

A North Star for Human Resource Executives

As human resource executives, many of us spent a good part of our careers leading HR departments. We are well-intended – pushing ourselves to add value for the people and organizations we serve.

Our companies entrust us with – and identify us by – traditional HR responsibilities: from recruiting and onboarding to benefits enrollment, performance management, compensation administration, training, job evaluation, and more. We constantly adjust to events in the business environment such as recession, minimum wage hikes, the war on talent, and new regulations such as the Affordable Care Act. Unfortunately, we often respond to these challenges from a siloed viewpoint that reflects minimal coordination across the HR and business functions.

Best-in-class HR emerges from a thoughtful and comprehensive company-wide response. For example, a best-in-class response to the 30-hour provision of the ACA would include modeling several workforce scenarios, so HR, finance and operations leaders can discuss adjustments to their business, people, and reward strategies. Change management techniques are then used to optimize employee engagement, public relations and other short- and long-term perspectives.

How can HR move from good to better to best-in-class? The transition starts with an understanding of the current enterprise. In *Orbiting the Giant Hairball*, Gordon MacKenzie describes a corporation as a giant hairball: a bureaucracy with an entangled pattern of behavior. Change requires “orbiting” the hairball (even for short periods) to push the boundaries of ingrained corporate patterns so you can see what transformational possibilities exist.

Our model for untangling the hairball is to focus on several key principles and objectives and to use a guiding North Star to follow toward a best-in-class HR function.

Aligning Business Strategies Across All Functions

In today’s volatile economy, employees are the key differentiator. There is growing recognition that employees are assets worthy of future investment more than costs to be managed. In short, employees are the human capital of the organization.

To best manage human capital, companies must align and integrate business, people, and reward strategies. This requires integrating work across business operations, finance, and HR functions. Figure 1 illustrates how business operations and finance complete annual business plans in partnership with HR. In turn, HR is responsible for talent management, workforce planning and rewards that ensure successful achievement of business goals.

HR determines if a company has the right people in the right roles to accomplish its plans, and how suitable recruitment and talent management strategies can best support future business objectives.

Figure 1



As part of the management strategy, HR also ensures employee rewards foster and sustain engagement and drive business results. The rewards in which employers invest on behalf of employees – the Total Rewards Strategy – typically include employee compensation, benefits, learning and development, and perquisites.

While companies typically evaluate business capital investment decisions by comparing incremental revenue generation with incremental operating expenses, we rarely consider human capital investments in this light. More commonly, we view these expenditures as operational costs, and neglect the incremental business revenue they may generate.

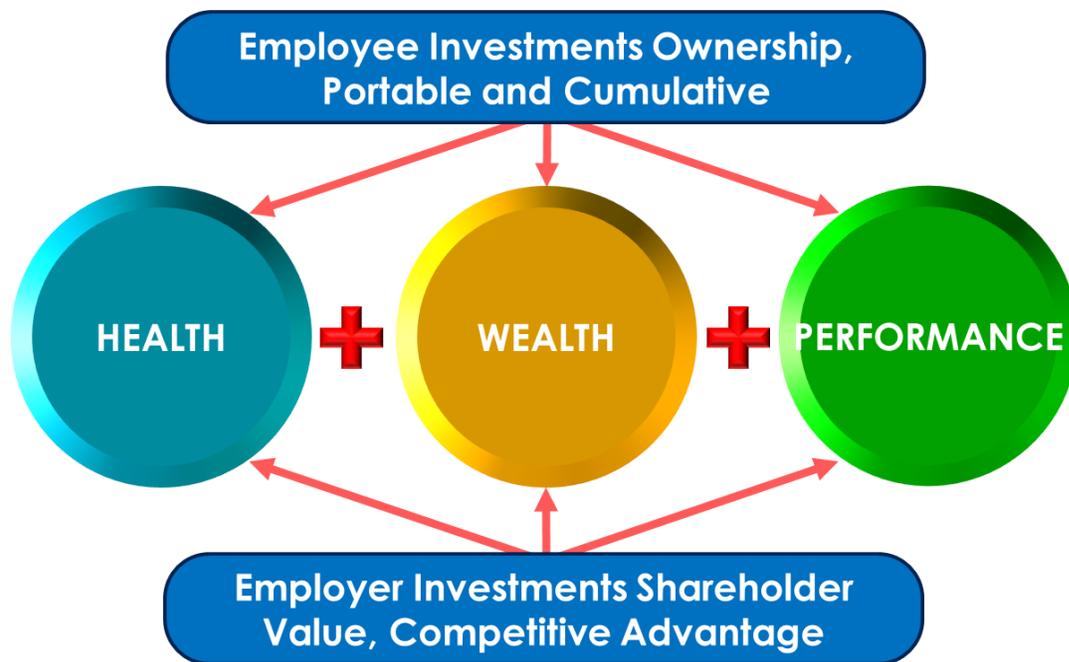
As Figure 1 illustrates, human capital investments include investments in employee health, wealth and performance. We propose viewing these investments in the same light as other business investments.

