'Organisation performance through a human capital lens'

The Value-Based HR Function Part II:

The HR delivery value curve

Volume 2

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The Value-Based HR Function white paper series

The Value-Based HR Function Part II

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This white paper is the second of three looking at the value-based HR function and organisational performance. Part I provided HR functions with a manifesto to organise themselves into a 'front-facing' unit with a corresponding value proposition.

This paper describes the link between HR input activities and people management outcomes and organisational performance. It introduces the groundbreaking 'HR value curve' concept and provides an illustration of how a resource-spend map of HR resource can be generated based on actual client project work. As a further step it shows how to link these exercises to evaluating people management outcomes within the organisation and how this benefits the HR function as much as the organisation. Finally the paper presents both the opportunities and challenges as a result of these innovations.

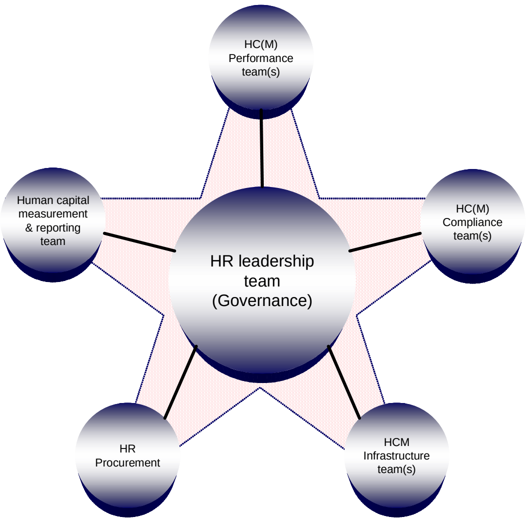
Introduction

In The Value-Based HR Function Part I, I presented a new mode of operating for HR functions – the so-called HR Star delivery model, comprising six key 'teams'. These teams focused on:

- Performance,
- Measurement & Reporting
- Compliance (audit),
- Procurement
- Infrastructure

These five were driven by the sixth, a central leadership/governance 'hub'. The point was made that in the HR arena, Infrastructure was the one that most people identified with as it consisted of the main processes and systems of HR delivery, represented by the 'ten' domains[1].

Figure 1:
The HR-Star delivery model


HC(M) Performance team(s)
Human capital measurement & reporting team
HC(M) Compliance team(s)
HR leadership team (Governance)
HR Procurement
HCM Infrastructure team(s)

The main reason for this functional organisation was to focus more orientation on organisation performance, providing a more transparent view of the value based contribution the HR function makes, i.e. its value proposition and purpose:

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

Why does the HR function need to do this?

So lets start with the question, 'why does the HR function need to do this?' To recap, 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 degree of effectiveness the organisation collectively manages people and the perceived value and actual contribution the HR function makes to that organisation in light of this.

A map of human capital management activity [INPUTS]

Over the past few years, we have engaged in a large amount of client work with regard to HR's delivery model and associated measurement frameworks, which has provided much empirical data.

As a result we have been to chart the various HR delivery streams or inputs down to task level and refine them with a resulting structure that is encapsulated in the following graphic.

The model 'Profiler' was introduced in Part I and it features ten core domains, as previously mentioned, of human capital management activity streams - a total of 93 main activities[2].

These are based around certain 'HR knowledge clusters'. To remind the reader the ten core domains are:

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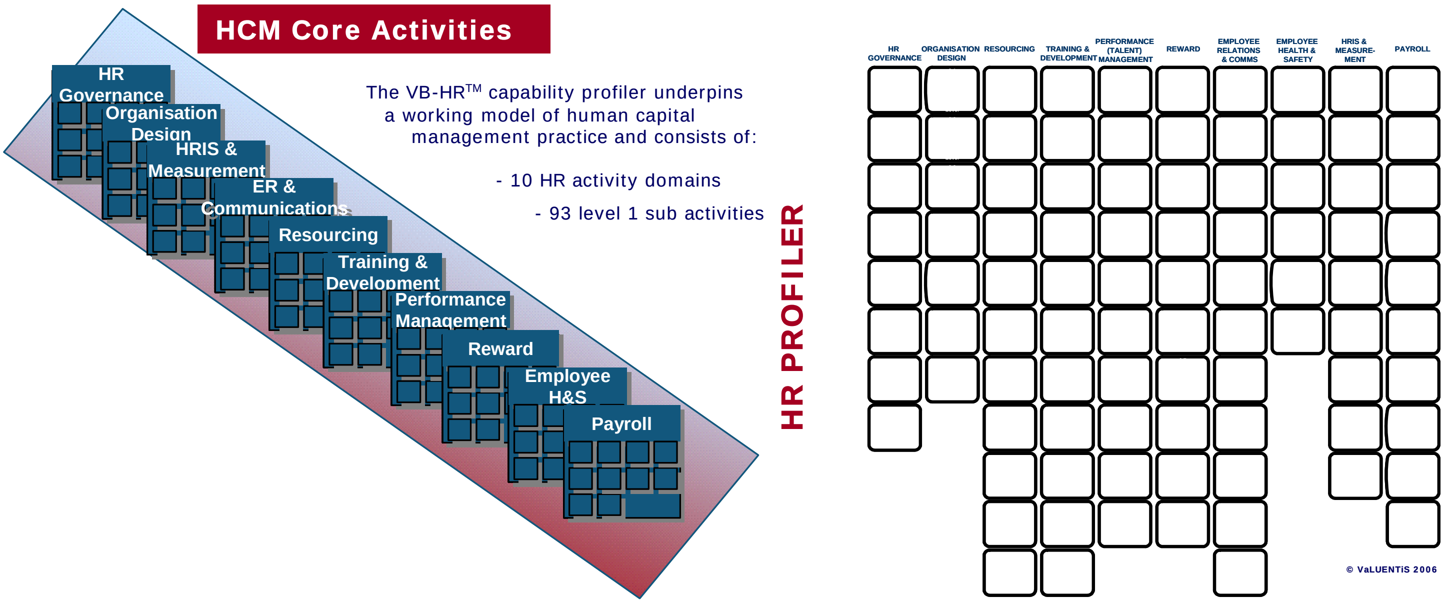
[1] HR Governance, Organisation design, HRIS & Measurement, ER & Communications, Resourcing, Training & development, Performance management, Reward, Employee health & safety and payroll

