Victory Through Organization

Why the War for Talent Is Failing Your Company and What You Can Do About It

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Mike Ulrich | Wayne Brockbank
The Human Resources Competency Study is the result of countless hours of work from many in the HR profession. We would like to dedicate this book to the sponsors and partners who made this work possible. In particular, we thank the Stephen M. Ross Executive Education Program at the University of Michigan and the RBL Group for financial sponsorship and administrative support of the study.

We also thank our 22 regional partners who diligently contributed to logic and administration of this round of the study. We are deeply indebted to them as listed below:

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We are observers, advocates, provocateurs, researchers, and agitators for the HR profession. For over 30 years, Wayne Brockbank and Dave Ulrich have studied, written about, and trained HR professionals at the Ross School at the University of Michigan and in their private consulting practice. Dave Kryscynski (DK) and Mike Ulrich have more recently received their PhDs in organization and HR science, bringing rigorous theory and research to the improvement of HR.

As seasoned and emerging HR promoters, we have come to share some assumptions about the state of HR today. The following six assumptions form much of the basis and context for this book:

1. **HR matters**: We firmly believe through personal experience and empirical data that HR matters to a business. Wayne’s in-depth advisory work with leading global companies has shown that HR work today shapes business strategy and helps the business to deliver results. His current work on information and culture highlights some of the emerging ways for HR to deliver real value. Dave’s recent work on leadership capital shows that quality of leadership impacts shareholder value, thus giving HR professionals a line of sight to market valuation of their work. DK and Mike’s work shows the empirical impact of HR on desired firm outcomes.

2. **HR research is imperative**: We strongly believe in empirical and qualitative information. We see the recent push in HR for more analytics as a good sign as long as the analytics focus is on information that will improve the business. Too often HR analytics are about HR for HR, not HR for the business. DK and Mike bring exceptional rigor to the information that provides valid insight to how HR decisions impact business results. Academic studies on HR, human capital, and strategic HR are emerging in the HR, strategic, and organization literatures. These studies are helpful when they connect to HR phenomena and deliver insights with rigor. DK and Dave’s paper on
the importance of timely and rigorous HR research won the Academy of Management Perspectives Best Article award in 2016.

3. **HR professionals are changing:** After having trained tens of thousands of HR professionals, we are coming to realize that progress is being made in quality of HR departments, professionals, and practices—albeit slower than we would hope. We continue to see the 20-60-20 distribution of HR professionals. Twenty percent are exceptional and deliver real value. We need to stay out of their way and learn from them. Twenty percent are laggards, not able or willing to use HR to drive business results. We need to not let them deter us. Sixty percent are open to learning and making progress toward more impactful HR. We are committed to these aspiring HR professionals who want to learn and make a difference.

4. **HR departments and practices are becoming more important:** We have worked on the transformation of HR departments and HR practices for many years. We have been advocates for HR structure matching the business structure and for HR practices offering integrated solutions to business problems. Just as HR departments combine individual HR professional competencies into a stronger HR function, we have also advocated that an organization’s capability (or culture) is more important than the competencies of individuals.

5. **HR colleagues are incredibly gifted:** We have been privileged to work with outstanding HR colleagues in over 80 countries in the world. Some of these colleagues are among the 22 partner associations in the Human Resources Competency Study (HRCS) who have partnered with us before. Other colleagues are thought leaders whose insights continually inform us. We hope that as we absorb their work into ours, we give adequate credit and build on their insights and ideas.

6. **HR is a dynamic and innovative discipline:** We are continually amazed at the ever-changing twists in the HR profession. Over the 30 years of our research on HR competencies, we have seen many topics emerge that are now foundational parts of HR (e.g., business partner, strategic HR, HR strategy, HR transformation, HR value added). We continue to be excited about what’s next for how HR adds value. We all were fortunate to participate in the HR
Certification Institute’s (HRCI’s) book *The Rise of HR* where thought leaders provoked and anticipated some emerging themes. We hope that we can continue to anticipate future trends and push boundaries. We often call this future focus “planting the grass” for what comes next.