Human Capital Assets and Personal Value

Each employee owns his or her own health, wealth and performance. Both employers and employees make ongoing investments in these assets, and both benefit from the investments (Figure 2).

For employees, their investments yield benefits such as transferable skills, talent, and health and financial assets. Employer benefits typically include a more engaged workforce, improved productivity, and increased shareholder value. To be successful, both the employee and employer must embrace their respective and mutual accountabilities. Their alignment drives improved outcomes for both the individual and the company.

Figure 2



To see specifically how health, wealth, and performance affect each other, consider their impact from both employee and employer points of view:

- **Employee:** There's an adage: "You can't save enough to pay for poor health in retirement, and it will take you longer to get there." When employees invest in their own health early, they can offset healthcare costs during retirement, and may well shorten the time to retirement. Conversely, if employees don't manage their health well and don't wisely use the investments the employer makes in their health, their out-of-pocket healthcare costs are almost certain to escalate, impairing performance now and reducing wealth accumulation now and in the future.

- **Employer:** Employer investments in employee health have tangible business benefits. Consider the increase to shareholder value if the company could increase the output of the top 15 percent of its high performers by 10 percent. Rather than getting employees to work longer hours (a poor prescription to improve performance), enhancing employee energy, resilience and vitality improves work capacity and quality. Thoughtful investments in workforce health and well-being increase shareholder value. Simpler HR practices, supplier strategies that leverage technologies to reduce time-draining inefficiencies, and other measures to improve the employee experience also could improve work outputs for high performers (indeed for all workers).

Health, wealth and performance assets are mutually reinforcing. For employees, the sum of health, wealth and performance is personal value (Figure 3). For employers, the sum of employee PV is the human capital of the enterprise (Figure 4).