[2] VB-HR™ Global profiler

Figure 2:
The ten core domains


HCM Core Activities
HR Governance
Organisation Design
HRIS & Measurement
ER & Communications
Resourcing
Training & Development
Performance Management
Reward
Employee H&S
Payroll
HR PROFILER
HR GOVERNANCE
ORGANISATION DESIGN
RESOURCING
TRAINING & DEVELOPMENT
PERFORMANCE (TALENT) MANAGEMENT
REWARD
EMPLOYEE RELATIONS & COMMS
EMPLOYEE HEALTH & SAFETY
HRIS & MEASURE-MENT
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The VB-HR™ capability profiler underpins a working model of human capital management practice and consists of:

- 10 HR activity domains
- 93 level 1 sub activities

What the graphic can't show is the three dimensional linkage between these 93 activities[3]. Each HR activity is linked to various other activities dependent upon its task cluster. To provide an idea of the complexity, the 93 main HR activities are in fact a seething mass of over 600 primary-level interconnecting links.

Of course, each of these links are themselves further sub-connected with the secondary-level links totalling over some 6,400. In other words, HR functional delivery is far more complicated than many perceive it to be (and accounts for a number of issues that regularly crop up with shared service/outsourcing implementations).

For example Reward design [6.1] and employee records management [9.7] both have over 20 linkages but for quite different reasons. As a by-product of this model some organisations have used it purely to identify delivery risk or chronic system failure. Others have used it to map out delivery roles between business partner, shared services and centres of excellence (as well as country). But that is only its first-level usage.]

What is important to grasp for many HR functions is that people management activity has a universal model for which the organisation/HR function can map against in terms of HR's remit with the organisation.

This generic picture runs counter to many in HR who have followed a particular structure/set of processes believing them to be unique. Uniqueness actually derives from the HR team capability and the way in which it is organised, not in the actual fundamental activities but on their relative focus.

Just because an HR function may not currently have a focus or be carrying out any particular activity represented in the model, does not lessen the usefulness of that HR activity – it merely asks the question as to why it is currently not being accounted for. After all, any of the HR activities within the model are because they exist. Further unique distortions can also be explained due to organisational legacy issues.

The HR function can have the remit for all or some of the delivery of these HR activities. From experience, a number of HR functions have found this hard to grasp, preferring to try and fit the 'universal model' to their particular set-up which of course is the wrong way round.

The universal model is not built on academic theory but on empirical data of projects over time. From an organisational perspective on people management, all relevant 93 HR activities need to be included and accounted for no matter whose responsibility it is deemed to be for delivery purposes.

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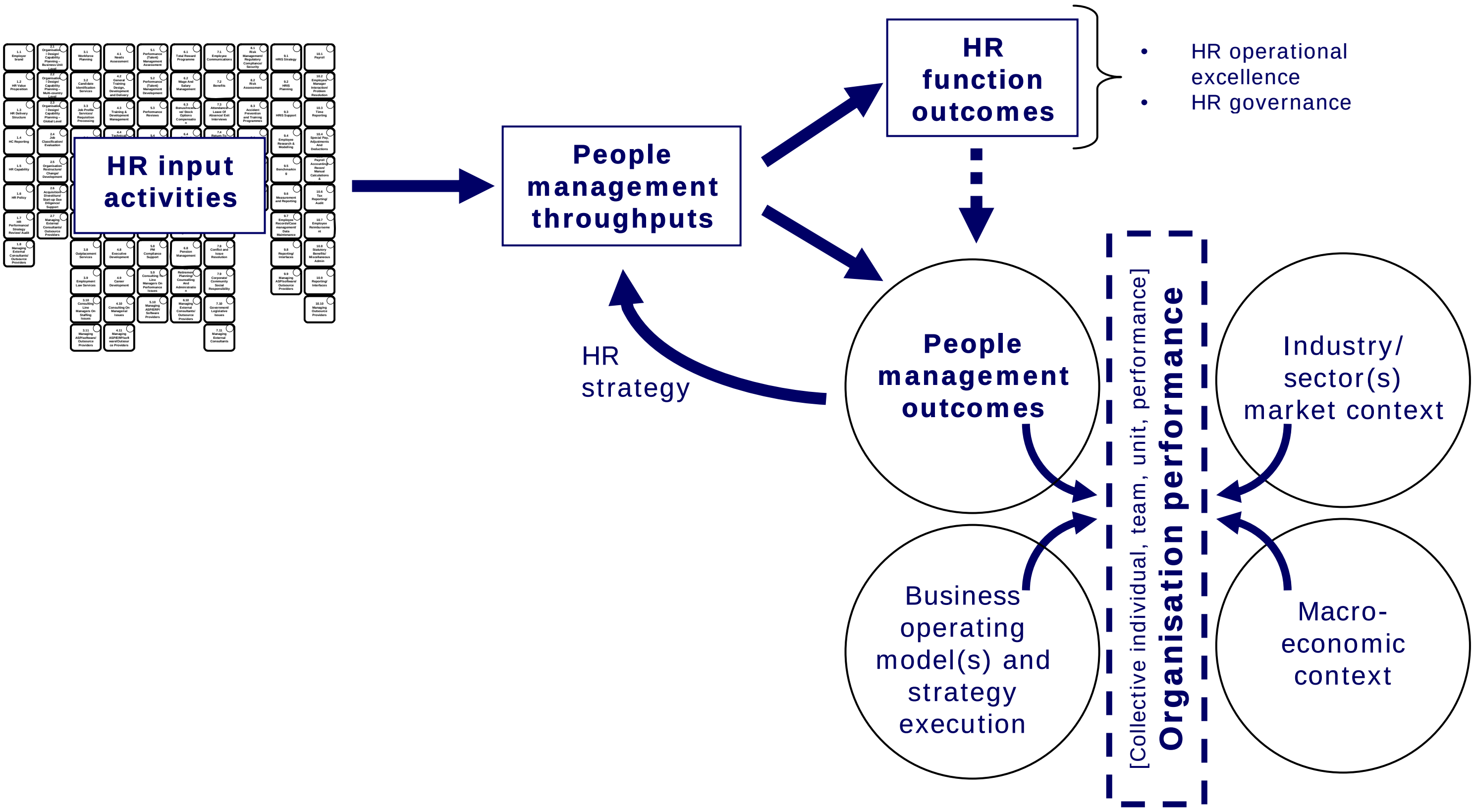
[3] Activity can represent a cluster of related tasks/activities

Organisation performance through a human capital lens

From an organisational perspective, the HR function and human capital management can be viewed as core components of a simplified Input-Outcome (I/O) model representing the link to performance from a human capital perspective, as shown in figure 3 below.