With these six assumptions under our belts, we muddle forward. Some of our movement forward comes from intense consulting assignments where we are invited to solve previously unsolvable business problems through HR insights. Some of our learning comes from listening to thoughtful HR leaders wrestle with ways they can have more impact. Some of our insights come when we have to present to small and large groups on topics that stretch us to discover new insights. We try to combine these personal experiences into more rigorous research. Over the last 30 years, we have done seven rounds of the HRCS. This study has explored the competencies of HR professionals that drive individual and business performance. Doing empirical research requires asking the right questions, getting a great response rate and sample, and analyzing data to see trends.

In this seventh round, we hope we have asked some innovative questions about both competencies for HR professionals and activities for HR departments to be effective. In this present work, we have taken an important step forward from prior rounds of our research by examining both individual HR competencies and the practices of the HR department as a whole. In other words, we explore both how the individual contributes to performance as well as how the HR department as a unit contributes to performance.

We found that the organization has three to four times more impact than the individual (i.e., the whole is more than the parts). This finding leads to the primary title of this book, *Victory Through Organization*. The subtitle, *Why the War for Talent Is Failing Your Company and What You Can Do About It*, reveals our opinion that the oft-cited “war for talent” may have gone too far and may be leading HR professionals astray in the modern business environment. Having great people is critical and wonderful, but if HR departments are not organized appropriately to do something with them, then they are missing a major opportunity.
As we have analyzed the data, we already realize questions we could or should have asked. With the help of 22 regional partners, we believe we have a remarkable data set, one of the best we have seen in the HR space. Our analyses now highlight findings that may continue to shape the HR profession.

We are enormously grateful for the many sponsors and supporters of this work. The Ross School of Business Executive Education (in particular Melanie Barnett) and RBL Group (in particular Norm Smallwood) have financially sponsored this work for 30 years. None of the principal investigators have even taken a salary or stipend for this research, donating now thousands of hours to the improvement of the profession. In this round, we are particularly indebted to:

- Jacqueline Vinci—project management
- Dave Gutzman—CustomInsight

We hope you take away a strong sense of our primary mission of Victory Through Organization: to further establish HR as a prominent strategic partner of the business and to embrace HR’s role in creating an organization that is greater—and performs greater—than the sum of its “employee” parts.
PART I

HR MATTERS
CHAPTER 1

WHY HR AND WHY NOW?

HR is not about HR. HR begins and ends with the business. Every business is a product of its context. Business success comes when the internal strategy anticipates or responds to external conditions.

In our quest to discover the role HR plays in business strategy and success, and to identify the role it should play, we have been personally involved with a wide variety of specific business challenges in recent years. These challenges (and successes) have helped us enormously to focus and apply our research.

Business Challenge and Success Models

The business situations we have looked at and investigated include (but are not limited to) the following:

- **Leaders at a consumer electronics company look to the future and see emerging trends in an aging population who will require increased healthcare. They decide to shift their business from consumer products to healthcare services.**

- **Leaders at a leading retailer recognize that technology has changed when and how consumers shop. They realize that the “box” store will be supplemented by online purchasing. As they move into the online space, they realize they have to manage a dual organization, one focused on traditional retail through stores and another focused on Internet-driven distribution.**

- **A consumer products company has had outstanding financial performance compared to competitors. Their costs are lower and innovation revenues are higher. But their stock price lags. They are trying to figure out how to increase investor confidence in their future earnings and get full market value for their economic success.**
4 VICTORY THROUGH ORGANIZATION

• The founder of a conglomerate has had enormous success, growing to become one of the largest firms in the region. The average age of his management team is in the sixties, and he realizes that he has to prepare the next generation of leaders who will manage the company after he is gone.

• An Asian organization has achieved remarkable success in its market. It has moved from being a regional success to a country success and now has aspirations to become the global leader in its industry. It looks to expand to North and South America, Europe, and Africa in the next few years. Leaders are wondering if this expansion should be through acquisition or organic?

• A retail store has grown through geographic expansion to where its footprint now reaches over 80 percent of those who live in its served market. It now needs to focus on increasing revenue per square foot rather than simply adding more square footage.

• A private equity fund has now become a private equity firm. As a fund, it bought, fixed, and sold businesses. Now it is holding those businesses in its portfolio for a much longer period and has to transform them before divesting them.

