



## HR Transformation

### Building Human Resources from the Outside In

#### THE SUMMARY IN BRIEF

The biggest challenge for human resources (HR) professionals today is to help their respective organizations succeed.

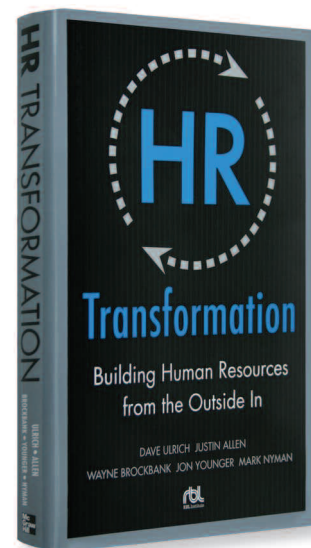
HR professionals often focus internally on the function of HR rather than externally on what customers and investors need HR to deliver. If HR professionals are to truly serve as business partners, then their goals must be the goals of the business. Transforming HR professionals into business partners isn't the end in and of itself; it's the means to a strategic, business-oriented end.

In *HR Transformation*, five top HR professionals from The RBL Group capture both the theory (ideas, rationale and approaches) and the practices (tools, processes and actions) for creating a successful HR transformation. They offer specific guidelines for transforming HR departments and/or functions, practices and professionals, combining theory and practice so that those charged with and affected by HR transformation can make sustainable progress. They also suggest specific roles for line managers, HR professionals, employees and advisers to deliver the hope of transformation.

This summary offers organizations into how to make HR the essential source for strategic solutions.

#### IN THIS SUMMARY, YOU WILL LEARN:

- How HR transformation is not about normal HR tasks; it is about building business success.
- How to ground your organization's HR transformation to the context of business demands.
- How to transform HR in a way that focuses on adding value to the business rather than simply optimizing HR as a function.
- How to integrate HR practices with each other around key business results.



by Dave Ulrich, Justin Allen,  
Wayne Brockbank,  
Jon Younger and  
Mark Nyman

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# THE COMPLETE SUMMARY: HR TRANSFORMATION

by Dave Ulrich, Justin Allen, Wayne Brockbank, Jon Younger and Mark Nyman

**The authors:** The authors are involved in various roles with The RBL Group. Dave Ulrich is a professor at the University of Michigan's Ross School of Business. Justin Allen is the managing director of The RBL Institute. Wayne Brockbank is a clinical professor at the University of Michigan's Ross School of Business. Jon Younger leads the strategic HR practice and is a director of The RBL Institute. Mark Nyman has worked with numerous clients, including Adidas, Cisco and Comcast.

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## A Handbook for HR Transformation

A true HR transformation is an integrated, aligned, innovative and business-focused approach to redefining how HR work is done within an organization so that it helps the organization deliver on promises made to customers, investors and other stakeholders.

A four-phase model for HR transformation can be used to ensure that HR drives business success and avoids the common pitfalls of such efforts. This model addresses four simple questions about HR transformation:

- **Phase 1: Build the business case.** (Why do transformation?)
- **Phase 2: Define the outcomes.** (What are the outcomes of transformation?)
- **Phase 3: Redesign HR.** (How do we do HR transformation?)
- **Phase 4: Engage line managers and others.** (Who should be part of the HR transformation?)

This model needs to be adapted, not adopted. The issues raised in each of the four steps are important and should be considered in ways that make sense for your organization. ●

## Phase 1: Business Context (why)

When people understand the “why” of change they are more likely to accept the “what.” This simple principle holds true not only in personal change but also in HR transformation.

## Why Do the Transformation?

When HR transformation connects to the context of the business, it is more likely to be sustained because it responds to real needs. This means linking HR efforts directly to the business strategy and to the environmental factors that frame the strategy.

First, begin the transformation by reviewing business conditions and stakeholder expectations. Before jumping in, however, identify your level of readiness for HR transformation by completing an assessment.

## Understand General Business Conditions

While aligning human resources with business strategy, HR leaders should not only look at the business strategy but also look through the strategy to see and understand the business conditions or external realities that shape it. Traditional strategy is like a mirror where HR can reflect its investment. Look through the mirror (strategy) to external customers and investors to fully understand the antecedents of the strategy. Understanding and linking HR with these contextual constituents helps HR not just implement the strategy but also play a key role in defining it.

