

Putting Lean HR into practice

Shifting the focus from cost reduction to operational excellence

The HR function is increasingly driven by effectiveness, efficiency and performance. This means taking a structured approach to HR operational excellence and applying business metrics and methodologies. Nicholas Higgins, CEO of Valuentis and dean of the International School of Human Capital Management, explains how the concept of Lean HR can bring clarity to the cost-value relationship.

OVER THE PAST TWO decades, the HR function has changed beyond recognition. Once there was a personnel function manually recording individual employee details, acting as guardian of the organization's recruitment process and holding main responsibility for industrial relations and payroll. Now, the HR function has a potential remit that covers 93 main activities, stretching from HR governance and organization design and change, through to reward, performance, learning and development, talent, employee relations and communications, resourcing, HR information systems, measurement and payroll.

Where once HR functions were commonly centralized and sited at headoffice, now there are multiple sites across the globe with matrix-type reporting lines – centres of excellence, shared services, individual country structures, outsourcing and off-shoring – facilitated by the onset of “e-enablement.” It is not uncommon to find HR functions in multinationals that are staffed with over two thousand people and hold budgets of over £50 million, making them business units in themselves.

Increasingly, HR can identify its value proposition within its role of improving and/or maintaining organizational performance by supplying a portfolio of “HR product-services” through “HR delivery channels.” HR activities and processes have evolved into elaborate “systems”, while organizational and HR operational risk is now the focus in relation to compliance. Therefore, effectiveness, efficiency and performance are key drivers of HR existence. As a result, business concepts such as supply chain management excellence, lean operations and Six Sigma methodologies are equally as applicable to HR where operational excellence is sought.

FEATURES AT A GLANCE

→ PUTTING LEAN HR INTO PRACTICE

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HR operational excellence

To provide a context for Lean HR it is important to understand the parameters that define HR operational excellence. There are eight core parameters, which are collectively known as “the clock”:

- Governance: strong HR governance in terms of strategy, leadership and execution with regard to the other “clock” dimensions.
- Value proposition: a defined set of value propositions to clarify expectation and HR delivery parameters.
- Structure: an appropriate HR delivery structure that retains flexibility and resilience.
- Processes: efficient HR processes that maximize value-added work drivers and minimize duplication/non-added value work.
- Technology: appropriate use of technology, not technology for technology’s sake, which enhances HR functional performance.
- People (capability): a defined high performance competency set for HR professionals with supporting infrastructure that maintains/enhances their individual knowledge capability.
- Measurement: a systematic focus on measurement and reporting on both the HR function and the wider aspect of human capital performance.
- Financial acumen: strong financial acumen that results in HR spend proficiency and commercial aptitude.

High performing HR functions look to apply “best practice” across the eight components of operational excellence. However, there is no single HR function that can yet state that it has reached world class in each of these areas. It is more common that certain aspects of operational excellence are attained. The table on page 19 looks at best practice scenarios for each parameter, as a guide to achieving Lean HR.

HR functional effectiveness differentiators

HR functional effectiveness across organizations displays the same properties as any naturally occurring or normal distribution. On a spectrum of high effectiveness and efficiency to low effectiveness and efficiency, there is a wide dispersion with a “bump” in the middle.

However, it is important to point out that based on our latest VB-HR Rating HCM100 study – the Valuentis model for measuring organization and HR effectiveness – there were more HR functions at the lower end rather than the top end. Other market evidence reaches similar conclusions, though the ways of calibrating what is high/low effectiveness and efficiency has different interpretations applied across different parts of the HR delivery map.

Our study yielded the following insight into why considerable gaps exist across organizations:

- High performing HR functions have more defined HR strategy that connect parts of people management into a more integrated approach.

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Valuentis is a professional services firm in the field of human capital management and organization performance. With its global headquarters in London, the company specializes in helping clients enhance enterprise performance through four disciplines: organization effectiveness and measurement, human capital measurement, human capital management and HR functional effectiveness.

- Lower performing HR functions have HR strategies that are disconnected from “line” expectation.
- High performing HR functions generally score higher in their use of workforce intelligence and measurement.
- Lower performing HR functions tend to limit themselves to little measurement and/or operational benchmarking (with its inherent limitations).
- Those organizations with high performing HR functions in most cases also score higher in line management capability and competence.
- High performing HR functions have robust HR architecture, i.e. supporting HR processes and systems, whereas lower performing HR functions have more incidence of broken processes or “system failure.”
- High performing HR functions manage to balance their role between support and compliance, whereas lower performing HR functions tend to be heavily compliant-focused.