Figure 3:
Organisation performance through human capital lens (simplified)


HR input activities
People management throughputs
HR function outcomes
• HR operational excellence
• HR governance
People management outcomes
HR strategy
[Collective individual, team, unit, performance]
Organisation performance
Industry/ sector(s) market context
Business operating model(s) and strategy execution
Macro-economic context

The diagram explains organisation performance from a human capital context. Organisation performance can be seen as an outcome of external and internal factors as shown. Externally the macro-economic and corresponding market contexts provide performance opportunities and constraints.

Internally, organisation performance is determined by the corresponding operating models and execution of strategy together with people management outcomes. These contain both human capital capability and effective execution of the appropriate human capital management. Examples of people management outcomes are things like levels of employee engagement, talent management effectiveness, leadership effectiveness, organisation design effectiveness, reward effectiveness etc.

HR has a mandate to deliver *'inputs'* into the 'organisation system' represented by the ten domains as mentioned earlier. The HR function then combines these activities with the help of line management (as agents) to ensure good people management practice. The degree to which both the organisation (through line management) and the HR function values these various HR inputs and their degree of integration will, to a large extent, determine the effectiveness (outcomes) of people management practice.

"A good HR function will make sure that the organisation, and its line management, is aware of HR delivery outcomes….."

HR also has a dual role in the way in which the function itself operates from both efficiency and effectiveness perspectives. Note that people management throughput is a combination of HR and line management. There is a common misconception in management that HR is held accountable for outcomes beyond its control. However, the HR function does have a bearing on the people management outcomes.

People management throughputs can be combination of HR activities (as defined), or can be a singular activity. These are driven by organisation requirements and will be articulated through the HR strategy (if it is aligned and up to date). HR staff capability, HR leadership, together with effective procurement and measurement are key here.

A good HR function will make sure that the organisation, and its line management, is aware of HR delivery outcomes, managing expectation accordingly, through its various people value propositions and positioning. A poor HR function will not and will suffer accordingly, i.e. will find it hard to manage stakeholder expectations and/or highlight organisation failing with any degree of authority; its value contribution will normally be seen through cost-cutting exercises rather than through any other means.

This is an important point and why much attention needs to be paid to the way in which HR professionals and line management view the contribution of people management practice. In the past the problem for HR functions has been that their structure and delivery has tended, naturally (to a certain degree), to be focused from the input perspective. If we return to the STAR model, we can see that the ***Infrastructure*** teams are primarily focused on the input activities, which include processes and systems. The ***Performance*** teams are focused, naturally, on the collective performance perspective from people and people management outcomes, not forgetting that people management compliance components are included.

The ***Procurement*** team(s) is mainly focused on the 'inputs' and 'throughputs' of HR delivery as this is where most insourcing/outsourcing is focused. The ***Audit*** team's focus spans 'inputs', 'throughputs' and HR function outcomes as this should be internal functionally driven. The two remaining teams, ***Measurement & Reporting*** and ***HR Governance*** span the entire 'chain' and beyond. For example, HR governance will link with aspects of corporate governance. ***Measurement & Reporting*** team will carry out related work in the organisation performance space, for example undertaking modelling analytics to provide insight to unit performance with say, employee engagement. The M&R team will also link with functions such as marketing, internal communications, corporate affairs, investor relations and so on, dependent upon the organisation's operating signature.

The question isn't HR asking about HR

As I previously stated in Part I, if the HR function continues to focus on mainly 'back-office' infrastructure and still getting to grips with being operational excellent, the odds are it will be more compliance-focused than performance-focused in its tasks. If that is the case, then it has a higher probability of large parts being outsourced.

Also, the audit, procurement and measurement activities which should be within HR's remit can be potentially done in-house by other functions who normally have competencies in these areas. This therefore raises the question around HR's actual role as an identifiable corporate function. However, if organisations do follow this path of 'slicing HR', they run the risk of deriving minimal leverage from investment and losing out to competitors who see and utilise the performance-driven alternative from a fully optimised HR function.

If 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.

So the question should not be HR asking about HR; it should be the organisation asking how good does it want its human capital management to be and what value should the HR function be contributing to this?

The 'HR value curve'

To this extent, and as a result of work, we have been able to empirically define a portfolio of common 'delivery' roles[4] that HR practitioners can identify with. These are:

- Coordinating/Administrative
- Analysing/planning/reviewing
- Compliance (checking)
- Delivery (including advisory)
- Design
- Liaising/interfacing with line

Of course, there is also the need to recognise general line management for those in HR who have direct people management responsibility themselves. These definitions allow us to provide a means for all HR staff to identify with, but having a common parlance provides a way to collate the differing aspects of HR roles into a cohesive whole. However, the focus here is still on input activity.

