The HR Value Proposition

By David Ulrich and Wayne Brockbank
Imagine, for a moment, that you’re the VP of Human Resources (HR) for a big American consumer products company. You realize it’s important to get up from behind your desk from time-to-time and look beyond the walls of your company. So you make a pitch to your company’s sales manager that you’d like to visit with a few key customers to improve your overall line of sight within the marketplace. To avoid wasting your customers’ time, you agree to prepare for these site visits by reading everything you can get your hands on: annual reports, product brochures, etc. Initially, your company’s sales manager is leery of the whole idea. But once you show her how knowledgeable you are, she agrees to set up a meeting with one of your company’s main customers. However, the moment the two of you walk into the customer’s office, he snaps, “I’m busy today! Why should I spend time with you?”
This short story captures the past, present, and future of the field of HR.

“Twenty years ago, it would have been unthinkable for almost anyone in HR to even consider spending time with outside customers,” write Dave Ulrich and Wayne Brockbank, authors of *The HR Value Proposition*. “HR professionals tended to keep their heads down within a company, building staffing, compensation, training, and other programs that focused on employees and kept companies legally compliant. But over the last decade, HR professionals have worked harder than ever before to become real business partners, and to align their work with business strategies.”

However, as the above story suggests, connecting with those outside of your firm as well as those inside is by no means an easy task. People these days are busier than ever, and no matter how
important or interesting HR work may seem to you, if others don’t see your efforts as valuable to them, then your work cannot be justified. It is the receiver of work, not the giver, who defines value in the marketplace today.

“HR professionals only add value when their work helps someone reach their goals,” explain Ulrich and Brockbank. “And in a world of increasingly scarce resources, activities that fail to add value are simply not worth pursuing. Period.”

For those who subscribe to the view that the HR professional’s primary function is to nurture and promote a company’s *moral* values, regardless of marketplace imperatives, these words may seem almost blasphemous. But you might want to cut them some slack – these guys know a thing or two about the evolution of HR. For the last twenty years of their professional lives, Ulrich and Brockbank have been committed defenders
of the HR profession. And they’ve turned this commitment into action through both education and practice, having authored several best-selling books, worked with Fortune 500 copies, and trained tens of thousands of HR professionals at the University of Michigan and elsewhere.

Like it or not, Ulrich and Brockbank are clearly on to something when they say “value is fast becoming the new bellwether for HR.” When others receive value from HR work, HR will be credible, respected and influential. But as the customer in our introductory story points out, gaining new opportunities to create HR value requires that HR professionals be able to answer the question: “Why should I listen to you?”

If you’re an HR professional today – or perhaps even a forward-thinking line manager who worries about intangibles such as human capital and strategy execution – this is one burning question
you must answer: “How will your customers and other key stakeholders, including investors, benefit if they spend more time thinking about HR concepts, and adopting innovative HR practices in their workplace?”

*The HR Value Proposition* offers a blueprint to answer that question, and in so doing, promises to transform the way HR work is done. Drawing on a global study of HR professionals and line managers, Ulrich and Brockbank identify fourteen HR criteria that have the greatest impact on value creation, and outline how we can build them.

**The Fourteen Criteria For Creating HR Value**

Each of these criteria can be used as a self-assessment tool, or an assessment of your HR department. They are the milestones on the HR Journey we need to take.

1. As an HR professional, do you understand
how global changes in technology, economics, and demographics affect your business?

You need to go beyond sensing in general terms that the external world is changing and be able to talk to your business colleagues about specific changes and how they affect the business. Saying “the world is changing” and being able to engage your customers in a substantive conversation about their changing world are two different things!

2. To what extent does your work as an HR professional or line manager link to the particular “intangibles” your investors value?

Investors in for profit firms show up as stockholders. In not for profit firms they show up as donors, political allies, and financiers. You must pay attention to these investors. Increasingly they’re not just looking at tangibles, but also at corporate reputation. The intangibles represent about 50% of the market value of a firm. As an HR
professional you must learn to play “the intangible game.” When HR folks can help investors have more confidence in the quality of organization, they will have a stronger belief in the future of the company.

An intangibles audit can be used to assess how well intangibles are being delivered, and create an action plan for improvement. This valuable self-assessment tool, which can be customized as required, is designed to help HR leaders evaluate their organizations along four core dimensions:

1. Keeping promises (e.g. to what extent do we keep our promises to investors by delivering consistent and predictable results?);

2. Strategies for growth (e.g. to what extent have we articulated a primary growth strategy, and do our stakeholders understand it?);

3. Core competencies (e.g. to what extent do we invest in the core competencies most
relevant to our growth strategy?),

4. Organizational competencies (e.g. do different areas of our organization collaborate well to generate both efficiencies and leverage?).

