



Highlights

- The concept of *valued* HR focuses on HR's calculable contribution to business goals
 - HR needs to proactively manage its own perception
 - HR *share price* offers a new lexicon for HR value
 - HR *share price* aggregates hard and soft data into a single index of HR value
 - HR *share price* informs HR investment decisions
 - The concept of *share price* extends beyond HR to all business functions
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A share price for Human Resources

Changing the perception of HR's value in a measured way

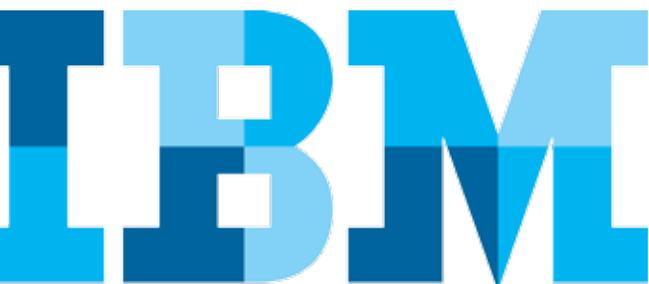
As the HR industry addresses the many new challenges on its agenda, such as building integrated talent management processes and maximising the benefits from collaborative working, a familiar old challenge remains the sub-text of our discussions with HR leaders – how can HR demonstrate *value for money*?

The dictionary defines *value* as: “the regard that something is held to deserve; the importance, worth, or usefulness of something”. It is from this definition that our concept of *valued* HR has developed.

Valued HR focuses on HR functions having a definable worth and making a calculable contribution to business objectives and being regarded as important and significant to the organisation's overall business performance.

Reflecting on over a decade of debate, it could be argued that HR's key mistake has been to try and state the value of its services to the organisation in an over-defensive way and that it has lost sight of the fact that value needs to be defined by the receiver, not the provider.

This approach has contributed to the emergence of a value perception gap, with HR and its customer base selecting different data reference points to arrive at divergent views on HR's real value. Recognising that perception can become reality, we believe HR's reaction should not be to argue that negative perceptions are wrong, but rather to steer a deliberate course towards creating and sustaining positive perceptions around its value.



Of course, HR has historically struggled to articulate the value it brings to achieving business goals in holistic terms, and whilst becoming increasingly able to report the key performance indicators (KPIs) of individual processes and practices, it remains largely unable to provide a commentary on the full scope of its activities. One reason for this is the difficulty of articulating HR performance across all its dimensions in a consistent and meaningful way.

HR share price offers a new lexicon for HR value

The concept of an HR *share price* offers the HR profession the opportunity to reframe its internal terms of reference by creating a new lexicon for articulating HR value, analogous to a concept that is at the heart of commercial organisations' measurement of value in the stock market.

Critically, the HR *share price* is an aggregation of the HR performance metrics and the HR customer sentiment that are inextricably fused together when evaluating HR's contribution to business goals. It is the marriage of hard and soft data that make the HR *share price* what we believe to be the single, most compelling index of HR value.

HR share price aggregates hard and soft data into a single index of HR value

Traditionally, HR has struggled to quantify its contribution to the business. Worse it has been unable to articulate that contribution in a meaningful way to its stakeholders, i.e. employees who rely upon HR services, managers who can feel they are doing the work of HR and senior leaders who can see HR as a cost and little else.

This combination of an inability to link HR metrics to business metrics and an inability to articulate HR's contribution convincingly to stakeholders would seem to be a significant problem to HR, and represents the focal point of our solution.

Many organisations have attempted, or are attempting, workforce analytics and/or strategic workforce planning, and have struggled to arrive at a set of KPIs for the workforce that feels right. Frequently, we are asked "Which are the right metrics for HR?" or "How many metrics are needed to measure HR performance?". With so many possible things to measure, both tangible and intangible, the resulting dashboard can be a mess.

Whilst KPIs are useful indicators of HR performance, and when combined with the satisfaction of HR's customer base are some measure of value, we believe business needs a simplified message. In our view the message can be expressed as one number, representing an index for HR's value to the business – a *share price* for HR.

