

'Organisation performance through a human capital lens'



The Value-Based HR Function Part I:

The HR-star delivery model

Volume 1

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The Value-Based HR Function white paper series

The Value Based HR Function Part I

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This white paper is the first part of three looking the at HR function as a core, value-based proposition tied to organisation performance. Part I provides HR functions with a manifesto to organise themselves into a 'front-facing' unit with a corresponding value proposition. The paper seeks to explain why HR functions continue to struggle with mainstream recognition and why restructuring through shared services and/or outsourcing is not the panacea it is expected to be.

The paper introduces the new HR-star delivery model and the HR Value Chain to underpin the move to a more proactive, performance driven HR function from which an organisation can benefit. It does this through promoting a change in mindset and working with current HR roles and structures rather than promoting wholesale change.

“Efficiency is doing things right; effectiveness is doing the right things.”

Peter Drucker

Introduction

Over the past twenty years the HR function has seen considerable change to itself in its quest to define both its purpose and to deliver to the needs of the organisation.

The seemingly increasing demands of the marketplace, whether private, public or NFP, has provided a dynamic backdrop to this change. Yet despite these ‘changes’ it seems HR functions are still finding themselves running ever harder to stay in the same place. Drucker’s often-used quote above sums up the challenge. Most would agree that HR has focused more on, or been preoccupied with, operational efficiency rather than organisation effectiveness, however one wishes to define it.

The HR function, over the last decade, has engaged in much internal restructuring - an extension of the mainstream business process reengineering period, in looking to provide better contribution to the organisation (i.e. mainly

services is again transitional in nature and not transformational.

It is often cited that the transformational efforts allow HR to become more strategic, though evidence is very limited and there is little articulation as to what this actually means. Thus the danger is that this becomes just ‘hype’ rather than reality.

Whilst changing structure and process may be viewed as operationally expedient, focus particularly given to cost-reduction (and in some cases – service quality), can give an illusion of advancement, as it is simply addressing an operational performance issue.

This operational focus does not drive work around the HR function’s value proposition and/or eliciting its contribution to the performance of the organisation, which should be the fundamental driver of HR transformation.

‘Structure and process change has happened through many HR functions rearranging themselves..... the problem with this whole structure-driven approach is the fundamental question of what problem are we trying to solve?’

through cost reduction exercises). However, this journey has been fraught with upheaval and according to many a fairly painful transition.

The argument and onset of HR outsourcing has also added into the mix. Despite a relatively slow take-up in Europe, HR transformation is taking place. However, much confusion still reigns around what HR transformation is and its purpose.

HR outsourcing by itself is more transitional than transformational in that it is only part-solving the fundamental equation for HR. Here’s why:

- The HR function has in many cases never defined its true role or value proposition to the organisation to the extent required for transformation
- Much HR ‘change’ has focused on single processes with some exceptions, but this in reality has been mainly ‘back-office’ administration, which is only part of HR’s overall delivery strategy. The oft associated cost reduction exercises are transitional strategies at best and one-off in nature.
- Similarly, restructuring through shared

Structure and process change has happened through many HR functions rearranging themselves into hybrid combinations of shared service centres, Centres of Excellence and ‘business partner’ advisory¹.

But overall, from an organisational and industry standpoint, no material transformation has taken place. They are, after all, just means to an end, not ends in themselves.

The problem with this whole structure-driven approach is the fundamental question of what problem are we trying to solve?

If the answer to the question for HR is to become more operationally efficient and/or provide better internal service, then this is actually accepting that HR as an operational support function is (or was) simply inefficient to varying degrees.

However, this in itself is not transformational. It

¹ This term has been skewed from its original meaning of relating to various types of HR roles at conceptual level. In reality business partner is the term given to field HR resources attached to specific business units/directorates.

is a transitional action to solve an operational problem. It would also suggest that too many HR functions have been poorly managed in an operational sense.

Thus, the question of what the HR function is there to achieve, and whether this relates to organisation effectiveness or performance is left unanswered.