Figure 3



Figure 4

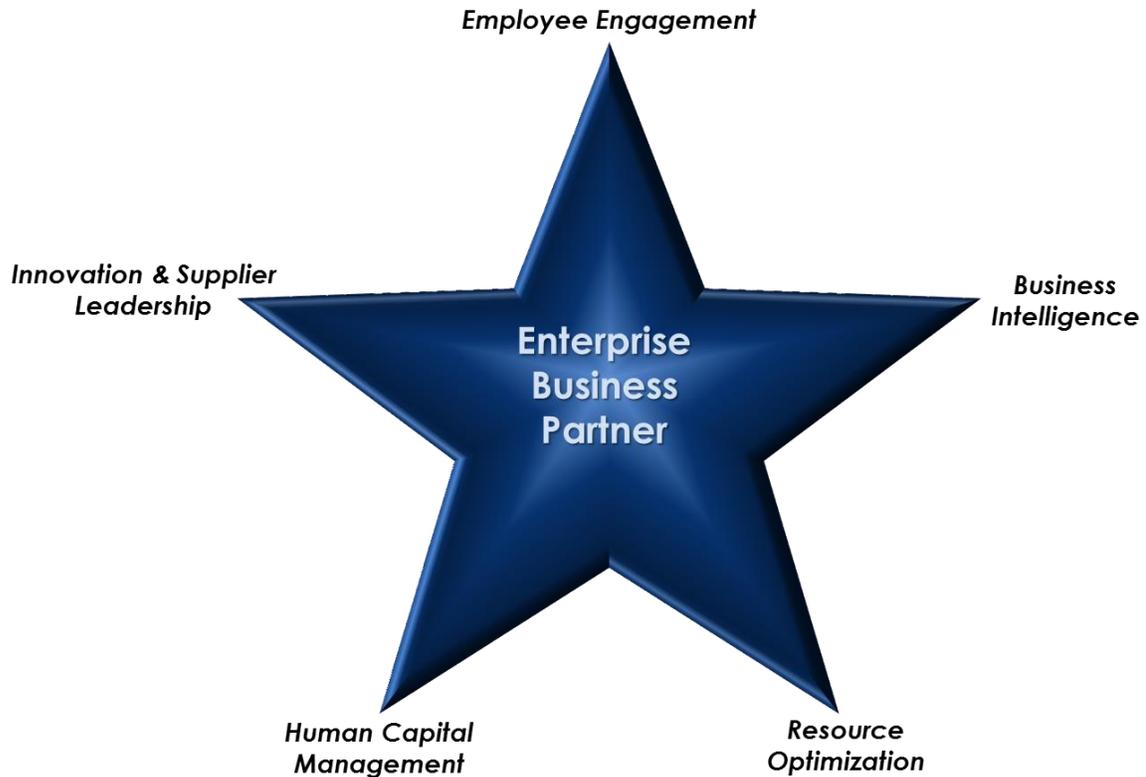


You can learn more about these simple definitions of personal value and human capital through the Healthways / Gallup definition of wellbeing and the Organization for Economic Co-operation and Development's Better Life Index. Both capture broad measures of personal value and human capital and report at an individual, group, geographic and country level.

A Guiding North Star

The star in Figure 5 incorporates five attributes of a best-in-class HR organization. The center of the star – the Enterprise Business Partner – illustrates a way to effectively manage a true business partnership across HR, Finance and Operations.

Figure 5



Each of the points of the star reflects a different HR organizational focus, described below.

| WHAT | HOW |
|----------------------------------|--|
| Employee Engagement | Stewards of culture and brand. Helping employees be great consumers of their personal value |
| Business Intelligence | Enterprise partner consulting transforms data and information into knowledge and action to drive business improvement |
| Resource Optimization | Eliminate waste, determine where to re-invest operational excellence savings, re-engineer to best practice, seek value creation opportunities, and increase efficiencies with intelligent uses of technology |
| Human Capital Management | Investment mindset, workforce well-being, relentless talent management, personalized reward solutions, and modeling workforce implications as business strategies evolve |
| Innovation & Supplier Leadership | Embed innovation as a “team sport.” Identify new profit center opportunities. Transform vendor relationships into meaningful, mutually beneficial partnerships. |

Thoughtful consideration of each of the points of the North Star helps HR think holistically, as business partners supporting the enterprise.

Many HR departments have strengths in selected points on the star. An isolated focus on a single point may benefit that point's goals to the detriment of overall business objectives.

For example, based on current budget pressures, many employers promoted healthcare cost containment as a business priority, and used cost-shifting as a means to maintain a balanced budget. This approach resulted in employee out-of-pocket cost pressures and care avoidance. Although perhaps helpful in the short-term, the lost productivity from both financial stress and unhealthy workers can be substantial, and may well outweigh any healthcare cost savings.

With a clear North Star, it becomes easier to understand how to think more holistically – and strategically – about how to effectively align HR and enterprise business goals. Employers want a healthy, high-performing workforce to drive business revenues. Employees desire improvements in their personal value and want to perform work that is meaningful. They also want employers to reward them for doing so. A vital part of our work as HR leaders is to continuously assess and align the priorities between the company and employees.

Do you know your guiding North Star? Staying 'centered' in the star will help you untangle your "hairball," ultimately improve operational efficiency, and grant more hairball orbiting time to your HR team. Our employees, business and shareholders need us to be successful – in these times now more than ever.

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