

Mapping the HR Value Proposition

A systemic approach that makes visible and credible the value-added contribution of HR professionals

In their must-read book *'The HR Value Proposition'*, (see the Further Reading section for details), Professors Dave Ulrich and Wayne Brockbank outline a practical approach for HR professionals to add business value. They state "HR professionals add value when their work helps someone reach their goals. It is not the design of a program or declaration of policy that matters most, but what recipients gain from these actions. In a world of increasingly scarce resources, activities that fail to add value are not worth pursuing...The HR value proposition means that HR practices, departments, and professionals produce positive outcomes for key stakeholders – employees, line managers, customers, and investors."

Unfortunately, in some organisations HR is still not seen as an occupational group that delivers value to key stakeholders. In an article from a Melbourne newspaper, *The Age*, tilted *'Getting down and dirty with HR'*, (August 31, 2005), critics view HR as "the handmaiden of management, the only one without smarts to work as a strategic partner...In most organisations HR is seen as a cost centre...when Channel Nine boss Sam Chisholm recently got rid of his HR director and deputy (to cut costs), he ordered senior staff to take a crash course in how to do human resources."

Ulrich and Brockbank point out that if HR professionals want to hold onto their jobs and increase their influence, they must focus less on what they do – their processes and systems – and more on the value they can deliver to the business. They must ensure they have a direct line of sight with their key stakeholders.

HR jobs that focus on processes and systems are already becoming redundant. Much of the transactional work of HR such as payroll, employee policies, training administration, and so on, is being automated, centralized or outsourced. "The Commonwealth Bank of Australia (CBA) is set to sign a landmark contract with Indian computing company Infosys. CBA has chosen Infosys to take over responsibility for maintaining and enhancing the bank's human resources and payroll applications." (The Australian Financial Review, 'CBA set to sign up Infosys', September 6, 2005)

The new economy means new thinking, new models and new HR competencies and deliverables

In a time when HR personnel are being made redundant it's ironic that their service deliverables are becoming central to business performance improvement. As societies shift from the old industrial era to new service / knowledge economies the more valuable HR deliverables will become in creating a competitive advantage for organisations.

Consider for instance the market values of new economy companies. They are largely determined by intangibles, and managing them is critical because of their impact on shareholder value. Such things as leadership, governance, R&D, innovation, reputation,

brand strength, tacit knowledge, plant flexibility, speed and quality of service, customer and employee loyalty, and informal processes and trusted networks are essential factors when it comes to the future growth expectations of investors.

In the service / knowledge economy intangibles are treated as wealth-creating assets that if managed effectively, produce increasing returns. “Shares in blood plasma group CSL rocketed more than 6% on Friday after successful vaccine trials for treating cervical cancer. CSL CEO, Dr Brian McNamee, said ‘The success of this trial recognises the value of our R&D portfolio...it’s a triumph for Australian science’”. (The Australian Financial Review, ‘CSL soars on success of cancer vaccine’, October 8, 2005)

Being able to create increasing returns from intangibles presents tremendous opportunities for HR professionals because the only way intangibles gain value is through people. “The benefits intangible investments yield are the only means companies can use to escape intensifying competitive pressures.” Baruch Lev, Harvard Business Review, June 2004.

This situation creates a compelling argument that to drive profitable growth from intangibles, this asset class must be systemically managed by HR. But to seize this opportunity HR departments and professionals must fundamentally transform their roles.

Ulrich and Brockbank argue too that HR’s role must be transformed in order to deliver value to customers, shareholders, managers and employees. They argue that this transformation requires integrating the various HR practices and focusing them jointly on value-added agendas such as intangibles, customer connection, organisation capabilities and individual abilities. They state that such a transformation has six implications for HR, namely:-

1. HR work does not begin with HR – it begins with the business. HR needs to be able to show how their activities create value for key stakeholders
2. HR must have a direct line of sight to the market place – that is, to the customers who buy products and services and to shareholders who provide capital.
3. HR must be framed as a source of competitive advantage – it must be able to demonstrate that it creates human abilities and organisational capabilities that are substantially better than its competitors
4. HR professionals must align practices with the requirements of internal and external stakeholders – they must align their practices with accurate perceptions of the ultimate receivers of the organisation’s value and collaborate with others in the organisation
5. HR professionals must acquire the personal knowledge and skills necessary to link HR activity to stakeholder value – this includes articulating how HR adds value to key players within an organisation
6. HR professionals need to be able to spell out how they provide a unique and powerful perspective of the linkages between employee commitment, customer attitudes and investor returns – they need to be able to describe the aspects of the business environment that go beyond what other disciplines bring to the business.

Systemic HR Mental Models

We totally agree with these HR transformation implications. However, from our experience, we believe that to successfully undertake this transformation there is a 7th implication for HR. We believe HR needs to frame a new mental model that will make others take notice and listen to the profound and sustainable benefits HR brings to organisations in the new economy. Such a mental model must form the strategic framework that provides HR professionals with the *evidence* that HR is truly adding value to key stakeholders.

To develop a HR mental model involves systemically mapping the HR Value Proposition defined by Ulrich and Brockbank so it makes visible and credible to stakeholders and business colleagues the value-added contribution of HR professionals.

Once developed, a systemic HR mental model will provide the strategic framework that enables HR professionals to make significant and tangible contributions to business performance. For instance, HR professionals will be able to use these models to economically justify their initiatives, advise where the business is at risk, highlight opportunities to continually improve performance, and most importantly, show how they add stakeholder value.

To create this new HR mental model requires HR professionals to think systemically about their organisation operating within its environment and to be competent in the use state-of-the-art systemic tools and concepts designed to add stakeholder value.

Thinking systemically enables HR professionals to see their organisation from a different frame, which in turn enables them to act on strategically important business data that they or other managers may have previously overlooked. Not having a systemic frame creates blind spots about how an organisation can, over time, adapt to and influence its environment. The business world is full of organisational ‘shipwrecks’ when thinking is predominantly closed/non-systemic and systematic.

