

## HRD Audit as a strategic tool for Disruptive Organizations

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### Abstract

“Disruption” as a: to break apart b: to throw into disorder.

Clayton M. Christensen (1997) describes an innovator's dilemma, which concerns the adoption of technologies so new and dramatically different they are characterized as disruptive technologies. Christensen and Mark W. Johnson had described the dynamics of "business model innovation" in the Harvard Business Review 2008 article "Reinventing Your Business Model".<sup>[1]</sup>

The above concept of “Disruption” is applicable to all processes of the organization and specifically to those processes that concern its “People”.

In the early 2000's HRD department emerged as a business enabler. HRD Dept became a catalyst in the organizational change management initiatives. The impetus of the HRD dept was in transitioning of organization's culture and developing a strong transformational leadership in the organization.

This paper addresses this contemporary theme of HR Systems and Processes being aligned to the Organizational Strategy using HR Audit as one of the effective tools to manage this transition at workplace.

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### Introduction

The term “Disruptive Innovation” has been lately used with path-breaking technological innovations that have created a new market for itself or have altered an already existing market for a similar product. Product innovations from the yesteryear Sony Walkmans to today's i-Phones can be categorized under the term of disruptive innovation. Organizations today have to identify their forte in a very clichéd marketplace. Sustaining a path-breaking innovation needs orchestrated alignment of all other functions in the organization, specifically those that touch the people side of the business.<sup>[2]</sup> A Disruptive Organization aims at achieving that alignment.

### Objective of the study

This research paper aims at identifying how HR Audit would act as an enabler by auditing HRM practices during crucial organizational change process.

### Approaches of the study

HR Audit as a strategic tool for evaluation of organizational people processes in order to understand its implication on the business strategy.

### Limitation of the study

This study is based on secondary sources of data and only select organizations across various industry segments was studied for the purpose of this research.

### Implication of the study

Best practices across industries globally can be used as a benchmark for further research in specific HRM areas that could be defined as being disruptive.

### HRD Defined

A Process whereby the employees are continuously helped in a planned way to...

- Acquire or sharpen capabilities required to perform various tasks and functions associated with their present or future expected roles.
- Develop their general enabling capabilities as individuals so that they are able to discover and exploit their own inner potential for their own and or organizational development purposes and
- Develop an organizational culture where superior – subordinate relationships, teamwork and collaboration among various sub-units are strong and contribute to the professional well-being, motivation and pride of employees.

- Dr. T. V. Rao. (1999)<sup>[3]</sup>

In today's scenario the impetus of HRD is not developing skills for enhancing productivity, but developing skills that would enable them to embrace change. Today HR systems and processes are aligned to the organization's strategy. Therefore HR Audit has become a strategic tool for managing change in organizations.

“HRD Audit is a comprehensive evaluation of the current HRD Strategies, Structure, Systems, Styles and Skills in the context of the short term and long term business plans of a company. It attempts to find out the future HRD needs of the company after assessing the current HRD activities and inputs” - Dr. T. V. Rao. (1999)<sup>[3]</sup>

According to Dr. T. V. Rao (1999) HRD Audit purports to answer the following questions.

1. Where does the company want to be ten years from now, three years from now and one year from now?
2. What are the current skills base of the employees in the company in relation to the various roles and role requirements?
3. What are the HRD Subsystems available today to help the organizations build its competency base for the present, immediate future and long term goals?
4. What are the current levels of effectiveness of the HRD Subsystems in developing people and ensuring that human competencies are available in adequate levels in the company?
5. Is the HRD Structure existing in the company adequate enough to manage the HRD in the Company?
6. Are the top management and the senior management styles of managing people in tune with the learning culture?

In the past Personnel Audit was an integral part of Personnel Management function. The role and the aims of personnel audit were to ensure compliance to various employment and industrial relations laws. Hence audit was conducted by physical verification of various personnel forms, personnel manuals and by ticking off on checklists.

