

HR is far too obsessed with adding value. Would it not be better for HR departments and HR professionals to concentrate upon the 'risk reduction' aspect of their policies and functions?

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2 Executive summary

This paper provides an analysis of the current trend in HR practice towards demonstrating added value. This is done by evaluating the HR function and investigating the value adding elements of HRM in comparison to its risk reduction attributes. The results of this analysis show that whilst HR functions do add value, they also help identify risks, thus enabling the development of strategies to reduce the impact of these risks.

This paper suggests the reasons for the emphasis upon the adding value aspect of HR is because of HR professionals desire to be involved at the earliest stages of the decision making process. This paper concludes by opposing the view that HR professionals should become preoccupied with showing added value, arguing the strategic importance of HRM reveals itself overtime.

3 Introduction

The Human Resource department is just one of several departments which are vying for input at the strategic level of the decision making process within organisations. If the HR department can demonstrate its value and contribution to the organisational objectives, it is likely to gain a position on the executive board where it can ensure a continuous and consistent inflow of resources (Yeung and Berman, 1997).

Value-driven HRM Almost inevitably, this has led to some HR specialists practicing a value-driven HRM, where all HR policies are tested by the extent to which they can prove added value; driven by the aspiration of becoming or maintaining its position as part of the top management (Brewster and Harris, 1999). Although being part of the board is beneficial in terms of being able to contribute to strategy, becoming part of the board should not be the overriding objective of HR departments.

HRM encompasses many different functions, all of which contribute value in various ways to the organisation. Many of these functions also contribute to the organisation in terms of reducing risk. This report will firstly examine what the key HR functions are and subsequently consider the extent to which these functions add value and reduce risk. Following these assessments HR role in strategy formulation will be discussed and finally what HR professionals should do to strengthen their position.

4 Key HR functions

The role of HRM within organisations varies greatly between organisations and countries. Due to constraints in terms of the length and detail of this paper, it will be assumed that HR departments play a key organisational role through the following five core HR activities;

- Core HR activities**
- Resourcing
 - Training and development
 - Reward systems
 - Communications
 - General administration

Resourcing refers to the recruitment and selection of employees within an organisation. Resourcing is one of HR departments key roles, as linked in with resourcing is the concept of knowledge management and talent management. Through training and development, the HR department is able to develop the talent that it has selected enhancing the employees' competencies. Through appraisals and reward systems, HRM acts as a motivator to employees. At all times the HR department plays an important role in communicating management prerogatives to the workforce and is involved at the basic administrative level in a number of different forms.

Therefore it has been demonstrated that HR departments are explicitly concerned with people management and planning; anticipating future changes in the workforce to ensure appropriate people are working within the organisation (Roger and Rîve, 2004).

Employees are assets and liabilities Many HR writers (such as Harris and Brannick, 1999) add weight to the cliché that 'people are a companies greatest asset'. However it can also be said that employees are organisations greatest liability, as the Texas based CRM consultants Teligenix say; 'a business is only as good as its weakest employee'. Essentially the way in which employees are viewed; either as most valuable assets or greatest liabilities, may change the way in which the contribution of HR is seen; value added or risk reducing.

5 HRM as a value adding function

A significant amount of HR literature has examined how HR adds value to organisations. The research has shown there are clear links between HR practices and company performance, however the greatest problem has been quantifying in real terms value added.

Empirical evidence Appelbaum et al. (2000) investigated the link between high performance work systems (implemented through HRM) and company performance. The results of the study showed that HRM helped employees in three vital areas; ability, motivation and opportunity. HR departments provide opportunities for employees to receive relevant training (through emphasising learning), provide motivational rewards and give employees opportunity to contribute to decision making. Workplaces such as this can be described as implementing high performance work practices (Jones and Wright, 1992). Huselid (1995) investigated the relationship between high performance work practices (HPWP) and corporate and financial performance and proved empirically that the practices have a significant impact upon labour turnover and productivity, as well as both short and long term financial performance.

The research of Huselid (1995) and Appelbaum et al. (2000) and others (such as Yeung and Berman, 1997) support the idea that HRM policies can indeed add value to organisations. If the five general areas of HRM (proposed in section '4. Key HR functions' page 4) are considered, several ways in which HR policies add value in these areas can be discussed. The unique way in which HR departments add value to organisations is the recruitment of employees who have the appropriate competencies and fit the organisational culture. Furthermore, the role of the HR departments in training and development (TD), and implementing suitable reward systems are another way in which HRM adds value. This is because TD, appropriate reward and appraisal systems can have the effect of motivating employees and encouraging them to be innovative. The impact of HRM in each separate area is difficult to show empirically, however research by Huselid (1995), Yeung and Berman (1997) and Appelbaum et al. (2000) show a positive correlation between cumulative HR policies and company performance.