Of even greater significance is the seven main value-contributing (VC) factors that each activity or cluster of sub-activities can be ascribed. These have an organisational focus and are particularly key in attaining an organisational perspective from, for example, line. These are:

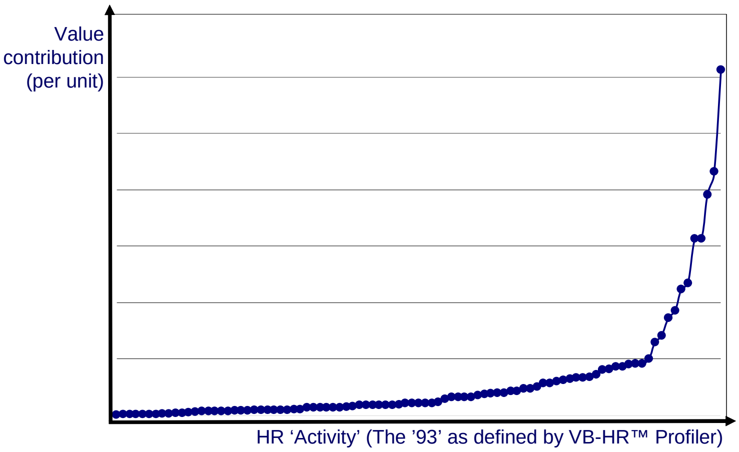
- Improving individual/team performance
- Aiding/enhancing (managerial) decision-making
- Minimising loss of productivity or the potential for legal claims or risk
- Ensuring efficient (HR) process
- Fulfilling (internal) client need
- Improving employee relations
- Two-way communications with line management

These value contributing (VC) factors are cumulative rather than binary, i.e. some activities may satisfy all seven where others may satisfy just one (or any other combination). Thus, this method of evaluation provides a more detailed and insightful picture than would commonly be the norm. This is particularly useful, not only for HR to understand collectively as a team where there are efforts are focused, but also highlighting any discrepancies between their view and the organisation's view (or of course different BU/Directorate views), providing insight of great value.

Again, given empirical evidence, we have been able to construct what we term an optimal delivery model which provides functions (and their organisations) with meaningful comparative (as well as other organisation norms contained within the database). Further insight can be gained from the triangulation process of collating viewpoints between HR and the organisation, which can be revealing and which can provide guidance in terms of any ensuing improvement programme.

The universal model is a little more complex providing further 3-dimensional attributes around organisational-HR activities - scale, complexity, relational interaction, frequency and linkage. The resulting factor based output provides a 'HR value curve' relating to value contribution as defined and the type of main HR activity as shown below.

Figure 4:
The universal model HR value curve



In fact the 5-Star model itself was derived from this curve, due to the relative associated values generated by the six areas when grouped together. The curve itself can be used in a variety of ways. It can be used to:

- Determine HR's value proposition
- Identify its current delivery model
- Assess the degree to which it is optimised or not
- Determine the ROI on current HR activities given the HR spend.

It will also provide an organisational perspective in terms of what is adjudged valuable. This of course may not be the same value as that portrayed under the optimised model which will raise further questions around the organisation's view of human capital management (effectively its maturity quotient) and guide the HR function in determining its value proposition at any point in time.

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[4] These are not necessarily job roles as such but components of various job roles to avoid confusion

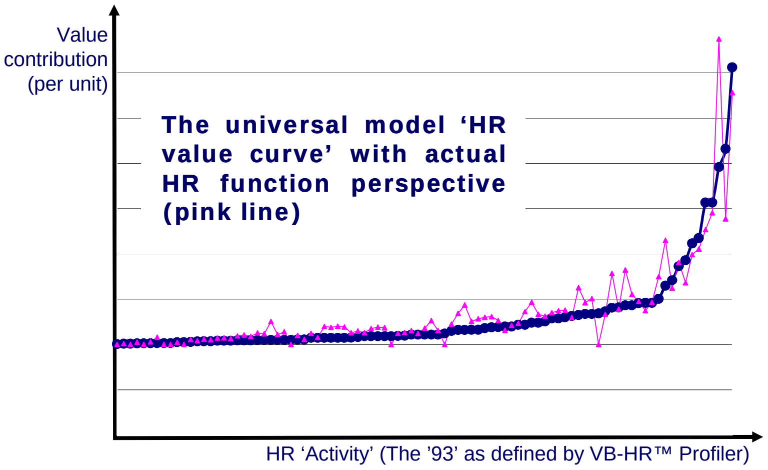


Figure 5: The HR value curve with HR function perspective

The example display above shows the mapping overlay of the HR function's views of their delivery value across the activities.

There are a number of activities where the HR team appear to be over-valuing their input whilst at the same time under-valuing others.

This apparent distortion can have major implications for HR's positioning and delivery to expectation particularly when a similar view from line management is extrapolated as in the similar display below.

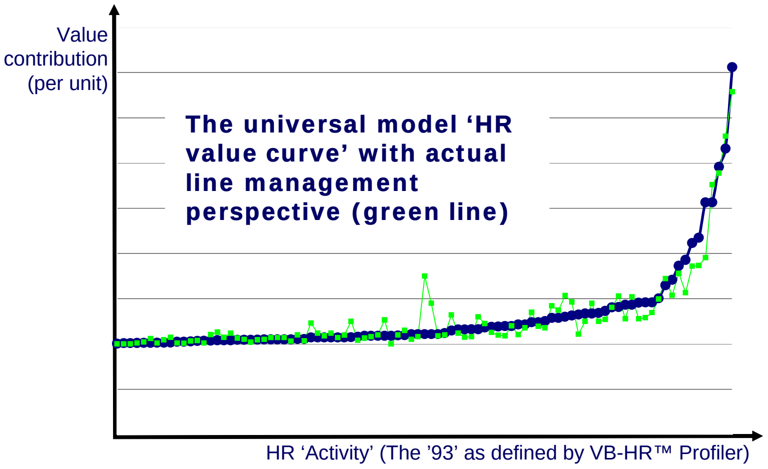


Figure 6: The HR value curve with line management perspective

The results of this exercise can highlight some very interesting issues and to some extent provides a picture of the line understanding of HR work. The basic curve 'signature' really provides a snapshot of where the organisation sits vis-à-vis the essence of people management.

It provides a baseline for any change scenarios being planned. Of course, the real insight is when both HR's and line's view of the world are mapped against one another. This can throw up some immediate insights and provide extremely valuable information to HR on both activity and delivery expectation.

