Toward a new HR philosophy

Peter L. Allen

HR should empower managers to decide on standards, hire how they choose, and develop company-wide leaders.

What is the appropriate role for the human-resources function? Many companies view it as merely administrative, with little or no strategic impact. Of course, HR leaders bridle at this perception and regularly seek ways to have a seat at the table. In the quest to be viewed as more strategic and more important, HR often tries to take on greater responsibility. (For more, see "Getting beyond bureaucracy in human resources," on mckinsey.com.) Yet the gap between HR's aspirations and actual role persists.

I've observed this gap in a variety of organizations, both as a consultant and as an in-house manager at several multinationals. Fundamentally, I believe, the gap arises from two complementary causes. First, executives and managers often think their job is to get financial results rather than to manage people. Second, when executives and managers neglect people management, the HR function worries about lapses and tends to "lean in" to right them itself. On the surface, this approach seems to meet an organization's needs: management moves away from areas it views as unrewarding (and perhaps uncomfortable), while HR moves in, takes on responsibilities, solves problems, and gains some glory in the process.

But this approach is based on erroneous thinking. It is bad for management and bad for the company as a whole. When HR sees itself as manager, mediator, and nurturer, it further separates managers

from their employees and reinforces a results-versus-people dichotomy.[1] That's why many HR teams refer to the rest of the company as "the business"; too often, they don't really perceive *themselves* as a core part of that business.

Helping managers manage

I joined the online travel agency Agoda.com three years ago to lead the HR function. Mindful both of problematic patterns in other organizations and of a CEO deeply averse to traditional HR, I have tried to build a different model. My department's fundamental goal is to help managers manage better, not to manage on their behalf. While we have a long way to go—Agoda is still in many ways in start-up mode, despite having over 2,000 employees in 28 countries— we've made significant progress.

I believe that sharing our experience may prove useful for other organizations as well. Our approach is based on a few core principles:

• Managers, not HR, should define, live, and develop the company's leadership.

• Managers, not HR, should do the hard work of managing people— hiring, evaluating, rewarding, and disciplining employees—and managers should be evaluated on their results.

• Employees, not HR, should "manage up" and take responsibility for solving problems directly with their managers.

In addition, we've taken the symbolic but important step of renaming our department People and Organization Development rather than Human Resources. We've also tried to hire the smartest and most talented people we can find, regardless of whether they have traditional HR backgrounds. Results so far have been promising.

[1] McKinsey research shows that performance and organizational health are closely intertwined. See the extensive body of research on performance and health led by Scott Keller and Colin Price, "Organizational health: The ultimate competitive advantage," *McKinsey Quarterly*, June 2011, on mckinsey.com; and the book *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage*, first edition, Hoboken, NJ: John Wiley & Sons, 2011.

Developing leaders

While leadership development should always be a top priority for HR, many companies approach it in counterproductive ways. One major division of a Nasdaq 100 company, for example, outsourced leadership development to an external provider—not uncommon given the proliferation of specialist consultancies offering this sort of service.

Outsourcing leadership development, though, is risky. Perhaps not surprisingly, the management of this division was ultimately taken over by a different part of the organization. In another multinational I worked with, every level of employee development (from job candidates to executives) was evaluated on a different set of leadership criteria, creating confusion about what mattered for success. In addition, this company's high-potential pool varied by as much as 40 percent from year to year because the assessment was so subjective. Although HR tried to treat these employees as privileged and told them they were destined for great things, senior management continued to fill open senior roles from the outside because it did not value the "high-pos." Predictably, many of them left the organization.

Rather than hand leadership development in its entirety over to external experts, we've tried to build it from the inside. Our CEO and senior leaders worked to clarify our own leadership characteristics, the qualities that make people successful at Agoda, and the behavior and principles that make it grow. We've shied away from evaluations based on leadership potential because we are skeptical of our own ability to predict future performance. Instead, we focus on behavior that we can observe now.

