

Where is the Value from HR?

Most organizations believe that people are their most important asset and a source of competitive advantage. Those same organizations do not, however, tend to value their HR functions in the same way. They may not be looking in the right place.

Introduction

In today's management environment, creating value is the ultimate measure of organizational relevance and impact. It is increasingly positioned as the unbiased arbiter of the organization's decision-making. As a result, every function, department, and person in the organization is trying to add value, and to be valuable.

It is not uncommon for organizations today to identify their employees as a source of competitive advantage and consequently, as a source of value. In the high-discretion, knowledge-based work environment found in many organizations, people can strongly influence the enterprise's productivity, innovation and service quality. Their direct impact on value can be substantial and measurable, delivering real results to the bottom line.

It might seem logical then to extend this value chain back into the HR department where, in theory, support for the organization's people is advocated and enacted. After all, the HR department is where the people programs and processes are developed, where people-related information is managed, where people-based transactions get processed, and where everyone goes with their "people problems." While this connection is obviously valid, the ability to measure HR's organizational value has not proven easy.

HR has seemed to struggle with its ability to identify and measure its organizational value. While high-level empirical studies (e.g., Huselid & Becker surveys in the early '90s) have clearly identified a correlation between an organization's human resource management practices and increases in its shareholder value, HR has not been consistently successful at making its case for value based on a set of generally accepted measures. Benchmarking organizations like the Saratoga Institute have offered a wide variety of HR-centric measures and ratios for years, but only HR seems interested in "time-to-hire" and "FTEs per HR FTE." In the last few years, various indexing approaches have been introduced to more broadly assess the effectiveness of various human resource management components and to provide a new kind of benchmarking tool. Still, management hasn't seemed satisfied that HR's contribution to value has been established at the enterprise level.

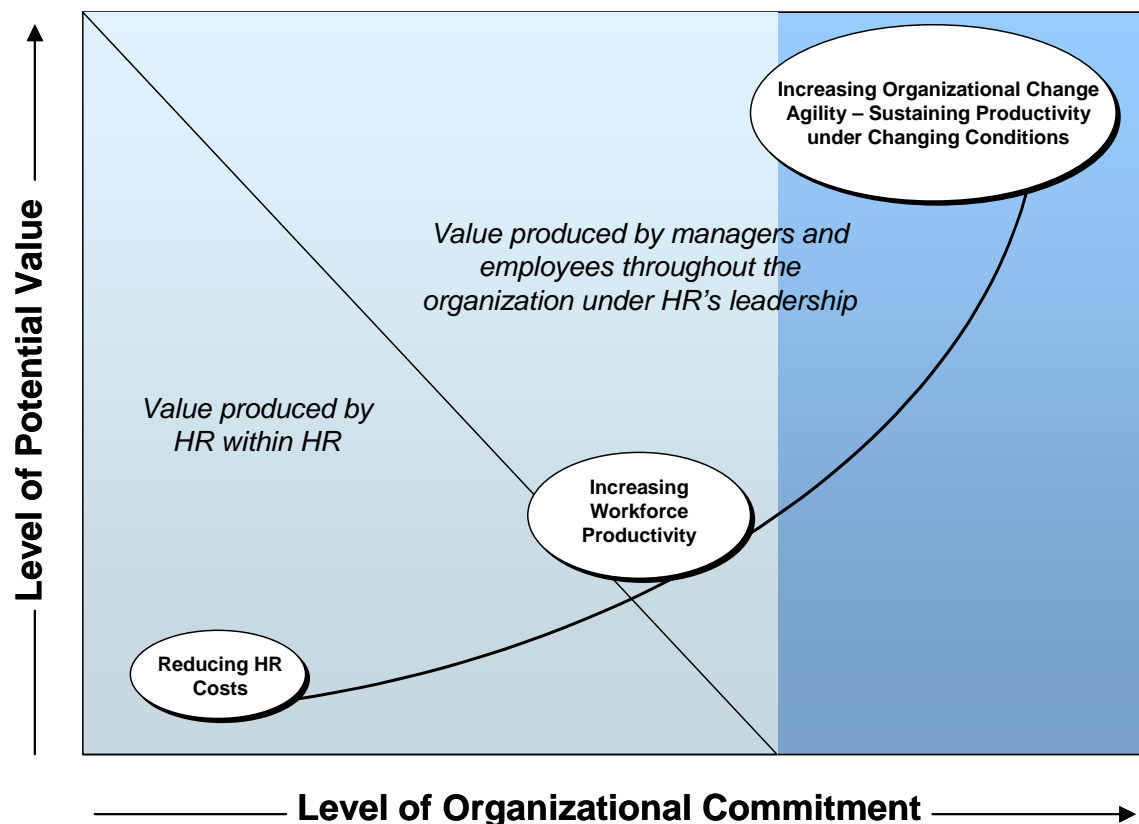
Addressing the Full Range of HR's Potential Value

So, how then does HR measure and communicate its real value to the organization? Clearly, there is validity in continuing to focus on HR's control of its own costs, its ability to make its processes more efficient, and in its improvements in service quality. These

efforts and their resulting measures of impact clearly represent good management practice, but they only respond to a minimum threshold level of organizational value. We believe that the real story about HR's potential value to the organization actually lies outside of the HR function, throughout the organization itself...where managers and employees work together to create results.

