcount in ways that 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, including:

- 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 organizations.
- Existing reports and reviews conducted for Royal Mail.

These sources of information were analyzed 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 are 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 was strong externally-oriented information in relation to understanding competitor approaches, along with labor market data which was crucial for assessing the relative availability of labor for different resourcing models (e.g. full time versus part time roles). A comprehensive desktop review of publicly available information relating to how both competitors and relevant best practice organizations approached managing people was also a helpful benchmarking source and useful for supporting arguments as to why particular approaches could work well within Royal Mail.

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Benefits of the approach

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 would 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. Since this time, execution of the HR strategy has contributed to the business moving to a positive profit position, reducing industrial relations issues, supporting the delivery of increased efficiency within the Letters operation and successfully implementing a new commercial function to pursue new business growth opportunities.

Why it worked

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

Identification of 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 organizational 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 drivers of the business. Significantly, the metrics included those that mattered to leaders in other parts of the business.

Engagement with and facilitation across stakeholders

As well as there being formalized statements of business strategy, what is considered important is often rather more fluid and develops in real-time among 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

While 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 that was expressed in quantifiable terms using the language of the other business stakeholders, such as relating to productivity and enabling growth.

Implications for practice

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 related implications for HR practitioners.

1. 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 organization 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 analyze "soft" data such as employee opinion and assessment data.

2. 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 organization 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.

3. 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 and 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.

4. 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 organization. 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 that 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 ensured the quality of the strategy was high, and built the commitment of stakeholders in the wider business by communicating in terms that matter to them.

References


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