Systemic HR Competencies and Deliverables

From their research into HR competencies that make a difference to stakeholder value, Ulrich and Brockbank found that strategic contribution is significantly important in HR’s efforts of meeting stakeholder expectations and influencing business performance.

Their study, undertaken at the University of Michigan’s Business School, is the longest and largest study of the competencies of HR professionals. Their project commenced in 1987 and they have evaluated every mainstream HR competency in companies representing a wide range of industries and sizes from Europe, Asia, Latin America and North America.

Ulrich and Brockbank identified 17 essential HR competencies that make a difference in adding stakeholder value.

Some familiar, and possibly not so familiar competencies include:

- Design and deliver a culture-based HR strategy that links internal culture to the requirements of external customers and the business strategy, and focuses HR activities to create and sustain the required culture
- Plan and implement large-scale interventions that make change happen quickly
- Contribute to business decision making by critiquing existing strategy, by having a personal vision for the future of the business, and by raising the standard of strategic thinking in the management team
- Facilitate the dissemination of customer information throughout the firm to create organisational unity and responsiveness
- Design organisational structures and work processes
- Design and deliver staffing cycles that include hiring, promoting, transferring, retaining, and firing
- Design and deliver developmental agendas that integrate individual and organisational learning and development
- Measure results at each stage of the HR Value Proposition
- Have knowledge of each component of the business value chain and its integration that makes the value chain whole greater than the sum of its parts
- Have knowledge of how the company creates value through portfolio management and meeting the requirements of the competitive market place

Their study also revealed that what HR professionals do best (personal credibility – doing what they say they’ll do, interpersonal skills, communication skills) has a moderate influence on business performance. Meanwhile, what HR professionals do only moderately well (strategic contribution) has almost twice the influence on the business where it occurs.

Statistical analysis identified four subsets of strategic contribution: culture management, fast change, strategic decision making, and market-driven connectivity. While the first three competency subsets are reasonably well known in the HR literature, market-driven connectivity is new – first identified by the Ulrich and Brockbank study in 2002.

They found that in high-performing organisations, ‘market connected’ HR professionals use their knowledge of the external environment to ensure important signals (for example, customer information) are spread throughout the company so people act in harmony as they respond to market place demands. They also found that these same HR professionals prune back relatively unimportant information that so often blocks attention to more critical matters, and thus help their organisation navigate through changing customer and shareholder requirements.

The comprehensive and essential HR competencies identified by Ulrich and Brockbank articulate *what* HR departments must do and *what* HR professionals must hold in order to deliver stakeholder value in the new economy. To know *how* to deliver stakeholder value requires HR professionals to think systemically and to supplement the Ulrich and Brockbank competencies with systemic-based competencies.

Thinking systemically involves looking beyond particular HR functions and departments. It requires being able to use state-of-the-art systemic tools and concepts that make the connection between HR initiatives and improved business performance. It ranges from HR professionals being able to develop strategic insights about internal and external social issues affecting organisations and/or industries to being able to define the underlying pattern of events within organisations or between an organisation and its environment.

HR systemic-based competencies have been translated from validated system theories, particularly Open Systems Theory and System Dynamics. They are the 'how to' tools and processes that provide HR professionals with the knowledge and skill to make significant strategic contributions to business performance. They include the following.

- Conduct strategic review and development in an environment made unpredictable by intangibles, and as part of a strategic review map social trends within and between an organisation and its environment.
 - For instance, HR professionals should have a good understanding of the environment beyond their industry – that is the wider global community or extended social field – where there can be dramatic and discontinuous shifts in the intangibles of social values and community expectations. HR professionals should be able to regularly monitor this field and ensure there are no maladaptive disconnects between external social values and those within the organisation.
 - They should also use their knowledge of this field as inputs into organisational strategic planning. Understanding the nature of the extended social field enables HR to establish social value benchmarks to guide strategic planning as well as to identify any embryonic shifts in people changing their minds about the choices they will make concerning certain products and services.
- Develop stakeholder driver models that made visible and credible the connection between employee development, organisational capabilities, customer experience, and investor returns.
 - HR professionals need to be able to use System Dynamics mapping techniques to develop stakeholder driver models. Models like these define underlying patterns, which more often than not reflect a change in the effectiveness of intangibles, that cause such issues as declining sales, lack of innovation, worker burnout, increasing waste, cyclic phenomena in supply chains, and so on. Ultimately these patterns, if not managed effectively, do not meet customer expectations and do not produce the increasing returns expected by shareholders.
 - They also need to define stakeholder driver models at three levels by flow charting current organisational systems and work flow structures as follows:-

1. Illustrate a business as a portfolio of interacting supply chains
 2. Produce a macro business view defining key operations, stakeholders, policy structures, and performance measures that are suitable for communication to Senior Executive/Boards
 3. Produce stock-flow decision structures articulating key operational and decision structures for each supply chain in order to define organisational capabilities and employee competency requirements, and to identify knowledge management and process issues, particularly those issues related to the many different business cycle times so often underestimated by management.
- Produce a HR strategy map that provides a shared understanding of HR strategic intent and initiatives, and by integrating it with critical corporate perspectives demonstrate the financial contribution of HR.
 - HR must view its organisation from critical corporate perspectives (e.g. using Balanced Scorecard) and integrate these perspectives into a corporate performance framework linking HR practices and processes with customer value and investor returns, and hence financial performance
 - Develop organisational knowledge maps to identify critical business decision points and the associated decision making knowledge and skill. Use these knowledge maps to profile an organisation's strategic knowledge base and produce whole of business knowledge management audits
 - Apply Knowledge Management (KM) tools and concepts to produce a KM framework that facilitates a shared understanding of KM across the business. Use this framework to help address new economy issues that are critical for competitive advantage.
 - For example, HR must be able to use KM concepts and frameworks to help address issues such as duplication of effort, lack of knowledge sharing across silos, integrity of information, capturing information from a fragmented workforce, cultural barriers to knowledge sharing, knowledge loss from an aging workforce, KM measurement, knowledge transfer from contractors, etc.
 - Apply causal mapping techniques to identify essential performance measures used for monitoring the impact of HR initiatives on business performance. And using related simulation software, develop computer simulation models that provide valuable insights about how certain initiatives maximise increasing returns from strategically important intangibles.
 - Develop the economic case for justifying investments in intangible drivers of business performance, including the HR deliverables of talent, shared mindset, collaboration, learning, leadership, customer connection and innovation.