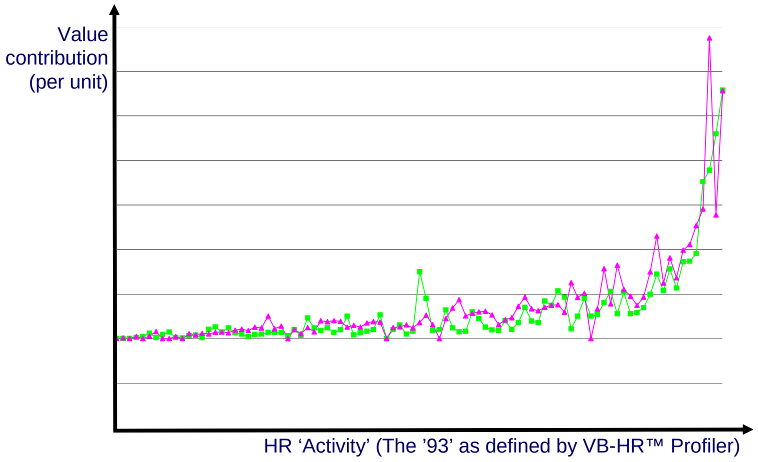
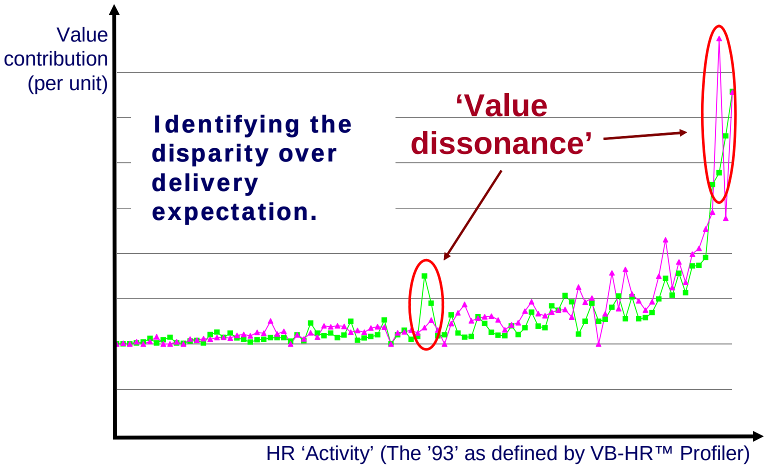


Figure 7: The HR value curve: HR function perspective with line management perspective

Where disparity is evident we refer to these as 'HR value dissonance gaps', a couple of which are shown in the diagram below. These 'gaps' can provide the HR function with the necessary science to investigate the differences in expectation as well as an understanding of where line management is in terms of people management within the organisation.

This can set in motion a whole piece around organisation development (itself an activity of relatively high value) as well as warn HR regarding the dangers of delivering to expectation that is not necessarily in line with HR's. This has been a constant challenge for HR over the years and can help the function to 'work through' on its various value propositions, priorities, SLAs, KPIs and closeness with the 'line'.

Figure 8:
Value dissonance: Identifying the disparity over delivery expectation



Conducting these type of exercises provides the organisation together with HR, with some an extremely insightful evaluation. Traditionally, HR functions have erroneously carried out HR customer surveys[5].

Whereas HR customer surveys will tell you whether an HR function has passed or failed an inconsistent set of expectations (binary), the value curve provides nine immediate scenarios, as seen in Figure 8.

Three key insights

1. Over-valuation means that too much emphasis is put on the activity's contribution. The dissonance gap is at its worst where HR is over-valuing and Line is under-valuing, i.e. expectation gap is greatest but misalignment not always apparent. The disparity of value means the potential for over-investment (in time or resource/ cost) or missed opportunities.
2. HR OK LINE OK is obviously the best return for the organisation.
3. Under-valuation means that too little emphasis is put on the activity's contribution. The dissonance gap is at its worst where both HR and Line are under-valuing, i.e. organisation misalignment with regard to investment in people management practice

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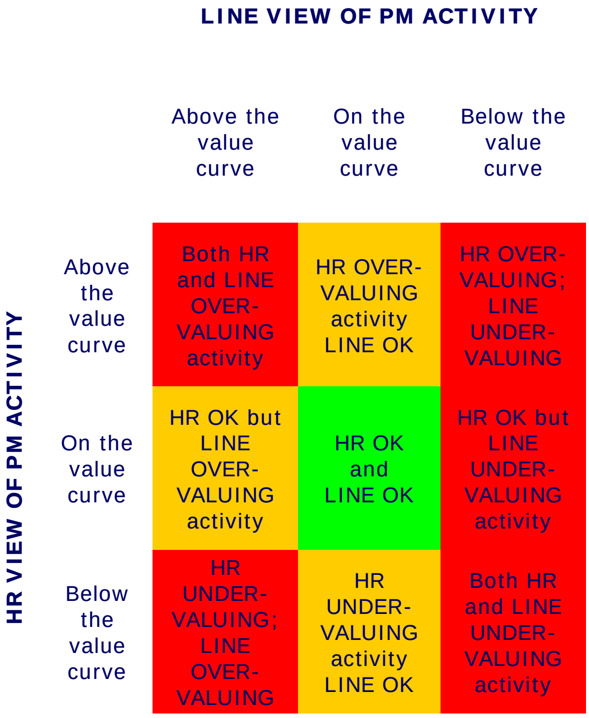
[5] Nobody is a pure client of the HR function save the shareholders/stakeholders under corporate governance. At best most are customer-agents, i.e. they have a role in most HR delivery rather than just being a customer.

Figure 9: The nine main value dissonance scenarios

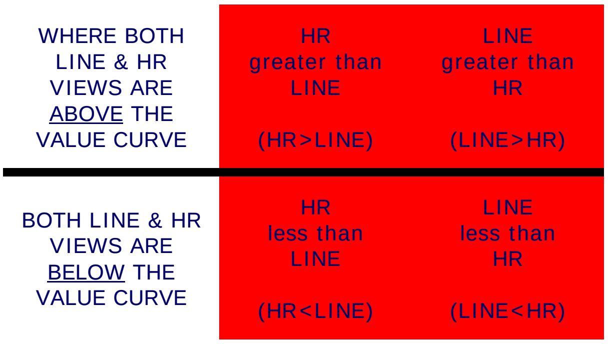


LINE VIEW OF PM ACTIVITY

HR VIEW OF PM ACTIVITY	Above the value curve	On the value curve	Below the value curve
Above the value curve	Both HR and LINE OVER-VALUING activity	HR OVER-VALUING activity LINE OK	HR OVER-VALUING; LINE UNDER-VALUING
On the value curve	HR OK but LINE OVER-VALUING activity	HR OK and LINE OK	HR OK but LINE UNDER-VALUING activity
Below the value curve	HR UNDER-VALUING; LINE OVER-VALUING	HR UNDER-VALUING activity LINE OK	Both HR and LINE UNDER-VALUING activity

However that is not all the scenarios. There are four further value curve scenarios where both line and HR views are simultaneously above or below the line as shown in the diagram below.

