

# 'Value-Based HR'

A Blueprint for the New Generation  
of Human Capital Management

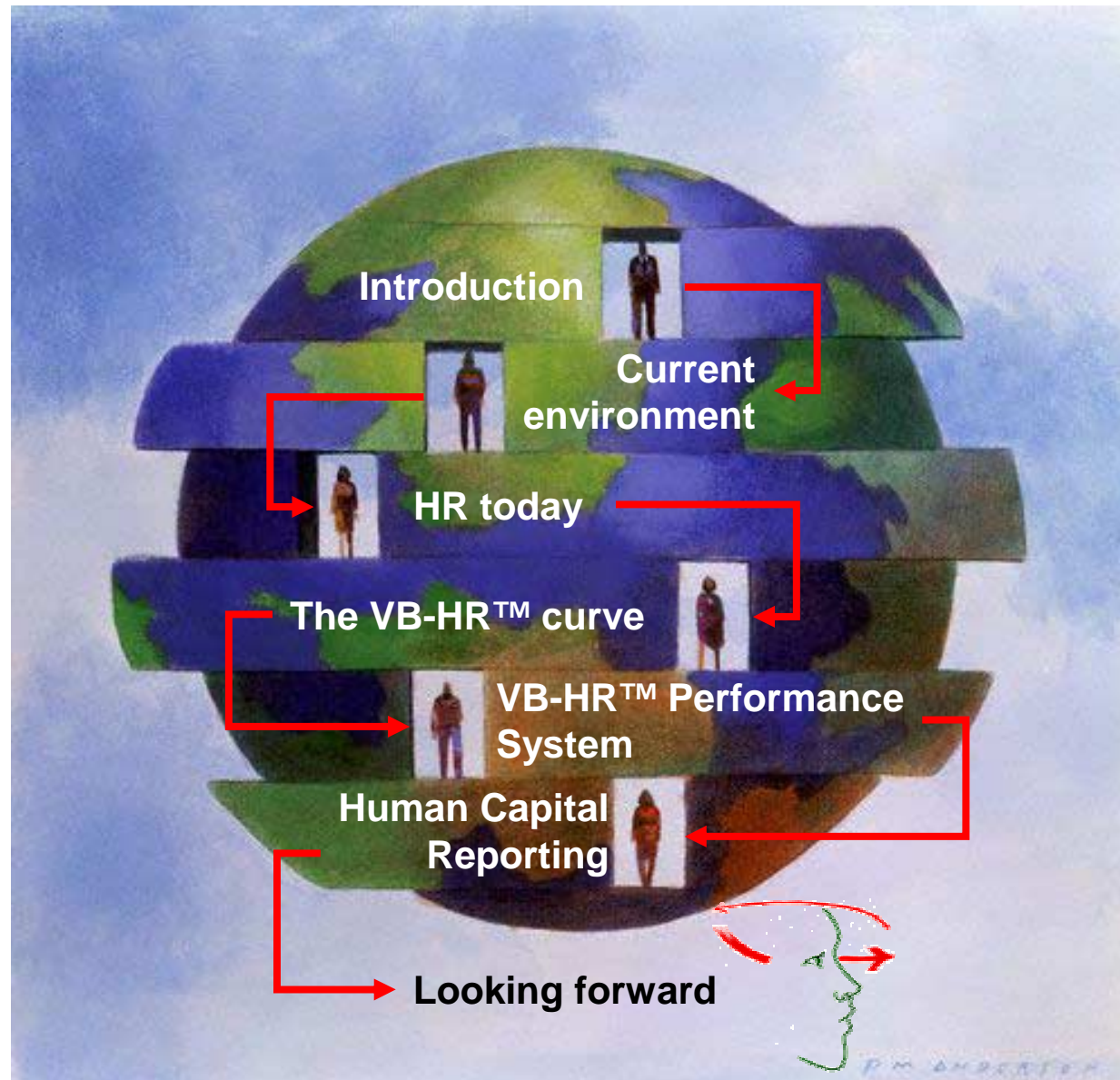


Nicholas J Higgins

**HR Directors Trade Summit, London**

17<sup>th</sup> January 2005

# Today's Routemap



# The Strategic Environment Today



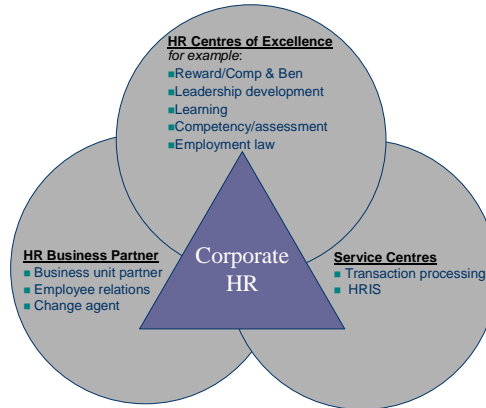
**How many of these success factors does HR contribute to?**

# Where is HR Today?

- Board representation of HR is still thin, despite a general perception that HR has gained more 'strategic' accountability
- There is more of a polarised spectrum in the field of HCM practice across industries which reflects the increasingly sophisticated market
- There is increasing complexity for HR, not only in terms of areas such as employment law, but also in terms of HCM integration requirements
- Increasing market pressures to measure
  - Human capital value
  - Value contribution made by human capital management practices
  - The value contribution of the HR function itself
- Much recent attention on human capital reporting, with increasing attention paid by the government – the latest being the recent draft regulations announced in May 2004 on the Operating and Financial Review (OFR)
- Despite the often spouted 'demise of HR' the function is continuing to thrive. The challenge isn't about surviving, it's about creating its own future.

# HR Delivery Models

## The Emerging HR Delivery Structure



1

## Service Centres

### Roles:

- Deliver low cost, highly automated transaction processing and quality assurance
- Eliminate, simplify and redesign administrative processes
- Ensure legal and ethical compliance
- Establish a global (regional) human resource information platform for decision-making, support and legal/audit compliance

### Deployment:

- Structured along Country and/or Regional lines

**Service Centres**

- Transaction processing
- HRIS

### Key Competencies:

- In-depth process knowledge
- High volume transactions
- Utilisation of technology/expert systems
- Team based skills

4

## HR Business Partner

### Roles:

- Provide high-value added expertise, coaching, advice and support to line managers
- Support the implementation of reengineering/restructuring
- Locate and use HR expert knowledge to meet business needs
- Assist business unit leadership in developing strategies people to address performance
- Deliver essential employee relations expertise
- Ensure legal and ethical compliance

### Deployment:

- Large geographic or business units
- Lean on-site staff
- Supported by expert network from corporate or regional centres

**HR Business Partner**

- Business unit partner
- Employee relations
- Management advisor

### Key Competencies:

- Business knowledge
- Organisational behaviour
- Broad technical expertise
- Leadership development
- People strategy

3

## Centres of Excellence

### Roles:

- Design core HR processes for corporate wide usage
- Ensure that design duplication in the units is eliminated
- Provide high-value expertise to line and HR partners
- Educate HR partners in key HR disciplines as necessary
- Leverage best practices by sharing learning internally and externally
- Measure success with a best-in-class economics approach

### Deployment:

- Centres are at corporate and occasionally in large regional centres or in field
- Experts are available for rapid deployment to operating units often on a fee for service basis

**HR Centres of Excellence**

- Reward/Comp & Ben
- Leadership development
- Learning
- Recruitment
- HRIT
- Employment law

