

# Strategic Worth of Human Resources: Driving Organizational Performance

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## Executive Summary

Organizational performance can be measured using indicators in Efficiency, Effectiveness, Relevance to Stakeholders and Financial Viability. In this article, we will show how Human Resources has created strategic worth in organizations we know and how the impact of HR on organizational performance has been measured using the four kinds of indicators. However, Strategic Worth is situational not absolute, and therefore must be judged within each organization.

To create strategic worth, HR must understand what performance is important to the organization, be current in HR expertise on the important issues and lead the organization to better performance. In order to articulate its impact on organizational performance, so that the company knows what has been achieved as a result of HR, it must measure its impact and be a presence at the strategic level.

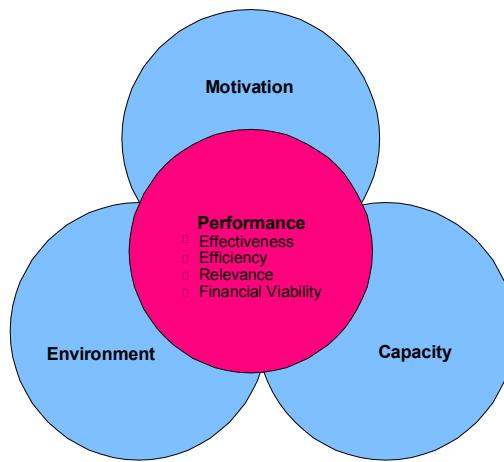
All this only works if HR does the grunt work well on performance issues important to its clients.

## 1. Introduction

In this article, we will show how

- Organizational performance can be measured
- Human Resources has created strategic worth in organizations we know
- The impact of HR on organizational performance can be measured
- Strategic worth is situational, and therefore must be judged within each organization, and not in the absolute.

## 2. How Do We Measure Organizational Performance and the Factors that Affect It?



### 2.1 Organizational Performance Framework

Through a decade of applying and refining the Organizational Performance Framework (see above), we have shown that organizational performance is affected by three major factors. They are the organizational motivation to achieve the performance objectives, the influence and impact of the external environment and the organizational capacity to achieve the performance desired.

### 2.2 Measuring Organizational Performance

Organizational performance itself can be measured in four buckets.

- 1) Relevance; being the degree to which the organization's stakeholders think the company is relevant to their needs. Clients judge the relevance of products or services by buying them, employees by working hard, shareholders by buying and holding shares, and so on.
- 2) Effectiveness; being the degree to which the organization is successful in achieving its strategy, mission and vision.
- 3) Efficiency; being how well the organization uses its resources (financial, human, physical, information)
- 4) Financial viability; being how viable the organization is not only in the short (the next quarters' results) but also in the long term (how long has the company remained profitable? has the company shown an ability to make good long-term investments?)

These four measures of Organizational Performance are affected by the organization's motivation and capacity, and by its interaction with the external environment.

### 2.3 Organizational Motivation

Organizational motivation is composed of the employees' understanding and integration of the company's mission, of the link between the company's history and its current strategy, of the alignment between the company's culture and its strategy, and of the degree to which employees' compensation motivates them to implement the company's strategy.

## 2.4 External Environment

The influence and impact of the external environment is much like the “OT” in a SWOT analysis; the Opportunities and Threats of the external environment. The major nuance we would add is that organizational performance is affected by the degree to which the organization interacts with the external environment. Performance will be increased by understanding the external environment and by using this knowledge to influence the environment in favour of the company's strategy.

## 2.5 Organizational Capacity

The organizational capacity to deliver the performance starts with the capacity of each function (Marketing, Sales, Operations, Finance HR, IT, etc.) to be current and to deliver against objectives. On top of this is layered the capacity of the company's leadership to lead the organization to strategic success. Add to this the company's skill in creating the infrastructure it needs and in building the necessary inter-organisational relations (strategic alliances, government relations, strategic suppliers etc) and you have organizational capacity.



## 3. What Should HR *Do* to Show Its Strategic Worth?

### 3.1 HR Must Take or Lead Actions Which Increase Organizational Motivation

The following are examples of organizations we have worked with in which HR has significantly improved organizational motivation.

- 1) A Canadian Bank appointed a new President who revised the corporation's strategy and clarified its direction. This strategy was communicated effectively. The bank had always prided itself on being people-oriented. So, the President became the champion of a one-week workshop in which managers were trained in how to use emotional intelligence in implementing the strategy. Over a three-year period all managers from all regions went through the course. At the beginning, the managers were doubtful about the seriousness of the bank's intention to apply the strategy in an emotionally intelligent way. By the end, the course participants were overwhelmingly convinced that the bank was serious – and were fired-up about it!
- 2) A pharmaceutical company was implementing a new Enterprise Resource Planning (ERP) system. In conjunction with Human Resources, the Project Manager set out an elaborate change management process, which included communication, team building, and both technical and soft-skills training, to ensure that the new system was implemented effectively.
- 3) An international financial institution is linking its strategic goals with individual performance management and appraisal. When the Board approved a new strategy, it demanded of its management that it build outcome-based objectives, and drive these down to each level of the organisation. It will then link the performance management and appraisal process to the departmental goals. When this is finished, the individual employee will be familiar with the connection between their activities and the institution's strategy.
- 4) The Human Resources Manager of a pharmaceutical company was not a member of the Executive Committee and received a clear message from the organisation that she was not going to be! Rather than sulking in a corner, she promptly stimulated an employee engagement survey to build an HR strategy that would have broad validity and acceptance.