By focusing on the business context, HR can avoid the common mistake of seeking to implement internally focused ideas and concepts that come across as solutions looking for problems. To build this rationale for doing HR transformation, you need to understand general business conditions and specific stakeholders' expectations, and then use that understanding to build a business case for the transformation.



**1-800-SUMMARY**  
service@summary.com

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Rebecca S. Clement, Publisher; Sarah T. Dayton, Editor in Chief; Andrew Clancy, Senior Editor; Edward O'Neill, Graphic Designer; Chris Lauer, Contributing Editor

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## Build a Business Case for HR Transformation

*Real HR transformation begins by responding to the general business conditions and specifically serving key stakeholders.*

When HR professionals start by thinking about the outcomes of their work as defined by the business context, they change their conversations with line managers and are better able to justify why an HR transformation should occur.

The implications of this approach show up in the meeting when HR transformation is being proposed. In this meeting, either with a line manager or a senior executive team, the inevitable question will arise: Why are we doing this transformation work? Many HR leaders will answer from an internal perspective: to build better talent, rewards, structure or communication practices. When these outcomes are linked to the business context, however, the justification for the HR transformation is stronger. ●

## Phase 2: Outcomes (what)

HR transformation is not a single event — it's a new pattern of thought and behavior.

Once business leaders acknowledge that HR transformation will help them respond to business challenges, they will inevitably want to know how to measure the impact of the transformation.

The traditional answer is that you can measure specific quantitative outcomes of HR practices. For example: How many people did we hire? What percentage of low performers was removed from the organization? How many information sessions were held?

But if that's all you do, it's not enough. It's not unimportant to measure the activity of HR, but you also need to measure the outcome or value of these activities. Tracking activity is not the same as tracking fundamental transformation or increased value creation.

### What Are the Outcomes?

HR transformation has two types of outcomes. First, the stakeholder expectations should be realized. HR transformation should play a significant part in determining stakeholder results. Second, HR transformation can be tracked by the capabilities an organization creates.

While stakeholder measures track the outcomes of HR transformation as seen by the recipients of the transformation, the HR transformation should also change the fundamental identity, culture or image of the company. This outcome of HR transformation is *defining and building capabilities*. Capabilities shape the way people think about organizations. ●

## Organizational Capabilities

The following capabilities and their measures seem to be inherent in well-managed firms:

- **Talent.** *We are good at attracting, motivating and retaining competent and committed people.*
- **Speed.** *We are good at making important changes happen fast.*
- **Shared mind-set.** *We are good at ensuring that customers and employees have positive images and experiences with our organization.*
- **Accountability.** *We are good at the disciplines that result in high performance.*
- **Collaboration.** *We are good at working across boundaries to ensure both efficiency and leverage.*
- **Learning.** *We are good at generating and generalizing ideas with impact.*
- **Leadership.** *We are good at embedding leaders throughout the organization who deliver the right results in the right way — who carry our leadership brand.*
- **Customer connection.** *We are good at building enduring relationships of trust with targeted customers.*

## Phase 3: HR Redesign (how)

The third phase of HR transformation addresses how to do the transformation. This phase has three components, each of which is a way of defining what HR means:

- The HR function or department may need to be redesigned.
- HR practices may be transformed to be more effectively or fully aligned, integrated and innovative.
- HR professionals may be upgraded to possess the competencies required to do their work.

### Redesign the HR Department

Transforming an HR department requires building an HR organization that reflects both the business organization and the HR strategy. There are three overriding organizational design principles: First, make the HR organization follow the logic and structure of the business organization. Second, make the HR organization follow the flow of any professional service organization. Third, differentiate between transactional and transformational HR work.

Building on these three design principles, the evolving HR organization can have five distinct and, at times

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overlapping sets, of responsibilities. These five responsibilities represent channels or ways of doing HR work:

**HR Channel 1: Service Centers.** Service centers emerged in the late 1990s as HR leaders (and leaders of other functional organizations, such as IT, finance and purchasing) realized that many administrative tasks are more efficiently performed in a centralized, standardized way. Transformation of service centers comes primarily through technology-enabled employee self-service, outsourcing or both.