Understanding the context for HR's role

To understand the true nature of HR's role it is necessary to draw the context within which the HR function operates.

If we start with the premise that people (human capital) are important to organisations, that organisational performance is driven by good leadership and management together with collective individual performance, then we begin to formulate that effective human capital management is a prime component in organisation performance.

To provide a reference point, I draw upon a definition of human capital management² as:

"...the term which is used to describe an organisation's multi-disciplined approach to optimising the capabilities and performance of its management and employees."

Thus, from this standpoint, we could put forward that, essentially, the HR function's overarching goal should be a prime driver in achieving this, to which the HR operational infrastructure is added to provide a compelling value proposition. It also provides HR with the means to focus on effectiveness rather than plain efficiency as per Drucker's observation quoted at the beginning of this article.

I believe the current problem for HR has stemmed from its roots. Historically, personnel functions were very much anchored in 'back-office' administration such as payroll, recruitment requisition, employee personal data, etc. Added to this, was the growth in industrial/labour relations type roles that emerged in the 20th century. These two components formed the backbone of many 'HR' departments.

The recent transition to HR functions with a more expanded role set is very much a modern phenomenon, though there has never been a decisive intent to architect a role structure.

The danger here is if HR roles have appeared to reactively plug gaps in management competence or to provide a solution to management incompetence, then the HR function is most probably without shape and direction. Worse,

given increasing management competence, it would suggest that these roles will simply disappear over time.

What, in fact, we may well be seeing is a moment in HR's evolution, where a number of factors have converged (confluence) to crystallise this whole issue - a watershed in HR defining its true value proposition.

In fact, seeing HR roles as an emergence of plugging 'gaps' would certainly explain why so few HR functions have articulated a value proposition or indeed view strategy as a collection of planned activities to align with the business rather than as some deliberate management strategy.

In other words, with a value proposition and deliberate HR strategy, alignment is not a word that appears in the HR lexicon, i.e. it is endemic to the process.



Human capital performance and compliance

The view that people are increasingly seen (if not always accepted) as human capital, i.e. assets to some degree, rather than just resources changes the existing rules of the game.

The fact that the term human capital has been around for fifty years, yet is still 'finding its feet' in terms of everyday parlance within HR, is testament to the slow acceptance of this evolutionary change.

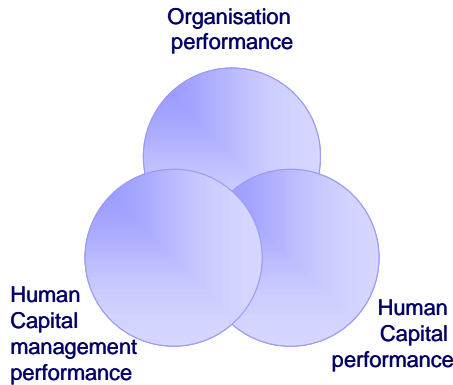
However, even the compliance perspective, I would argue has not been carried in any real and mindful structured approach. If we revisit the definition of human capital management and view forward-looking HR functions as the guardians of good practice then it would suggest that a focus must exist that is related to performance, i.e.

- i. Human capital performance related to organisation performance
- ii. Human capital management performance related to human capital performance
- iii. Organisation performance related to human capital management performance

Figure 3, overleaf, provides a diagrammatic representation.

² As defined by The International School of Human Capital Management 2006

But what is 'front-office' and what is 'back-office'?



Capability can be argued in the same way whether it is defined as 'meeting performance expectation' or as some form of future potential. Also, one important element to mention here is given that managing people and organisations has a legal component, it is thus logical to see an aspect of this performance that is also compliance related.