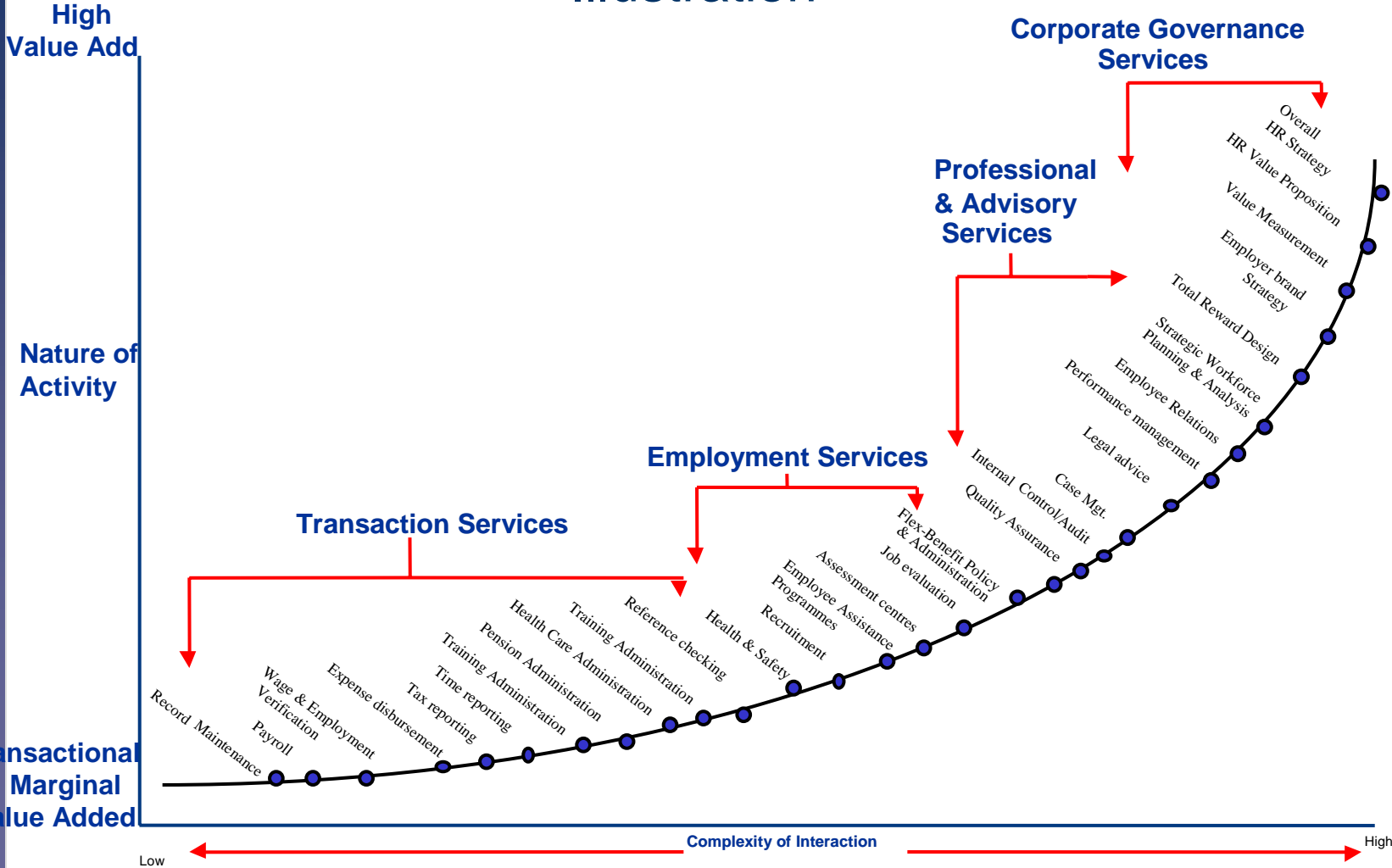
### Key Competencies:

- World class technical knowledge
- Consulting skills (diagnosis and design)
- Expert knowledge sharing
- Integration with business strategies and other HR programmes

2

# HR as a Portfolio of Product-services (simplified illustration)

## Illustration



# HR Priorities 2005

- Absenteeism
- Recruitment
- Retention
- Succession management
- Leadership development
- Outsourcing
- Talent management
- Performance management
- Values
- Internal communication
- Pensions
- Flexible working
- Appraisals
- Personal development
- Age legislation
- Trade union relationships
- Legislation
- Implementation of HR technology
- Executive incentives

Source: Human Resources magazine, January 2005; The Future of HR: 2005 the big issues

## Everyday phrases that HR professionals need to recalibrate

- Working with.....
- Promoting.....
- Supporting....
- Aligning with....
- Fostering....
- Embracing....
- Liaise closely with.....
- Respond to....
- Preparing for.....
- Putting in place.....

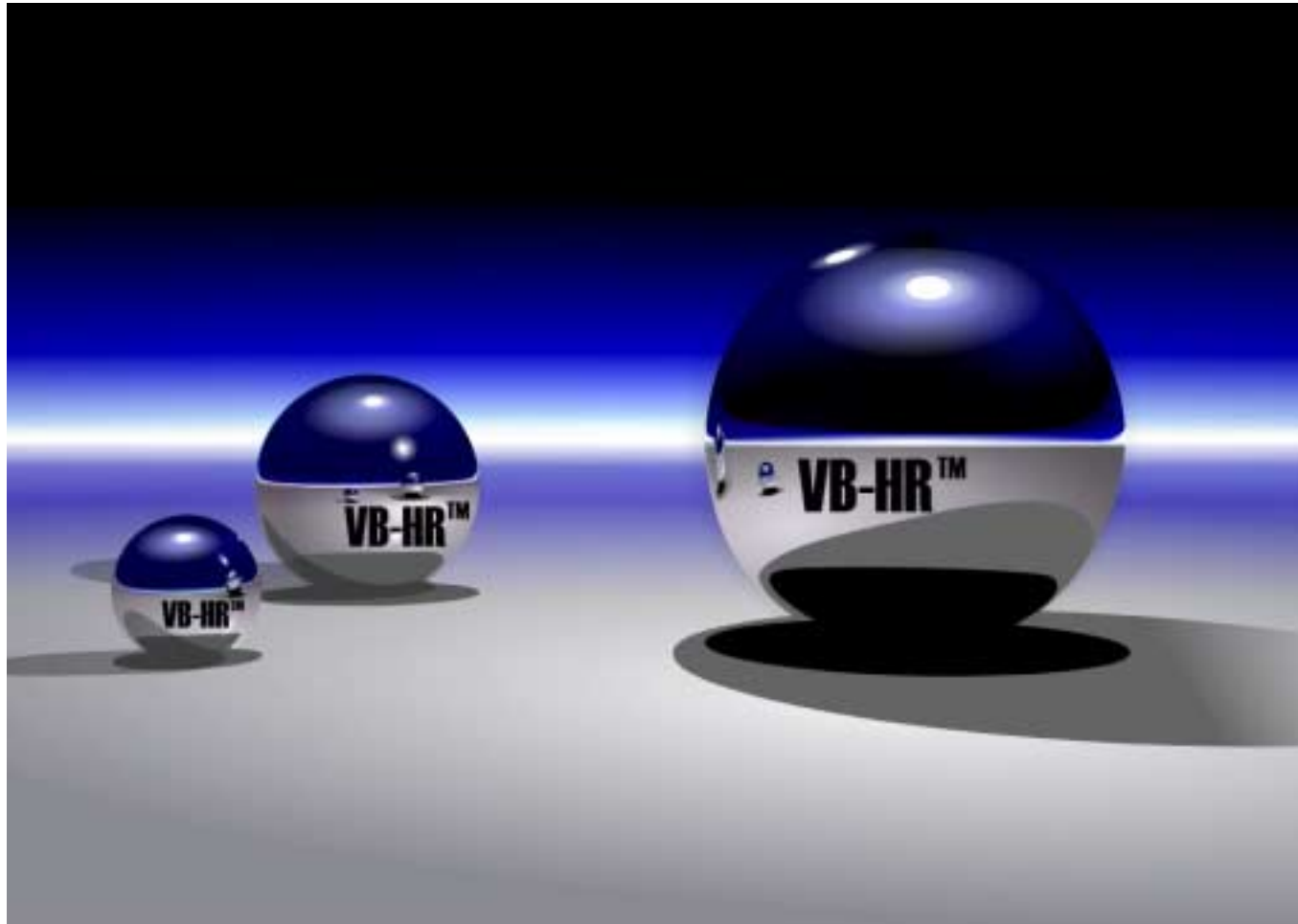
In working with clients, very often I find HR has problems turning strategy into viable measurement constructs, which in turn create problems in explicitising HR's contribution.

One of the main causes is that HR uses too many phrases like those shown which are 'cluster' terms that lack clear definition.

Thus several 'work sessions' with senior management are required to recalibrate phrases sufficiently.



# Value Based HR



VALUE-ADD

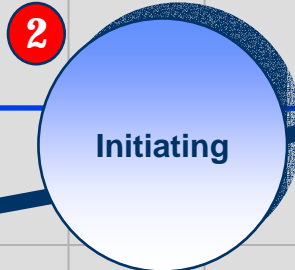
# The VB-HR™ CURVE: *Evolution of the 'HR contribution'*

- Majority of management still to be convinced of, or question HR's value contribution
- Unable to provide value-cost relationship
- Primarily administrative and personnel compliance in nature  
Limited or patchy use of technology with predominance of manual administrative work
- Limited or no use of HR operating metrics

1



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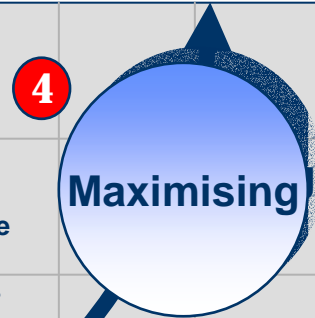
- Some evaluation of cost- to-value of core services and client expectation
- Emerging track record in providing value added HR programmes
- Application of technology to improve speed and effectiveness of administration
- Limited scorecard of metrics focusing on operating efficiency

3



- Core services delivered at acceptable value contribution ratios
- Line integrates HR activities/processes into operating model
- Technology-enabled delivery linked to organisation ERP system
- Fully developed scorecard providing measures of ROI, simple value metrics and operating measures