**HR Channel 2: Corporate HR (HR Oversight).** The corporate HR role can be redesigned to address six important responsibilities:

- They create a consistent firm-wide culture and identity.
- They shape the programs that implement the CEO's agenda.
- They design processes to make sure that HR work aligns to business goals.
- They arbitrate disputes between centers of expertise and embedded HR.
- They take primary responsibility for HR services of corporate-level employees.
- They ensure HR professional development.

**HR Channel 3: Embedded HR (Strategic Business Partnering).** In shared service organizations, some HR professionals work in organizational units defined by geographic location, product line or functions such as research and development or engineering. These HR professionals, often called “embedded HR,” go by many titles: relationship managers, HR business partners or HR generalists. Whatever their specific title, they work directly with line managers and each organizational unit leadership team to clarify strategy, perform organizational audits, manage talent and organization, create value-adding organizational capabilities, deliver supportive HR strategies and lead their HR function.

**HR Channel 4: Centers of Expertise (HR Expertise).** Centers of expertise operate as specialized consulting firms inside the organization. They often act like businesses that have multiple clients (business units) using their services. Center-of-expertise HR professionals play a number of important roles that should be clarified in an HR transformation:

- They create service menus aligned with the capabilities driving business strategy.
- They diagnose needs and recommend services most appropriate to the situation.
- They collaborate with embedded HR professionals

in selecting and implementing the right services.

- They create new menu offerings if the current offerings are insufficient.
- They manage the menu.
- They shepherd the learning community within the organization.

**HR Channel 5: Operational Execution.** What has been missing in some HR restructuring is the capacity to deliver and implement the operational tactics while maintaining focus on key business and customer issues. While this operational work ideally occurs through an integrated team, someone needs to be charged with responsibility for this team and how it works.

Many companies are experimenting with how to solve this common problem: *how to make sure that HR implements state-of-the-art strategies tailored to the needs of the business.* This is an operational executor role. These HR professionals will be required to meld what the business requires for success (driven by the embedded HR professionals) with innovative and state-of-the-art HR practices (driven by the centers of expertise) into an operational plan that can be executed in a timely way.

## How to Do Transformation

There are three ways to transform HR practices so that they have the maximum impact: align, integrate and innovate.

To transform HR practices, engage your internal organization, your process redesign group and your HR leadership team. Many companies have found it useful to identify and retain an external consultant to focus on the planning process so that the HR team can focus on content related to the plan.

Map the core HR practices, create a master HR systems design plan and create design recommendations for each practice. Next, establish desired outcomes and measures for each affected practice, create breakthrough practice design concepts and align the practice with other HR and corporate practices. Consolidate the design recommendations and create implementation plans. Then, implement the changes in concert with people and department changes. Finally, ensure that each HR practice — whether addressed in the transformation or not — has clear measures in place that allow you to continually monitor the contribution the practices make to critical organizational outcomes and help identify ways to improve them.

## Upgrade HR Professionals

Ultimately, HR transformation depends on the quality

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of HR professionals. There is a four-step model for building competencies:

- **Step 1: Articulate a theory or set a standard.**  
Prepare a statement of what standards are required for HR professionals to be successful.
- **Step 2: Assess individuals and organizations.**  
Establish a methodology for determining how well HR professionals do or do not meet the required standards.
- **Step 3: Invest in talent improvement.** Prepare a portfolio of development activities intended to upgrade HR professionals.
- **Step 4: Follow up and track competence.**  
Develop a methodology to integrate the changes required for HR professionals to respond to increased expectations. ●

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### Phase 4: HR Accountability (who)

A successful process of HR transformation involves the right people at the right time in the right way. If HR professionals plan the transformation in a vacuum, others whose perspectives are needed during planning or whose commitment is needed during implementation are apt to resist the changes required of them; they will be less likely to support the more controversial or difficult elements of the plan, and they will certainly be less supportive or helpful as problems or challenges arise in the course of implementation.

#### Share Accountability for the Transformation

An HR transformation team should include representatives of four groups: HR leaders, line managers, customers and investors, and consultants.

An HR transformation should be sponsored by the chief HR officer, who should accept accountability for its design and delivery. It is often chaired by the head of HR and staffed with HR representatives from business units and centers of expertise, line managers from a mix of businesses including members of the C-suite, an outside adviser and representatives of customers and investors. This team meets regularly to set and deliver on milestones of the HR transformation.