HR professionals can be the prime movers behind these audits in collaboration with line managers and other staff experts.

3. Do you use HR practices and techniques to build long-term connections with your target customers?

From your customers’ perspective, value comes not only from products and services, but also from relationships. Long-term customers often find parity in price and product mix, then differentiate based on relationships. And those 20% of the customers who represent 80% of your revenues deserve extra special attention.
HR professionals can and should play a major role in connecting with those target customers. By including key customers in traditionally internal practices, they become more bonded to you. For instance, key customers could be involved in staffing by helping define the criteria for future employees, by recommending future employees, or by interviewing potential employees. They may also be involved in training by designing the curriculum, by attending the courses, or by helping teach the courses. Or they could even be involved in rewards by defining the standards for performance.

The bottom line is that when you go outside to create intangible value for your investors and key customers, you can deliver enormous value to your organization.

4. Do you create value for line managers by helping them to use organizational capabilities that will turn strategy into action?
In recent years, organization changes have focused on downsizing, restructuring, and reengineering. All of these efforts are viable and worthy of attention, but all are based on an unfair assumption that bureaucracy is a cost that must be cut. Ulrich and Brockbank prefer to think of bureaucracy as a capability that can be leveraged. “When you think of an organization,” explain the authors, “you don’t usually think about how many levels of management it has, how it is organized, or how it manages its processes. Instead, you think about its identity, its reputation, and what it is good at doing. These factors are the capabilities of a firm. The capabilities of a firm represent both the deliverables of HR and the intangibles that investors value and the shape the connection that customers value.”

In the authors’ view, it is therefore far more productive to re-wire line managers’ concepts of the organization away from structural solutions
(e.g. downsizing or re-engineering) to capability-based solutions, such as learning, collaboration and talent management. For example, without fundamentally altering the structure of your organization, it may be possible to use collaboration to drive efficiencies by sharing ideas and resources across departments and internal boundaries. Collaboration permits an organization to be much more than the sum of its parts. HR professionals can help build collaboration by promoting, highlighting and rewarding positive examples of where it occurs throughout their organization.

HR professionals can also track and measure collaboration by monitoring the flow of talent across existing boundaries in their organization. If people aren’t readily moving from one area to another, perhaps that’s a sign of a larger problem. Also, are ideas or practices from one area of the firm being replicated elsewhere? If not, why not?
HR professionals can help get to the root of such problems, and find ways to better use existing organizational capabilities without dramatic reorganizations.

5. To what extent do you have a clear employee value proposition that lays out what is expected of employees and what they get in return?

An “employee value proposition” is created when employees who give to the firm get something back from the firm. For example, employees give by providing competence and commitment to the organization. In return those who are competent and committed should get back good things like meaning, vision, money, and opportunities to learn and grow. Your challenge and opportunity as an HR professional is to ensure that your company maintains an employee value proposition. Employees who contribute to the firm should get back from the firm.
6. **Do your staffing practices add value?**

Clearly, HR must take the lead in managing the flow of talent in, through, up, and out of an organization. When the flow of people in an organization is right, investors have confidence in management, customers build relationships of trust with key employees, and line managers are assured that their strategies will be accomplished. Staffing brings people into the organization, and it is without question the single most important HR practice. If you find yourself with inadequate personnel, all of the training and incentives in the world will not complete their makeover. Your people must have the abilities needed to do not only today’s jobs, but tomorrow’s as well. So no matter how large your potential talent pool may seem, it’s always critical to fish out the right candidates and keep them hooked.

At the same time, managers are facing a real
paradox in that hiring is more critical than ever, but hiring decisions are rapidly declining as a differentiator of long-term performance. This is logical, though somewhat counterintuitive. If you don’t try to get the best people, your company will fail. However, your competitors are also trying to find the best and brightest, and they’re probably doing about as well as you are. So what makes the biggest difference is not who you hire, but rather what you do with them afterwards. And that doesn’t just mean retaining them. It means motivating them and creating an environment where they’ll contribute optimally to business success. That’s what the next set of criteria is about.