• A consumer products firm has very successful products. But many of the products are nearing the end of their life cycle. The firm does not have a good track record of reinventing its existing products or coming up with new ones, and is worried about responding to future opportunities. Small, agile competitors seem to be taking away share at some key accounts.

What These Business Cases Mean for HR

When business leaders are asked about their most difficult challenges in responding to external challenges, they often refer to executing with discipline, deploying talent, ensuring leadership, managing change, using information, and transforming culture. These are all HR-related issues, and they are often the hardest aspects of responding to evolving business challenges.

In each of the preceding business settings, the “solution” to the business challenge was centered on wisely investing in individual talent, organization capability, and leadership. Most important, these are the outcomes of good
HR work. Business leaders increasingly recognize that much of their success ultimately comes from wise and well-directed HR efforts.

The evidence for why HR matters for business outcomes comes from many diverse sources. Over time and through our research, we have found the following:

- Only 61 of the original Fortune 500 firms still exist as independent firms.
- Successful chief executive officers (CEOs) have the same skills set as successful chief human resource officers (CHROs), in comparison to chief marketing officers (CMOs), chief information officers (CIOs), or even chief financial officers (CFOs).
- Approximately 30 to 40 percent of board of director time is spent on organization and people issues.
- Investors are increasingly aware of leadership capital as part of their investment decision making.

Bottom line: These days, business leaders care about HR because these HR issues are now business issues.

**An Integral Part of Excellence**

Now because HR is primarily about the business, the HR profession is undergoing major transformation. When HR leaders are asked to define their “customers,” they are increasingly referring to the customers of their business, not just the employees inside their organization. HR practices are increasingly being aligned to an “outside-in” focus where staffing, training, performance management, and culture deliver value to these “real” customers.

An employee “brand” is increasingly linked to the firm brand whereby those employees focus on delivering on brand promises to outside customers. Market value is as much about intangibles and leadership as financial results. In fact, those intangibles and leadership excellence are leading indicators of those financial results; intangibles are the cause, financials are the effect. HR professionals are not only invited to the table where strategy is discussed, they
are increasingly expected to add value to the discussions and to be part of intangible and leadership excellence.

**An Organization Focus**

The scope of HR has also expanded. For decades *human resources* has primarily referred to talent and all the ways in which people are managed, including bringing the right people into an organization, moving them through the organization, administering their benefits and other “hygiene” issues, and appropriately moving them out of the organization (Ulrich & Allen, 2014). In recent years, HR has expanded from a nearly exclusive focus on people and how individuals think, behave, and act to an additional emphasis on organization.

What does this organization focus entail? An organization focus examines *workplace* as much as workforce, *work processes* as much as people, *organization capabilities* as well as individual competencies. Organization culture (as a way to describe the organization) has become a complementary outcome of good HR work, *in addition to* individual competence. This means that responses to the business challenges listed previously include getting the right talent (people, individual skills, and workforce) and the right organization capabilities (culture, work, and processes). At the end of the day, HR helps deliver both individual competence and organization capability to solve business problems.

**Evolving to New Competencies**

To respond to these HR expectations and opportunities, HR professionals must acquire new competencies and HR departments must focus on the right activities. *This book offers HR professionals tools to better respond to emerging opportunities. It also offers guidance for how to build more effective HR departments to deliver real value.* The ideas in this book are based on 30 years (seven rounds) of studying HR professionals, with a focus on the results of the latest (2016) round of research with over 30,000 global respondents both inside and outside HR. In addition to these research findings, we offer a number of insights, frameworks, tools, actions, and cases where HR has delivered business value.
We envision the ideas in this book being used by multiple audiences who shape the HR profession. The more than 2 million HR professionals worldwide will discover the competencies they must master to be personally effective, to serve key stakeholders, and to deliver business results. Those senior HR leaders charged with creating value-added HR functions will find unique insights on how to build a more effective HR department. Business leaders who want to respond to business challenges through HR practices will learn how to make more informed and tailored HR investments.