Within organisations that have HR involvement in the five general HR areas previously mentioned there are likely to be several noticeable advantages. The outcomes of hiring appropriate people for the job should be low absenteeism, low labour turnover and hence a preservation of tacit knowledge within the organisation. If appraisal systems are carried out successfully they can have an excellent effect upon motivation. Through successful career planning HR departments can help employees reach their full potential and develop organisational leaders. Hughes and Beatty (2005) put a strong emphasis upon developing leaders through HRM stating it is absolutely

vital to the success of organisations. HR professionals designing reward systems such as payment by results (PBR) or performance related pay (PPR) encourage employees to be more productive and enable the organisation to be more flexible.

Through this brief discussion, it has been demonstrated that HR does unquestionably add value to organisation effectiveness and this can be shown empirically and in functional terms. However, whilst HRM certainly does add value it can also be shown that HRM reduces risk for the organisation just as much as it adds value to the organisation.

6 HRM as a risk reducer

Although employees are a key source of sustainable competitive advantage for businesses, human capital costs often make up the largest part of company investments. Whilst HRM involves the management and development of a key source of sustainable competitive advantage, HR departments also act as a means of reducing risk for organisations. HRM reduces risk within organisations through its activities in resourcing, training and development, reward systems and through its communications with the workforce. Essentially, risk reduction is related to risk management as risk reduction is the process of identifying risks and then developing strategies to reduce the impact of these risks (Wikipedia, 2005).

Good recruitment Holbeche (1999) states that HR professionals should apply risk management techniques to HRM tasks. Holbeche argues that recruitment is an area where there is a high amount of potential risk as if it is done quickly and without care the wrong sort of employees can enter an organisation. The effect of this upon organisations can be disastrous and this threat is heightened within the public sector where it is relatively difficult to dismiss employees. According to Roger and Rive (2004) it is virtually impossible to dismiss employees in the French public sector and thus supervisory managers have the 'bad eggs' transferred to different regions. Incredibly this has led to mistrust amongst regional managers because the employees are given outstanding report to ensure the employee is successfully transferred! Although the example of the French public sector is an extreme, the amount of resources which are being wasted as useless employees are systematically passed around France is unimaginable.

Reducing labour turnover If recruitment is not done carefully it can also result in high labour turnover. Wal-Mart had a labour turnover of 66% in 1999 and through focused HR strategy was able to cut this to 44% in 2003 (Peterson, 2005). Peterson (2005) recognised that the HR department demonstrated value through helping reduce labour turnover. However in as much as it added value, it can also be seen to have demonstrated risk reduction. Russell (2005) states that the Saratoga Institute estimates the cost of replacing employees can be 150% of the annual salary of the position. Russell therefore argues that hiring the appropriate people from the beginning can save organisations considerable expense.

Reducing absenteeism Through HR resourcing appropriately, it is able to reduce the amount of risk an organisation is through recruitment. However, even when exposed to employees are in a job which they have the correct competencies for, high levels of absenteeism is prevalent in many organisations. Attersley (2005) argues that absenteeism has become a widespread problem, and as 75% of a typical firm's annual operating budgets are spent on human capital costs, absenteeism can cost companies millions of pounds. Attersley concludes that this rise in

absenteeism provides an opportunity for HR departments to demonstrate their value. Absenteeism is also an excellent way that HRM can reduce the risks that employees pose to wasting organisational resources.

Motivating employees

Inefficient and unproductive employees are a liability and pose a risk to organisational competitiveness. Russell (2005) quotes that the Gallup organisation estimates that only 25% of employees are engaged in their work. Through TD, appraisals and PRP reward systems, employees can be encouraged to be much more efficient. If employees are not engaged at work, there is the possibility that they are not being pushed enough. Training and development would enable employees to further their skills, whilst appraisals or PRP would encourage employees to reach targets which would act as a motivator.