7. **Do your performance management practices add value?**

Through performance management, employees face positive and negative consequences for their
performance and become accountable for it. HR practices that drive performance include setting standards and offering financial and non-financial rewards. Setting standards (also known as performance indicators) is the first step in the process. Unfortunately, people often tend to measure what’s easy, not what’s right. For this reason, standards and measures must be closely aligned to your company’s overall strategy. In addition, to encourage employee collaboration, it’s important to balance some measures for individuals, and some for teams. Your measures should also be clearly prioritized. Concentrate on those that matter most to your stakeholders. Lastly, be sure to set stretch targets that demand high performance. What rewards should be offered when standards have been achieved, or exceeded? Non-financial rewards such as recognition, praise,
empowerment and on-the-job perks (such as a concierge service) are increasingly important these days. But when all is said and done, say Ulrich and Brockbank, it all still comes down to financial rewards. Money may not be everyone’s top motivator, but it does affect everyone to some degree. Economically, money enables employees to develop a lifestyle that suits their needs. And psychologically, money can help convey a feeling of personal worth or self-esteem. Money is impossible to ignore.

Designing and delivering a modern compensation program requires a compensation philosophy. What are the goals of your program? What percentage of compensation should be in-play, and what should be base salary? How do you want to target the compensation of employees relative to the market? What’s the best mix of on-the-spot compensation (e.g. year-end bonuses) versus long-term equity (e.g. stock options) in your
firm’s compensation program? At the end of the day, whatever your compensation system looks like, Ulrich and Brockbank stress that it should be transparent to your company’s key stakeholders, including investors and customers, so they have confidence in what management is encouraging and rewarding. The authors ask: “If one of your customers was asked to design a performance appraisal form that defined the model employee he or she would like to see, would it look like the appraisal form you are currently using?”

8. Do you share HR information effectively?

Within any organization the flow of information sends signals about what matters most. Information allows a company to identify and meet the demands of competitive markets, creates company value in the eyes of customers and shareholders, and enables a company to find its place within the community.
As such, the flow of information helps to drive the flow of value. Investors, customers, line managers and employees can only value your organization on the basis of what they know about it, either from personal experience or from reading and listening. And since first-hand experience is frequently limited to relatively small groups within a large organization, the authors say it’s important for the organization to make sure the word spreads through other means. That’s where HR fits in.

Virtually all HR practices have an important communication component; they reveal what the company really is and does. That’s why corporate messages, leadership communications and HR signals must be in sync with one another. It’s a major problem if your company’s leadership says you’ll go in one direction, while HR continues to hire, train, promote, measure and reward people for going somewhere else. Also, HR may wish to
champion a communications audit to determine whether employee perceptions are consistent with those of management.

9. Do your HR “work-flow practices” (e.g. determining how and where the work is done) add value?

Organizing work so it’s done both efficiently and effectively can come from insightful HR professionals who are gifted both in managing teams, and in designing modern work processes and settings. To illustrate this concept, the authors point to an emerging area of HR practice known as workspace management. Workspace design sends an important cultural message about the company’s values. It also enhances productivity and increases employee retention. For example, little things like natural lighting in office spaces can help people connect with the outside world, and prevent the irritation
that naturally occurs in closed-off rooms (you see this often in seminars, where after a few hours in a windowless hotel ballroom, people start to get edgy without knowing why).

In addition, color can be used to evoke mood and action. Some companies deliberately choose light colors to create an open and cheery feeling. Moreover, attention to proper ergonomics and managing the physical demands of work will also pay off, both in a healthier workforce with fewer sick days, and in increased morale.

10. Do you have an HR strategy? Is it aligned with the business strategy?

“You need to think of HR as a business, and a business must start with strategy,” says Ulrich and Brockbank. “Your HR strategy should not be an afterthought to your company’s strategy. It should be an integrated component of what your business is doing, and help every line manager know that
aspirations will lead to actions.”

Your HR strategy need not be overly complicated. It begins with an analysis of the business environment, moves to an identification of your company’s main competitive advantages, and concludes by identifying the three or four key HR practices that will help maximize your company’s chances of success (in their research, the authors found that it is almost impossible to fundamentally alter more than three or four HR practices over the course of a year or two).

As noted in the earlier sections, the menu of HR practices basically falls into four categories: (1) flow of people, including staffing and development; (2) performance management; (3) flow of information; and (4) flow of work, including physical arrangements.