The Four Forces Reshaping HR Impact on Business Success

We see four reasons why HR matters more now than ever for business success: business context, pace of change, stakeholder expectations, and personal context (see Figure 1.1). For HR professionals and business leaders to fully understand the increased expectations of HR, it is useful to recognize and adapt to these four forces. We’ll refer to the Four Forces throughout the book.

Force 1: Emerging Business Context: STEPED and the Content of Change

A business leader whose firm operated in more than 80 countries asked us how he could make sense of and respond to the changes happening within the countries he visited. Another colleague asked us how to organize the complex

Figure 1.1 Four forces for emergence of HR
world in which we live into a relatively simple framework that might help her anticipate industry changes. While there are many frameworks capturing the relevant trends in the business context, we prefer a typology of six categories (known as STEPED) that leaders can use to understand how contextual changes affect how businesses operate:

- Social (expectations, values, lifestyle, have/have-nots)
- Technological (information access and frequency)
- Environmental (public policy, social responsibility, care for the planet)
- Political (regulatory shifts)
- Economic (industry evolution, industry consolidation)
- Demographic (age, education, and background of people)

Using this framework, leaders can better diagnose geographic or industry trends. Because of trends in these six categories, HR professionals are asked to do more to help businesses position themselves to win. When our colleague would visit a country where he did business, he would ask for trends in these six areas to help him understand the context of his company’s strategic choices. This STEPED framework can also be used to review industry trends. For example, an HR leader in a beverage company facilitated a team discussion about how the environment would shape her business in the future (see Table 1.1).

**Table 1.1** External content trends, strategic opportunities and threats, and HR implications

<table>
<thead>
<tr>
<th>Trend</th>
<th>Strategic Opportunities</th>
<th>Strategic Threats</th>
<th>HR Implications</th>
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<tr>
<td>Social</td>
<td>Emerging economies eager for Western products</td>
<td>Healthy eating trends reduce soda consumption by 25% in U.S./W. Europe</td>
<td>Source talent in emerging markets; Consider talent for adjacent businesses</td>
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Our work is certainly not the first to create a simplified framework for the business context. Other models such as the PEST framework and the PESTEL framework cover identical concepts in slightly different ways. We use the STEPED model because it fits conceptually with the challenges we regularly encounter in HR.
These six (STEPED) trends increase the relevance of HR, as responding to these factors requires high sensitivity to HR issues in the organization. You can see the HR emphasis in the last column of Table 1.1.

**Force 2: Increased Pace of Change: Volatility, Uncertainty, Complexity, and Ambiguity**

In addition to these business context areas, HR has grown in business importance because of the dramatically increased pace of change in business today.
As a model, we look to the VUCA model from the Cold War; during that time the U.S. military leaders recognized that military engagements were dramatically changing. They began to capture these changes with the acronym VUCA standing for the following:

- **Volatility**: The nature and dynamics of change, and the nature and speed of change forces and change catalysts.
- **Uncertainty**: The lack of predictability, the prospects for surprise, and the sense of awareness and understanding of issues and events.
- **Complexity**: The multiplex of forces, the confounding of issues, no cause-and-effect chain, and confusion that surround an organization.
- **Ambiguity**: The haziness of reality, the potential for misreads, and the mixed meanings of conditions; cause-and-effect confusion.

These four processes require that organizations become agile and responsive (e.g., in the military this assessment led to an emphasis on special forces who could move quickly in military assignments). HR professionals can help business teams feel less threatened by and more able to respond to external changes by facilitating structured dialogues around these external trends. Table 1.2 applies VUCA to the beverage example described earlier.

We have found in our research that under conditions of increased change, investments in HR matter more for business success. The challenges of VUCA elicit more attention to HR issues than some of the other forces we’ve examined. Teach your organization to deal effectively with VUCA, and you’ve accomplished a lot.