Facilitating communication

HRM is also an essential risk reducer because it can enhance communication between senior management and the workforce. According to Bryson (2003), the stability of a workforce is essential, and HRs contribution to this, although difficult to measure, helps reduce risk. Bryson states that particularly in mergers, HRM strategies are used to reassure employees and to give job security. The fact that HR departments help in times of organisational change to enhance communication channels suggests that without the HR departments, organisations would seriously lack basic organisational capabilities which threaten the viability of implementing change.

Consequently, it can be seen that the HR function has a position within organisations which whilst adding value in a variety of ways, also helps reduce risks.

7 The role of HRM in value adding and risk reduction

It has been necessary to show that HRM does contribute to organisational effectiveness in two ways; through adding value and reducing the impact of risks associated with employees. It can be seen that through the variety of HR functions that exist, the impact that the functions have upon the organisation can be viewed as either value adding or risk reducing. For example, hiring good employees will add value as these employees can be developed through other HR practices. At the same time hiring good employees can also be seen as risk reducing because if recruitment is done precariously it poses an acute risk to the organisation. Similarly whilst appraisal can add value through motivating employees it can also serve as a means of weeding out employees who are shirking (a risk reduction method).

Revisiting the question Therefore, the question of whether HR is too obsessed with adding value can be considered, as it has been shown that HRM both adds value and reduces risk. Another way of asking this question could be; *'why do HR professionals not emphasise the risk reduction aspect of their policies and functions as much as the value adding aspects and functions?'* Phrasing the question in this way leads back to the beginning of this paper and concept of value-driven HRM.

7.1 HR involvement in strategy formulation

Whilst it is important for HR professionals to show they contribute to organisational success, too much emphasis has been put upon the value adding side of HRM. The development of value-driven HRM is better understood when the findings of Buyens (1999) are considered. A research project of 400 HR directors in Europe was undertaken to determine which part of the decision making process they were involved in (figure 1).

Figure 1

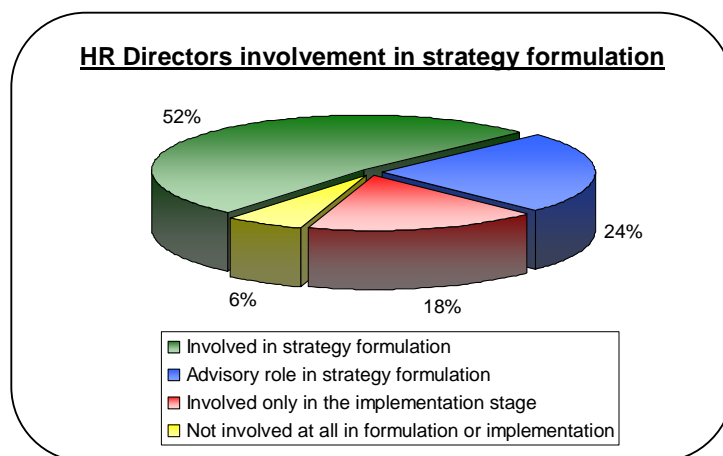


Figure 1 Buyens D. (1999), The added value of the HR-department. In Brewster and Harris. *International HRM: Contemporary Issues in Europe*. Routledge.

Buyens investigation reveals that only 52% of HR directors are involved in strategy formulation. Because just under half of HR departments are not involved in the strategic decision making process it is understandable there has been a focus upon proving how HRM tangibly adds value to organisations. Obviously if HR professionals can demonstrate how HRM adds value to organisations they are more likely to be involved in the strategy formulation. Although HR departments do contribute to organisations through risk reduction, the reduction of risks is not as tangible or as easily quantified as value adding.

7.2 How HRM can demonstrate its value

Brewster and Harris (1999) propose a model for how HRM adds value which offers insight into the various ways in which HR professionals can demonstrate their worth. Within this model (figure 2) time is used as the determinant of the HR involvement. According to Brewster and Harris, HRM should attempt to be involved in all four time phases ranging from very early to very late in the strategy formulation process. If HR professionals concentrate too much on one position, it will lead to disparities in HR policy which ultimately will reduce the effectiveness and the cumulative added value of the HR practices.