### 3.2 HR Must Demonstrate that it Understands and is Interacting Constructively with the External Environment

The following are examples of organizations we have worked with in which HR has had an impact on the external environment.

- 1) A mining company was setting up a new mine in Northern Quebec in a region exclusively populated by Inuit, who had few of the skills needed in the mine. Instead of relying exclusively on labour flown in from elsewhere, this company spent several years working with the Inuit to put together a Human Resources Development plan, to recruit and train Inuit in the skills needed. By the time the mine opened, there were some Inuit already trained, and the development plan continued until the company had reached an agreed, realisable target of Inuit employment.

- 2) A Canadian-based international pharmaceutical company was renewing its recruitment strategy. Each country's Human Resources Department took on part of the task. The Canadian company was responsible for student recruitment (a very major percentage of the company's recruitment effort). It conducted focus groups of students in different Universities at all three academic Levels (Bachelor, Masters, and Doctorate). From these focus groups, it understood how students perceived the company, how they would go about seeking employment, and what would influence them in their choice of employer. From this the company was able to shape a highly effective student recruitment strategy.
- 3) During the "ice storm" in eastern Canada in January 1998, an aviation electronics company set up an "Inn" in their conference and training facilities. Employees and their families, who had been driven out of their homes by the cold, were able to take shelter at no charge for the duration of the crisis. Up to 150 people at a time stayed in the Inn. They varied from 8 months to 80 years old! HR received more kudos for responding to the external crisis than for any traditional HR activity.

### 3.3 HR Must Build Organizational Capacity in the Company as Well as in Its Own Department

The following are examples of organizations we have worked with in which HR has significantly improved organizational capacity.

- 1) Two insurance companies merged. The smaller of the two built a strategy to deal with the merger and invited the CEO of the larger company to participate in the process. The CEO then used the same process to build the strategy for the company leading the merger. When a new Executive Committee had been formed of people from the two organizations, the CEO led the EC through a team building process that significantly enhanced the unity of the new leadership team.
- 2) A pharmaceutical company was building a new HR strategy. Its first step was to create a steering committee composed of senior managers from the client departments it served. It got them together to approve the process to be used in building the HR strategy. Then this group helped them build the strategy. A year later, the HR department needed to update its structure to implement that strategy. It followed an equally collaborative process to design the new structure. In the new structure, it proposed using new technology to move some responsibilities from HR to line management and to the employees (not the most popular thing to do). The result? Because of the inclusive approach, strategy and structure were easily accepted and implemented, not only by the HR folks, but also by the rest of the company.
- 3) An energy company wished to improve its manager's abilities in the behavioural competencies. It asked its managers who they thought were the most capable employees in each competency. It then put the best person in each competency together with the training specialists to create a team that coached the rest of the organisation in the competencies.

## 4. How Does HR Demonstrate that Its Actions Make a Difference?

The simple answer is to use an HR scorecard to evaluate the impact of the HR Department on the four measures of organizational performance. We have said that organizational performance can be measured by looking at Relevance, Effectiveness, Efficiency and Financial Viability. We will now see how these translate into an HR scorecard.

Some measures of Human Resources Departments' performance, which we have found useful, are listed below. Some of these are based on hard data. Many are measured by asking people what they think. Whether the measurement is based on hard data or perceptions, repeated measurement and comparisons with other companies in the business sector will show whether the HR Department is improving its contribution to strategic worth and is providing relative value for money.

Possible measures include;

### **For Organizational Relevance**

- Management satisfaction
- Employee engagement
- HR's influence on the Management Committee
- HR involvement in strategic planning process
- Line management involvement in HR strategy

### **For Organizational Effectiveness**

- Employee knowledge of mission, values and strategy
- Investment in leadership/management development
- Alignment of performance management to strategy
- Effective performance and career management
- Alignment of incentives to strategy

### **For Organizational Efficiency**

- Trend in revenue/employee
- Growth in income/employee
- Cost of Compensation as percentage of Expenses
- Number of employees per supervisor
- Cost of the HR function as a percentage of expenses

### **For Financial Viability**

- Investment in HR issues
- Investment in HR Department
- Demand for HR services
- HR Headcount
- HR Turnover Rate

## 5. Conclusion

Many of the examples given in this article are not earth shattering in themselves. What is important is that they met a priority of the organization in which they took place. Strategic worth is situational. Initiatives are only relevant if the improvements made have significance for the company. There is no point in being avant-garde in a conservative company that will not accept it. Likewise, it is foolish not to innovate in a company that wants to be amongst the nation's "Best employers". To create strategic worth, HR must;

- Be present at the strategic level
- Understand what performance is important to the organization
- Be current, and lead in HR expertise
- Do the grunt work well on performance issues important to its clients
- Measure its impact
- Articulate its impact on organizational performance, so that the company knows what has been achieved as a result of HR!