Figure 10: The four additional value dissonances



WHERE BOTH LINE & HR VIEWS ARE ABOVE THE VALUE CURVE	HR greater than LINE (HR>LINE)	LINE greater than HR (LINE>HR)
BOTH LINE & HR VIEWS ARE BELOW THE VALUE CURVE	HR less than LINE (HR<LINE)	LINE less than HR (LINE<HR)

Over-valuation by both LINE and HR as commented above, increases the probability that potential over-investment of resource/time/cost in people management is occurring. HR's greater over-valuation exacerbates the issue and to some extent covering up the real 'reality'.

As above, under-valuation means that too little emphasis is put on the benefits of people management activity, i.e. insufficient resource or investment to leverage. Where HR's view of PM activity is less the organisation will be handicapped by effectively operating in a 'hamster wheel' environment.

Taking an example if both Line and HR over-value HR's contribution around coaching a number of things will happen. There is potential for over-investment in HR resources in coaching to the detriment of other activities. Line's expectation means that coaching input will be seen in hindsight as a costly exercise that did not match the rhetoric even though that rhetoric emanated from the same line views. This creates problems for HR down the line if it is trying to match 'client-agent' expectation, in this instance the line. Basically it won't. The danger is that the organisation stops investment in this activity if given a choice of restrained budgets.

HR spend and resource allocation

To understand the totality of HR 'spend' in each input activity, three factors come into play:

- The proportion of time spent on the activity by the HR function (giving a nominal 'FTE' figure)
- The cost of this resource
- Any related budget spend on external provision.

The first two factors provide a 'resource cost' figure that reflects that (a) certain HR activities require more time than others and (b) certain HR activities require input from more expensive resource than others[6]. This acknowledges that different skill sets and levels of seniority within the HR function have different costs attached.

For example, recruitment administration might absorb significant time in terms of hours spent, but utilise relatively inexpensive HR resource. HR Capability, on the other hand, might not require much time investment, but require input from expensive HR resource (such as senior managers and the HR Director).

Therefore the HR function must take both these elements into account when identifying the effective cost of delivering across the 93 inputs. Without doing this, a distorted picture can emerge – differentials between the cost of employing a senior reward specialist and an HR adviser in a contact centre, for example, can significantly distort any 'average' cost of employment for the purposes of this exercise. Through use of an activity analysis, the function can identify how many 'pieces' of FTEs are spent on each activity, and the total cost of these to build up a true picture of the cost of service delivery.

"Two related aspects combine to make this a complex picture: the absence of an overall map of human capital management/HR input delivery; and the structures typically adopted by HR functions."

With HR budgets easily accounting for millions of pounds, euros or dollars in a given organisation (with an average HR spend of c. £1,350 per FTE implying that any organisation with 740 or more FTEs will have an HR budget of £1,000,000), this picture is essential for informed decisions on priorities and resource allocation. Two related aspects combine to make this a complex picture: the absence of an overall map of human capital management/HR input delivery; and the structures typically adopted by HR functions.

Consequently, the actual structure of an HR function is not likely to map directly onto the 10 'domains' identified in the VB-HR™ Profiler. A typical example of this is an in-house employment law department. One activity in particular relates to the provision of Employment Law Services (Profiler activity 3.9), but in practice expertise is often required in activities relating to Organisation Design, Performance Management, Employee Relations & Communications and Employee Health & Safety. It is very rarely the case that an HR post-holder finds that their role relates to only one or two of the input activities (with Pensions and Payroll specialists potentially being the exception).

Equally, it is often the case that many areas of an HR function contribute to the maintenance and updating of employee records (Profiler activity 9.7), particularly where a service centre and employee/manager self-service exists. This reflects the importance of accurate records on the workforce and will typically reveal that greater investment takes place in this one activity than the HR structure would suggest on its own. Other issues include:

- HR business partner/account manager or similar roles, who sit within line budgets and are not counted within a 'central' budget (irrespective of reporting lines)
- Elements of human capital management delivered outside the HR function (Employee Health & Safety and Payroll frequently falling within this category) that

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[6] The third aspect, external budget spend, is typically evaluated as a final component in any analysis as this is typically a smaller cost than HR function cost, unless the organisation has a particular approach to outsourced provision.

can lead to understatement of 'true' resource costs
- Different interpretations of roles and delivery inputs (hence the need for standard definitions such as those contained within the VB-HR™ Profiler)
- Use of the cost of HR employees versus the 'loaded' costs of HR employees (e.g. including an allocation for office space, IT, facilities etc). This level of detail is not typically required for an exercise of this nature, being more suited to costing/pricing exercises.

A fully completed 'spend' exercise can be graphically illustrated in Figure 11 overleaf. The diagram shows the relative level of investment across the 93 input HR activities. This illustration reveals the following insights:

- Very few input activities relating to people management are not delivered within this organisation
- Significant investment in terms of resource cost is identified in domains [7] (Employee Relations & Communications) and [10] (Payroll), indicating a particular focus within HR service delivery
- Relatively low levels of investment in terms of resource cost are identified in domains [3] (Resourcing) and [4] (Training & Development), suggesting from the resource costs that these are not priority areas, and that the organisation has relatively junior/inexpensive resource in these areas
- Domain [2] (Organisation Design) is not a priority for this organisation, with very limited resource cost
- High resource costs associated with domain [10] (Payroll) suggest that this is an area absorbing costly resource time, requiring review
- Responses suggest either targeted use of external providers, or limited oversight of their delivery from the HR function, although this can relate to the approach adopted by each organisation towards delivery of these aspects (insourced/outsourced/co-sourced, HR versus line responsibility etc.).

Through constructing a map of resource focus in this way, HR functions can reassess their own individual value propositions, with use of a 'universal model' towards people management minimising distortion and blind-spots, as well as making comparative assessment possible.