HRD means competency building, commitment building and culture building (Rao, 1990). Therefore HRD Audit starts with evaluation of HRD Strategies and whether they are aligned to the corporate strategies. HR Strategies should flow from the short term goals of the organization as well as the long term strategies. Business strategies bring about a change in the firm due to its "Survival" needs. Restructuring has become essential for most companies to survive in the current competitive environment.

As per the Round Table Conference (RTC) on HRD Implications of Business Restructuring, Academy of Human Resources Development (1994), issues that

emerged out of restructuring experiences of Indian organizations fall under four categories: Orientation, Culture Change and Culture Building, Leadership and Capacity Building.<sup>[4]</sup>

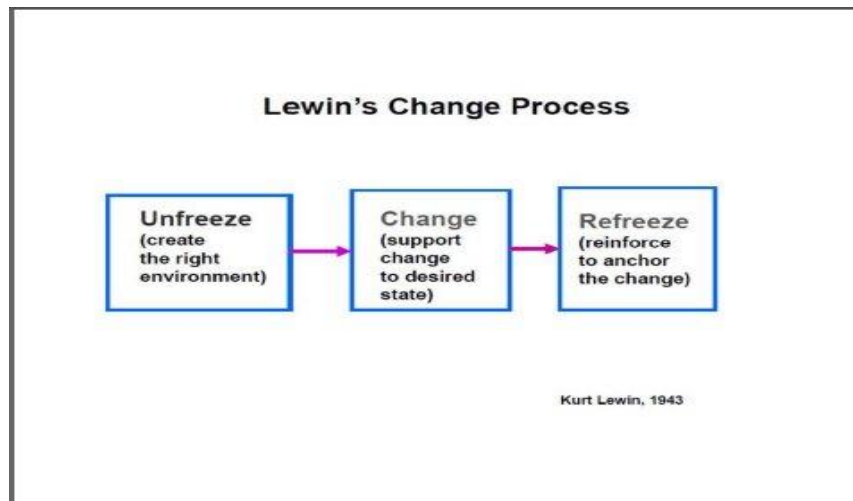
The current challenges of globalization and disruptive technological innovations require organizations to be able to respond to the market based challenges with "Speed". This requires a radical change in the business processes and technology. The organization has to be agile and flexible in order to manage its transition toward a radical change. This requires organizational restructuring.

Prof. David Ulrich of Harvard Business School in his article "A New Mandate for Human Resources" in the Harvard Business Review (January – February, 1998 issue) mentions four ways by which HR can deliver organizational excellence during change.<sup>[5]</sup>

1. HR should become a partner with senior and line managers in strategy execution.
2. HR should become an expert in the way work is organized and executed, delivering administrative efficiency to ensure that the costs are reduced while the quality is maintained.
3. HR should be a champion for employees, vigorously representing their concern to the senior management and at the same time working to increase the employee contribution; that is employee's commitment to the organization and their ability to deliver results.
4. HR should become an agent of continuous transformation; shaping processes and a culture that together improves an organization's capacity for change.

The above four roles of HR professionals help the organization in their change management efforts during their restructuring exercise.

Kurt Lewin proposed a model for managing change by organizations, called as the Three Stage Process for Change – Unfreeze – Change – Refreeze (Lewin, 1947).<sup>[6]</sup> This change management process is illustrated in Fig. 1 as follows:

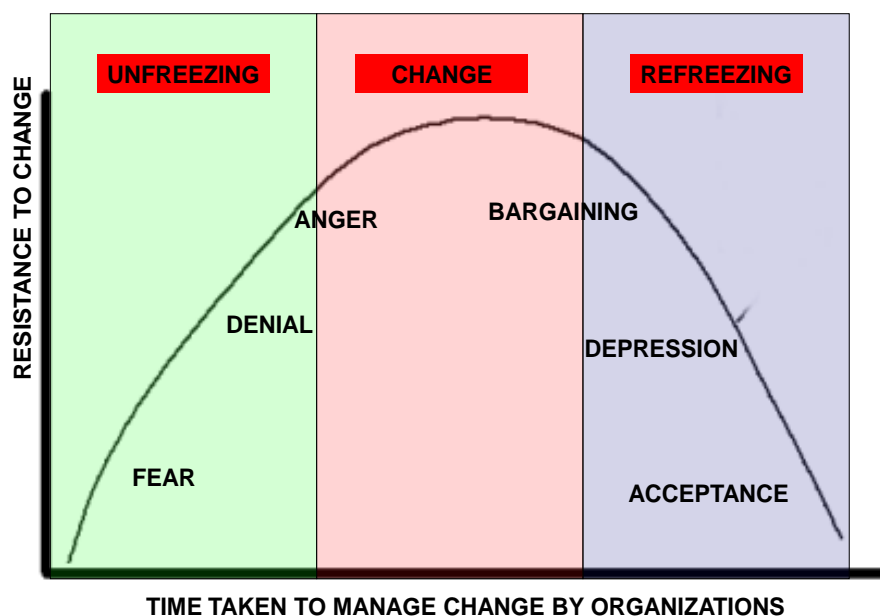


**Fig. 1: Kurt Lewin's Model for Change Process**

(Source: Kurt Lewin, 1947)<sup>[6]</sup>

Kurt Lewin's change process defines the first stage as Unfreeze, where the existing organizational policies, procedures, rules and processes are discarded. This is done, so as to bring in the changed processes and policies as per the new strategy adopted by the organization. The second stage of change brings in the restructuring of the organization. This is a painful process as people issues emerge during this transition phase. The behavioral aspects of the organization are mapped using Kubler Ross transition cycle (Kübler-Ross, E., 2005).<sup>[7]</sup> The final stage in the change process is refreezing, where new processes, policies and procedures are enshrined in the corporate culture of the organization.

These three stages of organizational transition bring about a change in the behaviors of employees in the organization. This is illustrated by the following diagram in Fig.2 below.



**Fig. 2: Behavioral Aspects of Organizational Change Processes**

These behavioral aspects of change are defined in Table 1 mentioned below.

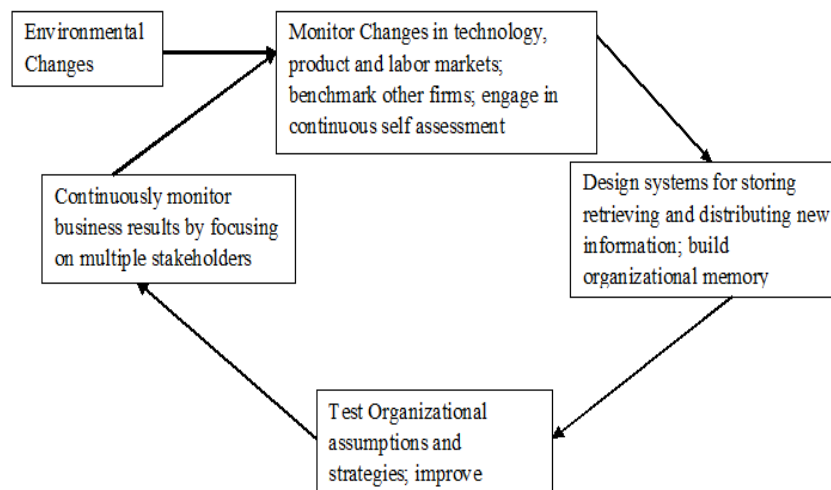
**Table 1: Kubler Ross transition cycle**

Stage	Interpretation
1 - Denial	Denial is a conscious or unconscious refusal to accept facts, information, reality, etc., relating to the situation concerned. It's a defense mechanism and perfectly natural. Some people can become locked in this stage when dealing with a traumatic change that can be ignored.
2 - Anger	Anger can manifest in different ways. People dealing with emotional upset can be angry with themselves, and/or with others, especially those close to them. Knowing this helps keep detached and non-judgmental when experiencing the anger of someone who is very upset.
3 - Bargaining	Traditionally the bargaining stage for people facing death can involve attempting to bargain with whatever God the person believes in. People facing less serious trauma can bargain or seek to negotiate a compromise. For example "Can we still be friends?" when facing a break-up. Bargaining rarely provides a sustainable solution, especially if it's a matter of life or death.
4 - Depression	Also referred to as preparatory grieving. In a way it's the dress rehearsal or the practice run for the 'aftermath' although this stage means different things depending on whom it involves. It's a sort of acceptance with emotional attachment. It's natural to feel sadness and regret, fear, uncertainty, etc. It shows that the person has at least begun to accept the reality.
5 - Acceptance	Again this stage definitely varies according to the person's situation, although broadly it is an indication that there is some emotional detachment and objectivity. People dying can enter this stage a long time before the people they leave behind, who must necessarily pass through their own individual stages of dealing with the grief.