- Implement the enabling conditions that create high performance organisations which are designed to prosper in fast changing and unpredictable environments
 - HR professionals must master systemic tools and techniques applied at the level of the individual to deliver employee value. In the service / knowledge economy it's employees who have the know-how to generate increasing returns from intangible assets. For employees to be motivated to acquire new knowledge and skills to improve business performance, have a shared responsibility to meet agreed goals, and be interested to share their organisational knowledge, HR professionals need to be able to create the culture and enabling conditions to make this happen.
 - To establish these enabling conditions, HR professionals need to be able to apply the tools and techniques that are translated from Socio-technical Systems (STS) and Action Research (AR). In particular, they need to establish the conditions where the basic human needs of work are met for each employee. These conditions have been distilled to the six psychological criteria of work, and are as follows. (See Emery, M for further details.)

Personal Needs

1. Elbow Room - autonomy in decision making
2. Continual learning on the Job - Setting Goals & Getting Feedback
3. Variety

Work Climate

4. Mutual Support and Respect
5. Meaningfulness - Socially Useful and See Whole Product
6. Desirable Future

When these criteria are met for each employee, HR professionals deliver employee value, which then helps line managers achieve their goals.

Systemic thinking and accompanying systemic-based competencies profoundly help HR professionals contribute strategically to business performance because they provide the Ulrich and Brockbank “direct line of sight between HR initiatives and key stakeholders”.

They are used for mapping the HR Value Proposition, and when integrated with critical corporate perspectives such as the Balanced Scorecard, form a HR strategy map that provides a shared understanding of HR strategic intent and initiatives and makes visible the value-added and financial contribution of HR professionals.

The Ulrich and Brockbank competencies for adding stakeholder value and the supplementary systemic-based competencies are new competencies HR professionals need to hold in the service / knowledge economy. HR professionals must master these competencies to demonstrate how they deliver value if they are going to keep their jobs.

Mapping of the HR Value Proposition – the ‘how to’ for delivering stakeholder value

The Ulrich and Brockbank HR Value Proposition model (see Diagram 1) is comprised of 5 elements and forms an integrated blueprint for the transformation of HR into a business partner that adds stakeholder value.

Using the logic in the model, Ulrich and Brockbank have specified 14 specific criteria for HR transformation. These criteria frame the next agenda for HR and set the standard by which the ‘new’ HR professional will be judged in his/her ability to deliver stakeholder value.

The Ulrich & Brockbank HR Value Proposition

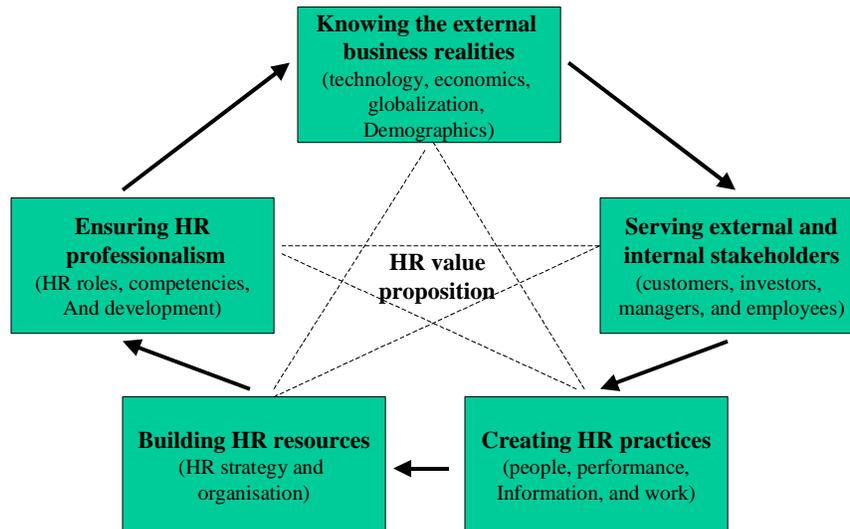


Diagram 1: The HR Value Proposition

The 14 HR transformation criteria, which are derived from each HR Value Proposition element, are described in Table 1 as follows.

| HR Value Proposition Element | HR Transformation Criteria |
|---|---|
| Knowing the external business realities | <i>Criterion 1: An effective HR function has HR professionals who recognise external business realities and adapt HR practices and allocate HR resources accordingly.</i> |

| | |
|--|---|
| Serving external and internal stakeholders | <ul style="list-style-type: none"> • <i>Criterion 2: An effective HR function creates market value for investors by increasing intangibles.</i> • <i>Criterion 3: An effective HR function increases customer share by connecting with target customers.</i> • <i>Criterion 4: An effective HR function helps line managers deliver strategy by building organisation capabilities.</i> • <i>Criterion 5: An effective HR function clarifies and establishes an employee value proposition and enhances individual abilities.</i> |
| Creating HR practices | <ul style="list-style-type: none"> • <i>Criterion 6: An effective HR function manages people processes and practices in ways that add value.</i> • <i>Criterion 7: An effective HR function manages performance management processes and practices in ways that add value.</i> • <i>Criterion 8: An effective HR function manages information processes and practices in ways that add value.</i> • <i>Criterion 9: An effective HR function manages work flow design and processes in ways that add value</i> |
| Building HR resources | <ul style="list-style-type: none"> • <i>Criterion 10: An effective HR function aligns its organisation to the strategy of the business.</i> • <i>Criterion 11: An effective HR function has a clear strategic planning process for aligning HR investments with business goals.</i> |
| Ensuring HR professionalism | <ul style="list-style-type: none"> • <i>Criterion 12: An effective HR function has HR professionals who play clear and appropriate roles.</i> • <i>Criterion 13: An effective HR function builds HR professionals who demonstrate HR competencies.</i> • <i>Criterion 14: An effective HR function invests in training and development of HR professionals</i> |

Table 1: HR Value Proposition Transformation Criteria

As mentioned earlier, Ulrich and Brockbank clearly spell out the ‘what’ competencies in terms of delivering value to investors, customers, managers and employees. These competencies are what ‘new’ HR professionals need to know to meet the above 14 criterion standards of the HR Value Proposition. They ensure in today’s new economy HR is an effective occupational group that delivers stakeholder value.