#### Making It Happen

Making change happen involves two challenges: identifying in a logical way what should happen (this is the *content* of the transformation) and turning that content into what actually happens (this is the *process* of the transformation).

In any transformation, the pieces come together in

milestones, activities and outcomes. Milestones represent *what* should be done; activities define *how* it is done; and outcomes monitor *how to tell* if it has been done well.

Seven key factors help turn good intentions into successful reality: leading, creating a shared need, envisioning, engaging, decision-making, institutionalizing and monitoring and learning. ●

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### Tales From the Trenches: Transformation Case Studies

Flextronics is one of the world's largest electronics manufacturing services (EMS) companies, offering turnkey manufacturing and related services to leading electronics companies. With revenues exceeding \$33 billion in fiscal year 2009 and more than 200,000 employees, Flextronics continues to demonstrate its leadership within the EMS industry.

#### Phase 1: Business Context

Although a dominant player in the industry in 2006, the Flextronics executive team realized that they needed a new business model to survive — one that better met changing customer requirements while providing an improved global cost structure.

A leadership survey identified the absence of a strategic HR function as a critical barrier to success. Although a multibillion-dollar global company, Flextronics did not have a centralized HR function and had not effectively aligned the HR function with the business strategy.

With a clear understanding of the business realities and recognition that a centralized, strategic HR function would add significant value, the Flextronics executive team appointed HR expert Paul Humphries to oversee the creation of a global HR organization.

#### Phase 2: Identifying Critical Organizational Capabilities

Humphries had the challenge and luxury of creating an entirely new HR organization from scratch — the proverbial clean slate.

As a cohesive team, Humphries, CEO Mike McNamara and other members of the strategy team determined that in order to compete with Taiwanese upstarts and continue to dominate the industry globally, Flextronics would maintain position through a balance of acquisition and organic growth. As the team detailed Flextronics' new strategy, they agreed on three critical organizational capabilities necessary to support the success of the company's new direction: leadership, customer connectivity and efficiency.

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### Phase 3: HR Design — Developing the HR Organization, HR Practices and HR People

After much deliberation, the HR leadership team determined that the HR strategy would be as follows: Flextronics HR is a strategic business partner responsible for ensuring the business has world-class leadership, develops strong customer connectivity and operates with leading-edge efficiency. These outcomes are delivered by ensuring a solid organizational structure with a focus on “Design, Discover and Deliver,” which enables a strong focus on talent management; a committed, engaged workforce; and an agile change capability.

The HR strategy team recognized that support for this HR strategy wouldn’t be automatic and that communication and buy-in from leaders, HR professionals and line managers would be essential to sustaining change. To facilitate this communication, the team invited HR consultant Dave Ulrich to talk at a global leadership summit with 150 senior leaders about the transformation process.

Next, the team cascaded the Flextronics’ message of vision, purpose, desired culture and HR strategy down to the next level of leadership, and then to the next.

### Phase 4: Accountability and Sustained Change

Perhaps one of the most important elements of Flextronics’ HR transformation success was the support of McNamara. Additionally, the support and vision of the senior HR team was essential to attain the progress thus far. Given that this transformation was built from the ground up, the HR team also credits consultants and thought leaders who ensured that the company was employing the latest theory and practice in its new design of HR. Ultimately, there had been an adequately balanced responsibility among line managers, HR professionals and external consultants.

Flextronics also worked to connect its HR practices and people to customers and investors, with a keen interest in ensuring that the design is based on its three designated organizational capabilities: leadership, customer connectivity and efficiency. ●

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## Pfizer: A Journey to Smaller, Better, Faster

Like many HR functions, Pfizer HR is working to transform itself. Pfizer has gone through significant changes in the last several years.

### Phase 1: Business Context

Pfizer is the world’s largest pharmaceutical company.

The company grew rapidly through the 1990s through sales of its own products and through acquisitions, capped by the acquisition of Warner-Lambert in 2000 and Pharmacia in 2003. The workforce expanded from a base of around 40,000 to 80,000 in 2000, and to 120,000 in 2003. Today, it is 82,000.

In early 2007, to deliver on its commitments to the business, Pfizer HR had to convert itself from a bloated function with an internal focus to an efficient one with a business and industry focus.

Over the course of 2007, the HR leadership team (HRLT) determined both their functional aspiration and their plan to get there. They determined to become a world-class HR function.