The wide-ranging remit of HR and the subsequent differences in delivery expectations between organizations means that distinguishing individual “best practice” can sometimes be misleading.

The study also revealed the differing propositions HR functions displayed. Examples were found of HR functions with narrow duties that were viewed as effective, whereas others with a far more broad portfolio that were deemed “poor.” Thus, in any debate to label HR functions as more effective/efficient, one needs to ensure comparability, not only in terms of HR delivery but in terms of management expectation within organizations.

Moving beyond cost reduction

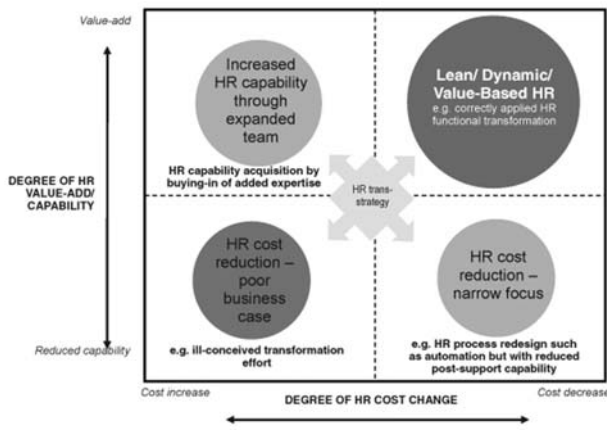
In recent times, HR functions have undergone successive functional realignments and transformations through various cost-reduction and outsourcing strategies. However, many of these undertakings have been cost-reduction exercises with greater focus on restructuring “HR delivery” than on other aspects of HR operational excellence.



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Figure 1. Measuring the cost-value relationship of HR transformations



Unfortunately, these “transformations” have not always benefited the function, or the organization, in terms of the potential loss of capability and subsequent increased costs realized as a result of inadequate business case construction. The diagram in figure 1, above, provides an illustration as to the benefits and problems encountered with the various strategies adopted.

Too often, the bottom left-hand box has been the outcome. Poor business case design has overly focused on HR FTE/total FTE ratios, with administration “lumped” into a shared service centre and/or HR processes outsourced. Material benefits are quickly nullified by the additional relationship management required and growing duplication of effort, particularly at business unit level, together with the extra risk.

A structured approach, such as Lean HR, provides a means of changing this in terms of the value-cost relationship. Taking the baseline approach of looking at people management activities across the organization, Lean HR maps the entirety of HR delivery to provide a detailed view of the function. This can be visualized in terms of a table, with the main HR functions listed horizontally, such as resourcing, and related activities listed vertically, such as workforce planning, candidate selection, relocation, job profiling, etc. This provides a clear overview of delivery and makes it easier to identify linkages, duplications, poor processes or lack of integration. A structured approach of analysis can then be applied, using a series of inter-related activities:

- Setting the agenda/business case.
- Conducting “As Is” analysis of HR delivery.
- Reviewing current HR strategy and value proposition.
- Designing a “To Be Roadmap” that outlines the transformation plan, from communications strategy through to tactical steps and individual task design.
- Implementing and embedding.
- Aligning and reviewing.

Common challenges for HR functions

So what are the common challenges facing HR functions looking to implement Lean HR? They include:

1. HR teams understanding the breadth of HR delivery.
2. HR understanding the need to focus on operational excellence on a daily basis (as opposed to cost-reduction exercises driven by organization directive).
3. HR teams realizing that certain management methodology/principles can be applied to HR delivery.
4. Having a working, defined HR value proposition.
5. Having the right HR capability both during and, particularly, after the initial phase of Lean HR transition.
6. The HR function undertaking analysis and assessment both in terms of a new approach and being able to collate appropriate data, particularly on HR budgets.
7. Resistance encountered within the HR function.
8. The collation of appropriate comparative benchmark data that provides informed insight for decision-making.
9. The challenge of undertaking the exercise as “business as usual.”
10. The engaging of line management in seeing how HR adds value to the organization (and not necessarily to an individual manager).

Means of overcoming these challenges include:

- HR teams need to ensure that they have a map of HR delivery.
- HR teams should undergo education on both the topic of operational excellence and wider commonly-used business methods.
- HR leaders and their functions need to articulate their value proposition to the organization in terms of setting and meeting expectation and being able to execute the required HR delivery.
- The HR function needs to carry out an assessment of current HR personnel in terms of capability and potential.
- External advisors, skilled in qualitative and quantitative assessment, can provide the necessary rigour of analysis, particularly if resource is at a premium.
- A “blended’ approach,” i.e. a mix of activities, should engage line managers in the process of defining and acknowledging HR’s contribution.