Just as an organisation's overall *share price* is influenced by both hard factors (such as revenue and margins) and soft factors (such as brand and strategy), the HR *share price* is an aggregated reflection of HR's performance on hard metrics and the softer perceptions of HR's customers.

$$\text{HR share price} = f \left\{ \begin{array}{l} \bullet \text{ Business commitments} \\ \bullet \text{ Customer perceptions} \\ \quad \text{(Leadership, People Managers} \\ \quad \text{and Employees)} \end{array} \right\}$$

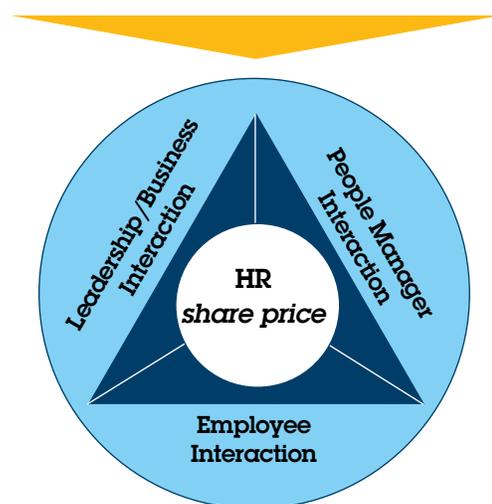


Figure 1: Calculation of HR share price.

On this basis, we have developed an approach to arrive at the HR *share price*:

- Step 1** Determine the strategic and operational HR measures and how they align with the goals of the business. Alongside these hard measures, determine which perception of HR measures to use.
- Step 2** Determine how and by how much those metrics contribute to the overall *share price* for HR within the context of the specific organisation being evaluated.
- Step 3** Aggregate the two components.

The HR *share price* is an aggregate score reflecting HR's performance against a given set of targets agreed with the business at the start of each financial year. Therefore, within the context of the specific organisation, and according to its performance across a range of agreed and weighted business objectives, the HR *share price* will rise or fall. Mirroring movements in share prices on the stock market driven by objective facts and subjective opinions, the HR *share price* will be subject to fluctuations according to its perceived performance.

Over the course of the year, the HR *share price* can be quoted on a monthly or quarterly basis. It is conceivable though, that with the ever increasing velocity of data and the use of sentiment analysis across employee forums, HR *share price* will become a real-time indicator.

HR *share price* informs HR investment decisions

Coupled with the HR *share price* quote is the ability to drill down into the underlying metrics that have contributed to the variation from the last quote, to see the performance indicators that can inform future HR interventions.

To illustrate this with a realistic example, if the HR Service Centre has reduced the time to respond to a customer call by having more agents to answer the phones, we might see that the overall cost of HR services has increased, the time to serve a call reduced, and employee satisfaction gone up – and that this has resulted in an increase overall in the HR *share price*. An HR director using the HR *share price* concept could quote and explain this initiative, and indicate where the next target for improvement lies.

We have built an HR *share price* tool for collating the information, holding the discussion with the business, calculating the *share price* and turning it into a graphic representation to include within an organisation's HR portal.

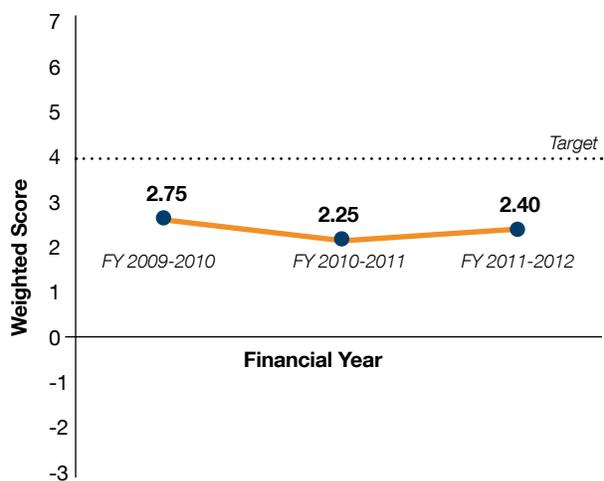
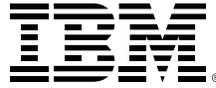


Figure 2: HR *share price* trend.



The concept of a *share price* extends beyond HR to all business functions

Clearly, this technique is not just applicable to HR but could be extended to any part of the organisation, providing a Sales and Marketing *share price*, a Finance *share price* and so on. And, although a *share price* will be highly specific to a given organisation, recognising that no two organisations' goals and measures should ever be the same, it may be interesting to compare organisations' internal measures with one another.

We do not pretend that establishing a *share price* for any function is a trivial task, but we believe that by taking this approach, agreeing it with the business and using our tools and calculations to do so, functions can begin to change the way they are perceived in a measured way.

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