(Source: Kübler-Ross, E. 2005)<sup>[7]</sup>

Using the above Kurt Lewin's Model for Organizational Change and using Kubler Ross transition cycle, we look at various transitions in the people processes in organizations and how HRD Audit helps in this transition process.

Organizations need to continuously monitor the external business environment to understand the impacts of its strategy at the marketplace. This process is called as the "The Renewal Process" which is a form of Organizational Learning.<sup>[8]</sup> This is illustrated in Fig. 3 below.

**Fig. 3: Renewal Process as a form of Organizational Learning**

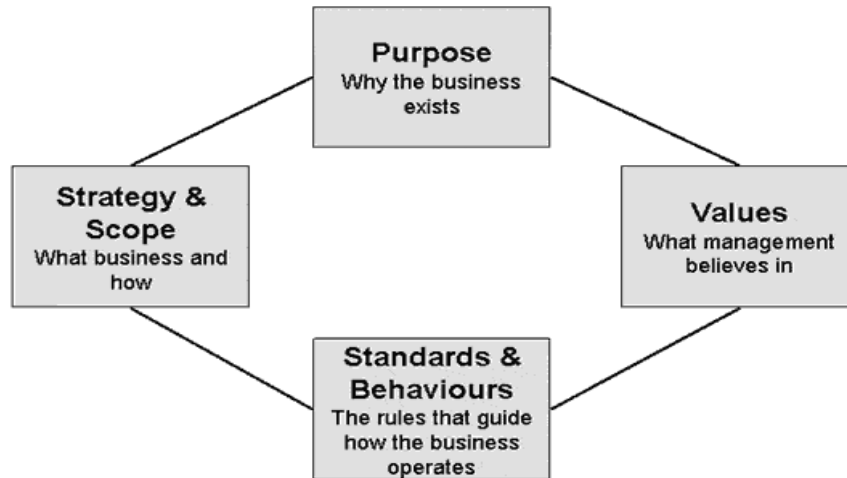
(Source: Dreher and Dougherty, 2002)<sup>[8]</sup>

Based on the environmental changes the internal systems and processes are monitored for delivering business results for multiple stakeholders. This process of continuous monitoring of the internal systems and processes is facilitated by the HRD Audit. Let us look at how HRD Audit acts as a strategic tool for monitoring and effecting change in organizations.

### What is the starting point for HRD Audit?

HR systems emerged from the organization's Vision and Mission statements. The Ashridge Model for Mission statement illustrates this as follows:<sup>[9]</sup>

We use Ashridge Mission Model in the following Fig. 4 to understand this.



**Fig. 4: Ashridge model for Mission Statements**

(Source: Campell and Yeung, 1990)<sup>[9]</sup>

- Purpose - Why does the business exist? Is it to create wealth for shareholders? Does it exist to satisfy the needs of all stakeholders (including employees, and society at large?)
- Strategy and Strategic Scope - A business' strategic scope defines the boundaries of its operations. These are set by management. For example, these boundaries may be set in terms of geography, market, business method, product etc. The decisions management make about strategic scope define the nature of the business.
- Policies and Standards of Behavior - A mission needs to be translated into everyday actions. For example, if the business mission includes delivering "outstanding customer service", then policies and standards should be created and monitored that test delivery. Standards of employee behavior generally called as "Code of Conduct" underline the guidelines of their behavior in organizations
- Values and Culture - The values of a business are the basic, often un-stated, beliefs of the people who work in the business. These would include:
  - Business principles (e.g. social policy, commitments to customers)
  - Loyalty and commitment (e.g. are employees inspired to sacrifice their personal goals for the good of the business as a whole? And does the business demonstrate a high level of commitment and loyalty to its staff?) (Campell and Yeung, 1990)