**Force 3: Key Stakeholder Expectations**

The context (STEPED) defines opportunities and threats in the business environment, the processes (VUCA) define the intensity and pace of change, and understanding stakeholder expectations defines who HR must satisfy to help the firm succeed.
WHY HR AND WHY NOW? 11

**Table 1.2**  **External process trends: Creating organizations to respond to VUCA**

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<tr>
<th>Trend/Definition</th>
<th>Organization Response</th>
<th>Beverage Example</th>
<th>HR Implications for HR Practices and Culture</th>
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<td>Volatility</td>
<td>Respond to . . .</td>
<td>• We have to create an innovation cycle for new products (half-life of products is shortening). • We have to create a faster response time to market opportunities.</td>
<td>The following implications apply to all four elements of VUCA: • Create more agility throughout the organization. • Bring discipline and precision to the management of change. • Have decentralized execution of centralized operations. • Teach employees how to think and act, not what to think and do. • Empower people to apply ideas and innovate. • Focus less on plans and more on planning.</td>
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<tr>
<td>Uncertainty</td>
<td>Manage . . .</td>
<td>• We don’t know which products will be successful in the future. • We don’t know for sure who our competitors will be nor which countries we should compete in.</td>
<td></td>
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<tr>
<td>Complexity</td>
<td>Simplify . . .</td>
<td>• We have to manage the increasing complex global supply to commercialization process. • We have to build a matrix organization with business, geography, and function.</td>
<td></td>
</tr>
<tr>
<td>Ambiguity</td>
<td>Resolve . . .</td>
<td>• We don’t know how technology and information will shape consumer choices. • We are not clear about who our future competitors might be.</td>
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Because of contextual and intensity changes, stakeholder expectations are dramatically changing too, again increasing the relevance for HR. Figure 1.2 captures many of the stakeholders for a company and what they
likely expect from their interactions with a company. These stakeholder expectations set the criteria for effective HR. More and more, HR stakeholders are external (above the line in Figure 1.2): customers, investors, communities/regulators, and partners. HR is increasingly being asked to help deliver customer share, investor intangibles, community reputation, and partnership cooperation. As these external stakeholder expectations increase, HR plays a significant role in delivering these outcomes. In addition, more traditional HR focuses on the excellence of internal stakeholders, including employees and leaders, helping employees become more productive and leaders become more strategic.

**Force 4: The Personal Context of Today’s Work**

STEPED defines the playing field, VUCA defines the pace at which a game is played, and stakeholders define for whom we create value. But all these changes in external context also affect how people respond when playing the game. Their responses to workplace change—and workplace behavior itself—is in turn influenced by six societal shifts (Six I’s) that put enormous pressure on shaping the emotional impact of how people live and work.
Here are the six I’s:

1. **Intensity**: People often live with a reality TV mindset where intensity and insults replace insight and civility, emotional outbursts matter more than reasoned dialogue, and individuals are motivated to “win” (e.g., television shows like *Survivor*, *Apprentice*, *American Idol*) generally at the expense of others. Television snippets and Internet news report and magnify the sound bites that demean and demoralize. In this world, 140-character Twitter comments are forwarded when they capture a clever phrase or insult. While most people’s normal lives are not as emotionally intense as those seen in social media, people become inured to emotional outbursts and come to expect them.

2. **Individuation**: People live in a world of hyper free-agency, where individuals win by taking control of their careers, maximizing their self-interests, and eschewing long-term commitment to a community or organization. Career mobility is a given, as one Silicon Valley executive said, “My people go to lunch and come back with a job offer.” Relatively few have expectations of long-term employment with one company or team. Everyone is encouraged to be authentic by taking charge of their lives and becoming their own brand.

3. **Isolation**: People act increasingly in personal cocoons that require less interaction with others. SOHO (small office, home office) is becoming a dominant organizational setting. Students are encouraged to and can get a degree through technology without ever attending a class or having the social experience of a university. Digital natives are spending up to 7.5-plus hours a day in front of a screen (i.e., TV, phone, computer). With this group, process addictions are as prevalent as substance addictions. When people have personal contact, these personal touches are frequently through Twitter, Facebook, and LinkedIn, which capture activity more than social connection. People are connected, but not connecting. It is not a surprise that feelings of anomie and isolation are increasing. And the consequences of social isolation are not good. Social isolation predicts mortality more than smoking, drinking, obesity, depression, or anxiety.
4. *Indifference:* Throughout the world, the next generation has learned to moderate expectations. For generations, a primary goal of parenting is to provide children with opportunities to live better than their parents, with each generation building on the previous. Now, this is less likely. Maturing adults get an education, but not a job and even less often a career. Increasingly voters are cynical about politicians having the voters’ interest in mind. While people are busy, they are not sure they are being fulfilled.