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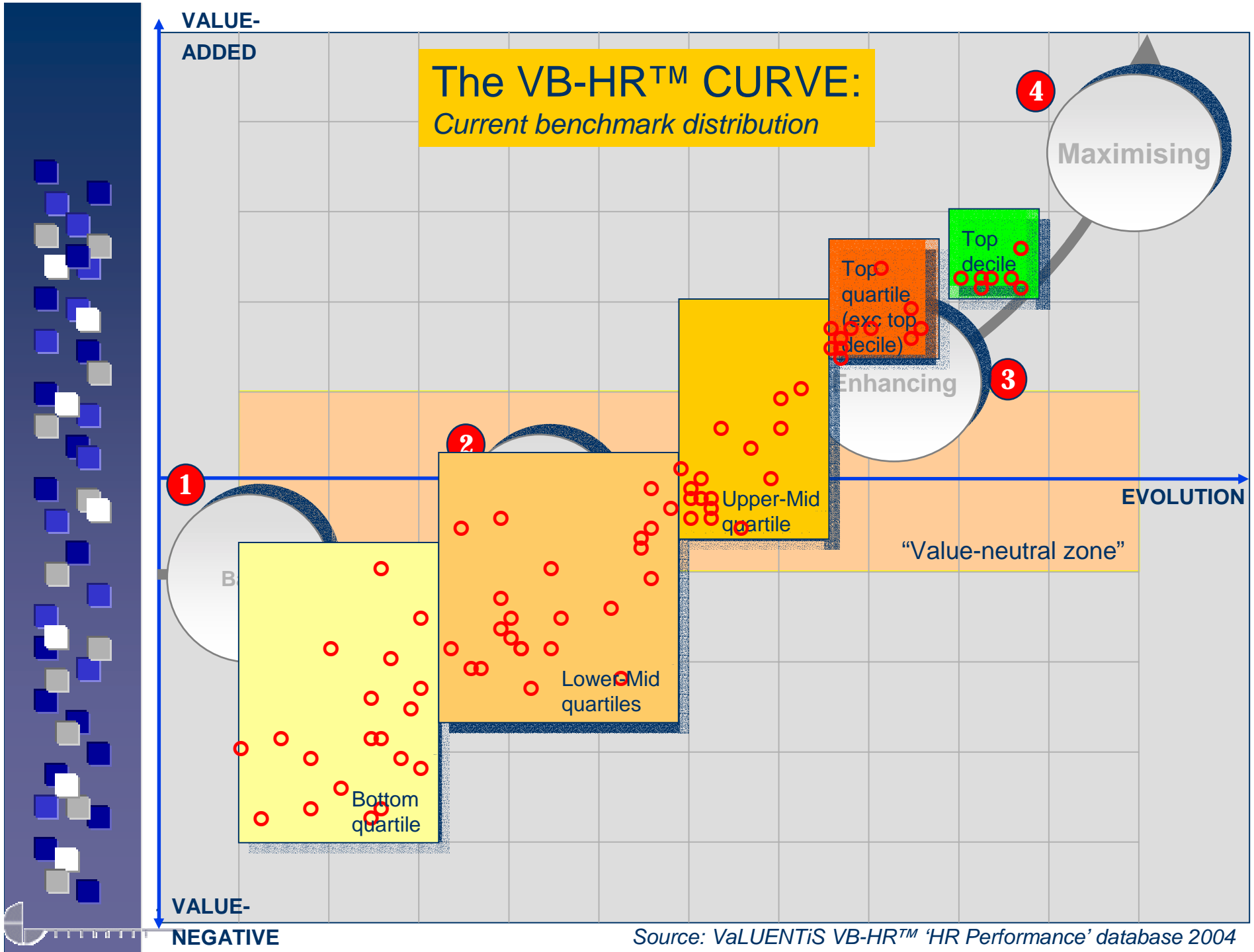


- Senior leaders believe and are in receipt of explicit HR business value model
- Achieving 'world-class' value contribution/ value creation

EVOLUTION

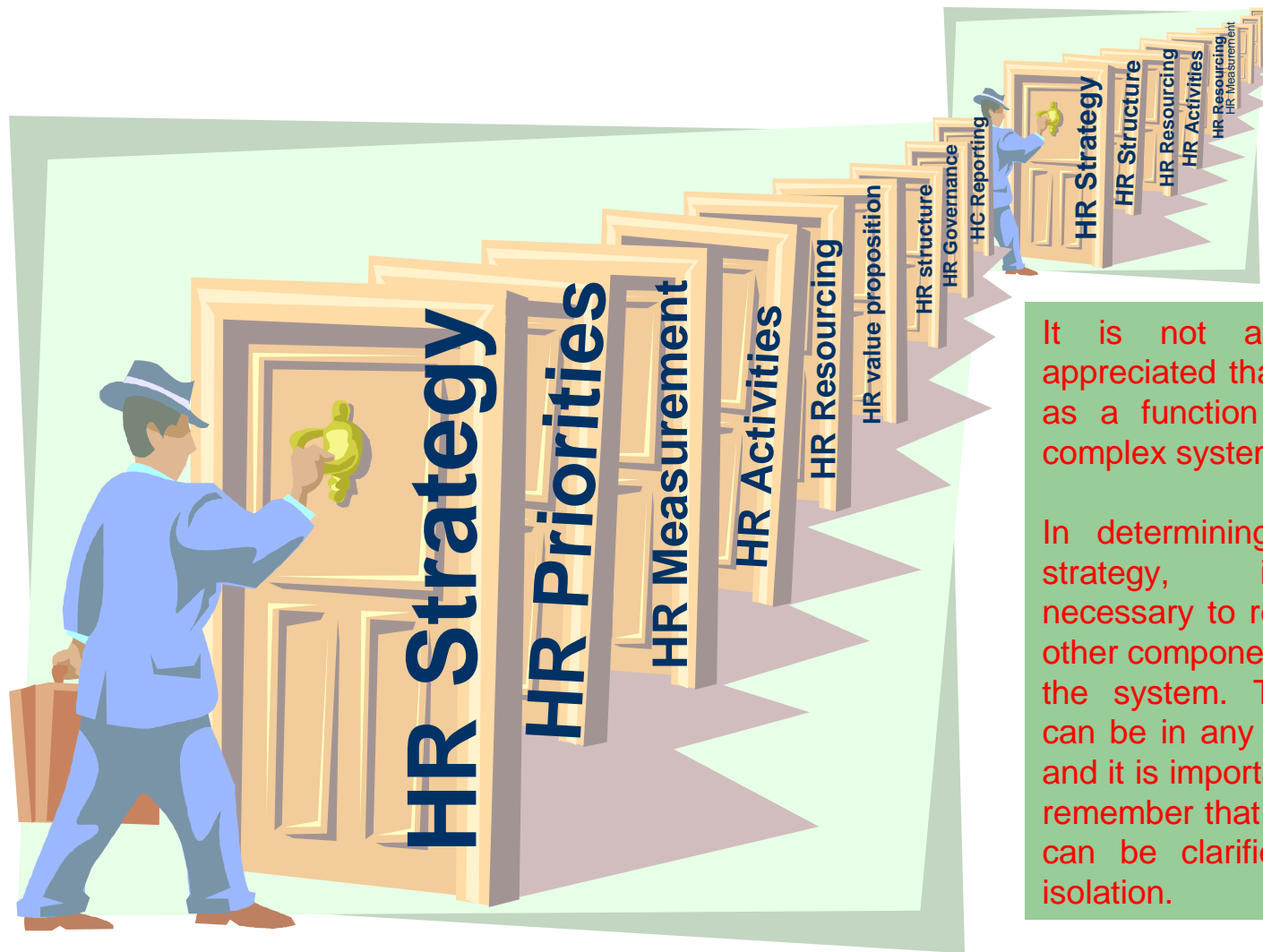
- VB-HR activities/ processes delivered as an essential component of value based management
- Sophisticated use of technology, i.e. self-service, HR data warehousing, OLAP
- Fully integrated VB-HR Scorecard that provides knowledge core to organisational decision making

VALUE-NEGATIVE



Source: VaLUENTiS VB-HR™ ‘HR Performance’ database 2004

No matter which door.....