Thus the organization's Mission statement should be the driving force behind the radical change. The transformation process of such organizations can be explained by an analogy of the "Metamorphosis" process where the ugly caterpillar transforms into a beautiful butterfly. The caterpillar first turns blind and then its many legs fall apart. Later it spins a cocoon around itself and finally it breaks out of the cocoon and emerges as a beautiful butterfly. This radical change can be sustained by the organization by aligning its people processes to its long term strategy.<sup>[10]</sup>

The above model links the strategy and purpose of the organization to its core values. The core values of the organization determine the behavior of its employees. The success of the organization's strategy at the market place will be determined by the employee behaviors. The HR systems and processes inculcate the positive behavior of employees by developing a culture of trust, ethical behavior and innovation to embrace change. Any organization undergoing radical change in

its processes and technology acts disruptively. We need to understand the “Why’s” and “What’s” of these organizations in order to understand the behavioral changes that are expected of the employees during the change process.<sup>[10]</sup>

### The DNA of a “Disruptive Organization”.

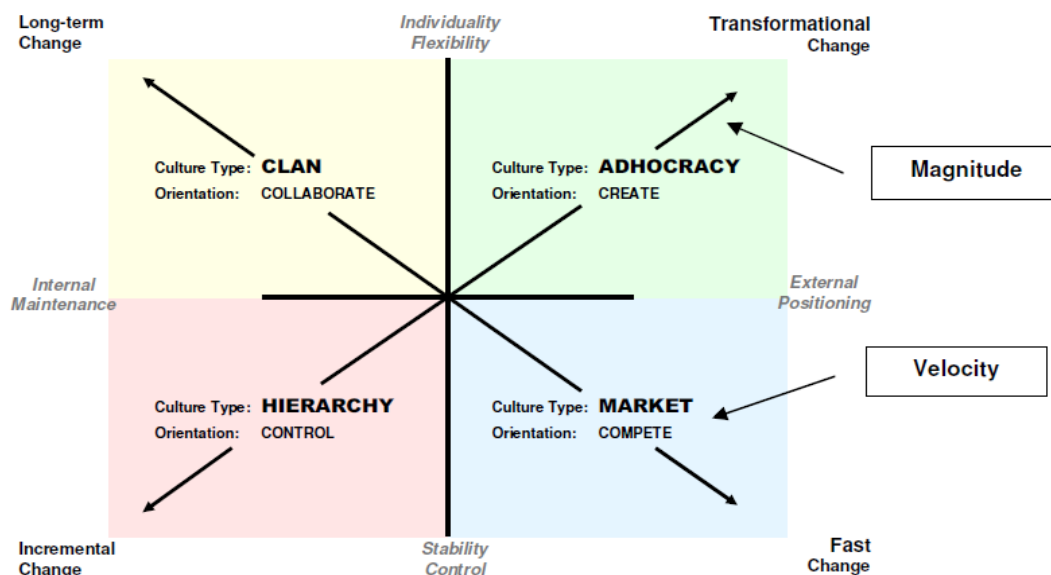
As a first step to understand the DNA of a “Disruptive Organization” we use the Organizational Culture Mapping Model called as “The Competing Organizational Values Framework” developed by Robert Quinn et al (1983) (1999).<sup>[11]</sup>

This model helps us to understand how organizations are poised to develop new skill sets at workplace as a response to their changing organizational strategy.

The Competing Organizational Values Framework.

The Competing Values Framework (CVF) was developed by Robert E. Quinn and Kim S. Cameron (1983) (2005). The CVF serves as a map for understanding many aspects of an organization in areas like Corporate Strategy, Organizational Culture, Value Creation, Core Competency, Decision Making, Leadership and Human Resource Practices.

