Human Resource (HR) as a Shared Service Towards Value Creation

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Abstract
This study constitutes a theoretical review of existing literature relevant to the subject. The study examines and briefly way of creating value through shared HR. The factors identified and discussed are Integrating knowledge and experiences to strengthen the innovative capability of firms, HR strategies that support transformational HR, HR human capital infrastructural for shared interpretation and Orientation of top management to people management.

Keywords
Human Resource, Shared service, Value creation

Methodology
A theoretical review of literature relevant to the subject.

I. Introduction
Shared services have been defined in a number of ways. Dollery, Grant and Asimov (2010) suggest that shared services can broadly take three forms: horizontal shared services arrangements ranging from ad hoc arrangements to fully shared administration; vertical models, which involve a relationship between local and central or regional bodies; and inter organizational contracting. Ruggini (2006: 30) follows a similar convention, understanding shared services to be ‘inter organizational cooperation at the local level either by formal written contracts or informal verbal agreements’. Today, the provision of human resource (HR) services in organizations is developing through multiple sourcing channels. Recently, organizations have been adopting a relatively new HR sourcing arrangement, known as HR shared services. The popularity of HR shared services has especially grown due to the belief that HR shared service providers would integrate centralization and decentralization models (Janssen and Joha, 2006). Shared services is an increasingly common organizational response to creating more efficient service delivery. Costs can be reduced tremendously. Increased customer focus can lead to better quality outcomes. Technology can offer various routes to user friendly delivery (eg call centres, intranets, etc.). Choices, though, have to be made on the nature of the shared services operation and on the relationship in an holistic manner. In other words, HR shared services are seen as simultaneously capturing the benefits of both organizational models, including the strategic alignment of HR practices, economies of scale and improved HR service quality (Cooke, 2006; Farndale et al., 2009).

II. Ways of Creating Value Through Shared HR

A. Integrating Knowledge and Experiences to Strengthen Innovation Capability
The human capital possessed by any individual employee may generate greater value when combined with the knowledge of others. Employees can integrate knowledge and experiences to strengthen the innovative capability of firms (Subramaniam and Youndt, 2005), to improve organizational processes (Newell et al., 2004) or to create new knowledge (Nahapiet and Ghoshal, 1998). Integrating human capital is valuable in delivering transformational HR services for two reasons. First, in order to deliver customized transformational HR services, service employees need to exchange and integrate their knowledge as it is unlikely that an individual employee will have the ability to cope with all the customer-induced uncertainties (Bowen and Ford, 2002; Hansen et al., 1999). Second, hard-to-imitate human capital strengthens the unique ability of transformational HR shared services to implement an HR strategy when employees exchange and integrate their knowledge to form hard-to-imitate human capital combinations (Boxall, 1996; Reed et al., 2006). As the exchange and combination of knowledge is a function of social capital (Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998), the latter strengthens the relationship between human capital and value creation. As evidence, Reed et al. (2006) have shown that the impact of human capital on firm performance is stronger when there is a high level of social capital.

B. HR Strategies that Support Transformational HR
Human capital is considered as tacit, or at least having its roots in tacit knowledge (Polanyi, 1966). As tacit knowledge is difficult to articulate, transfer and imitate (Simonin, 1999; Spender, 1996), the human capital of an HR shared services becomes a valuable and inimitable resource in implementing HR strategies and so supports transformational HR value creation. This is consistent with findings from research that has adopted the knowledge-based view which shows that higher levels of human capital result in higher levels of firm performance and a sustained competitive advantage because firms are better able to implement their strategies than their competitors (Hatch and Dyer, 2004; Hitt et al., 2001; Huselid et al., 1997). Relying on human capital may facilitate a transformational HR shared services to implement an HR strategy better than its competitors and so strengthen the rarity and inimitability of the human capital in the business units; that is, transformational HR value for the business units. More specifically, to develop the human capital in the business units requires knowledge of HR practices and the ability among HR SSP staff to implement these HR practices: that is, HR functional human capital (Janssen and Joha, 2006; Huselid et al., 1997). As Huselid et al. (1997) found, the professional HRM capabilities of HR professionals are positively related with strategic HRM effectiveness, such that higher levels of expertise and skills in HRM functional areas (e.g. training or staffing) result in clients and end-users perceiving a better development of talent/human capital within the business units.

C. HR Human Capital Infrastructural for Shared Interpretation
To develop a shared interpretation, high levels of social capital are needed (Crossan et al., 1999; Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998). Tsai and Ghoshal (1998) found a positive relationship between the extent of knowledge sharing and shared understanding among employees. As such, through creating a common understanding among HR shared services employees, social capital may ensure that employees have similar and consistent interpretations of how to use infrastructures,
which eventually results in a consistent and mechanistic use of organizational capital. Higher levels of social capital can secure a stronger impact of organizational capital on transactional HR value because knowledge exchange results in a more consistent use of codified knowledge among HR shared services, employees and, hence, a more consistent delivery of transactional HR services.

D. The Orientation of Top Management to People Management

The importance of top management in defining the roles of HR has been shown in many studies (Beer et al., 1985; Purcell and Ahlstrand, 1994; Kelly and Gennard, 2001; Nankervis et al., 2002; Khatri and Budhwar, 2002; Truss, 2003; Jacoby et al., 2005). These studies have emphasized the role of both the top management team as a whole and the role of the CEO/MD as a single actor. A commonly shared opinion is that the attitude of top management towards people management defines the role of the HR manager in the organization. If top management sees people management issues as important for the company and if they think that HR can add value to the company, they are more likely to invite the HR manager to the management team and through that demonstrate the importance of HR in their organization. However, there is still a lack of large-scale evidence in these areas.

References

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