Individually, the leadership characteristics we esteem are not unusual: most organizations, after all, value qualities such as integrity and intelligence. But when we combine these with "thinking like an owner," innovation, and the ability to inspire others, we begin to define leadership in ways that really matter in the Agoda context. We apply the same leadership principles to every stage of the employee life cycle. We use them to guide hiring decisions; we teach them in new-hire orientation sessions; we rate them in semiannual perform-ance evaluations; and we use them to assess an employee's readiness

for promotion. This approach means that we have a set of criteria for the skills and behavior managers should live by and employees should believe in. It helps us to select and reward employees who contribute the most to the organization, both in the short and the long run. Leadership at Agoda is truly suited to the company.

Leadership is also something we expect of all our employees, whether or not they have people-management responsibilities or direct reports. We start teaching this principle and the relevant leadership skills during the orientation of new hires, so that our values are clear from the beginning. To make sure that the leadership style we teach is really our own, we involve managers heavily in assessing the needs of the company, designing and building curricula, and teaching. Not all managers are born to play that role, of course, but we teach them teaching skills and cofacilitate where appropriate. We strive to make it clear to everybody that our leadership values are specific to our company. They are the rules we live by.

Letting management manage

As often as possible, we strive to ensure that managers make the critical HR decisions. Managers have to live with the results the people on their teams produce, so managers should be empowered to make relevant decisions and held responsible for outcomes. If HR constrains decisions too closely—by determining who should be hired, how much they get paid, or their performance ratings— managers no longer have the freedom to obtain the results they desire. In that case, it is neither logical nor productive to hold those managers accountable.

With freedom, of course, comes responsibility, especially the responsibility to make good decisions. One example is recruitment. Our People and Organization Development team provides a flow of qualified candidates, but it is the managers who conduct the interviews and choose whom to hire. Our role is to provide managers with actionable data and useful tools, such as an in-house recruitment certification program we are building to develop hiring skills.

We also evaluate our candidates using an array of standardized tests—an important approach for our global company, which, at last
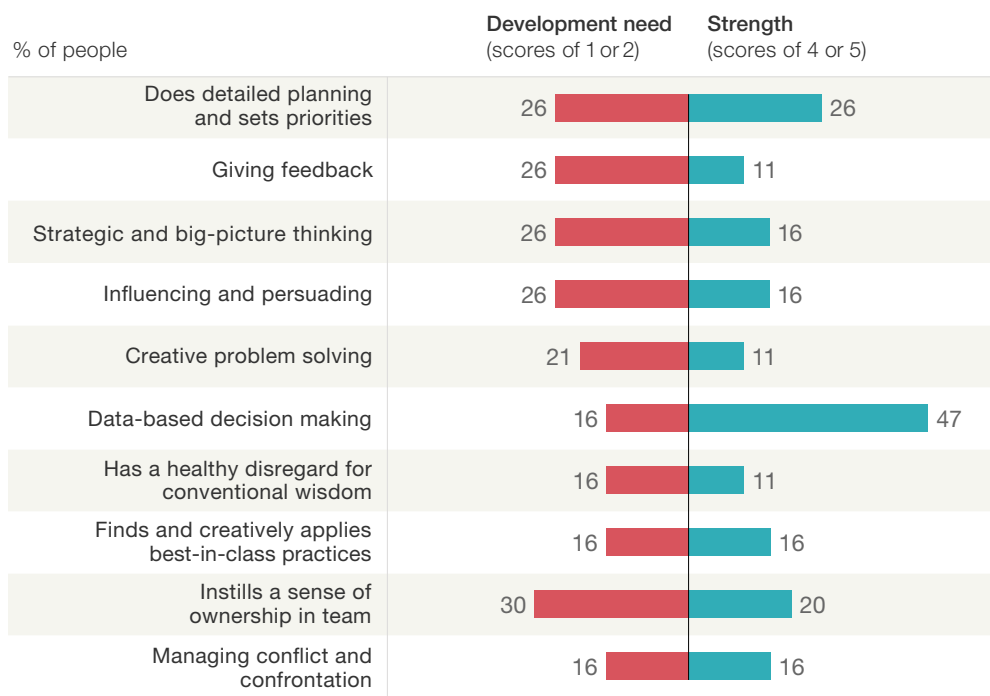
count, employed people of 65 nationalities. Test scores help us compare different candidates in a group with each other and with our current employees. While we don't have strict cutoffs, we are building guidelines that correlate with performance. The goal is to enable managers to make better hiring decisions through objective data.

