

Building the Bridge to Value Creation for Human Resources
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In an emerging economy driven by information and services, value creation is primarily about people. In this environment effective linkage of human resource strategy to organizational strategy followed by effective implementation become critical to organizational success. Human Resource practitioners can play a key role, yet Human Resources is frequently viewed as a cost rather than a key strategic resource. This article explores steps Human Resource practitioners can take to establish their function as a key resource, and their role as primary contributors to the creation of value.

What do we mean by organizational value? On a broad scale value can be described as the sum total of the organization's knowledge, capabilities, operating practices, connections inside and outside, how they fit together, and the ability to marshal these to meet customers' needs (Elsdon, 2003). This can be quantified as the price we could command if we sold the organization. An economist could then go on to calculate this value based on projected future cash flows, adjusted for the time value of money, debt structure and possible synergies with a potential purchaser. These cash flows are driven by the growth and profitability of the organization, both of which are in turn driven by the effectiveness of the workforce. So our **first message to HR practitioners is be ready to speak in this language of business, understanding how value is created and measured.** We can then speak in language our business counterparts such as the CFO or CEO can hear.

Our **second message is to clearly understand the organization's purpose, how this links to business objectives and the role the workforce plays in realizing these objectives.** This role will change significantly according to the stage of evolution of the organization. For example in the early initiation stage of the business, primary emphasis will be on reaching out to potential customers to validate product and service offerings. In later, more mature stages, operating efficiency will likely predominate as a strategic issue. Ultimately there will be a need to revitalize the organization, seeking new directions and opportunities, coming full circle to the workforce needs of the initiation phase. HR practitioners can play a key role in guiding the evolution of the workforce to match the evolving business needs of the organization.

Our **third message for HR practitioners is to quantify the linkage between workforce contribution and value created by the organization.** If this linkage is not established the workforce and the Human Resource function will be viewed as disposable costs, not strategic value contributors. Our challenge is to demonstrate tangible value from investing in the intangible asset of workforce capability. And there is good, solid evidence that speaks to the benefits. For example, Becker et al (2001) showed that a 33% increase in an index describing high performance work systems yielded a 24% increase in market value.

This contribution of the workforce can be characterized at two primary levels, that of the enterprise and that of specific projects aimed to enhance effectiveness. At the enterprise level linkage can be established through the following chain of components: organization performance to workforce effectiveness to workforce processes and workforce resource commitments. Defining value adders and subtractors at each level provides quantification. For example income per employee and attrition costs are examples of a value adder and a value subtractor at the workforce effectiveness level. Hiring manager training and litigation costs are examples of value adders and subtractors at the workforce resource commitment level.

At the project level a modified Kirkpatrick approach works well. This consists of six levels of project evaluation:

Level	Description	Example
1	Reaction and Planned Action (“Smile Sheet”)	Workshop evaluation form
2	Learning (knowledge, skills)	Workshop exercises
3	Performance/Behavior (observed in job setting)	Individual perspectives from surveys
4	Organizational Results (e.g. productivity, revenue)	Organizational or unit output per person
5	Return on Investment (compares benefits to costs)	Ratio of financial gain to investment
6	Prediction (impact of resources on future performance)	Translation of project learning to impact in similar future projects

Before investing resources in workforce development HR practitioners should define the level of measurement sought, coupled with how success of this investment will be determined. Such a process was used to explore the organizational benefits of providing career development services to individuals (Elsdon and Iyer, 1999). In this case a level 5 analysis demonstrated a return on investment of 183% for the provision of the service, sufficient to encourage the organization to continue and further enhance the process.

Our **fourth message for human resource practitioners is to take advantage of emerging simulation and modeling approaches** at level 6 (Elsdon, 2003) that make it possible to explore what happens if we try different approaches to workforce development. Simulations allow such exploration without disrupting the organization. Such simulation and modeling tools can, for example, help guide the allocation of development resources among different groups of employees performing at different levels. They help provide a framework for deciding on the best path forward to drive business success, making it possible for HR practitioners to make a powerful contribution to business partnership.

In applying these approaches the **fifth message for human resource practitioners is to recognize the legitimate interests of multiple stakeholders**: employees, the organization, shareholders, suppliers, customers and local communities. Indeed

balancing these sometimes competing interests leads to the **sixth message that of recognizing and reconciling multiple business and organizational tensions**, such as:

- Balancing employee and shareholder needs
- Balancing resources to address both short-term (performance) and long-term (individual development) outcomes
- Balancing competing resource needs of different internal constituencies such as marketing and organizational development

This brings us to the **seventh message, managing successful project implementation by applying a distinct set of project management competencies and methodologies**. More and more work is being completed through the structure of project teams, due to the proliferation of trends such as virtual teams and complex projects. Achieving work through project management competencies will only increase as a business model, and HR practitioners need to be aware of this trend as well as gain their own skills in project management.

Three key components of project management that the HR practitioner needs to be aware of are the variables of **performance** (the quality of the end product), **time** (the degree to which the work adheres to the formal schedule), and **cost** (the degree to which the work comes in under budget). These three perspectives are basic in their focus, and are often grouped under the term the "triple constraints" of the project. However, the HR practitioner who can embrace the concept of the triple constraint is able to have a language to use when project changes are requested. In essence, the practitioner can now speak of "trade-offs" (one can't change one of the triple constraints without impacting the other two constraints). Working from the framework of the triple constraint, HR practitioners are able to "get their arms around" the complex projects that HR faces: cross-functional, cross cultural implementation of major, time consuming initiatives.

It is not unusual for the HR practitioner to be in a situation where some project management methods are being employed in the company, but there is a concern about quality of the efforts or how to best make the project management methodology available to other divisions or locations. A solution to this challenge is to work towards the creation of a "project office," a central group within the organization whose mission is to create company wide project resources (best practices, process templates, obtain appropriate project software, etc.). In essence, the project office becomes the organization's internal source of project knowledge, and often offers informal or formal mentoring to employees desiring to work within the project model.

In summary, by speaking the language of business, linking and quantifying the contribution of the workforce to the organization's purpose and value contribution, taking advantage of emerging simulation techniques, understanding and reconciling the needs of multiple stakeholders, and using effective project management principles, human resource practitioners can become a key strategic resource.

References

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Biographies

Ron Elsdon, Ph.D., is founder of *Elsdon Organizational Renewal* (www.elsdon.com), which focuses on supporting organizations enhance effectiveness through revitalized workforce relationships and leadership practices. Prior to establishing his practice, Ron was a practice leader for DBM and previously held senior leadership positions at diverse organizations. He is also author of *Affiliation in the Workplace: Value Creation in the New Organization* (Praeger, 2003), a book describing leadership approaches to integrate the needs of the individual with the needs of the organization for the benefit of both.

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