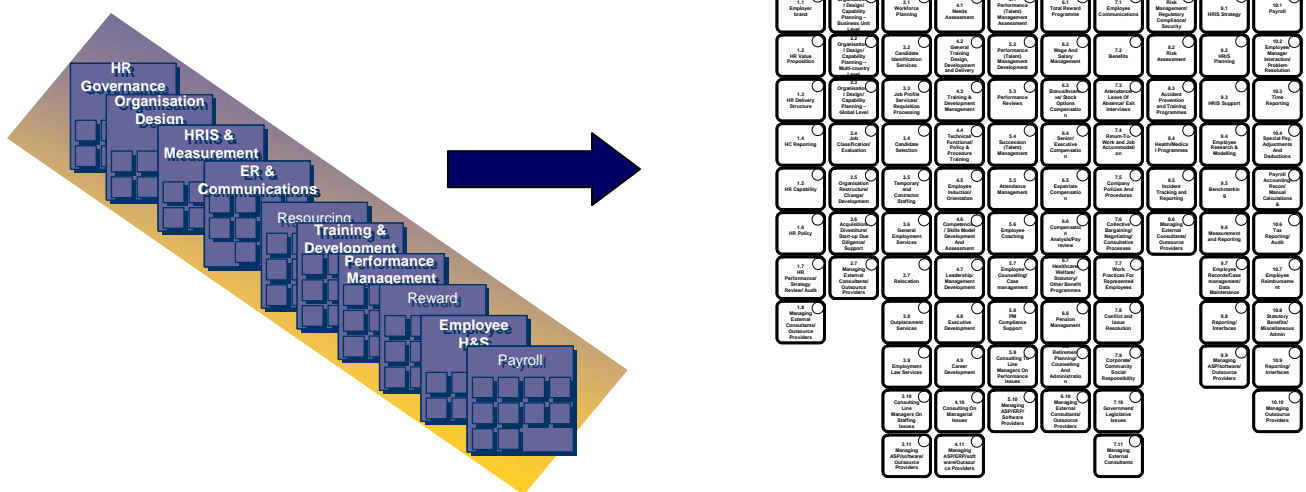
Given the element of risk that revolves around the compliance, it is fair to argue that compliance management, i.e. audits are required in HR related matters. Thus, it is fair to surmise that HR functions have a dual aspect to their work, 'front-office' activities related to organisation performance (and compliance) and 'back-office' activities related to administrative tasks. This would infer that 'front-office' type activities are more 'value' driven from a resource and investment approach, whereas 'back-office' type activities are more 'cost' driven. It is important to note that 'front-office' performance related activity with regard to human capital also has this compliance component.

Human capital management input activity can be divided into 93 discernible main activities which are split across ten core domains³. With this, I believe we are in a position to fully understand HR's true delivery context by decomposing these input activities into an 'atomised' combination of process and task with corresponding outputs to provide a means of value proposition to the organisation.

The ten core HR domains are shown in Figure 4. The differential between 'front-office' and 'back-office' is not as straight forward as current industry convention would lead us to conclude. A clearly cited example of a back-office process is payroll because it is a form of mandatory administration and thus from organisational standpoint, the trade-off is between (minimal) cost and (maximum) quality, e.g. zero error tolerance. Thus an outsourcing arrangement of this whole process should be based on optimising these two parameters, along with other related SLAs.

Performance management according to the Global Profiler model, on the other hand, contains a number of processes and activities, which include development, talent and succession management, plus derived links with reward, for example. Therefore this is a set of more complex dynamics. For example, parts of the process, such as investment in PM software automation, should be viewed as 'front-office' not 'back-office'. (Technically, one could argue that this could be interpreted as incorporating elements of both – the main point is it is more than just 'back-office').

Figure 4



³ with acknowledgement to the VB-HR™ Global Profiler and copyright permission of VaLUENTiS Ltd 2005

Even if organisations view performance management from a compliance-driven perspective, this still does not change the fundamental view that it is performance related (as the name would suggest).

By reviewing the 93 main activities in this fashion, a more detailed picture emerges in terms of 'front-office'/'back-office' differentiation (this is covered in more detail in part II in this series).