Agoda applies the same philosophy to other people processes, including performance assessment; our goal is to help shape management decisions rather than make them. We've adopted an employee-scoring system and work hard to communicate what the five-point scoring range means for managers and employees (exhibit). We do not try to

Exhibit

At Agoda, aggregating data from a midyear performance review reveals a department's underlying developmental needs.

Departmental midyear review (disguised example),
top 10 areas for personnel development[1]

% of people	Development need (scores of 1 or 2)	Strength (scores of 4 or 5)
Does detailed planning and sets priorities	26	26
Giving feedback	26	11
Strategic and big-picture thinking	26	16
Influencing and persuading	26	16
Creative problem solving	21	11
Data-based decision making	16	47
Has a healthy disregard for conventional wisdom	16	11
Finds and creatively applies best-in-class practices	16	16
Instills a sense of ownership in team	30	20
Managing conflict and confrontation	16	16

[1]Defined as skills with highest share of 1 or 2 scores on a scale of 1 to 5, where 1 is poor and 5 is excellent.

Source: Agoda

fit every department's scores to a predetermined ratio. Instead, we take the data from each review cycle back to department heads and ask them whether their evaluations really reflect their departments' performance—and what their underlying development needs really are. We ask a lot of questions and share lots of data, but we don't come up with the answers. This approach, we believe, builds responsibility and makes for better management over time.

Compensation

As with performance, so with compensation: the People and Organization Development team consults rather than controls. We do not set strict minimum and maximum pay numbers. Instead, we research market salaries and provide guidelines (but not limits) to managers. Departments make compensation decisions because they are responsible for hiring the right people and managing how those people perform. We make a particular point of not setting predetermined caps for jobs (in technology, for example) that provide a significant competitive advantage for the company.

Perhaps surprisingly, this approach does not fuel extravagant pay. Department heads have an incentive to be conservative with pay packages because senior management's compensation depends on the company's profitability. At times, indeed, we encourage departments to pay more than they first proposed to do. In addition, our CEO reviews all annual compensation, providing a company-wide check and balance. If we conclude that an employee's contribution will justify his or her cost, we can compensate at levels higher than industry norms. While this approach may lead to inconsistencies in the pay of employees who are nominally at the same level, we're willing to accept this outcome. We believe that the resulting improvement in company performance benefits all of our employees.

Dealing with conflict

Our philosophy of helping managers to manage plays an important role when people problems arise. Traditional HR departments often find themselves—or put themselves—in the position of mediator between managers and employees. We try to avoid this role. Instead, our goal is to empower both managers and employees with the skills, information, and best practices to resolve problems together.

We teach people-management skills not only to managers but also to employees, who need to know that they are responsible for helping to resolve problems by having difficult conversations and "managing up." This belief reflects our philosophy that leadership skills are critical for everyone in the company.

Obviously, problems do arise, but we teach employees that when they do, their next port of call is not HR but the manager's manager— or even managers further up the chain, up to and including the department heads who report directly to the CEO. This approach is a challenge, but it works when management is prepared to take on greater management responsibility rather than say, "HR can handle it."

People people

Last, we take a somewhat unconventional approach to hiring into People and Organization Development itself. Our function is quite lean, and we are rigorous about whom we hire. We test candidates and make sure they are interviewed extensively, both by senior members of the department and by our internal clients. And while some department members do have direct experience in HR fields, a number—even some in senior roles—do not. In fact, we usually rule out candidates with too much big-company HR experience; we find them excessively bound to an HR-knows-best philosophy. Instead, we look for very smart people with an interest in the field and a desire to enhance the company's performance from a people perspective. International education, high test scores, emotional intelligence, and commitment matter more to us than résumés that check the HR boxes.

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Creating a different kind of people function requires a shift in perspective from the department and company management alike. We believe that HR best serves the company's interest by analyzing and sharing data, building skills, and developing leaders. The company's management, for its part, must take real responsibility for hiring, evaluating performance, determining compensation, and releasing underperformers. This shift is still a work in progress.

But as both sides let go of old attitudes, the false dichotomy between employees and managers is beginning to fade. Our people are working together, and our company is becoming more productive. By taking what appears to be a less active role than other HR departments do, we are actually gradually achieving greater influence and greater success—both for the company and for ourselves. ○

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