The theory in practice

Having outlined the rationale and objectives of Lean HR through the operational excellence model, we now turn to a case study that highlights the components of applying Lean HR principles.

The organization is a FTSE100 global mining company. Historically, its mining operations had been structured with individual HR teams providing “on the ground” support with limited central oversight. Following the implementation of a shared technology platform, the organization faced the challenge of centralizing its HR team and standardizing service delivery. Legacy approaches had resulted in the following:

- Roles of HR professionals differed across sites as did expertise and service delivery.
- No means existed to identify and share internal HR “best practice.”
- HR “system failures” were known to exist.
- Questions were raised about the quality and cost of HR support.

Accordingly, a global exercise was developed with the joint aims of reducing overall HR functional costs and standardizing and improving the quality and consistency of HR support and monitoring. The approach adopted by the HR function had the following aims:


- To understand how HR processes should be integrated for maximum efficiency and effectiveness.
- To utilise template process maps for 93 areas of HR delivery in order to identify system failures.
- To apply Six Sigma methodologies and principles to HR processes and outcomes.
- To introduce a measurement framework across 93 areas of HR delivery (linking to Six Sigma measurement approaches).
- To enhance individual capability within the HR team through understanding of Lean HR and its linkage to the commercial operations.


By utilizing Lean HR and adopting Six Sigma principles, combined with a deep understanding of HR delivery, processes and measurement approaches, a “HR toolkit” was developed to provide HR teams with a common approach. For each activity, a “high level” process map established an integrated picture of HR/human capital management. Over 500 linkages exist between the 93 activities. This allowed rapid identification of “system failures,” broken/incomplete processes or absent human capital management components (e.g. failure to link appraisals with personal development planning). Each of the 93 activities additionally has a series of related metrics which feed into a series of scorecard layers, providing an overall measurement approach.

Following the rollout of the HR toolkits across a global HR project team, the organization has developed standard approaches, based on internal and external best practice. Through developing a related measurement framework to monitor outcomes and efficiency, the organization is on target to realize in excess of 15 percent cost savings from a global annual budget in excess of £40 million. Additionally, the increased levels of capability within the HR team have resulted in clarified accountabilities and additional responsibility for individual managers.

The evolution of HR


Lean HR is actually the first step on an evolutionary journey with added depth and breadth that sees HR

 ACHIEVING LEAN HR	
Best practice scenarios for the core parameters that define Lean HR:	
Governance	Supply chain management principles are applied to the HR calendar. The HR function prioritizes its HR initiatives and “business as usual” delivery to the organization.
Value proposition(s)	In conjunction with the governance perspective, the HR function articulates a basic value proposition regarding its contribution to the organization. This may manifest in a number of propositions relating to areas such as reward, recruitment, training and development, talent/management development, payroll, etc. The basic point is that there is something measurable in place to calibrate the contribution. A few HR functions have used an adopted version of the Quality Function Deployment tool as a means of identifying delivery excellence and expectation.
Structure	The HR structure is engineered around the value propositions, i.e. it should be following the most appropriate process/system. Shared services, centres of excellence and any hybrids require clear boundaries and hand-offs to avoid “service holes.”
Processes	By mapping out the entire HR process delivery chain, HR functions can “drill down” and assign HR delivery roles, responsibilities and accountability among the HR team. Lean HR is all about evaluating (and redesigning) efficient HR activities which optimize the use of individual HR/line resource, while eliminating any wasteful duplication and risk of non-delivery.
Technology	The focus of Lean HR is to use technology to streamline existing processes that lend themselves to automation rather than to upgrade across the board.
People/ Capability	The HR team undergoes training on basic Lean HR principles and Six Sigma techniques, with accreditation where necessary, and expands general HR proficiency.
Measurement	Evaluative analytics are used, such as employee engagement and/or specific HR activity outputs around efficiency. Some form of structured HR scorecard may exist.
Financial Acumen	The HR function has a clear picture of the efficiency of current HR spend, both functionally and organizationally.

functions adopting value-based management principles and acting as lead within an organization rather than as a laggard. True value-based management principles put people and other stakeholders at the heart of the organization, whether public, private or not-for-profit, and incorporate the best in management practice. HR has a bright future, it just needs to embrace the present. 

Footnote

LeanHR is a trademark of Valuentis and is a model that combines supply chain management, design for Six Sigma and value-based HR techniques.

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