### Phase 2: Business Outcomes

The HRLT asked Pfizer’s senior leaders to speak to them about the current and future state of the business.

Through these discussions, the HRLT determined that the new high-end work for HR moves beyond leadership, talent and culture; it is a matter of deciding what work is needed to help lead the business strategy, organizing the business for its best delivery and linking the outputs of the business units across the company to achieve results. The HRLT began positioning HR not as an enabler of business success, but as a driver of it. As this progressed, they began to identify the HR competencies required to do that.

### Phase 3: Classify and Organize the Work

The HRLT created several cross-divisional teams to conduct detailed analyses and to surface the many variations they had across divisions and sites. The initial areas of focus were generalist, staffing, learning and development, organizational effectiveness, compensation, benefits, operations, communications, and diversity and inclusion. The initial focus has been on the company’s U.S. operations, which include around 45,000 colleagues in multiple sites and functions. The outcome was pages and pages of worksheets showing what work was done and by whom. A key aspect of this work classification, however, was in determining if each task was “competitive advantage,” “strategic” or “foundational.”

Once they classified the work, the facts of Pfizer’s redundancy became starkly apparent and the opportunities for both efficiency and effectiveness became clear.

To ensure focus on the business and prevent redundancy, they knew they had to have a structure that would make roles clear. The final design was to include three primary kinds of entities: enterprise, business unit, and manager and operational support (MOS).

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Using various competency studies, role profiles were created for the HR and MOS lead positions for each division.

## Phase 4: Implementation

In mid-2008, Pfizer began executing the redesign. In this design, Pfizer will achieve a significant reduction in HR headcount, eliminate approximately \$42 million in 2008 expenses through those reductions and through improved project and functional management, while also significantly upgrading the talent base.

At the same time it is redesigning the HR function and implementing a robust process to prioritize its work so that its entrepreneurial and innovative spirit is focused on the short list of outcomes, This list will drive its business priorities — the things it should do — rather than those it could do or would find it convenient to do. ●

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## Intel: Swinging the Pendulum From Tactical to Strategic

Intel Corp. is the world's largest semiconductor company and the inventor of the microprocessors found in most personal computers. Founded in 1968, Intel has continued to grow through the 2000s, and in recent years has continued its legacy of innovation by building a strategic HR function capable of leveraging the best talent to deliver the most innovative technology.

### Phase 1: History and Business Context

For HR, 2001 through the beginning of 2006 were years focused on world-class services, targeting best-in-class quality and impeccable customer satisfaction.

On Sept. 5, 2006, Intel announced plans for a major restructuring, including a reduction of 10,500 jobs. As a result of the restructuring, Intel would generate savings in costs and operating expenses of approximately \$3 billion annually by 2008.

With increased confidence in HR's ability to deliver tactical results, there was now a clear business case for HR to transform from a high performing transactional organization to a highly strategic organization.

### Phase 2: Desired Outcomes

As leaders prepared to announce Intel's restructuring, they participated in a series of strategic discussions to determine the critical capabilities Intel would need to grow into the future. An obvious outcome for all their investors was to reduce costs and improve their balance

sheet. To ensure the company would be able to deliver long-term results for all of its stakeholders (investors, customers, employees and communities), they went back to their roots.

Leaders realized that they would need to continue to improve their ability to attract, engage and retain brilliant talent. While Intel had always been a collaborative environment, leaders determined to focus on increasing collaboration and demanding a large degree of initiative in that collaboration.

In addition to the tactical work HR was already delivering well, HR had a new job: to enable capabilities in fast innovation, brilliant talent and proactive collaboration. To do so, Intel's leaders realized that they would need to reduce the cost and complexity of their tactical delivery and begin to develop strategic HR competency among their HR professionals.

### Phase 3: HR Redesign

They realized that in their new strategy they not only had to go on delivering HR services well, they had to deliver HR services that enabled proactive collaboration, brilliant talent and fast innovation.

Now, in the new business context, the top-down restructuring and strategic initiatives drove the company's HR transformation strategy. Leaders adjusted their structures and resource allocation to the desired outcomes. They formed a new unified organization with a tri-part structure: a strategic design group, a business channel group and an HR operations group.