The framework helps us understand the intricacies of change management process the organization adopts with its leadership styles. CVF helps evaluate the internal and external challenges that the organization faces during the change process and the juxtaposition of various roles, skill sets and the organizational structure during this process.



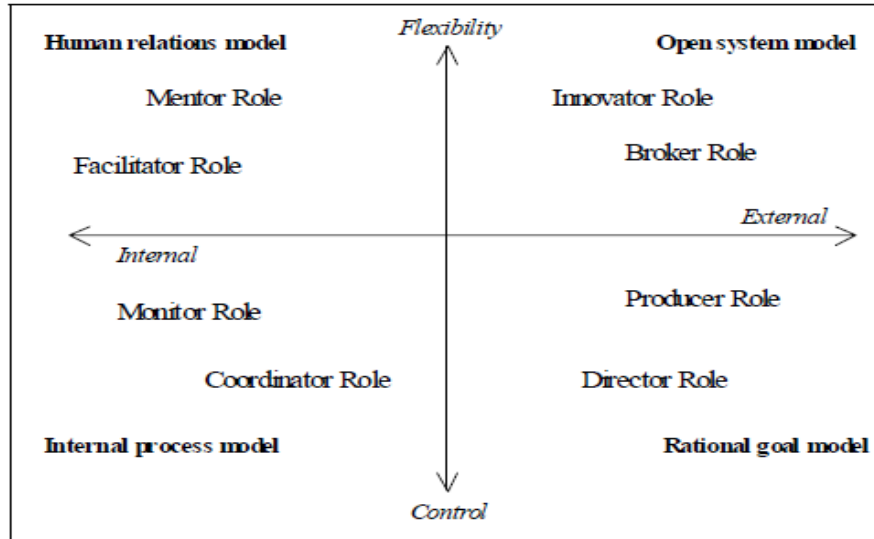
**Fig. 5: The Competing Organizational Values Framework**

(Source: Kim S. Cameron, Robert E. Quinn, Jeff DeGraff, Anjan J. Thakor, 2008)<sup>[11]</sup>

The CVF tries to understand the organizational culture on two dimensions of effectiveness for value creation. The first being the focus of the organization on a continuum having at one end the need for maintaining human relations, productivity and Research & Development and on the other end the compelling conditions to maintain harmony with the market conditions, regulatory affairs and customer focus. This dimension is called as the internal v/s external focus of the organization.

The second dimension is a continuum on flexibility of operations and empowerment of people in decision making while the other end defines its need for maintaining the status quo and control of decision making within the organization. This is flexibility v/s control focus of the organization.

Maintaining a balance between these two dimensions requires paradoxical capabilities and skill sets in the human resources of the organization. Most organization in their endeavors to manage change process finds that they are constantly being pulled by these two dimensions and they have to perform a trapeze art of balancing their Human Resource Capabilities by constantly upgrading their skill sets and by adopting flexible human resources policies. We look at the changing skill sets at workplace in the following Fig.



**Fig. 6: CVF – Changing Roles in Organizations**

(Source: Quinn, 1988)<sup>[11]</sup>

- In the human relations model: The “facilitator” encourages teamwork and cohesiveness, and manages interpersonal conflict. The “mentor” is helpful and approachable, and engages in the development of people through a caring, empathetic orientation.
- In the open systems model: The “innovator” is creative and facilitates adaptation and change. The “broker” is politically astute, persuasive, influential, and powerful, and is particularly concerned with maintaining the organization's external legitimacy and obtaining external resources.
- In the rational goal model: The “producer” is task-oriented and work-focused, and motivates members to increase production and to accomplish stated goals. The “director” engages in planning and goal setting, sets objectives and establishes clear expectations.
- In the internal process model: The “coordinator” maintains structure, schedules, organizes and coordinates staff efforts, and attends to logistical and housekeeping issues. The “monitor” checks on performance and handles paperwork (Quinn, 1988).<sup>[11]</sup>

Managers are expected to play all of these roles and to simultaneously consider and balance the competing demands that are represented by each set of expectations (Quinn, 1988).<sup>[11,12]</sup>

Disruptive Organizations DNA can be identified by the strategies adopted by them to balance on the continuum on these two dimensions.<sup>[12]</sup> Adapting quickly to the changing conditions by revamping its internal skill sets require agility akin to a trapeze artist. Organizations performing these stunts can be identified as being “Disruptive” in their approach. We take a closer look at one such organization here.