Measurement and workforce intelligence (M&WI) as a core component

Organisational focus on human capital and human capital management, performance aspects of HR 'front-office' contribution and the performance aspects of the HR 'back-office' delivery demands measurement.

Increasingly organisations are capturing data that can be utilised in a variety of ways. For example, employee engagement should be viewed as an important part of the human capital measurement map and therefore should sit 'fair and square' within the M&WI team and nowhere else.

There are different aspects to measurement (excluding pure data) and I have separated these into four main categories:

- Measurement to do with the efficiency and effectiveness of the HR function/process, such as transaction/payroll costs, recruitment cycle time etc
- Metrics related to aspects of human capital/human capital management performance, such as employee engagement, turnover etc
- HC analytics that look to combine various metrics and data to provide further insight, for example, looking to find relationship between engagement and turnover, employer brand and recruitment success, talent index etc.
- Enhanced (modelling) analytics that look to combine macro and micro measures to provide 'performance models'.

The data and measurement capabilities combine to produce a definable capability in workforce intelligence (and subsequent reporting).

The increasing sophistication of utilising data is to promote more informed managerial decision-making and performance assessment. There is no doubt that measurement is a fundamental component to the HR function's ability to manage the value proposition as determined.

HR procurement – a core competence

Thus far we have determined that essential

elements of an HR function's remit contain performance, compliance, infrastructure and measurement. There is one further key component and one which is often overlooked but has an increasingly important role in HR functional operations – that of procurement.

Previous analyses, including my own, have shown the increasing importance of procurement as a key role. HR functions make use of a variety of outsourcing, insourcing and co-sourcing arrangements each which have significant spend attributed with them.

The increasing use of outsourcing demands skillsets around contract tendering/managing and vendor/supplier relationship management. These are not skillsets normally identified within the HR function.

So how should HR organise itself?

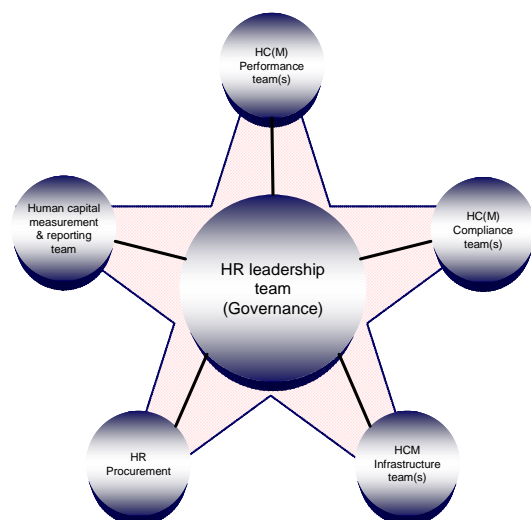
Thus, we now have five core pieces to an HR function's remit – performance, separate compliance/ audit, HR MIS/workforce intelligence, operational infrastructure and procurement.

Thus HR functions can envisage themselves as having a structural outline that contains five 'root' teams.

To bring all these component teams together under one remit (at this level BU/country delineation makes no difference) and working both efficiently and effectively requires one further team - a central leadership hub which provides HR governance, a team whose remit encompasses HR strategy, value proposition, structure, capability and policy along with certain organisational deliverables, such as employer brand.

The 'operating structure' can be best represented as shown in Figure 5 below, the so called HR-star model.

Figure 5:
The HR-Star delivery model



Human capital (management) performance

These teams are 'front-line' facing and staffed with a mix of generalist and specialist HR. To some extent, organisations already know these people as 'HR business partners', HR managers or in some cases, HR officers. Their role is to partner with the line in terms of optimising management and employee performance and ensuring that organisation design (in its broader meaning) is fully supportive.

Thus, for example, activities/processes under the cluster terms retention management, talent management, case management can be viewed as 'front-facing' because of their relation to performance, though elements of administration within these may be seen as 'back-office'.