Figure 1 (*HR Value Curve*) represents a broad perspective on the opportunities that HR has to deliver organizational value. The curve illustrates the relationship between the amount of potential value that can be realized as a function of the level of commitment and effort that the organization invests. Further, the graph demonstrates that this HR value curve actually operates in two distinctly different domains – within the HR department itself and across the entire organization.

Figure 1 – HR Value Curve



The shape of the value curve signifies that, by far, the greatest amount of potential value lies outside of the HR function where HR's products and services are used by managers and employees to create superior performance outcomes. In fact, a value assessment view that looks solely at the HR function will almost always come back to HR cost control and process efficiency, even while the organization's human resource management practices may be actively supporting the workforce's performance capabilities and results. This view will provide a limited understanding of the value that HR is delivering, directly and indirectly, to the enterprise.

Adopting a Broader View

In today's marketplace, a broader view of HR's value correlates well with a few important trends in HR (viz., self-service and HR portals, e-learning, HR professionals as business partners, etc.) These trends signify the increased migration of HR's work out into the organization. The notion of HR as a stand-alone corporate function seems to be giving way to the broader concept of *human resource management* as an organizational competence as more HR processes are conducted in the workplace with HR functioning as a business partner with management. We believe that this shift in emphasis will also refocus the assessment of value onto the enterprise's people practices (wherever conducted) rather than on HR itself.

This broader view of HR applies not only to those seeking to measure HR's value to the enterprise; it also applies to HR itself. It demands that HR commit itself, and take accountability for, key people-related outcomes in the organization rather than merely HR-specific objectives. It recommissions HR to partner with management to implement human resource management solutions that address workforce capability building versus employment and staffing; employee productivity versus performance management; strategy implementation versus communications; and so on. The effective management of people – to produce bottom line results, to resiliently change in the face of dynamic conditions, and to grow and develop even greater capabilities over time – is one of the keys to creating value for the enterprise. As a result, the organization's human resource management practices (and HR itself) are most valuable when they are applied to supporting the workforce, not when they are focused only on cutting costs.

This broader view of value places a far different set of performance expectations on HR. It provides HR with both a new profile (sponsor of the organization's people practices - rather than owner of its HR programs) and a greater risk of failure (achieving more bottom-line oriented outcomes rather than operating within budget.) HR's response must be to take accountability for an expanded role as the sponsor and facilitator of a key organizational competence, and for initiating a richer dialogue about value that focuses on people and their impact on the enterprise.

What About Value in Employee Terms?

From the employee perspective, the organization's HR practices should also be focused on delivering value. Just as in the case of the organizational perspective on value determination, the employee view is similarly focused on a kind of bottom line that includes three key people outcomes:

- ***"I want to work for this organization."*** – employment deals should be perceived as sufficiently valuable to attract key talent from the marketplace
- ***"I want to stay here and be a part of this organization."*** – ongoing people practices should meet employee needs and satisfy perceptions of fairness, equity and opportunity
- ***"My efforts are supported and rewarded here."*** – performance support initiatives and reward programs should foster a high-performing workforce

In the ongoing *war for talent*, employees and candidates must perceive the organization's people practices as valuable in their own terms. This perception is affected by both the content of the programs and practices and the manner in which they are presented to employees. The "look and feel" of the organization's employee offerings has an increasingly strong impact on perceptions of value.

Conclusion

Understanding HR's potential value in the organization has been an unmet challenge for many organizations and, as a result, HR departments have come under relentless cost pressures. Attempting to derive significant, incremental value through HR budget reductions as the primary means for establishing an acceptable cost/value balance does not seem to acknowledge HR's limited share of an organization's total expenses. Regardless, without any viable alternatives, management has been given little choice.

In order to be complete, the value dialogue must be refocused onto the broader notion of the organization's human resource management practices and their impact on the workforce, and consequently on the achievement of key business objectives. In this way, the real linkage between what HR does and where value is produced can be defined and managed.

People are a critical asset in every organization and a potential source of great value. The manner in which they are managed is of great consequence and represents a strategically critical competence of the whole enterprise – not just HR.

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