But how does a HR professional recognise external business realities, create market value for investors by increasing intangibles, increase customer share by connecting with target customers, and so on?

Fortunately, thanks to many system thinking pioneers and management theorists, systemic-based competencies like those above have been researched and developed and are being applied by HR professionals to address these questions of adding stakeholder value.

Today, HR professionals are using systemic-based competencies to map the HR Value Proposition and in doing so enhance the strategies outlined by Ulrich and Brockbank for delivering value to stakeholders. Their efforts bring the HR Value Proposition model 'alive' by making quantifiable the causal connection between HR initiatives and business results. Rather than having a line of sight to key stakeholders expressed in words and tables, systemic mapping of the HR Value Proposition gives HR professionals visibility on *how* they actually deliver stakeholder value.

As David Norton said in the Balanced Scorecard Report, "To achieve breakthrough results, you must be able to manage strategy. And to manage strategy, you first must be able to describe it – to translate it into a language that everyone understands".

Mapping the HR Value Proposition model goes beyond just language; it provides a visual framework that articulates the role HR professionals play in servicing key business drivers that deliver stakeholder value. It also provides a framework that creates a shared understanding of the business, which significantly assists communication efforts and with the appropriate programs and policies in place, facilitates a desired culture.

Using relevant systemic tools and techniques that underpin the systemic-based competencies, HR professionals can map the 14 criteria of the HR Value Proposition and integrate them into a systemic HR business model.

To understand how the Ulrich and Brockbank 14 criteria can be mapped, the application of two mapping techniques, namely System Dynamics mapping and Socio-ecological mapping, are examined in the following section.

System Dynamics mapping is central to the development of stakeholder driver models that made visible the connection between employee development, organisational capabilities, customer experience, and investor returns.

Socio-ecological mapping is required to conduct strategic review and development in an environment made unpredictable by intangibles. It is used to map social trends within and between an organisation and its environment.

Diagram 2 provides a high level systems perspective of the HR Value Proposition and the reach of the two mapping techniques.

Systems Perspective of the HR Value Proposition

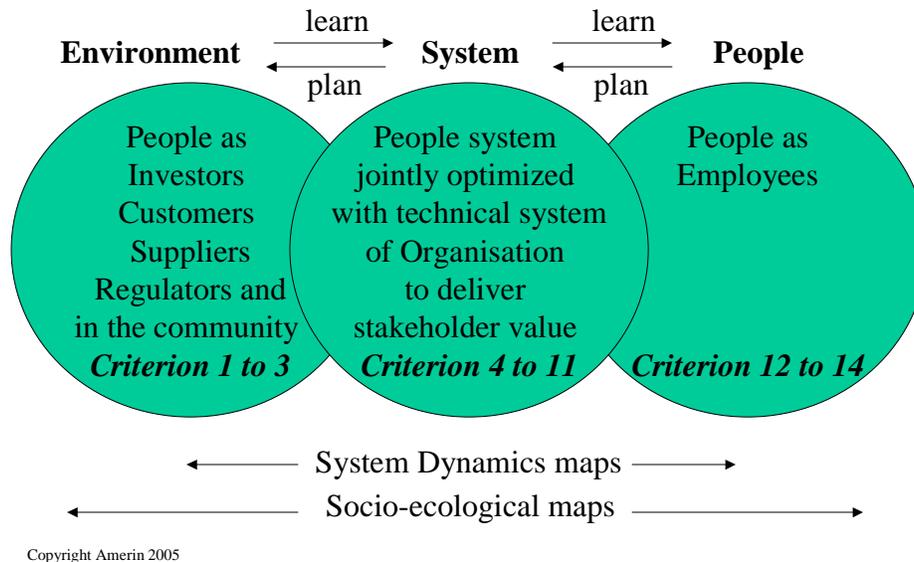


Diagram 2: Systems Perspective of the HR Value Proposition

System Dynamics mapping

System Dynamics mapping provides a way of defining the underlying structure that determines a pattern of events that more often than not reflect a change in the effectiveness of intangibles. As mentioned earlier, these underlying patterns cause such issues as declining sales, lack of innovation, worker burnout, increasing waste, cyclic phenomena in supply chains, and so on.

The technique involves group processes to map the system of interest, emphasising the stock-flow nature of organisational resources. It is an essential tool for the application of Balanced Scorecard type approaches and the development of strategy maps.

The System Dynamics approach establishes the basis for developing computer simulation models of processes. These models can provide important insights into process improvement, risk evaluation and the dynamics of strategies. For example, HR professionals can use simulation models to experience the flow of events through time, to see the consequences of their decisions, and to test alternative scenarios. It is a tool that provides a resource-based perspective on business strategy underpinned by sound systems theory.

System Dynamics mapping and associated simulation modelling are essential tools for the HR professional in the new economy because, not only do they make visible the connection between HR initiatives and delivering stakeholder value, they can also be

used to measure the impact of these initiatives on business performance. They have many uses for HR professionals including:-

1. Mapping and modelling the delivery of stakeholder value over a particular timeframe (profitability, productivity, customer share etc.) according to the level of tangible *and* intangible resources available (customers, suppliers, staff, relationship management, reputation, innovation, knowledge etc.)
2. Exploring new business options – for example, develop a business case for implementing a new learning and development initiative by estimating both the top (revenue) and bottom (cost) line affects on business performance.
3. Exploring ways to solve a problem – for example, explore different options to improve falling service quality. (System Dynamics mapping helps lift the power of continuous improvement approaches. For instance, the techniques conventionally applied in TQM and Six-Sigma are generally linear and often overly simplistic. This has led to past difficulties where key causal dynamics have been missed (e.g. delay factors). TQM approaches have failed in about 60% of cases because maintaining the bureaucracy around it has become more important than the thinking skills that are need to drive continuous improvement.)