Human capital (management) compliance

This team carries out spot checks and compliance/audits to support the performance advisory team in ensuring that policy and protocol is followed. This is different to the day-to-day compliance checking that the HR performance team will be engaged in as a matter of course. Feedback is done in a structured format where appropriate.

To some extent this is similar to a compliance audit team and/or financial audit team seen in the finance function. In fact the HR compliance team could well sit within a broader organisational compliance/ audit team. However, the signal to the organisation is that of a proactive focus on people management compliance and policy/ protocol.

This compliance team also has the remit to audit the HR function's processes and systems as part of operational excellence/quality purposes. This is something that has been missing from the HR set-up for far too long.

Workforce intelligence and reporting

Increasingly, the organisation and its HR function require intelligence on people related aspects whether it is performance or compliance related.

The increasing availability of the right data and the need to have structured measurement frameworks which provide insightful performance analysis and which culminate in external reporting are a core part of the HR function's remit.

This role has already begun to emerge but not in any defined systematic way.

HR Procurement

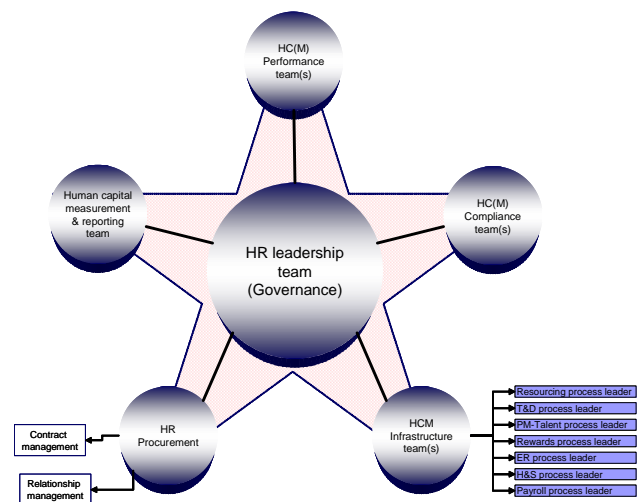
For quite some time now HR functions have made use of insourcing, co-sourcing and outsourcing, yet perhaps without actually acknowledging this discipline. HR 'front office' and 'back-office' deliverables, in many ways, share similar characteristics to those of supply chain management.

A fair proportion of HR 'spend' (and therefore cost-efficiency) is procuring services, thus the dual focus on contractual management and vendor relationship management is much more pronounced.

Thus procurement has by itself become prominent within the HR function set-up.

Figure 6:

The HR-Star delivery model expanded



HR infrastructure (process)

This role is the one that most people know HR to be. It is defined by the processes that most people encounter in organisation life such as payroll. This is where the main transacting takes place and where the use of outsourcing is prominent. Operational excellence is the key word.

However, what is key is the acknowledgement of potential process leaders across the seven remaining core process domains - HR governance, HRMIS and organisation design (as part of performance) have already been alluded to:

- Payroll
- Resourcing
- Training & development
- Performance management (which includes talent and succession management)
- Reward & benefits
- Employee communications & relations
- Health & safety

There has been much activity of restructuring in the infrastructure such as shared service centres and outsourcing to try and reduce overall cost of delivery and/or improve service quality.

Organisations may also have what are termed 'centres of excellence' in these areas, for example, graduate recruitment, reward, relocation services etc.

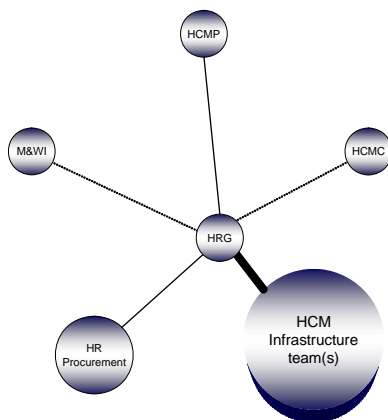
The point here is the differentiation between 'front-office' and 'back-office' activities which provides an added dimension and level of complexity to the value-cost delivery mix.