This exercise is typically undertaken as part of a 'Value-based' approach towards HR. In itself, it allows HR functions to identify their delivery set-up and budgets from a resource cost perspective, potentially highlighting areas of under- or over-investment and providing an overall map of functional resource cost (which may present a different picture from 'perceived' notions).

When combined with operating budgets and line item expensing, HR has, at its disposal, a relatively clear understanding of where value and cost are related and if any anomalies exist. In today's environment of where should HR choose its spend options, this can be an invaluable decision-making tool as well as feeding into various business case scenarios such as charging to the line mechanisms or comparing with outsourcing options.

For example, an activity 'high up' the value curve, such as Reward Strategy, may be found to have relatively little resource cost associated with it, whilst an activity relatively 'low down' the value curve, such as HR delivery structure, might be found to absorb relatively high resource cost. Evidence of this 'misalignment' would highlight where HR has the potential to invest less resource, utilise less expensive resource or potentially increase resource focus.

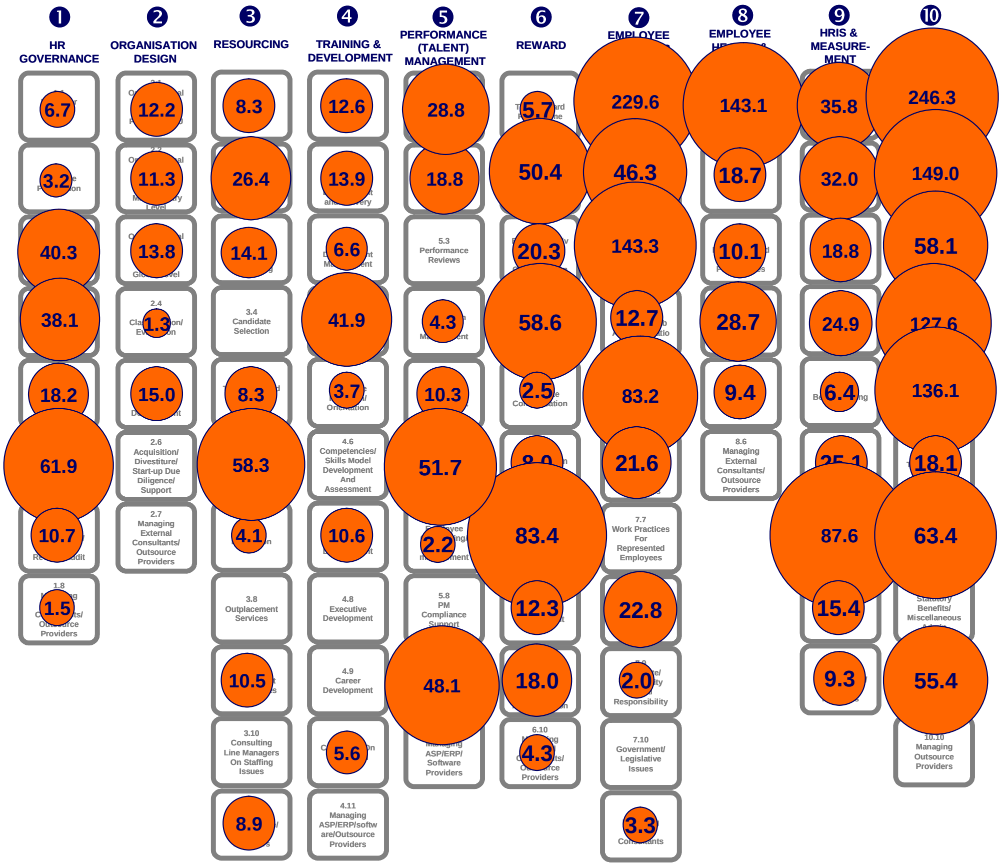
Of further note is the inclusion of 'people management within HR' as a valid activity that does not feature within the VB-HR™ Profiler (as it relates to functional management rather than organisational human capital management). HR functions are prone to understate or downplay this activity as a significant component of their resource focus, with a recent exercise suggesting through self-assessment that only 4% of overall resource focus for an HR function in excess of 100 FTEs was spent on internal management (again providing evidence for informed conversation and decision-making in this area).

> *"Through constructing a map of resource focus in this way, HR functions can reassess their own individual value propositions, with use of a 'universal model' towards people management minimising distortion and blind-spots, as well as making comparative assessment possible."*

Experience with these exercises suggests that HR resource focus is typically 'heavy' in Training & Development (often one quarter to one third) of resource focus; HRIS & Measurement and Resourcing. Organisation Development, Health & Safety and Performance (Talent) Management are typically 'light' areas of HR resource focus,

But, even with all of this is insight, we are still really only looking at half the story as we have been effectively focusing on the input side. What happens when we look at the outcome side? Well, first of all, the question is ‘where do we find outcome based data which is structured and meaningful that links to the HR delivery inputs?

Figure 11: HR budget resource-spend analysis



People Management Outcomes

There are a number of ways in which people management outcomes can be evaluated. On model that is used is the 'earth model'.

The inner core represents the collective employee engagement[7]. Around this lies management engagement which is a factor in employee engagement. The outer core represents what we define as organisation engagement[8]. Basically, organisation engagement is a collective term for the 'levers' organisations use to optimise people engagement and productivity and thus performance. These levers include:

- Employee engagement
- Diversity
- Employee centricity
- Employer brand
- Leadership
- Organisation climate
- Organisation communications
- Organisation design
- Performance orientation
- Resourcing
- Retention
- Reward
- Talent management
- Training & development
- HR governance
- HR operational excellence.

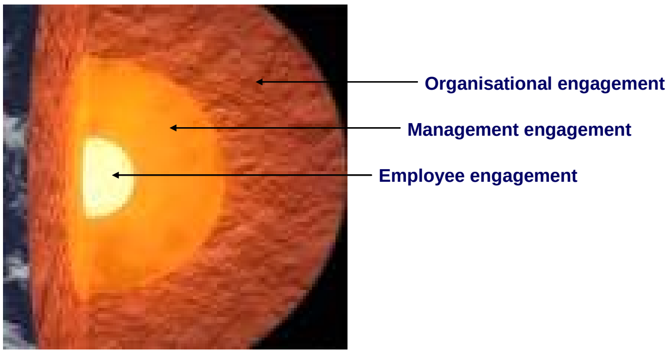
The effectiveness of these levers can be evaluated. It is this evaluation that provides an assessment of people management outcomes, i.e. evaluating the above list collectively provides a 360° view of people management outcomes.