Socio-ecological mapping

Socio-ecological means ‘people-in-environment’. For employees the environment is both their organisation (system) and the external environment. Socio-ecological mapping is essential for understanding the people-in-system-in-environment relationships through time.

For instance, if cultural change is to be sustainable over time and deliver improvements in stakeholder value then people’s expectations and values they bring to the workplace must be directly correlated with their organisation’s values, which in turn must be directly correlated with environmental values, all of which are changing over time. “When these expectations are not met, an intensifying spiral of discontent is generated.” (See Emery, M for further details)

Through time expectations and values change as organisations across the globe act (through their plans) on their environment. This creates an external environment where there can be dramatic and discontinuous shifts in social values and community expectations, which leads to a situation where people *continually change their minds about the choices they will make about certain products and services.*

HR professionals must be able to learn about any significant social changes that could effect their organisation as this turbulent and unpredictable environment acts on their industry and/or organisation. They then need to guide the strategic planning process with respect to these changes and they need to develop an organisational culture around continuous learning about the environment if their organisations are to be successful over the long term.

Similarly, employees learn about their organisation and depending on the culture and values of the organisation itself, they will act (plan) on it 'to beat the system' or work within it to improve business performance. In addition to a culture of continuous learning about the environment, HR professionals must create a culture where the later occurs. They must create a culture where it's in the interest of employees to want to improve performance. Amongst other things, they can do this by ensuring they have an organisational structure that meets employee's basic human needs of work, as mentioned previously.

Socio-ecological mapping provides HR professionals with a framework that can track the fluctuations of values and expectations over time between key players within an organisation, between an organisation and its environment and between key players within the environment. Understanding these fluctuations means HR professionals can determine where there is misalignment of values and expectations and introduce HR practices and initiatives to correct the situation.

For instance, how often do we read in talent management literature that "people are our greatest asset", but in reality people are treated like "dispensable cogs in a machine". Or there is confusion about organisational values and expectations – management and employees agree about setting up a cooperative team-based organisation, but instead a laissez-faire structure is established resulting in a culture where individual choice becomes the norm. And sometimes fatal for an organisation, the management team completely misreads value changes in the external environment about certain products and services, and as sales slowly decline the business gets to a point where "it's missed the boat" to try and turn things around.

Socio-ecological mapping is a powerful HR systemic tool. It can highlight where different groups are misaligned causing maladaptation between people-in-system-in-environment relationships. It helps HR professionals understand how various players in an organisation and in the environment influence each other. It makes clear the power of the environment and its influence on an organisation and the opportunities this presents. And it's an important tool for determining the nature of cultural change over time.

When to use Socio-ecological and System Dynamics mapping

To demonstrate how these systemic tools and concepts help HR professionals add stakeholder value, it's worth considering several examples of when Socio-ecological mapping and System Dynamics mapping should be used. Below we examine two situations where these mapping techniques are used and should have been used.

The first situation examines the consequences of HR not carrying out socio-ecological mapping in a field that's part of the HR Value Proposition 'External Business Realities' element, but not made explicit by Ulrich and Brockbank. However, this field is crucial for business survival in the new service / knowledge economy. It's not as 'noisy' as other components of the External Business Realities, but can be the 'silent destroyer' of business performance.

The second situation examines a couple of examples where HR professionals used Systems Dynamics mapping to show how their initiatives added stakeholder value. Both examples involve System Dynamics mapping of the criteria found in ‘Serving external and internal stakeholders’ of the HR Value Proposition. In one example, the contribution was so significant it resulted in an important promotion.

External Business Realities

Under ‘Knowing the external business realities’ element of the HR Value Proposition model, Ulrich and Brockbank define the following first criterion for the new HR.

- *Criterion 1: An effective HR function has HR professionals who recognise external business realities and adapt HR practices and allocate HR resources accordingly.*

Ulrich and Brockbank insist that HR actions inside a firm must reflect and influence business realities outside that firm. They say that HR professionals should be able to engage in a conversation about the changing external realities – changing technologies, changing economic and regulatory issues, and changing demographics of local and global business environment – and connect them to their day-to-day work.

In their book, ‘*The HR Value Proposition*’ they mention some of the trends within the above external realities and provide an overview of the sources for staying in touch with these topics over time. They also have a number of audits that assess the level of knowledge HR professionals may need to have about external realities.

To enhance this approach of being cognisant of external realities we believe HR professionals should also undertake socio-ecological mapping by conducting regular environmental scans using processes translated from Open Systems Theory (OST).

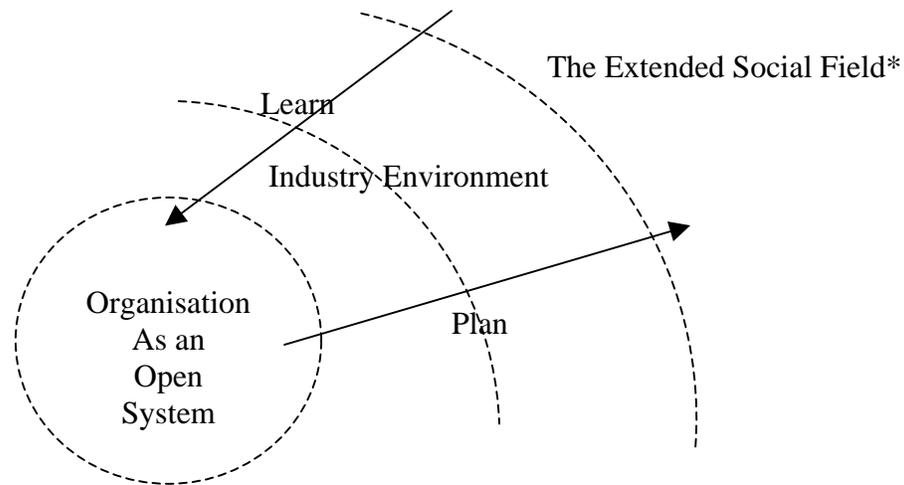
OST is a social science body of knowledge that maintains people and their organisations must have an open and actively adaptive* relationship with their environment over time to ensure viability. It also argues that people are purposeful open systems* who can create and change their systems and their environments.

