

Human Resource Management: Surviving and Thriving in the 21st century

WHITE PAPER ON ISSUES OF HUMAN RESOURCE MEASUREMENT

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Introduction

Commercial businesses operate to make a profit. Line managers are under increasing pressure to 'produce more with less resources'. This paper will outline the need for Human Resources (HR) to demonstrate, in quantifiable and more tangible ways, how it contributes to business productivity.

For HR to survive and thrive in and beyond the 21st Century, the profession as a whole must adopt a more pragmatic approach to supporting business profitability. We know that HR can and does make a difference, and the challenge is to ensure we can produce the evidence in more tangible and quantifiable ways. After all, it is 'numbers' that really matter in the board room (Moore & McGeorge, 2003).

The shift in expectation is another phase in the evolution of HR. Think back to the 1970's when the predecessor to HR was personnel administration, largely a records and administrative function. This shift from back office support to today's role of HR as strategic business partner have been driven, in part, by pressures in the broader business environment and the need to increase performance, productivity and profits. Fitz-enz (1994) states that HR Managers who cannot demonstrate clear value-adding to the business bottom line (i.e profits) will no longer be tolerated. Change is therefore inevitable. One key aspect of this change is the fundamental shift from over reliance on qualitative, perception based HR results to the more hard edged business language requiring quantitative performance-measurement of HR's value to the business.

This paper will identify how HR can develop a more sustainable approach to ensure its survival and thrive beyond the 21st century by meeting the needs of the commercial environment in which it operates. This will be addressed by specific exploration of:

- why evaluation in HR functions and processes is often neglected;
- how to establish valid HR metrics/evaluation
- move HR measurement from 'inputs' to an 'outcomes' focus
- how HR can create value and what needs to change.

A Six Point Road Map for HR Success in the Boardroom is provided as a useful supplement to this report.

Why is the evaluation of HR function often neglected?

Effective evaluation requires an understanding of measurement, metrics, statistics and the analysis of numbers and their relationships. Gathering and presenting data in a readable and easy to digest format is one challenge, adding value through presentation of the current situation and even further insight through trend analysis or comparison with best-practice data. Data is a critical element in providing key

information, whilst analysis of the data can create insight and knowledge which serves to aid organisational decision making.

As previously explained, evaluation of HR is the systematic collection of information. This can be quantitative forms (i.e objective data including statistics, costs, analysis, records) and qualitative forms (subjective information including perceptions, survey responses, group feedback) (Moore & McGeorge, 2003). Comparisons, benchmarks and trend analysis are also useful forms of evaluation of HR programs, activities and proposals.

A number of writers signal reasons why HR evaluation is often neglected. Ulrich (1997) identifies 'fear' as a major reason why HR professionals have not embraced a 'results based' approach. He explains that HR professionals possess a weakness when it comes to using quantitative, measurable data stemming from a lack of knowledge or experience with empirical assessments of HR work. He adds that despite this hesitation, it **can and must** be done to enable explicit discussion on how HR adds value to the business and business results.

Another excuse often cited by HR professionals is the perceived inability to produce accurate figures around 'people', claiming it to be 'too difficult' and 'imprecise', *thereby* justifying producing no figures at all! (Moore & McGeorge, 2003) This view is short sighted, and does not serve the profession well. In many cases it is better to put forward some measure(s) than none at all. At worst HR may be asked to revise figures or assumptions if there is some dispute around the assumptions underpinning the calculations. The positive side to this is that managers whom HR enlists to help develop more robust assumptions (and starting with the Finance Manager or Accountant may be wise) will take greater ownership of these assumptions and potential defend them in the board room. HR and its evaluation may be an imperfect science; however it is better than no science at all (Moore & McGeorge, 2003). The same question mark over assumptions could be said for marketing, finance, IT and sales and yet it does not impede or inhibit these disciplines presenting their potentially less than perfect measurement/outcomes of strategies, practices and actions against targets.

It is also purported that HR practitioners have become so busy with day-to-day activities: those endless, urgent but not necessarily strategic or critically important issues. Activity in this area often takes precedence over evaluation and also is driven by senior executive who are not sure what HR can deliver to the business (Moore & McGeorge, 2003). Compounding this issue is that few HR professionals have any formal training in HR metrics, evaluation and measurement. A significant chasm exists in HR texts and where it does exist, it is generally limited to training and development (Moore, McGeorge, 2003). Having said that, the methodology used to evaluate training and development can frequently serve as a

sound framework to other HR functions, programs and activities. Take Kirkpatrick's Model (1996, in Nankervis, Crompton and Baird, 2005) which measures outcomes across four key dimensions: Reaction, Learning, Job Behaviour and Results. When applied to an HR intervention like Performance Management this model provides a useful framework for data collection and analysis of intervention, behaviour change and business impact. A worked example using these dimensions is provided as an appendix to this paper (see Appendix 1):

HR Evaluation: The quest for valid measures

Once the HR profession addresses the fear, competency and inertia due to the perceived complexity issue, the question becomes one of 'What should be evaluated?' Ulrich (1997) provides some insights here and strongly suggests that HR evaluation should serve two clear objectives:

- to measure the **effectiveness of the programs** and processes that impact positively on employees and builds internal credibility,
- **bottom line impact** where HR's role as a business partner contributes to business profitability, sustainability and customer /shareholder satisfaction.

As Belcourt (2001 p 36) explains, until HR measures the effectiveness of its programs, managers and HR professionals cannot distinguish between a 'fad' and a valid program. Furthermore, failure to evaluate HR programs can lead managers to form the view that HR as too costly, that HR is an expense not an asset, does not add value and therefore does not contribute to business outcomes.

To be an effective business partner in the 21st century, and deliver on current and future expectations created by tightening economic conditions, one eminent HR writer and researcher states very clearly that HR must change, declaring that "...concepts need to be replaced with evidence, ideas with results, and perceptions with assessment" (Ulrich, 1997). It is difficult to put it much clearer than this!

Where to Start?

An effective framework to use as a starting point for measurement is the Ulrich and Lake (1990) