



## **Four Ways to Measure HR's Value**

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You've heard the wake-up call to address the value-added issue. Do you keep hitting the snooze button? If so, you're not alone, as HR's response has been a guarded "wait and see" attitude. If value is no longer just a buzzword in your company, perhaps it's time to face the challenge and provide evidence to management.

Value-added, in today's corporate vocabulary, refers directly to product and service features that increase the worth or benefit to customers. As the saying goes, "If the customer wouldn't pay more for it, then we have no business doing it!"

### **Heeding the Call**

Employee-satisfaction surveys consistently report broad dissatisfaction with HR and its outdated "policy-police" role. A respectable business publication like *Fortune* calls for the obliteration of HR as we know it, citing, "People need people—but do they need Personnel?" ("Taking the Last Bureaucracy," *Fortune*, January 15, 1996). Perhaps the time has come to reassess human resources' strategy.

There is no doubt that the questions are out there. Have you been asked to justify HR's approach to a specific program, such as centralized hiring, mandatory training, or an entire subfunction such as benefits or corporate training?

Shouldn't HR be creating employee satisfaction in ways that add value to the enterprise? Is outsourcing your remaining functions the solution? Do you know what value-added means to a line executive? Have you attempted to calculate the return-on-investment (ROI) of any of HR's functions, programs, and activities? If so, what did you learn? Have you redesigned or outsourced a prior HR function in a way that focuses on value-added?

### **Show Me the Value**

When asked to prove HR's value-added, what will your answers be? The increasing pressure to address the issue and the lack of response suggest that HR pros may yet be inexperienced in the ways of a value-based enterprise. These four strategies for measuring HR's value-added illustrate the escalation of proof that ultimately may be necessary to secure management's full confidence in the value of HR and its programs. (See *Matrix of Strategies for Measuring Value-Added*.)

### Matrix of Strategies for Measuring Value-Added

		SCOPE	
		Illustrate by Example ( <i>Show</i> )	Demonstrate with Action ( <i>Do</i> )
GOAL	Make a Case ( <i>Argue</i> )	Calculate ROI for specific initiative	Make substantive claims
	Get in Alignment ( <i>Change</i> )	Redesign an HR function to improve its value-added	Transition to a value- based HR function

#### 1. Claim Value

This strategy has more to do with politics than value-added. It clings to the reasoning that it's difficult to calculate HR's value-added because of staff-role involvement in all areas of the enterprise. Here you utilize relationships, tradition, inside knowledge—whatever works—to encourage the CEO and line executives to conclude that HR does contribute value. It's about making a loosely rational argument for all the good things that HR has done over the years.

After all, the only difference between a claim and a fact is the claim's believability, right? Yes, this is a stalling maneuver—often a very effective one—and it works for many HR executives temporarily.

#### 2. Calculate Returns on Investment

To say something is a "strategic investment" is not good enough anymore. Company executives want to see numbers—a factual way to verify and show the return. Such demands cause even the most sinewy HR executives to falter in their banter.

In this case, ROI delivers, since it can be calculated for any HR program. By capitalizing all the costs associated with the program (i.e., the investment) and determining the financial impact that results (i.e., the earnings), you can apply the following simple formula:

$$\text{ROI} = \frac{\text{Earnings} - \text{Investment}}{\text{Investment}} = \text{XXX}\%$$

However, its preciseness is its downside. ROI is an accounting expression that requires accurate costs and measured results, both of which can involve a high level of complexity. HR functions usually lack the accounting expertise needed for such an assessment, necessitating help from other departments or outside sources.

Not only that, but the sheer detail of the whole process is staggeringly off-putting to an HR department. Notwithstanding these challenges, firms will calculate the ROI on highly visible initiatives just to subdue the naysayers. Although it's not possible to generalize the findings with other HR initiatives, ROI provides the CEO with a solid example of the value HR can generate.

#### 3. Redesign a Service

Arguments and examples eventually lose their potency, forcing HR to face the rite of passage into tomorrow's corporate future. It's just a matter of time until HR is subjected to the same value-adding scrutiny that line functions have endured since the advent of total quality.

The savvy HR leader anticipates this development and wisely sacrifices one of its less-strategic functions for downsizing, outsourcing, or another form of dismemberment. Such efforts for small-scale redesign result in increased value roughly half the time. In other cases, vendor, transition, and cost-overrun problems botch the effort.

An alternative is to focus on organizational development and training functions. When redesigned to incorporate state-of-the-art methods, these potentially strategic functions have the capacity to generate much higher levels of employee learning, performance, and productivity—even to the extent of creating organizational competitive advantage. Value-added like this is HR's ticket to a front-row seat at the strategy table.

#### 4. Manage for Value-Added

Whether through bold inspiration for greater potential or through mere resignation to its fate, HR will ultimately have to align its role and work with these glaring emerging imperatives:

- The operation of a value-based enterprise
- The culture of today's cooperative and empowered workforce
- The potential for post industrial human asset management

The point is to focus the work of the HR staff on creating added value—producing or contributing to a positive impact on the enterprise's performance (e.g., dollars saved, customer satisfaction, service quality, lives saved, etc.); and reducing the consumption of resources used up to achieve the objectives (e.g., money, turnover, waste, illness, injury, equipment, etc.).

As a financial measure, value-added is also open to reasonable estimation and projection into the future. Quite literally, value is determined by what the "buyer" will pay, and this amount is determined in the marketplace. Think of HR's marketplace as the organization and its customers as management—after all, they are the customers of HR's services.

$$\begin{array}{r} \text{Impact on performance} \\ - \text{Consumption of resources} \\ \hline \text{Value-added} \end{array}$$

Implementing the value-based strategy begins with calculating the value-added of every existing HR program or service. Ranked in the order of their value-added, these functions provide HR leaders and their staffs with an entirely new view of HR's role. With such bold efforts, HR clearly establishes its alignment and contribution to the enterprise, escaping some of the defensive strategies otherwise required.

#### The Best Defense: A Strong Offense

The measure of HR's value boils down to this: What is a program, intervention, or activity worth to management? Formulating the answers will help navigate HR to a value-adding future.

Consider the strategy matrix, which illustrates four options for measuring value based on the immediate goal and scope chosen. Note that as the pressure for accountability escalates, the more appropriate strategy also escalates to the next, more challenging level, indicating the inevitable progression toward a value-based HR.

As always, if a service is not worth to the customer what it costs to provide, then either costs need to be reduced to make them less than the value produced, or the service needs to be dropped until a less costly or more valuable approach can be developed.

The key is to pick a strategy and take action to measure HR's value, whether in the form of a claim, a return on investment, a redesigned HR function, or a complete transformation to a value-adding function.

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