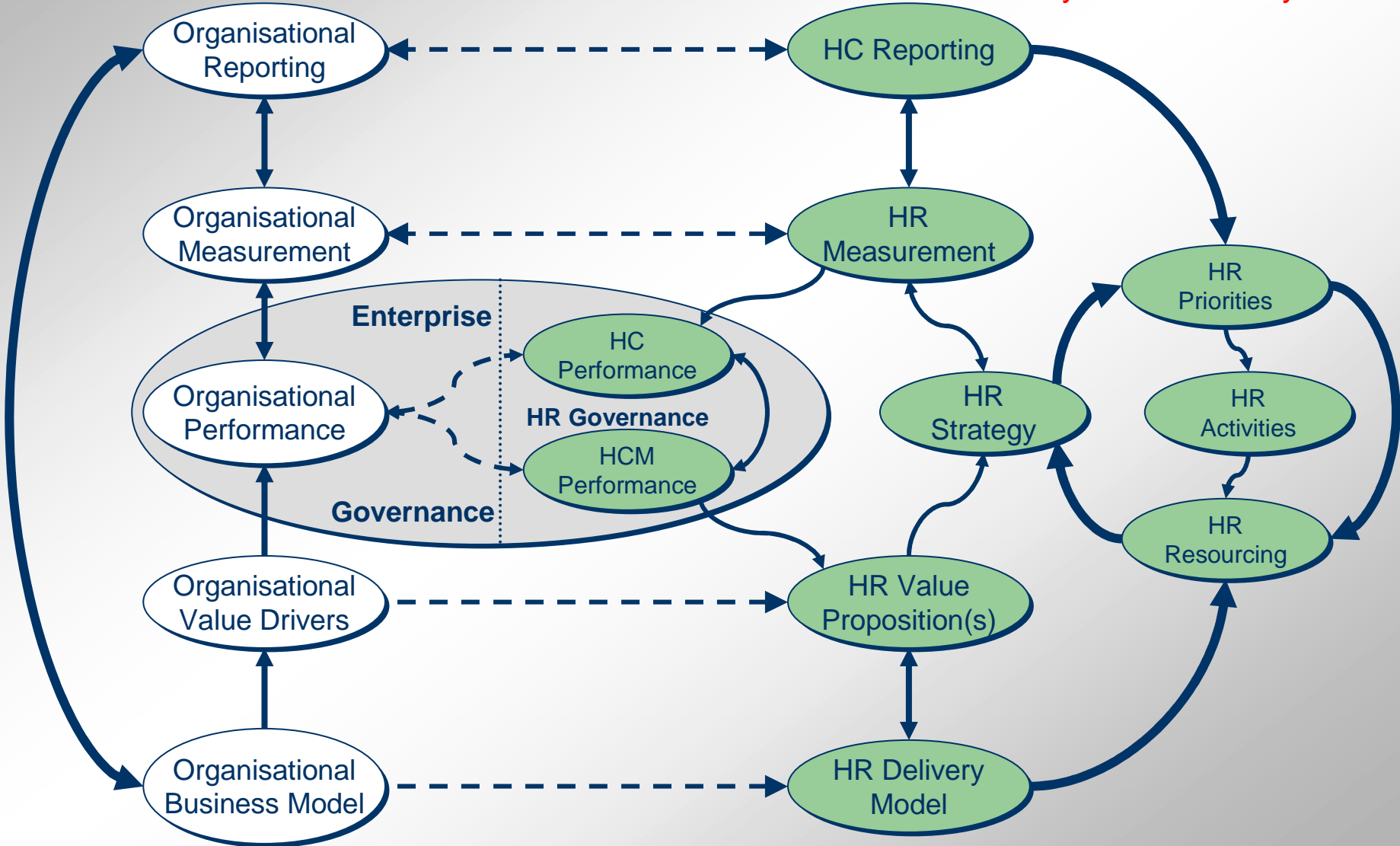


It is not always appreciated that HR as a function is a complex system.

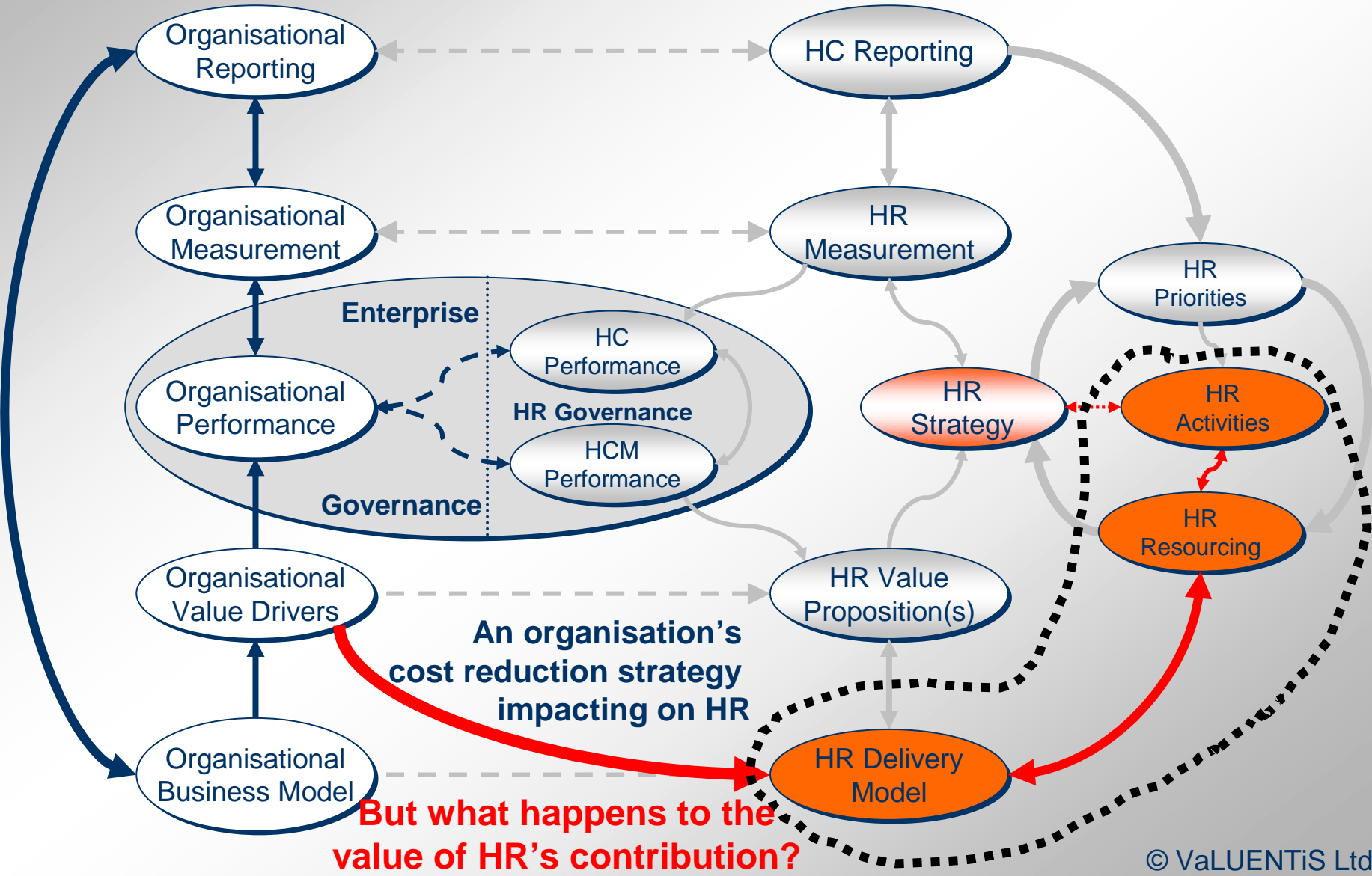
In determining HR strategy, it is necessary to review other components of the system. These can be in any order and it is important to remember that none can be clarified in isolation.

# VB-HR™ Performance System

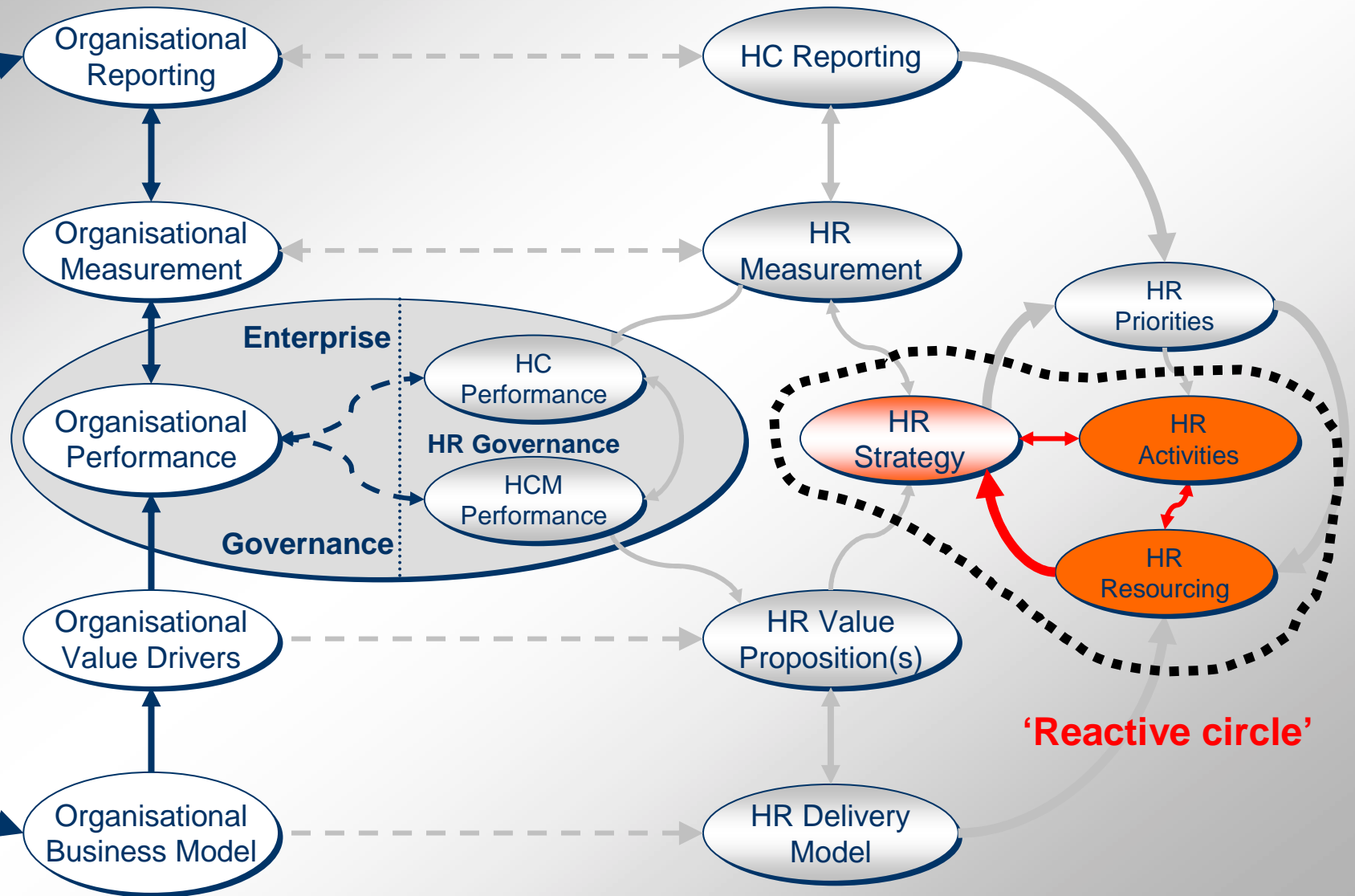
'Systems within systems'