With the three key areas outlined, they realigned programs, resources and tasks to the appropriate organization. Additionally, they integrated HR and training resources that had previously reported into Intel business units; conversely, they repatriated finance, IT and other resources that had been reporting with the HR function to their respective organizations.

### Phase 4: Implementation and Accountability

Over the last two years, line management supported each wave of HR transformation by evaluating resources against new roles and responsibilities; selecting, deselecting and prioritizing tasks; and communicating and managing change within their groups. As they began their transformation, they developed four key areas of focus and collaboration with line managers: change management discipline, stakeholder management processes, employee communication tools and support, and transition management rigor. ●

### Takeda North America: Creating Capability in a Fast-Track Subsidiary

More than two centuries ago, a small medicine shop was opened in Doshomachi, Osaka, Japan, to provide medicines to local merchants and doctors. This was the beginning of the present-day Takeda Pharmaceutical Co., Japan's largest pharmaceutical company. Many generations later, in 1998, Takeda Pharmaceuticals North America, Inc. (TPNA) was created as a wholly owned subsidiary of Takeda Pharmaceutical Co.

Founded to accelerate Takeda's global expansion into the U.S. market, TPNA started with three employees and now employs more than 5,000 people.

#### Phase 1: Business Context

As with any startup, HR's original responsibility was to simply get the basics right. Given the rapid growth, however, relatively straightforward transactional work such as compensation and benefits suddenly became mission critical as staff grew from a few hundred initial employees to thousands over the course of a few years.

By January 2006, a new HR leadership team was formed and quickly acknowledged that HR needed to move from a traditional transactional HR organization to a strategic, business-oriented organization to support the same rate of growth in the coming years.

#### Phase 2: Outcomes

The HR team determined to follow a two-phase approach to strategy development. First, they interviewed executives and their management teams from their commercial business and support functions to gather strategy perceptions, perspectives and customer needs. Next, they facilitated an organizational capability audit:

- **Talent:** Audit findings revealed a need for a more diverse set of skills and backgrounds than they had at the time.
- **Accountability:** Business leaders agreed that evolving their performance appraisal and decision-making practices to a higher standard would be a natural and important move.
- **Innovation:** Company leaders realized that to continue to take market share from bigger competitors, they would find success if every employee throughout the organization was good at improving on current processes and developing new cross-functional processes when needed.

#### Phase 3: HR Redesign

By the time they had completed the interviews and identified their three target organizational capabilities (talent, accountability and innovation), motivation had greatly increased with both the HR team and their business leaders to begin the redesign phase. They determined that transformation for TPNA HR would be a complete system change, involving not only greater partnering with line business leaders, but also making internal changes to better align the HR department with the business strategy. This systemic change affecting the core HR vision and processes translated into a new HR strategy based on delivering organizational capabilities to drive business growth.

Company leaders structured their organization to include a Talent Management center of excellence, an Employee Experience Group designed to absorb operational HR work and a group of HR business partners tasked with enabling strategic execution by line and functional managers.

#### Phase 4: Accountability and Ongoing Communication

Keeping everyone informed during times of change, especially when changes directly affected individual jobs, was an essential tenet of Takeda's HR transformation process. One of its methods to keep stakeholders involved throughout the process was to build on its initial executive interviews and hold a regular stakeholder meeting with updates on its work, intended next steps, and expectations of roles and responsibilities.

Since it completed its first round of HR transformation, the business has continued to evolve with a significant merger, acquisitions and a global corporate organizational restructure. As a result, HR continues to evolve as the company looks at ways to support the ever-changing business and operate more efficiently. ●

*Note: An HR Transformation Toolkit, provided by the authors, can be found at [www.TransformationHR.com](http://www.TransformationHR.com).*

#### RECOMMENDED READING LIST

If you liked *HR Transformation*, you'll also like:

1. **The Shift** by **Scott M. Davis**. The Shift shows how you can become a part of the new breed of Visionary Marketers that is a successful catalyst for growth and transformation within an organization.
2. **The HR Scorecard** by **Brian E. Becker, Mark A. Huselid and Dave Ulrich**. This summary demonstrates how to measure the ways in which human resources contributes to the company's profits.
3. **The Talent Powered Organization** by **Peter Cheese, Robert J. Thomas and Elizabeth Craig**. Combining strategic insight with proven and practical methods, this book helps human resources professionals find the talent to power an organization to greatness.