Referring back to the main organisation performance through ha human capital lens diagram, it is important to remind ourselves that many HR input activities only have an influencing effect on people management outcomes as they are reliant on managers, acting as agents, executing in the required manner and to a lesser degree employees displaying the right kinds of behaviour and values.

This differentiation is key, as it is critical to acknowledge that HR functions cannot be held uniquely accountable for many aspects of human capital management performance by themselves.

If we take performance management as an illustration, the HR function's role is likely to include the design of any performance management policies, assessment tools, criteria for evaluation and overall monitoring of performance management activity/outcomes (perhaps with advisory support to line managers and provision of arbitration). It is not likely that the function will itself be responsible for conducting performance reviews, as these are typically included within a line manager's remit given their proximity to their team and understanding of their role.

Figure 12: The 'earth model' of people management outcomes[9]



There are only two 'levers' where HR has a direct bearing on effectiveness/outcome – not surprisingly, HR Governance and HR Operational Excellence. For all others, the HR function's role is ***indirect*** (to a greater or lesser extent), through for example attempts to influence line managers (e.g. through appropriate policy, training, support and advocacy). When combined with further operating performance data, more detailed performance modelling (analytics) can be used to establish under/over-achievement on the ground.

Thus, for the first time, HR functions can establish their individual value propositions with regard to people management outcomes, the setting of targets and the carrying out of regular assessments (i.e. annual) with regard to these operational 'levers' and relating them back to the inputs and individual collective within the HR function.

With the appropriate analysis and through combining insight derived through the resource cost exercise, value curve and people management outcomes, HR functions can now identify how their activities contribute value, how this influences human capital management outcomes and how explicit 'value propositions' can be developed for functional delivery. Based on a scientific (i.e. evidence-based) approach, HR functions have the means to demonstrate their contribution.

To reiterate the linkage set out in Figure 3 previously in this article, HR Strategy development and its effectiveness can be assessed against the measurable outcomes of human capital management, rather than sole reliance on input time and costs.

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[7] Our definition of employee engagement is that it 'is an outcome-based concept. It is the term used to describe the degree to which employees can be ascribed as aligned and committed to an organisation such that they are at their most productive.' For more on this, see Employee Engagement, Cohen G & Higgins N J, Journal of AHCM Volume 1 Number 1

[8] See separate white paper entitled *'Organisation Engagement: Evaluating human capital management signature'*

[9] There is also an outer layer which represents strategic human capital management but which is not referred to here.

HR doesn't need to justify why it's there – it can now turn the argument around and ask the organisation to justify why it needs HR to do what it is asked. What HR has to do is to ensure it knows where the organisation[10] is (across the business units/directorates) in people management expectations (value attributes) and deliver to those as well as driving improvement in areas identified with reasoned business cases.

The Challenge

So identifying the link from HR input activity through to people management outcomes whilst also identifying potential misalignment in the value of the HR activities is now possible providing HR functions and their organisations with intelligence that will provide:

- Rationale for 'people management intervention' business cases
- Measurable targets around important people management areas that have remained intangible up until now
- Insightful Return on investment ratios that have been un-measurable until now
- The alignment of value between HR and the organisation over requisite HR delivery
- A means of setting an implementable HR strategy
- A means of providing evaluation and trend analysis for improvement and educational purposes

Organisations and HR functions should no longer be in the dark over the why, what and how of people management effectiveness and the degree to which support resources are optimised.

The challenge, and indeed drawback, for many HR functions is that they have been mainly structured around HR input activity 'chimneys', i.e. the vertical slices in the HR delivery (input) diagram. This has, in many cases, decoupled the reason as to why certain HR activities are needed and why certain ones are more valuable than others. Evidence would suggest this to be the main reason why value dissonance gaps appear between HR and line.

The STAR model is there to remind us of how an HR function can orientate itself to be more performance-focused without losing any people management focus. Indeed it heightens it. HR moves away from 'steady-state' and into a more dynamic formation. To illustrate the point, many organisations have a recruitment function/team.

However, recruitment is a specific subset of the wider organisation resourcing. What happens to this function/team if the organisation is no longer hiring externally? Are they disbanded or re-assigned? If the function had a retention team, do you think that the organisation would have a different focus?

As an example, from a resourcing/recruitment perspective, with the STAR model, part of the ***Infrastructure*** team ensures effective resourcing design and process. The ***Audit*** team ensures that practice as driven by policy is adhered to, up to date and sufficient for organisation needs. The performance team encompasses organisation resourcing which may or may not include recruitment and is included in other front-line organisation performance issues.

The ***Measurement*** team ensures that sufficient workforce intelligence is collated around staffing including both historical (forensic) and future forecasted information, not just collecting easy but useless metrics.

The ***Procurement*** team ensures that any outsourced/3rd party arrangement is delivering to SLAs and budget. The ***Central Governance*** team provides overview to see that all of the components are working together optimally from a resourcing perspective.

The STAR model can be staffed across any boundary. As long as the remit is clear between business division, country, region etc then it can exist to suit the organisational needs – that is the job of the central HR leadership 'hub'.

Organisation have, up until now, relied heavily upon their HR functions to navigate a clear role – one that is value contributing – but if HR operates in a closed space, then both the organisation and itself remain 'blind'.

Thus, to take advantage of the opportunities proposed in this article, many HR functions will need to embrace the mindset and get used to the way that the HR function and people management can be viewed with appropriate analytics and measurement - an integral part of everyday work that is done.

At the same time the ability to influence line management and be seen as a core, rather than what many regard as a peripheral part of the organisation, seems too good an opportunity to miss. Above all, it is an opportunity to reinforce the centricity with which organisation performance is built around people and for the HR (HCM) function to take its rightful place as core to the business. Welcome. Welcome to the Brave New World of HR...........

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[10] Or each individual country, business unit or directorate or equivalent

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