HR Governance

At the heart of the STAR model is HR governance. This is a core function team that addresses organisational items such as employer brand, HR policy setting, ethics and HR functional items, such as overall value proposition, HC strategy, HC reporting, HR delivery structure and capability. The essence of this model is the balance and tension ('push and pull')⁴ between the various team remits across the HR delivery model. HR governance of this magnitude requires a Chief Human Capital Officer role which is an expanded version of the current Group HR/HR Director role.

The legacy of current HR structure

The HR-star model can help to identify current issues with HR delivery focus. If we were to draw a picture to represent HR functions' current focus, it would be similar to the 'collapsed' model shown below as concentration of effort has mainly been focused on 'back-office' infrastructure.



Becoming operationally efficient has been the watchword as HR functions (not necessarily driving) have engaged in process reengineering and restructuring, though not always in a connected manner.

Focus on infrastructure means that the other core components are minimalised or distorted, with the exception of HR procurement which is increasingly being utilised for 'back-office' outsourcing.

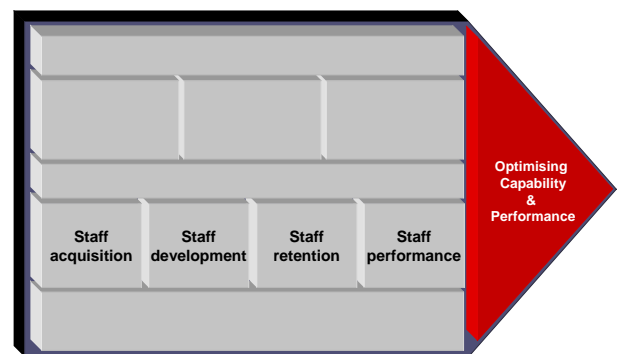
HR performance is more focused on compliance, given the nature of the HR function's positioning vis-à-vis its organisation.

Thus against this backdrop, the problem for HR is being able to get on to the 'front foot' and rebalance the focus across performance, measurement & workforce intelligence, audit and HR governance. In absence of this value-based focus, I believe this is the main reason why HR functions are looking to measurement to justify their existence. In view of that, I would propose that it is not the intent that it is wrong but the premise – due to the current limited and thus distorted view of HR's focus/purpose.

The concept of the HR value chain and organisational performance

I began the whole essence of my argument by focusing on the structure and process from an HR perspective, in the hope that most HR professionals would follow the logic from the input side.

Human Capital Management 'Value Chain'



However, I would now like to convert the HR-star model components into the HR value chain which takes its roots from Michael Porter's generic value chain construct⁵ that is well known in business circles, and drills down into the HR component.

If we return to the central premise of human capital management which is **'to optimise the performance and capability of management and employees'** then we can represent this definition in the form of a value chain representing the 'lifecycle' of human capital within an organisation.

This lifecycle represents the various 'stages' of an individual's time in an organisation, i.e. employee and management acquisition, development, retention and performance – the outcome of which is to optimise capability and performance.

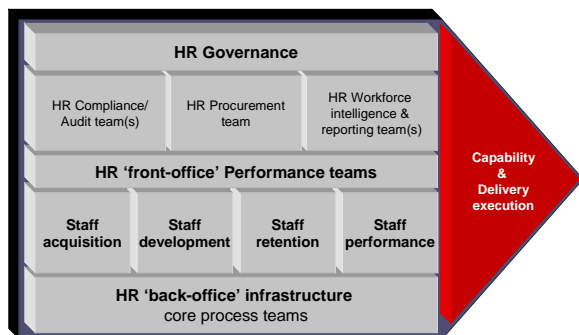
⁴ A term that I use is 'HR tensegrity' named after the science of tensional integrity

⁵ For original text on this, see 'Competitive Advantage' by Michael E. Porter, pp 33-61, Free Press, 1985

Though represented here as a linear chain, the reality is more systemic and three dimensional. As we can see, the HR core components are represented here forming a value chain of activities which support the central premise of human capital management within an organisation.