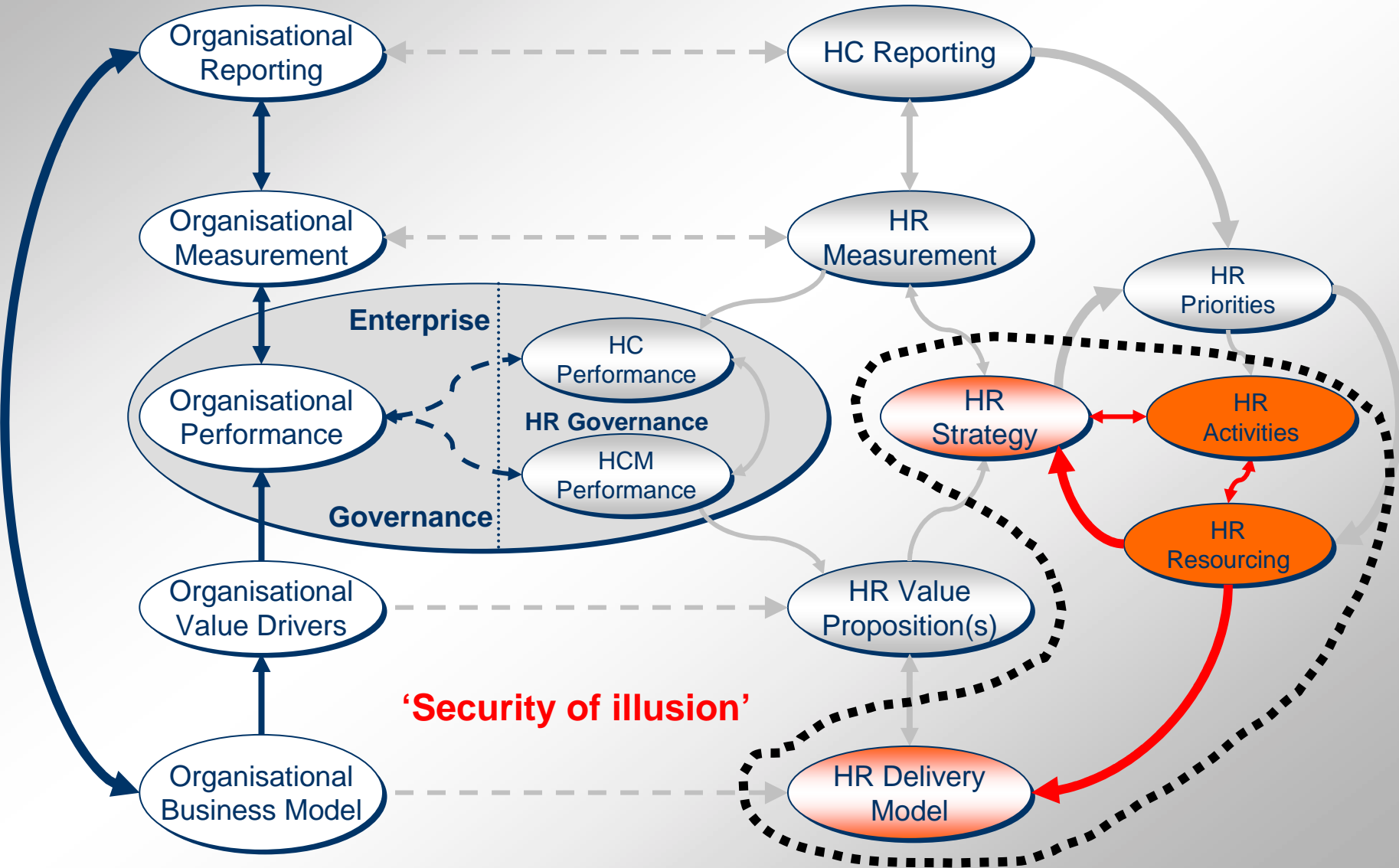
# Empirical evidence: 'HR in a box' - A common scenario



# The HR 'Hamster wheel': Further encounters of HR functions



# The well-designed 'HR Hamster wheel'





# The Benefits of VB-HR™

- Provides a fully integrated 'business' map of HR linking core components – strategy, measurement and performance with operational delivery
- Positions HR as a business unit with a defined portfolio of product-services
- Creates a 'smart' environment for HR to pro-actively govern
- Ensures HR functional activity is focused on value creation/contribution to the business, in terms of HR priorities and deliverables, deriving measures to show this (whether through a scorecard or otherwise)
- Provides a composite definition of human capital management and human capital value and an explicit model of where HR contributes to or creates value
- Raises the bar for HR professionals in terms of skills, knowledge and potential performance
- The model provides a number of 'real life' representations of HR
- Establishes a sophisticated performance rating system for HR to self-assess and truly benchmark











# When to use VB-HR™ .....

- Reviewing or clarifying HR strategy or any HR planning exercise
- Implementing HR budget reductions or getting more from a budget freeze
- Providing a business case for HR outsourcing (or not!)
- Conducting due diligence in the case of merger/acquisition/spin-off/ flotation/audit
- Clarifying/deriving HR delivery priorities and roles
- Investigating HR performance issues
- Investigating current HR spend-return equations
- Looking to implement an internal scorecard or external reporting framework
- Constructing HR models (e.g. employee engagement, HPWS, management development etc) and carrying out related measurement
- Looking to integrate several HCM practices, (e.g. performance, reward, succession management, management development etc)
- Upgrading professional capability of the HR function
- Generating a baseline benchmark (internal)
- HR benchmarking (external)

# HRM/HCM Core Activity Domains



# HR Role Definitions

- Administration  Carrying out arrangement, scheduling, form processing, paper/email administration, tracking and monitoring; provision of 'back office-type' work
- Analysis  Providing analytical support to drive decision making, including data collation and comparison of evidence
- Compliance  Verifying that line management are adhering to Group or regulatory standards in applying policies and procedures; identifying corrective measures where needed
- Coordinator  Programme management of an administrative nature, in relation to interventions and programmes so that solution components are comprehensively delivered
- Delivery  Carrying out the specified activity and being responsible for its effective delivery; providing advisory and consulting expertise around specific areas
- Design  Carrying out planning, design and development activities related to the sub-activity (separate from daily customer-facing/delivery type work), e.g. systems, templates
- Interface  'Sensor checking' to identify on-the-ground reactions/feedback; ensuring that information is provided so that solutions can be effectively designed
- Liaison  Providing relational contact between line and HR
- Planning  Using data to plan programme/intervention/strategic reviewing
- Procurement  Identifying requirements from third external parties; sourcing and approving third-party provision, managing external supplier relationships

# Overall HR Function: Capability Profiler level 1 [Client sample]

## Live excerpt from client project: Staffing activity – Responsibility/role designation

Primary responsibility	1. MAJOR ACTIVITY: STAFFING	CoE	Field HRM/ Advisor	Service Centre	SBP
SBP	1.1 <b>Workforce Planning:</b> Services to forecast and budget for current and future workforce needs, HR measurement reporting and control, diversity needs, adjustments needed to workforce levels, etc.		An, I		PI
CoE	1.2 <b>Candidate Identification Services:</b> Services to develop a pool of interested candidates (e.g., internal job posting, advertising, development of recruiting materials, dealing with recruiting agencies, identification of target sources, university, community relations, etc.).	Ds, Dv, Pr	An, I		
CoE	1.3 <b>Job Profile Services/Requisition Processing:</b> Services to develop or modify job profiles, including development of accountabilities and identification of key competency requirements, and preparation, approval and tracking of planned and unplanned requisitions.	Ad, An, Ds	An, Cr		
CoE	1.4 <b>Candidate Selection:</b> Services to assist in narrowing the candidate pool and identifying desirable candidates (e.g., resume screening, reference and background checks, interviews), formulating and issuing employment offers.	Ad, Dv			
CoE	1.5 <b>Temporary and Contractor Staffing:</b> Services to identify, select and assign temporary and contract staff, including relations with temporary agencies including employment consideration for conversion to full-time employment status.	L, Pr	I		
SC	1.6 <b>General Employment Services:</b> Services to hire, manage employment status and terminate employees, including transfer from one department/site to another, paperwork, HRIT data entry, processing of benefits and initial HRIT set-up/maintenance for general purposes, including payroll.	Dv	I	Ad, Cp	
CoE	1.7 <b>Relocation:</b> Services for permanent moves and short- and long-term assignments. Services to physically move new and current employees and their family and property including interpretation and application of policy to authorise allowances tax gross-up.	Ad, Cp, Pr	I		
CoE	1.8 <b>Outplacement Services:</b> Services to assist employees leaving the company with finding new employment, including co-ordination with outplacement service firms, employee counselling, (including severance benefits and exit interviews) etc. (Not applicable for Mexico)	L, Pr	I, Dv		
SC	1.9 <b>Employment Law Services:</b> Services to ensure compliance with legislated employment requirements, Human Rights, Employment Standards, TUPE, Minimum Wage/Working Time Directive etc.	Cp	Cp, Dv	Cp, Dv	
Field	1.10 <b>Counselling Line Managers On Staffing Issues:</b> Consulting services to support line managers in addressing workforce and retention needs and issues.		Cp, Dv		