(*Please note, active adaptive means that an organisation must not passively adapt to its environment; it must both adapt to change from the environment and influence change in the environment to deliver stakeholder value over time. And, people as purposeful open systems have intention; they’re able to and want to take responsibility for their lives and their futures. They act as agents of change, and always could have acted otherwise. Refer Emery, M in the Further Reading section.)

Therefore, people as purposeful open systems are *continually changing their minds about the choices they will make* creating a contextual environment where there are dramatic and discontinuous shifts in social values and community expectations. See Diagram 3 below, the ‘Organisation in Context with its Environments’ for further details.

Organisations that ignore what's happening in this uncertain contextual environment do so at their own peril. When developing strategic plans organisations will need to know which way the rest of the world is moving if their planning is to be effective. There is no point spending millions of dollars developing a product that nobody will buy because it contravenes their value systems.

Organisation as an Open System in Context with its Environments



*The term 'extended social field' refers to the field beyond an organisation's industry environment. It is often referred to as the wider global community or contextual environment.

Diagram 3: Organisation in Context with its Environments

For example, up to 1980's in Australia there was steady increase in the consumption of beer. To out manoeuvre new competitors one Brewing Company developed a strategic plan that focused only on its industry. The resulting plan involved significant capital expenditure on improving production capacity and efficiencies. Meanwhile, in the extended social field, due to changing social values around health and drink driving, people started to slowly change their minds about drinking beer and as a consequence the beer consumption rate began to fall. (Coincidentally, red wine consumption increased over the same period.)

The strategic planners and other managers from the Brewing Company had ignored what was happening in this field – it wasn't a part of the planning process. By the early 1990's production upgrades were complete, but the expected increase in beer consumption did not eventuate. By the mid 1990's just one plant within this particular Brewing Company had so much capacity that it could supply entire beer consumption needs of Australia!

HR professionals must be able to produce socio-ecological systemic maps that flag any maladaptive trends over time. They need to make sure there is alignment between their organisations strategic goals and the desirable future people in the community have for the world at large. This alignment will ensure there is an active adaptive relationship between an organisation and the external environment. In other words, community values and human ideals for a better world are in sync both inside and outside the organisation, helping to produce strong employee commitment to organisational goals.

By establishing socio-ecological systemic maps HR professionals get into the habit of having their “antennas tuned into” potential changes in the external environment. It becomes second nature to scan for information about major directions and changes in the extended social field and industry environment, particularly where there is a history of novel and significant change.

For instance, understanding emerging demand and usage of technical products and services will indicate possible significant value shifts amongst customers. These shifts could result in people changing their minds about the choices they will make concerning certain products and services.

These intangible value shifts are happening at a rapid pace in some industries. In an article by Dr David James titled ‘Another blow for Telstra’ (BRW Magazine, October 6, 2005), he states, “The internet is rapidly taking over from the telephone companies as the preferred option for voice communication...Trends are towards free telephony and technical excellence is becoming less of a point for differentiation...competitive difference will come from the way common interest networks, and the trust that underpins them, are managed...eBay purchase of Skype is part of eBay’s move to maintain its advantage in the business of creating trusted networks...The previous winners, especially Telcos, in the digital revolution are likely to be replaced by fragmented market structures defined more by consumer’s intangible preferences.”

By undertaking socio-ecological mapping, HR professionals in high-tech industries can provide strategic input about these disruptive technology trends from their ongoing analysis of the external environment. Information like this will provide essential strategic knowledge about what an organisation must actively adapt to. HR professionals, as trusted advisors and strategic partners, must provide this information to make significant strategic contributions to business performance and to add stakeholder value.

Serving external and internal stakeholders

Under ‘Serving external and internal stakeholders’ element of the HR Value Proposition model Ulrich and Brockbank define the following criteria for the new HR.

- *Criterion 2: An effective HR function creates market value for investors by increasing intangibles.*
- *Criterion 3: An effective HR function increases customer share by connecting with target customers.*

• *Criterion 4: An effective HR function helps line managers deliver strategy by building organisation capabilities.*

• *Criterion 5: An effective HR function clarifies and establishes an employee value proposition and enhances individual abilities.*

The stakeholders in the ‘Serving external and internal stakeholders’ element of the HR Value Proposition are found in the Industry Environment of the OST model. Diagram 4 below provides an overview of an organisation in context with its industry environment and highlights the stakeholders found in criterion 2 to 5. When analysing the causal connections between an organisation and its industry environment, Systems Dynamics mapping comes to the fore.

Organisation as an Open System in Context with its Industry Environment

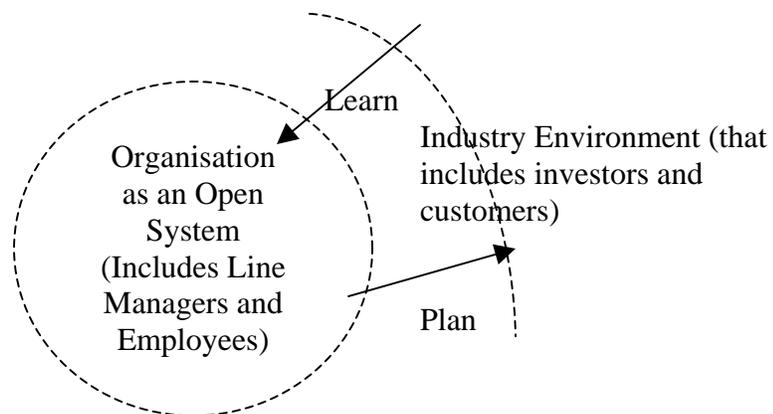


Diagram 4: Organisation in Context with its Industry Environment

Systemically mapping the HR Value Proposition at the organisation-industry interface provides HR professionals with the opportunity to make a visible and significant contribution to business performance from a unique perspective; one that is becoming increasingly important in the new service / knowledge economy.