Any senior manager will, I trust, instantly recognise the potential for an HR function that is switched on to the value premise.

The HR 'Value Chain'



We know, drawing from any number of studies, that good human capital management, indeed good management, is essential to an organisation's success. That is not in doubt.

What is in doubt is the effectiveness and, therefore, the value of an HR function to the organisation. If it is focused on mainly 'back-office' administration and still getting to grips with operational excellence, if it is more compliance-focused than performance-focused in its tasks, then it is quite possible that its main activities can be outsourced with superior expertise.

In addition, the audit, procurement and measurement activities can be done in-house but by other functions. This therefore raises the spectre that HR as a function could quite possibly cease to exist; though the organisation will be deriving minimal leverage from its investment and losing out to competitors who see and utilise the performance-driven alternative.

If, however, the HR function is focused on organisational performance, backed up by strong capability in HR governance, HC measurement & workforce intelligence, procurement and compliance together with an operationally excellent 'back-office' infrastructure; then it will proceed to have more influence and contribution to organisational success, with a degree of business acumen and professionalism which will be acknowledged throughout by both management and the wider organisation.

Summary

This re-organising of HR as portrayed by the HR-star model recognises the inherent structures and roles already in existence, such as shared services, HR business partners etc.

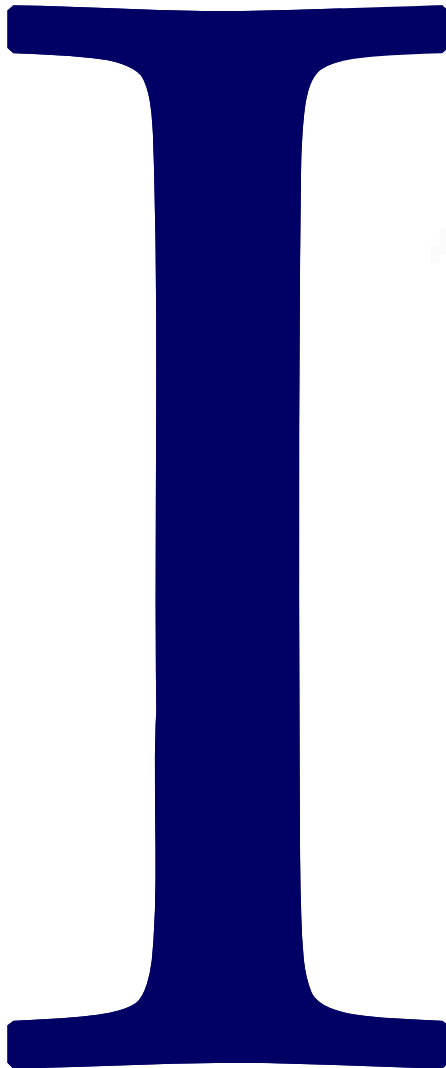
Therefore, my proposition is not about wholesale change, it is about a change in mindset. It is after all recognising the true calling of managing human capital well, and recognising the HR function's true value proposition and purpose, in that it:

1. Is focused on human capital and human capital management performance which includes a compliance perspective (and not the other way round)
2. Has the capability to measure and report key human capital performance indicators that inform and influence managerial decision-making
3. Undertakes structured HR audit reviews similar to the finance function to proactively monitor practice and risk
4. Provides an operationally excellent HR 'back-office' infrastructure at minimal cost for optimum quality
5. Possesses a strong procurement capability in terms of contracting and relational management
6. Has strong central governance which provides leadership and coordination to balance competing trade-offs

For organisations and their management the choice is to optimise their human capital by engaging in the new human capital management manifesto or risk losing ground to competitors who do.

For HR functions and the professionals that reside within – the message is 'be effective and efficient' and your future is all but guaranteed or 'be neither efficient nor effective' and stand on the abyss. It is HR's choice...

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