



The Human Value Chain

The Commercialisation of HR and proving your worth as a department

THE HUMAN VALUE CHAIN

Defining and measuring best practice HRM

Many believe that unless HR can demonstrate that it has an impact on the bottom line, it will continue to be seen as “overhead,” a department that grabs resources and contributes nothing. These same executives feel that the time has come for HR to identify and evaluate its contribution, like other departments are expected to do. They also feel that without such an objective assessment of HR’s value, the department risks having its activities outsourced and being marginalised at the strategy table.

HR’s contribution can be measured.

Managers of functional areas, such as operations and marketing, report on their department’s objectives and results.

HR professionals tend not to be increasingly reporting on:

- ❑ the number of staff recruited,
- ❑ the number of people trained,
- ❑ turnover figures.

Analysis and review of HR processes is on the increase, such as

- ❑ the efficiency of the recruitment
- ❑ the effectiveness of the training
- ❑ or the impact of turnover on organisational results.

HR managers must, in future find ways to describe their value-added contribution.

Therefore measuring the HR function is critical for improving both the credibility and the effectiveness of HR. If you cannot measure its contribution, then you cannot manage it or improve it. What gets measured gets managed, and improved.

HR professionals have to move from saying things like “120 people attended the training course,” to “the training courses resulted in a 15-percent improvement in customer satisfaction.”

Some HR managers resist measuring their work. They argue that HR activities cannot be measured, since outcomes such as employee attitudes or managerial productivity are impossible to calibrate meaningfully or precisely. They assert that they cannot control the labour market. But the finance department cannot control the inflation rate, and the marketing department has little control over the product quality. Yet each of these departments measures its activities and is accountable for the results.

There are compelling reasons for measuring HRM's effectiveness:

- ❑ Labour costs are most often a firm 's largest controllable cost;
- ❑ Managers recognise that employees make the difference between the success and failure of projects;
- ❑ Organisations are responsible for ensuring that that they comply with employment laws;
- ❑ Evaluations are needed to determine which HR practices are effective, because at this point, managers and HR professionals cannot distinguish between a fad and a valid change program;
- ❑ Measuring and benchmarking HR activities will result in continuous improvements;
- ❑ Audits will bring HR closer to the line functions of the organisation.

The application of HRM best practice

The Investors in People Standard

For many years businesses sought to apply a standard to the HRM practises. The Investors in People standard has proved effective developing the management of the people side of the work place. The outline of the standard is produced below:

Principles	Indicators	Evidence
Commitment An Investor in People is fully committed to developing its people in order to achieve its aims and objectives	1 The organisation is committed to supporting the development of its people	Top management can describe strategies that they have put in place to support the development of people in order to improve the organisation's performance Managers can describe specific actions that they have taken and are currently taking to support the development of people People can confirm that the specific strategies and actions described by top management and managers take place People believe the organisation is genuinely committed to supporting their development
	2 People are encouraged to improve their own and other people's performance	People can give examples of how they have been encouraged to improve their own performance People can give examples of how they have been encouraged to improve other people's performance
	3 People believe their contribution to the organisation is recognised	People can describe how their contribution to the organisation is recognised People believe that their contribution to the organisation is recognized People receive appropriate and constructive feedback on a timely and regular basis
	4 The organisation is committed to ensuring equality of opportunity in the development of its people	Top management can describe strategies that they have put in place to ensure equality of opportunity in the development of people Managers can describe specific actions that they have taken and are currently taking to ensure equality of opportunity in the development of people People confirm that the specific strategies and actions described by top management and managers take place and recognise the needs of different groups

		People believe the organisation is genuinely committed to ensuring equality of opportunity in the development of people
Planning An Investor in People is clear about its aims and its objectives and what its people need to do to achieve them	5 The organisation has a plan with clear aims and objectives which are understood by everyone	The organisation has a plan with clear aims and objectives People can consistently explain the aims and objectives of the organisation at a level appropriate to their role Representative groups are consulted about the organisation's aims and objectives
	6 The development of people is in line with the organisation's aims and objectives	The organisation has clear priorities which link the development of people to its aims and objectives at organisation, team and individual level People clearly understand what their development activities should achieve, both for them and the organisation
	7 People understand how they contribute to achieving the organisation's aims and objectives	People can explain how they contribute to achieving the organisation's aims and objectives
Action An Investor in People develops its people effectively in order to improve its performance	8 Managers are effective in supporting the development of people	The organisation makes sure that managers have the knowledge and skills they need to develop their people Managers at all levels understand what they need to do to support the development of people People understand what their manager should be doing to support their development Managers at all levels can give examples of actions that they have taken and are currently taking to support the development of people People can describe how their managers are effective in supporting their development
	9 People learn and develop effectively	People who are new to the organisation, and those new to a job, can confirm that they have received an effective induction The organisation can show that people learn and develop effectively People understand why they have undertaken development activities

		and what they are expected to do as a result People can give examples of what they have learnt (knowledge, skills and attitude) from development activities Development is linked to relevant external qualifications or standards (or both), where appropriate
Evaluation An Investor in People understands the impact of its investment in people on its performance	10 The development of people improves the performance of the organisation, teams and individuals	The organisation can show that the development of people has improved the performance of the organisation, teams and individuals
	11 People understand the impact of the development of people on the performance of the organisation, teams and individuals	Top management understands the overall costs and benefits of the development of people and its impact on performance People can explain the impact of their development on their performance, and the performance of their team and the organization as a whole
	12 The organisation gets better at developing its people	People can give examples of relevant and timely improvements that have been made to development activities

The commercialisation of HRM

Progressive organisations have bought into the value of the HR audit concept – these evaluate any/all the human resource activities used in an organisation – research into these practices and procedures may uncover better ways to strengthen the competitive advantage. It can also build support, respect and trusting relationships between employees and management.

Growing in popularity is Virtual HR or outsourcing HR. They are cost-effective solutions for smaller companies to grow their business through the benefits of employing professional HR services, which may not be available “in house”. Even larger companies that have downsized find these options suitable for specific services or projects on as needed basis.

The market for HR outsourcing in the UK is driven by three key factors.

1. One is to free up resources, which will reduce costs and add value to the organisation.
2. The second is to maximise the value-add by using management information that results from the delivery of services.
3. The third driver is to improve service levels of the HR function.
 - ❑ In particular, there is a lot of activity around adding flexible benefits programs in various organisations in the UK
 - ❑ HR organisations see the benefits of these programs to better attract and retain needed talent.

Tools and techniques for demonstrating HRM's return on investment (ROI)

THE 5C MODEL

Senior managers, investors, customers and HR executives make judgements about the effectiveness of the HR function in many ways. These numerous judgements can be grouped into five clusters:

Compliance: Board members depend on HR's expertise to ensure that organizational practices comply with the law. In fact, many HR departments were created because of the need to document compliance with employment standards, such as hours worked and overtime payments;

Client Satisfaction: Many organisations are tracking their success by measuring customer satisfaction. These measures have been found to predict financial performance on a lagged basis. This means that if employee morale drops, management can expect to see customer satisfaction levels drop in about six months. Increasingly, managers are turning to customer or stakeholder perceptions of the HR department as a substitute for measuring the effectiveness of HR's performance.

Culture Management: Highly effective organisations seek to influence employee attitudes through the development of an appropriate culture supports optimum performance. Executives carefully monitor culture management programs (such as Empowerment) through employee attitude surveys. The assumption underlying the culture management model is that HR programs can have a positive influence on employee attitudes, which in turn influence, their performance. The research supports the proposition that attitude has an impact on behaviour.

Cost Control: Traditional organisations continue to see personnel as an expense. In service organisations, the labour component of production is the organisation's single largest expense. These costs represent up to 85 percent of expenses in white-collar organisations. HR practices can reduce labour costs by reducing the workforce, while attempting to get the same volume of work done with fewer employees.

There are two other ways in which HR departments can reduce expenses associated with employees:

- ❑ The first is to increase efficiencies (achieve same results at lower costs or at faster speeds).
- ❑ The second is to reduce the costs associated with behaviour such as absenteeism or accidents which are, to some extent, under the control of the employee.

Contribution: If the company survives, i.e., does not go bankrupt or cease business, then the organisation is a success. Survival is the first level of the measurement for effectiveness, and the contributions of HRM practices should be judged against this life-or-death index. This crude measure is not satisfying for most businesspeople, because it doesn't give a relative measure of success. All companies track sales, revenues, return on investment (ROI), return on equity (ROE), expenses relative to sales and other financial ratios. These indices measure the relative success an organisation is having in meeting its goals. Any HRM practice which contributes to these metrics would be endorsed by senior management. Measuring the impact of HRM's investments in training or performance appraisal allows HR professionals to use the same language as other departments. However, there are limitations to financial analyses. They capture only certain immediate aspects of performance, but not managers' perceptions of effectiveness.

Sometimes, financial measures are not available. One method is to ask managers to assess their organisation's performance against competitors. Despite the biases that could be introduced into such a measure, these perceptions have been found to correlate positively with objective measures of the company's performance.

The principle advantage of using a perceptual measure such as this one is the ability to compare profit-seeking firms with public organisations.

There is no one best HRM practice for every situation. Therefore, the HRM policies and practices that have an impact on performance should be considered.

HR professionals may ask how they will benefit from measuring their department's contribution. After all, the process is difficult, time-consuming and costs money. And in the end, those professionals may be blamed if the results aren't good. But those same managers who make this argument should also remember that these

REVIEW

THE HUMAN VALUE CHAIN

Defining and measuring best practice HRM

- ❑ continues to be seen as “overhead,”;
- ❑ HR’s contribution can be measured;
- ❑ HR professionals are increasingly reporting on HR issues:
- ❑ Analysis and review of HR processes is on the increase;
- ❑ HR managers must, in future find ways to describe their value-added contribution.
- ❑ What gets measured gets managed, and improved.

The application of HRM best practice

- ❑ The Investors in People Standard
- ❑ Commitment
- ❑ Planning
- ❑ Action
- ❑ Evaluation

The commercialisation of HRM

- ❑ Progressive organisations have bought into the value of the HR audit
- ❑ Growing in popularity is Virtual HR or outsourcing HR.
- ❑ There is a market for HR outsourcing in the UK
- ❑ to free up resources
- ❑ to maximise the value-add by using management information
- ❑ to improve service levels of the HR function.

Tools and techniques for demonstrating HRM’s return on investment (ROI)

- ❑ The 5c Model
- ❑ Compliance
- ❑ Client Satisfaction
- ❑ Culture Management
- ❑ Cost Control
- ❑ Contribution
- ❑ The challenges should not be used as a reason for never measuring the effectiveness of HR practices



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