In one particular case, the HR general manager from a multinational telecommunications company used System Dynamics mapping to map the HR Value Proposition relating to criterion 2 to 5 and integrating them produced a customer advocacy driver model. He then used it as a mental model to influence staff to have a much more coordinated focus when attempting to deliver value to external and internal stakeholders. Until the model was produced it was difficult to clearly understand the drivers of customer advocacy and to pinpoint where coordination issues existed.

Some issues related to short term versus long term objectives. A number of managers were only interested in their current sales targets with their existing customers, while others that were more strategically focused were concentrating on managing relationships with key external players so more people would become aware of this Telco's products and services. There were also issues relating to lack of coordinated support from other business units and the confusion between Head Office market segments and those that existed at the 'coalface'.

To address these problems the HR general manager worked with other senior colleagues to develop a customer advocacy driver model that made visible the connection between employee development, organisational capabilities – the drivers of customer experience, and investor returns. This model made clear that if stakeholder value was to be achieved then high levels of cooperation had to occur between the organisation's main players. A macro overview of this model is shown below in Diagram 5.

Customer Advocacy Driver Model

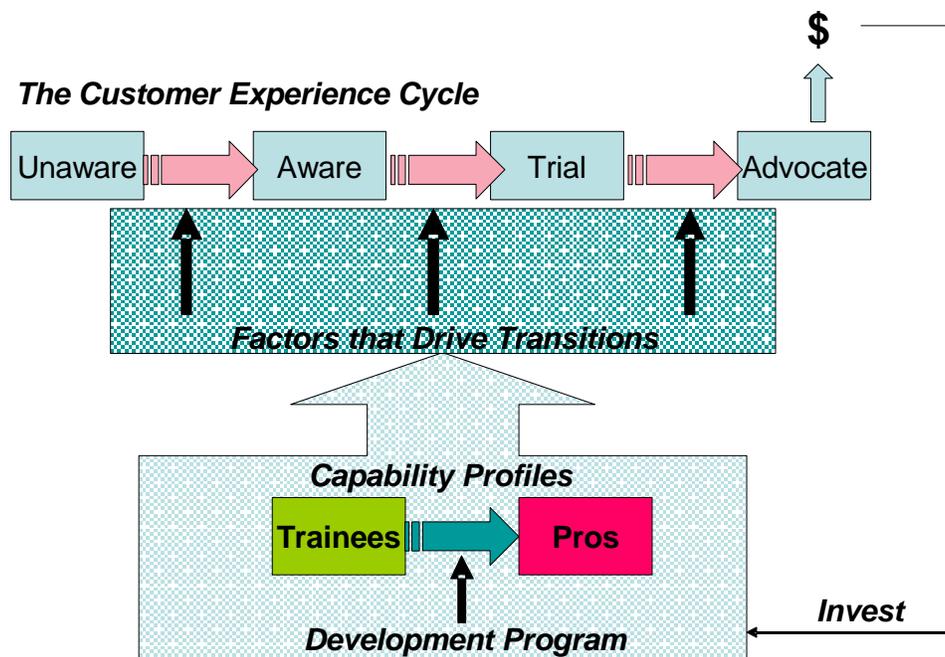


Diagram 5: Customer Advocacy Driver Model

The customer advocacy driver model was produced by firstly defining the customer experience for a particular customer segment. That is, customer expectations were defined that transition customers from being unaware of products to the state where they are advocates for the business, which drives increases in customer share and revenue.

The second step involved identifying the competitive factors that determine the rate at which customers transition from one state to the next. In the new economy these factors involve intangibles like those mentioned earlier. Ulrich and Brockbank refer to them as organisational capabilities. They are the deliverables of the 'new' HR professional and they help line managers achieve their objectives of meeting customer expectations and revenue targets, and investors attain expected growth from intangibles. They also produce competitive advantage because they are hard to copy, which further drives stakeholder value.

Having identified the factors that drive the transitions towards customer advocacy, the above Telco HR general manager is now reviewing current HR initiatives, particularly those that relate to the business having the optimum number of competent and motivated employees to service these factors. A new initiative proposed is to produce driver models for each customer segment from which technical and social organisational profiles will be defined. This is a strategic imperative in a climate of rapidly changing telecommunication technologies. No Telco can keep its promises in this environment if it doesn't maintain the right mix of socio-technical abilities.

This example reinforces the finding mentioned earlier in the Ulrich and Brockbank study of HR professional competencies that make a difference. They found that the 'strategic contribution' competency has almost twice the influence on business performance where it occurs and that market-driven connectivity was an important subset of HR strategic contribution. Being able to undertake System Dynamics mapping to produce a customer advocacy driver model and related stakeholder value add initiatives demonstrates a competency in market-driven connectivity.

Another example of the benefits of mapping the HR Value Proposition involved issues around occupational health and safety. One particular OH&S manager from a service organisation that employs more than 30,000 people was having difficulty convincing divisional managers of the importance of some of the company's OH&S programs. Central to the problem was the difficulty of convincing them how OH&S reduced risk and improved shareholder value.

By mapping the HR Value Proposition an OH&S driver model was established that showed the causal connection between the development of OH&S leaders and the subsequent impact on reducing organisation-wide risk, which in turn will have a positive impact on business performance. This mapping process has now been widely accepted in this organisation. It sends a clear message about the value delivered to employees and customers, and demonstrates how OH&S adds value to the top and bottom line of the business.

By focusing more on the value they can add to the business, and less on what they do, these HR professionals are making a difference to business performance. They are able to do this by mapping elements and/or criteria of the Ulrich and Brockbank HR Value Proposition and then integrating them to produce a systemic business model that demonstrates how to add stakeholder value.

The New HR Role for the New Economy

Mapping the HR Value Proposition using Socio-ecological and System Dynamics mapping techniques to produce stakeholder driver models provide HR professionals and key stakeholders with systemic view of HR strategy.

Without these models the link between HR investments, such as employee development, and performance outcomes is rarely made clear. The simple conviction that HR investments like learning and development must be ‘good for the organisation’ does not get much support and commitment from colleagues in other parts of the business, particularly those who deal in hard data such as finance personnel. To get their support they need evidence.