5. *Immediacy:* A sense of time and duration has also shifted. Many seek immediate gratification without investing in long-term preparation. Long term feels like next week. Immediacy occurs when we want new products like watches, phones, computers, or clothing or when we see political expediency and deal making taking precedence over long-term, value-based decisions. Relationships are disposable. People are far less likely to get married, but move into and out of relationships.

6. *In-group (labels):* It is a world with increasing subgroups. The gap between the rich and the poor, the have’s and the have-not’s, has increased. With statistics, you can quickly find patterns that label people into a subgroup. Managing information from cookies reinforces these labels and becomes the focus for tailored advertising, customized products and services, and unique offerings. Cloud data is designed to create customized insights. Most people chose to live in neighborhoods with like-minded and socially similar individuals. Political polarization exists where neighborhoods have a singular political focus, resulting in increasing political extremism.

These six societal affective trends are discouraging, yet they define how individuals live and have the potential to undermine and destabilize organizations. Employees who are demoralized by these factors create organizations without capacity to respond to STEPED or VUCA conditions and without ability to serve key stakeholders. It is not a surprise the employee engagement scores on most surveys are at an all-time low. HR professionals have the challenge to shift these seemingly negative trends into positive opportunities to enable their organization to become communities of action where the following takes place:
• Employees channel intensity to create value for others.
• Individual self-interest is replaced by shared purpose.
• Isolation is overcome with personal connection.
• Indifference shifts to renewal.
• Immediacy for today’s results becomes the pathway for a longer-term vision or strategy.
• Labels are replaced with valuing differences that make teams stronger than individuals.

When these six contextual trends turn positive, HR professionals help individuals replace cynicism with commitment and isolation with community. HR professionals must be aware of these trends and influences and be prepared to deal with the effects of them. It is not a surprise that studies of conscious capitalism and firms of endearment show that firms with purpose and social responsibility gain higher productivity among employees.

So Again, Why HR and Why Now? (Why Is Victory Through Organization Relevant?)

Businesses are shaped by the context in which they operate (STEPED), they have to respond to the velocity of the changes they face (VUCA), they have to serve external and internal stakeholders, and organizations are more successful when employees have positive personal affect. Each of these Four Forces requires new thinking and action from HR professionals to create organizations that will survive and thrive. Obviously, responding to these Four Forces is not HR acting in isolation, but through cooperation with business leaders and other staff professionals.

HR matters because it is not about HR, but about the business. Going further, that business is not about what we do today, but how we prepare for tomorrow; to prepare for tomorrow requires understanding of context, process, stakeholders, and personal affect; that by managing these forces, organizations will become competitive; and that competitive organizations are the outcomes of HR.
The ideas in this book will help shape the HR profession. In Part I (HR Matters) we have laid out societal forces that increase HR relevance (Chapter 1) and we overview the research (Chapter 2) that will help HR departments and HR professionals deliver more value.

In Part II (Organization), we discuss the importance of the organization for business success (Chapter 3) and introduce high-priority HR practices. Chapter 4 reviews how organizations can better leverage HR in the organization's overall information agenda, as well as building stronger integration among the HR practices. Chapter 5 offers insights on delivering HR practices for employees and using HR analytics for HR.

In Part III (Individual) we go into depth on the competencies that will help HR professionals be more personally effective as Credible Activists (Chapter 6), deliver value to key stakeholders as Strategic Positioners (Chapter 7), and impact business results as Paradox Navigators (Chapter 8). We also highlight enabling strategic HR competencies of Culture and Change Champion, Human Capital Curator, and Total Rewards Steward (Chapter 9) and foundation enablers of Compliance Manager, Technology and Media Integrator, and Analytics Designer and Interpreter (Chapter 10).

Finally, in Part IV we lay out and summarize the implications of these ideas for business leaders, senior HR leaders, and HR professionals (Chapter 11).

In sum, our ultimate hope in doing this research and writing Victory Through Organization is to make HR less about HR and more about the business.