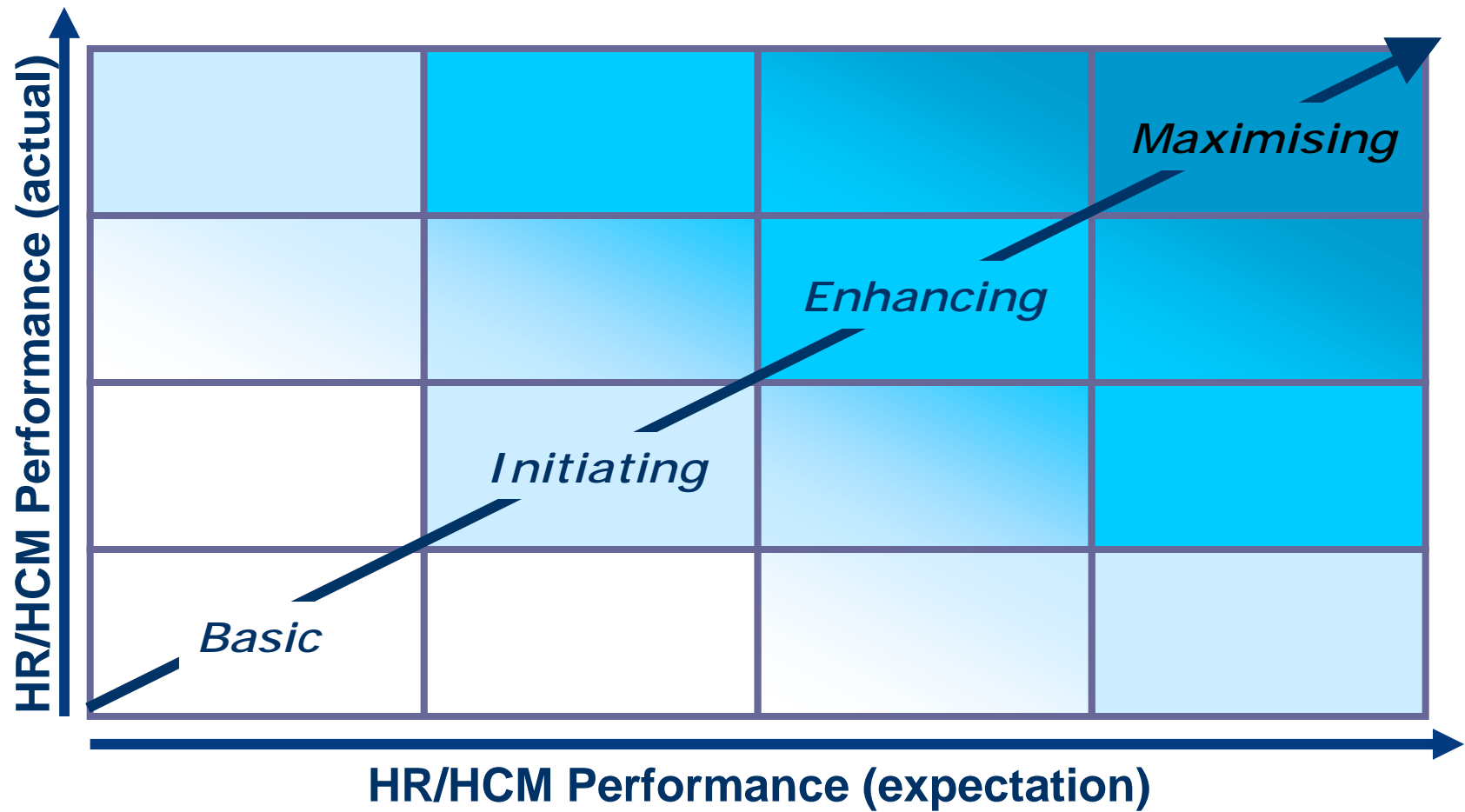


**‘Understanding where (and how and why and what and when) HR creates value’**

# Different Interpretations Of Value

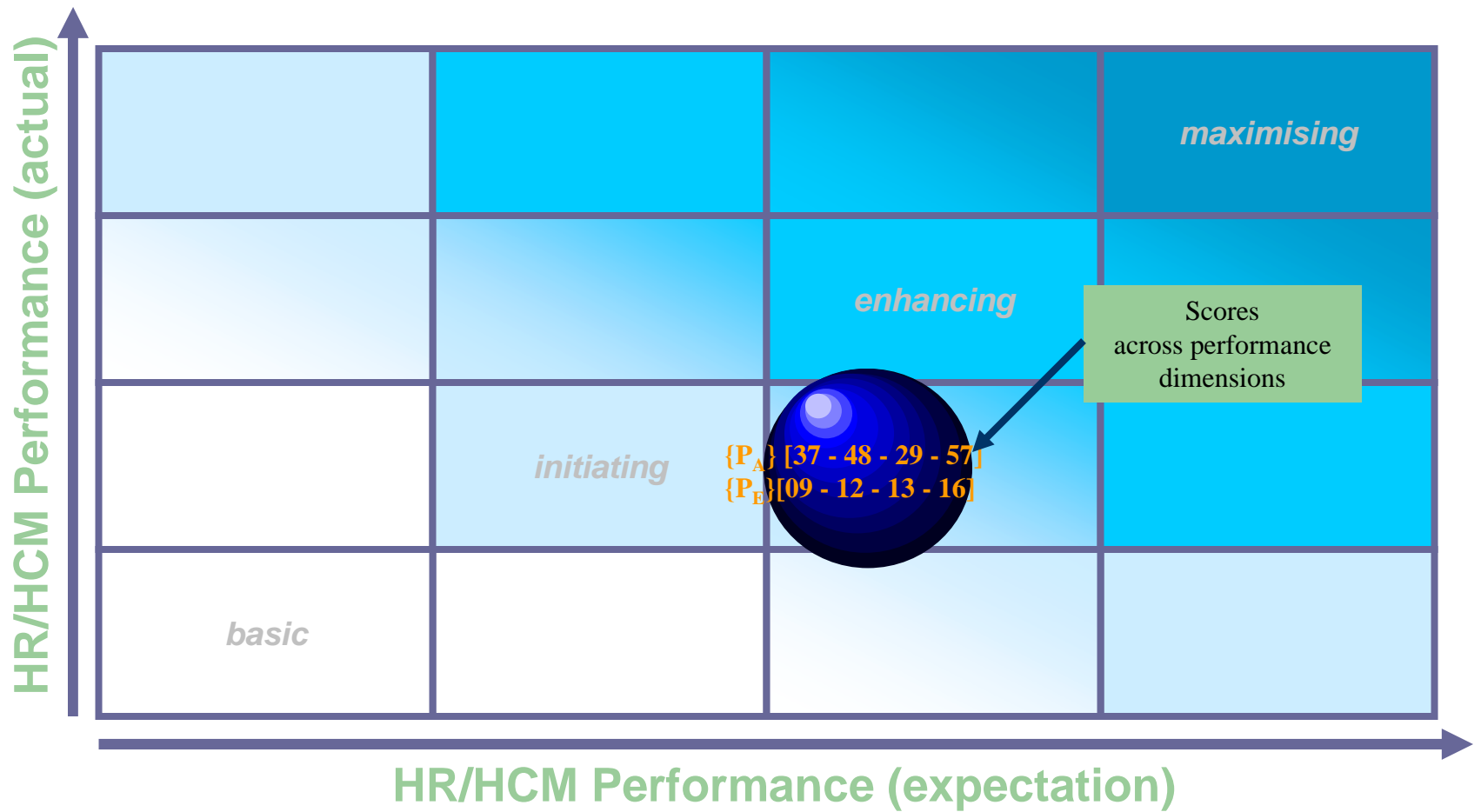
- Financial
  - Economic
  - Risk
  - **Emotional**
  - **Expertise**
  - **Need**
  - **Aesthetic**
  - .....
- Increasingly required by business/external reporting requirements
- 
- Traditionally delivered from HR's perspective
- Sadly, more often than not, particularly in design; value only seen from within HR