Figure 2

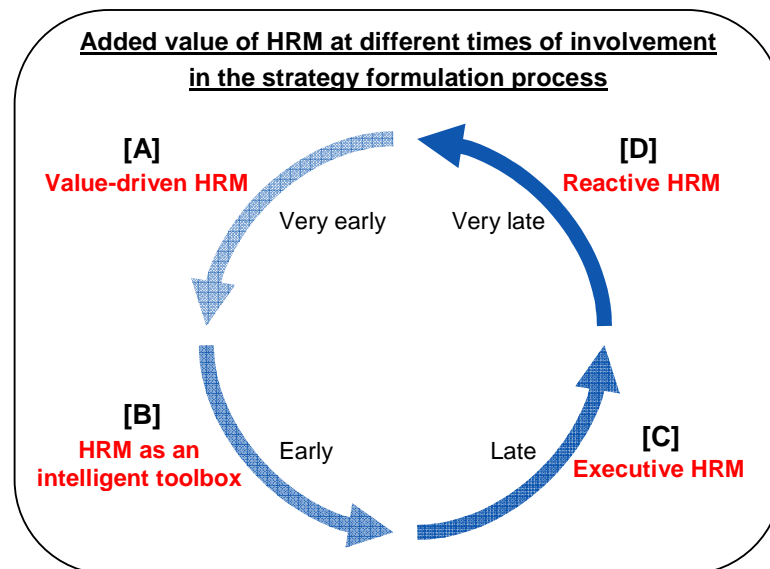


Figure 2 Brewster, C. and Harris, H. (1999), International HRM Contemporary Issues in Europe. Routledge.

The Brewster and Harris model (1999) provides the aspired position for HR professionals to be in; operating effectively in all time periods. Early involvement of HRM in the strategic decision making process is

important as it enables HR professionals to influence board decisions [A]. But HRM is also used as a means of implementing decisions that have been made [B]. Furthermore, HR professionals operate at the later stages in the implementation stage through HR functions such as in communication and recruitment [C]. Finally, HR departments need to react to situations, adding value to organisations through noticing things that are not going as planned and using HR techniques to rectify problems [D].

The model in figure 2 demonstrates that HR departments and professionals add value in a variety of ways. Although HR professionals often aspire to be involved in the earliest stages of strategic planning, the work of Brewster and Harris (1999) shows that HRM also successfully adds value through involvement at later stages of the decision making process. The area of reducing risks would come under 'HRM as an intelligent toolbox' [B], 'Executive HRM' [C] and 'Reactive HRM' [D]. Throughout HRM being at work within organisations, it is constantly adding value through helping to reduce risks. The ways in which HRM does this have already been discussed however it is useful to have been able to merge the concept of risk reduction into the model of Brewster and Harris (1999) on how HRM adds value to strategic decision making.

8 Conclusion

8.1 Summary

In conclusion therefore, it has been shown that HRM does help organisations reduce risk whilst at the same time adding value. The work of Huselid (1995), Yeung and Berman (1997) and Appelbaum et al. (2000) all show a positive correlation between cumulative HR functions and business performance. Additionally, it has been suggested by Brewster and Harris (1999), that HR professionals can have the greatest amount of impact and add the greatest amount of value, if they are involved at the earliest stages of strategy formulation. This has led to what some (such as Glée, 2005) refer to as an over emphasis on specific HR functions which can tangibly and empirically show added value. HR professionals should not only concentrate upon the risk reduction aspects of their policies in the same way they should not concentrate upon the value adding aspects. HRM is an irreplaceable management resource, pivotal to business success, which should be involved at all stages of the decision making process, free to fulfil its functions without having to quantify the value added or risk reduced on every function. A drive by HR professionals to become part of the executive board leads to the danger of HR departments losing focus upon the more reactive and risk reducing aspects of HR policy.

8.2 Recommendations to HR professionals

Although HR professionals should attempt to be involved at the earliest stages of strategic planning, (in order to add the most value to organisations), this should not be the overriding objective. The research of Buyens (1999) into HR professionals demonstrates that around half of HR directors are not involved at the strategic decision making stages, and are involved rather in advising and implementing decisions that have already been made. Whilst this means that the HR departments are not able to have the greatest impact upon organisations, the opportunities given to HR professionals are still opportunities for HRM to demonstrate its worth and reduce risks. It stands to reason that as time goes on, HR departments will naturally demonstrate their value through reducing risks and operating efficiently and this should result in the importance of HRM being recognised universally. The result of this is likely to be organisations involving HR professionals at the earliest stages of the strategy formulation. Although this will take time, if too much focus is put upon HR departments demonstrating value in the short term, the danger is that HR practises will be devalued as risk reduction strategies are given less of a priority which could be extremely detrimental to organisational success.

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