With today’s systemic tools HR professionals can provide this evidence. They can use a systemic view of HR strategy and causal diagramming techniques to frame the business case for HR investments by modelling the top and bottom line effects on business performance.

Systemic tools provide HR professionals with a HR strategic map of *how* their efforts to link employee commitment and abilities with customer attitudes and with investor returns *actually work*. They provide a visible appreciation of how a business actually functions from a HR perspective to drive stakeholder value.

Systemically mapping the HR Value Proposition to produce stakeholder driver models and integrating them to form a HR strategy map to demonstrate how HR adds value results in a new role for HR. This role is vital because these HR strategy maps make the connection between intangible investments and business performance. And this places HR in the ‘thick of things’ in the new economy because of the strategic influence HR has on intangibles.

When HR Value Proposition driver models are established they provide a strategic framework from which HR professionals can launch other strategically important initiatives that will provide further evidence of the central role HR plays in delivering shareholder value in the new economy. These initiatives include:

- Undertaking causal path analyses, linking intangible-based investments to financial outcomes,
- Developing integrated performance measurement systems that demonstrate how HR investments generate increasing returns from intangibles, and
- Designing computer simulation models that generate a complete description of how a business functions: its strategic architecture, complete with information about how it is developing through time.

In their book *The HR Value Proposition*, Ulrich and Brockbank not only spell out 17 HR competencies that make a difference for adding stakeholder value; they also provide an assessment tool so HR professionals can evaluate the level of knowledge they may need to deliver stakeholder value. The test allows HR professionals to assess the level of knowledge on two criteria:

- To what extent do I have this competency?
- To what extent do I need this competency?

Using the same assessment framework HR professionals can assess the extent to which they hold and need systemic-based competencies. These competencies, which supplement the Ulrich and Brockbank HR competencies, are summarised in the Table 2.

| Competency Number | Self- evaluation of systemic-based HR competencies | To what extent do I need improvement in this category? | | | | |
|-------------------|--|--|---|---|------|---|
| | | Low | | | High | |
| 1 | Conduct strategic review and development in an environment made unpredictable by intangibles, and as part of a strategic review map social trends within and between an organisation and its environment. | 1 | 2 | 3 | 4 | 5 |
| 2 | Develop stakeholder driver models that made visible and credible the connection between employee development, organisational capabilities, customer experience, and investor returns. | 1 | 2 | 3 | 4 | 5 |
| 3 | Produce a HR strategy map that provides a shared understanding of HR strategic intent and initiatives, and by integrating it with critical corporate perspectives demonstrate the financial contribution of HR. | 1 | 2 | 3 | 4 | 5 |
| 4 | Develop organisational knowledge maps to identify critical business decision points and the associated decision making knowledge and skill. Use these knowledge maps to profile an organisation's strategic knowledge base and produce whole of business knowledge management audits | 1 | 2 | 3 | 4 | 5 |
| 5 | Apply Knowledge Management (KM) tools and concepts to produce a KM framework that facilitates a shared understanding of KM across the business. Use this framework to help address new economy issues that are critical for competitive advantage | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 6 | Apply causal mapping techniques to identify essential performance measures used for monitoring the impact of HR initiatives on business performance. And using related simulation software, develop computer simulation models that provide valuable insights about how certain initiatives maximise increasing returns from strategically important intangibles. | 1 | 2 | 3 | 4 | 5 |
| 7 | Develop the economic case for justifying investments in intangible drivers of business performance, including the HR deliverables of talent, shared mindset, collaboration, learning, leadership, customer connection and innovation. | 1 | 2 | 3 | 4 | 5 |
| 8 | Implement the enabling conditions that create high performance organisations which are designed to prosper in fast changing and unpredictable environments | 1 | 2 | 3 | 4 | 5 |

Table 2: Systemic-based HR Competencies Assessment

Ulrich and Brockbank clearly articulate that the receivers of HR work – the investors, customers, line managers and employees – define the HR value proposition. HR is successful if and when its stakeholders perceive there is value from it.

HR professionals increase their influence when they focus on the value they can deliver to stakeholders. They must ensure they have a direct line of sight with their key stakeholders.

Using systemic tools and concepts, particularly those translated from Open Systems Theory and System Dynamics, HR professionals can develop stakeholder driver models that clearly spell out the deliverables which matter most to stakeholders – that is, investor intangibles, customer share, organisation capabilities, and individual abilities.

The Dave Ulrich and Wayne Brockbank landmark book, *'The HR Value Proposition'*, has set the HR agenda for the next decade – it's the blueprint for the future of HR. Mapping the HR Value Proposition makes visible and credible this blueprint; and it makes others sit up and take notice of the profound contribution of HR to business performance in the new economy.

By Peter Aughton
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Further reading

'Don't Think of an Elephant – know your values and frame the debate' by George Lakoff, Professor of cognitive science and linguistics at the University of California, Scribe Publications Pty Ltd, 2005

'Intangibles: Management, Measurement and Reporting' by Professor Baruch Lev, Brookings Institution Press, 2001

'Is HRM a Dinosaur in the New Economy?' by Peter Aughton and John Barton, HRMonthly magazine, June 2004

'Making intangibles count' by Peter Aughton and John Barton, HRMonthly magazine, March 2005

'People Power – Developing the Talent to Perform', by Kim Warren, Adjunct Professor of Strategic Management at the London Business School, and UK writer and consultant, Jeremy Kourdi, Vola Press, 2003

'Searching: The Theory and Practice of Making Cultural Change' by Dr Merrelyn Emery, John Benjamins Publishing Company, 1999

'Strategy Maps: Converting Intangible Assets into Tangible Outcomes', by Kaplan and Norton, Harvard Business School Press, 2004

'Systemic Practice and Action Research', Kluwer Academic / Plenum Publishers, Volume 13, Number 5, October 2000

'The HR Value Proposition', by Professors Dave Ulrich and Wayne Brockbank, Harvard Business School Publishing, 2005

'Why the Bottom Line ISN'T!': How to Build Value Through People and Organization' by Professor David Ulrich and Norman Small, John Wiley & Sons, 2003.

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