# VB-HR™ Performance-Capability Rating Grid

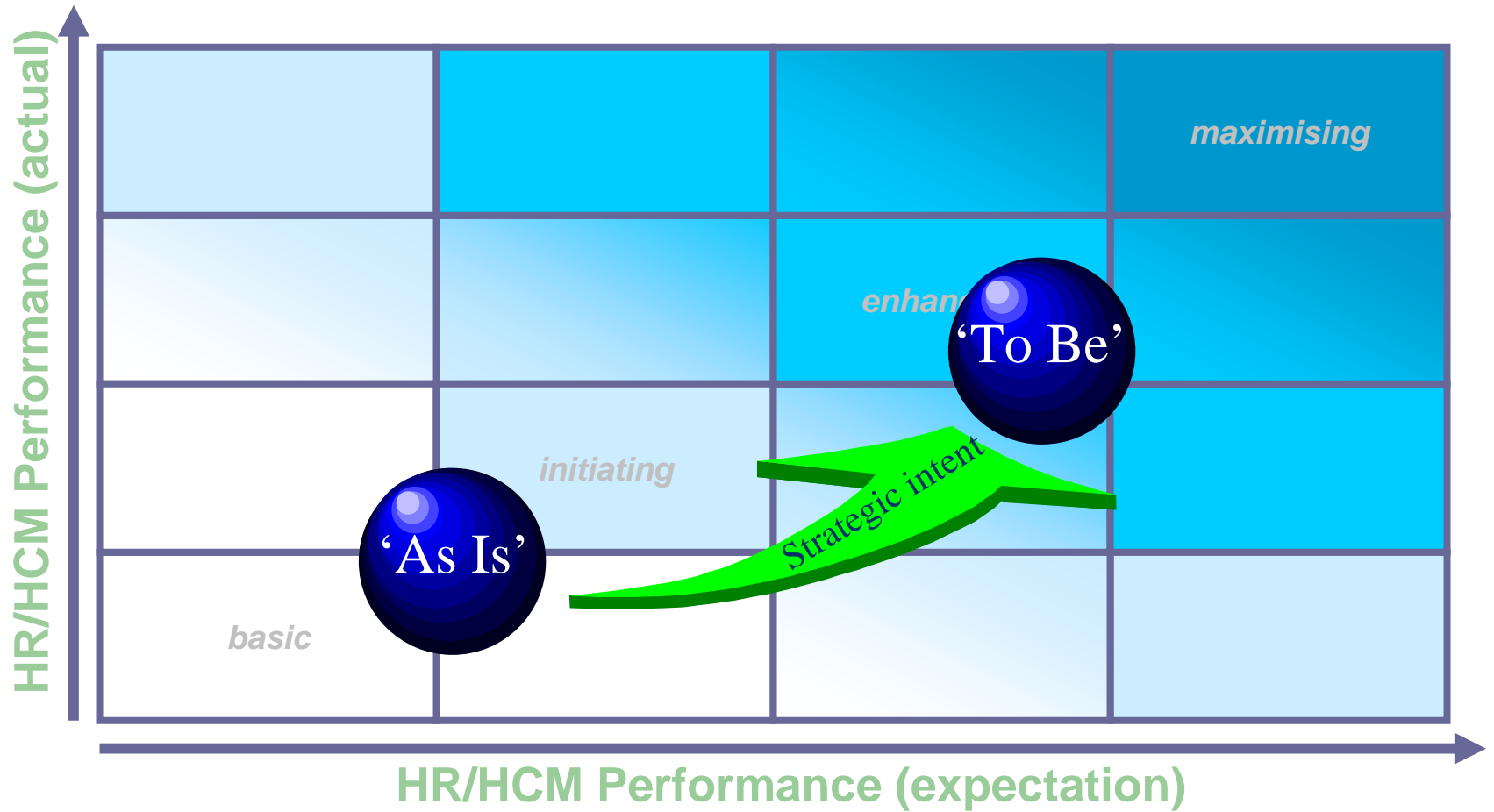




# VB-HR™ Performance-Capability Mapping

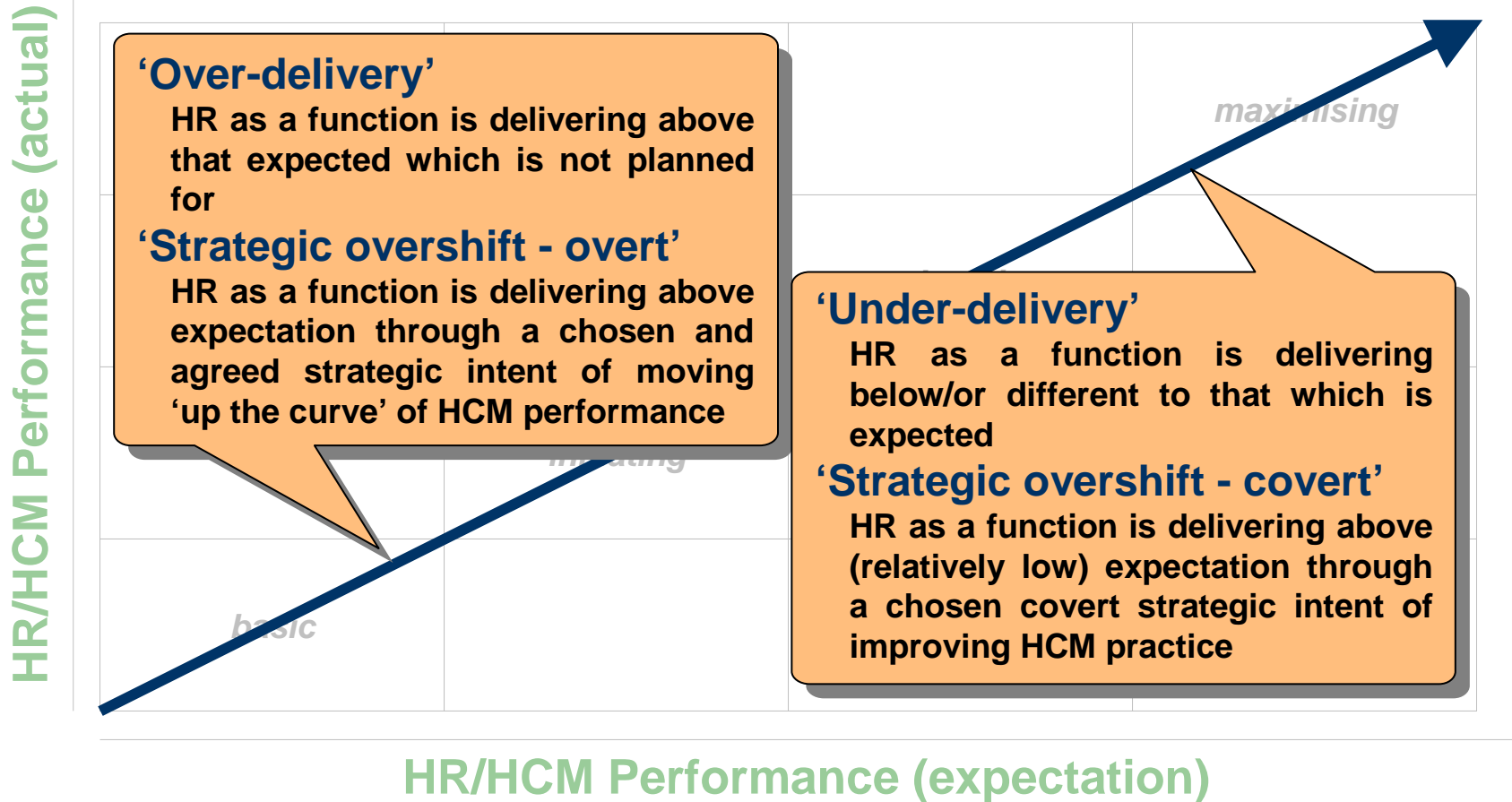


# VB-HR™ Performance-Capability Mapping [Strategic intent]



# VB-HR™ Performance-Capability Rating

- Provides a performance score trade-off  $[P_A]:[P_E]$
- Generates an Organisation-HR Alignment index



- Provides cost/spend-delivery ratios and models
- True HR delivery benchmark for internal/external comparison

# Human Capital Reporting



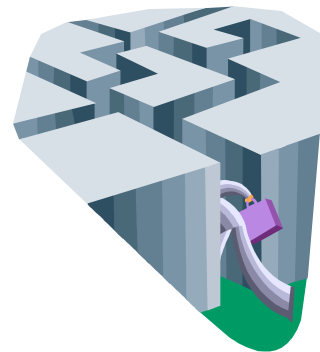
## Comments on Human Capital Reporting - Kingsmill 'Accounting For People'

- Kingsmill focuses on external reporting and the issues regarding HCM reporting, caught between two poles – on the one hand, promoting unregulated self-reporting that may be viewed as irrelevant for comparative or informational purposes, whilst on the other, advocating a common reporting framework that results in 'plain vanilla' metrics that are so base that they are rendered meaningless.
- Comparison is made with accounting, but overlooks a fundamental flaw – despite 500 years of financial reporting, cross company/industry comparison suffers from the same issues; feeding a whole industry dedicated to interpretation.
- HR still needs to focus on internal reporting as a precursor to external reporting and its associated additional stakeholder population.
- Despite investment and sophistication in technology, experience suggests that issues of data integrity and availability, metric definition and measurement understanding within HR are still issues to be resolved.