Toyota can be identified as one such “Disruptive Organization”. Toyota Motor Company’s value creation is based on highly efficient production systems by following the Just-in-time and lean production processes and on the other hand coming up with innovative models to address the needs of customers globally. Their launch of Lexus model for the US market is the testimony to this. Toyota has also introduced a Global Flexible Manufacturing Platform by taking its manufacturing and assembly plants from Japan to other locations across the world. This helped them in combating the changing market conditions with respect to currency fluctuation globally.

Toyota can be mapped on Fig. 5 as having exhibited high levels of Velocity and Magnitude at the same time. The company has managed to respond to change by being radical at the same time being incremental with a short term and long term view of its future. The velocity being the speed of change and magnitude being the scope of such a change initiative. The velocity and magnitude in the case of Toyota is the rapid speed of change with a global impact on all its markets and operations.

From the changing skill sets point of view we can identify that Toyota required “Facilitator” roles for its TQM initiatives in Lean Production Processes at the same time its external focus required Toyota to have “Innovator” roles as well. The Global Production Processes required the roles of “Broker” and “Director”. The “Coordinator” role for its global logistics and supply chain initiatives is required. The success of the Toyota Way has proved that it could maintain a balancing act of a trapeze artist in its change management process. The DNA of Toyota is of a “Disruptive Organization”. How has Toyota managed to become disruptive? A highly focused people processes involving Self-Managed Teams (SMT) and Quality Circles (QC) coupled with empowered workers

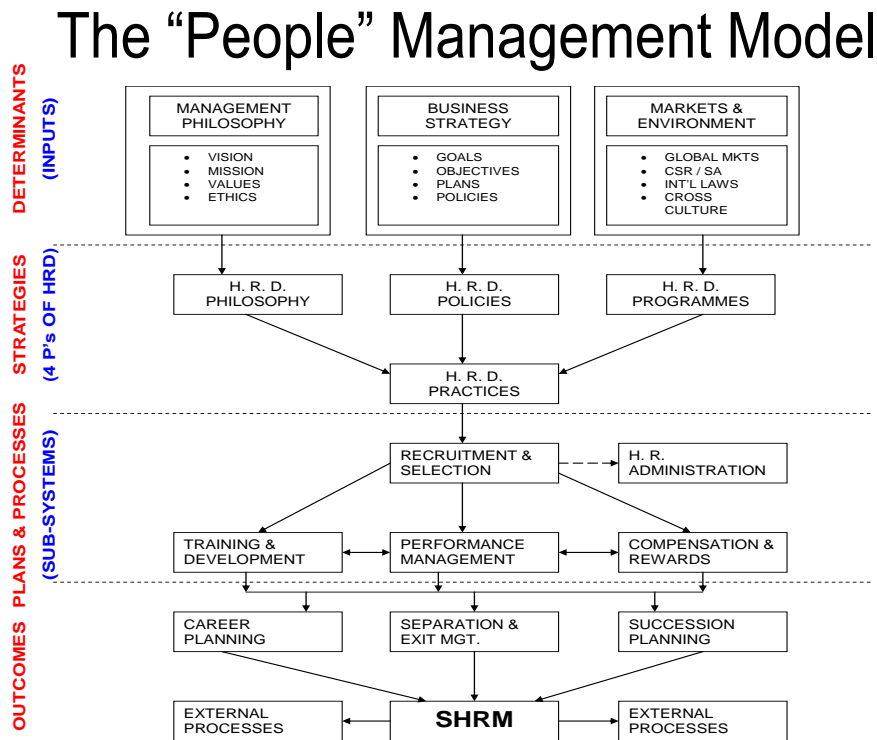
at the shop floor levels have helped Toyota achieve this feat. A shop floor worker is empowered to stop the entire assembly line to eradicate a defective vehicle from reaching the end point of the production process.