11. Is your HR department aligned to implement your HR strategy?
With an HR strategy in place, your HR function can now be organized appropriately to implement the plan. Structure must follow strategy.
In terms of structure, these days, HR organizations are often being split in two. Much of HR work deals with the administrative and necessary processes for organizations to operate. People will always have to be hired, trained, paid, and given benefits. Yet, many of these tasks are routine transactions that can be done more efficiently by others.
Leading edge firms are increasingly contracting with outside service centers to carry out these typically non-strategic functions. The basic criterion for most of these administrative tasks is efficiency – i.e. doing more with less. With such efficiencies, your HR department can reduce costs and add value for investors and customers. But HR is also about transformation not just transaction. As HR professionals help line
managers deliver strategy through capabilities; employees gain abilities, customers develop relationships, and investors increase confidence, they transform the way work is done. Thus, the authors would argue that the transformation of HR does not end by outsourcing routine tasks, or implementing new technologies. That’s just the beginning. Transformation requires a complete overhaul of the HR department to ensure that it is configured to deliver on strategy.

12. Do you develop human capital as a top priority?

In the early 1990’s, Ulrich and Brockbank first wrote about four roles for the new HR: strategic partner, change agent, employee advocate, and administrative expert. At that time, each of these roles defined the deliverables of HR: strategic partners helped make strategy happen; change agents managed
change; employee advocates nurtured employees, and administrative experts did HR basic work efficiently.

In today’s value-driven world, these roles have already shifted somewhat. We still need employee advocates who care about, defend, and manage employees.

But, as intellectual capital becomes ever more scarce and the war for the right talent continues, we also need HR professionals who are expert at developing future human capital; who envision what individual abilities will be required of the organization in the future and finds way to get them. That means doing regular audits in partnership with line managers to identify competency gaps in the organization, and then taking steps to take to fill those gaps.

As human capital developers, HR professionals must focus squarely on the future, often one employee at a time, by developing plans that offer
each employee an opportunity to develop his or her future abilities, and by finding ways to match individual desire with organizational opportunities. The role also includes helping and coaching employees unlearn old competencies and master new ones.

At times, these employee development plans may be carried out online through an employee intranet portal where company opportunities are listed and employees ascertain if they are prepared for the opportunity. At other times, employee development conversations would occur through formal HR programs like performance management. The point is to set-up development experiences that employees can readily access, through both formal and informal means.

13. Are your HR department staff competent and up-to-date?

The authors have collected data for almost 20
years from nearly 30,000 people on what makes for a competent HR professional. They have collected this data in waves and across nearly all continents. According to their research, the five basic competencies are:

1. Strategic capability: Everyone in the HR department must help your company deliver on its overall business strategy. That means everyone from the HR department manager down to the receptionist;

2. Personal credibility: HR professionals must strive to gain and maintain the trust of those they serve. Is your entire HR department trustworthy?

3. HR mastery: All HR professionals must become subject-matter experts in their chosen domain;

4. Business literate: HR professionals must communicate in business terms. Does everyone in the HR department speak your
company’s lingo?
5. HR systems: HR professionals must stay abreast of new HR technologies.

14. Do you continually invest in yourself as a modern HR professional?

HR managers need to continually invest in learning through reading, listening, observing, and practicing. Formal training courses will always have their place. But even with the best use of adult learning principles, and the most carefully selected courses, organized educational experiences typically still leave something to be desired. The courses you take as an HR professional need to be enhanced by on-the-job developmental opportunities – that is by reading, listening, observing and practicing. Visit your colleagues whose opinions you trust to solicit suggestions for your reading list, and read
with purpose. Be constantly inquisitive. Volunteer for tough assignments, especially those outside of your comfort zone. This will force you to learn and grow as a manager. You may eventually want to keep a simple learning journal, to determine how you’re progressing and list future goals.

**A Final Word**

Dave Ulrich and Richard Brockbank believe that a fundamental transformation of HR starts with a fundamental re-definition of HR value: who are the receivers and how will they benefit from HR services. It also requires a complete picture of all the elements of HR transformation, so that reform does not occur in a piecemeal fashion. The thrust of their book is that HR professionals must improve their knowledge of the financial side of their business, and develop a better understanding of investor concerns. Armed with this knowledge they will be better able to quantify and develop the HR offerings that really make a
difference to bottom-line corporate performance. When HR professionals begin with the receiver in mind, they can more quickly emerge as full strategic contributors; add greater value for key stakeholders; enhance business productivity; achieve measurable and valuable results; create sustainable competitive advantage; and above all, have more fun in their careers.