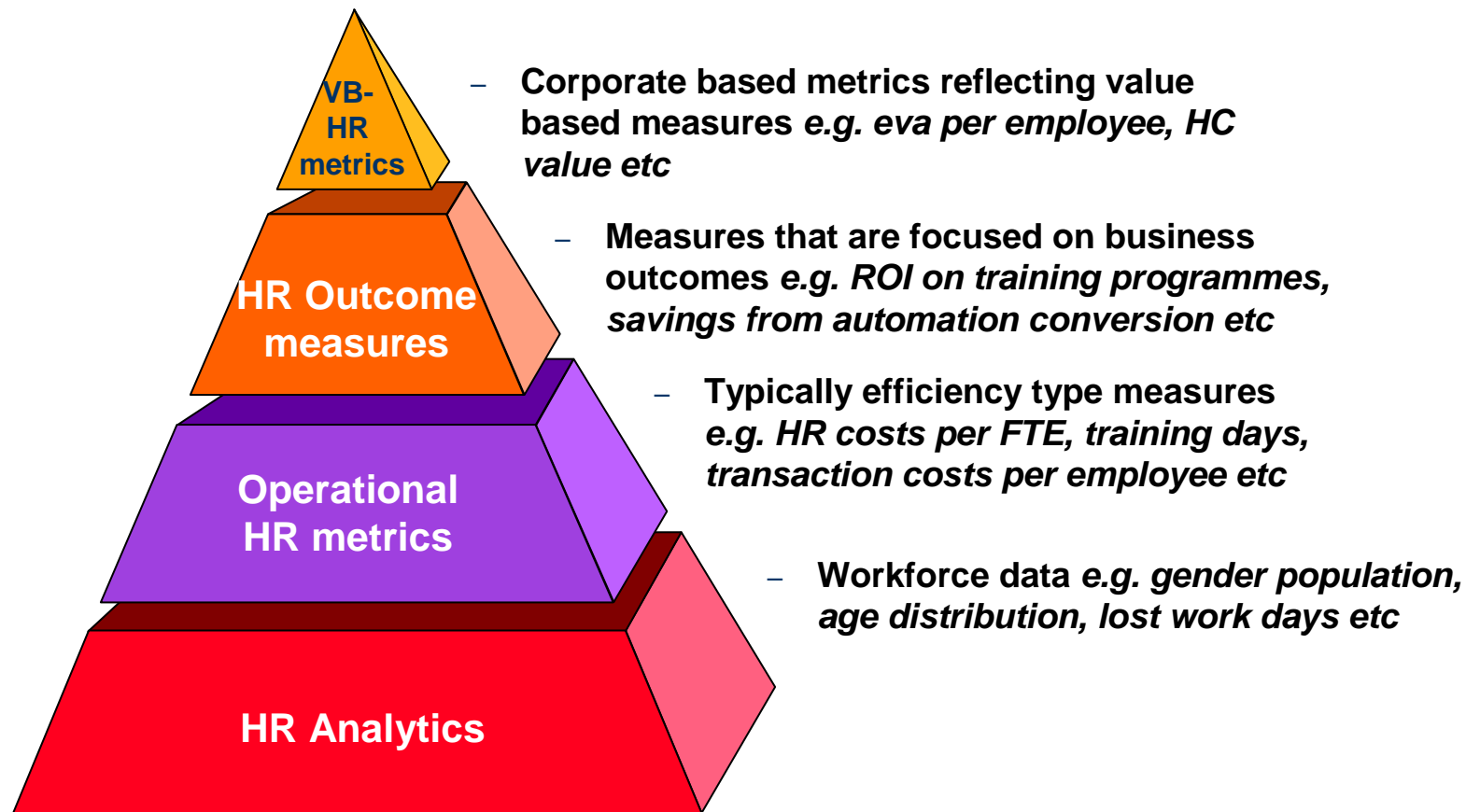
# So Many Metrics.....

Revenue/total FTEs, staff costs/total costs, cost per hire, acceptance per job offer ratio, tie to fill a job, employee average tenure, percentage of internally filled jobs, percentage of employees with development plans, % payroll spent on training, appraisal process satisfaction rating, ratio of salary to competitor salary, days since last accident, number of internal to external promotions, voluntary resignation rate...



# HR Scorecard: Metrics Hierarchy

**‘HR functions need to report a balanced portfolio of measures across the levels’**





# Sample HR Scorecard Measures: composite metrics from various client projects

## *Staffing*

- Skill/competency gap index\*
- Experience index\*
- Employee cost ratio
- Vacant positions index\*
- Recruitment costs per hire
- Turnover rate/ churn/ retention rate

## *Managing/Developing Performance*

- Revenue per employee
- Value add per employee
- Appraisal score index\*
- Productivity growth per employee
- Engagement (Line-of-Sight) index\*\*

## *Learning And Development*

- Competency growth index\*
- Percent of payroll dedicated to learning/training
- New hire - time to readiness
- Training hours/employee
- Qualification index\*
- Training ROI

## *Reward*

- Comparative industry benchmark
- Bonus payout ratio
- Overtime ratio
- Benefit cost as a percentage of compensation
- Rewards alignment optimisation index\*\*

## *Staff Relations*

- Number of incidents/grievances
- Length of time to resolve issues
- Cost associated with cases
- Employee satisfaction ratings
- Diversity index\*

## *HR Business Performance*

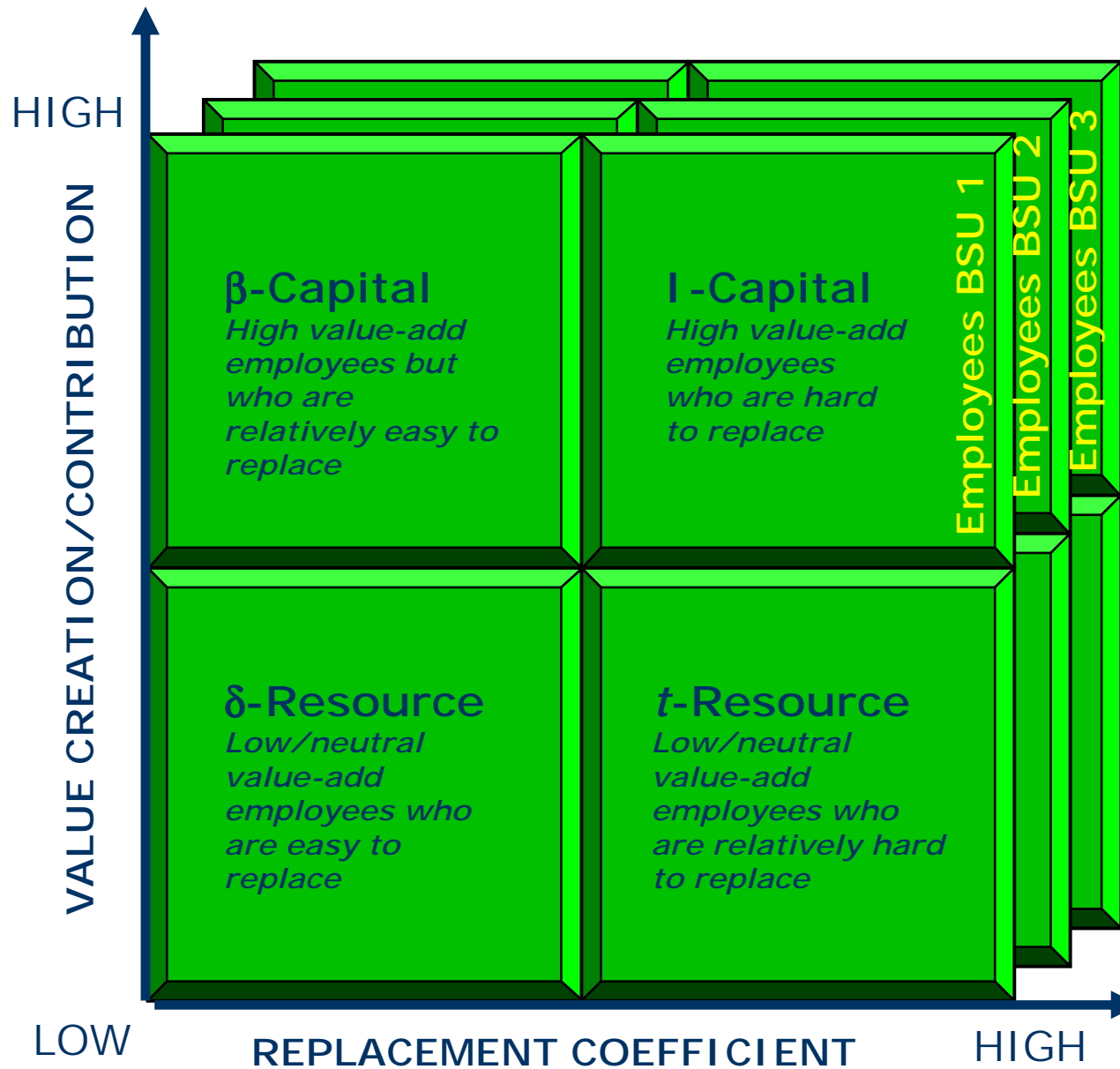
- Time spent ratio on strategic versus administrative activities
- Impact on key business objectives
- HR expense to total operating expense
- HR FTEs to total FTEs
- Completion of strategic objectives

\* Index related metrics under license HCRi™

\*\* Under license HCEI™

\*\*\* Under license RBOA™

# 'Human Capital' versus 'Human Resource'



# Looking Forward.....



# Future HR Capability Profile

## Key Attributes:

- Mandatory commercial mindset
- Much stronger link between strategy, measurement and delivery
- Far more sophistication and integration of IT enabled processes
- Decreasing administrative focus
- More innovation around functional delivery
- Smaller groups of highly talented people
- More analytical and measurement reporting skills
- HR people having T-based skills profile not generalist *versus* specialist



# Contact details:

[nicholas.higgins@valuentis.com](mailto:nicholas.higgins@valuentis.com)

Mobile: 07811 404713

Office: 020 7887 6108

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