The new roles and skill sets required by the organization poses a challenge to the existing HRM processes. The existing processes need to be revamped and aligned to the new strategy of the organization. The revamped HR Strategy aims at aligning the key people

processes to the organization’s business strategy in order to sustain innovation throughout the organization.<sup>[12]</sup>

This resulted in the emergence of the Strategic Human Resources Management (SHRM) as it is known today. This process is illustrated in Fig. 7 as follows:

The following Fig. 7 illustrates the Strategic HRM processes and its linkages to the corporate business strategy.<sup>[12]</sup>



**Fig. 7: The “People” Management Model – Strategic HRM Processes**

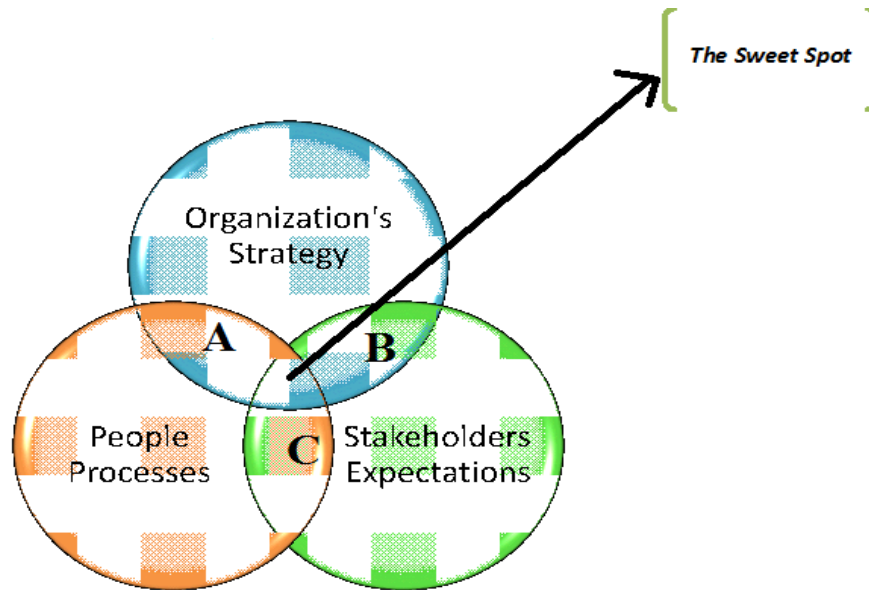
(Source: Sandeep Hegde, 2014)<sup>[12]</sup>

The role of HRD Audit also changed from providing HR analytics to being an enabler of HR transition by acting as the catalyst for driving the organizations strategy. HRD Audit is strategic in nature whereby it determines the robustness of the HR processes by auditing the organization’s culture, its leadership styles, its conflict management styles and its communication strategies to manage change effectively.

HRD Audit has become strategic in nature as it identifies the “Sweet Spot” in the business model of the organization. This can be illustrated in Fig. 8 as follows:

The following Fig. 8 illustrates the convergence of an organization’s strategy with the HR processes and its Stakeholders expectations.





**Fig. 8: Convergence of an organization's business model**

The sweet spot is the area where the organization's strategy and its people processes fulfill the expectation of its stakeholders. This shows a fit between the organization's business model and its people strategies. The Strategic HRD Audit can also point out the areas of conflux between the organization's strategy, its people processes and the stakeholder expectations. This is illustrated in the above Fig. 8 as A, B and C areas of conflux between the three entities.

### Conclusion

In the next few years, most businesses worldwide are going to witness "Disruptive" innovations across industry segments. Not all organizations are going to sustain these disruptive innovations.

One of the key factors distinguishing such organizations from those that would sustain these innovations is embracing radical change in its people processes and aligning the same to its changing business strategy. Organizations managing to do so, without compromising on its "Core" Values would have a sustained competitive advantage (SCA) at marketplace.

HR Audit helps identify the crucial gaps in the organization's people processes and its business processes, so that organizations can be "Disruptive" and yet non-compromising on its "Core Values" that it identifies with.

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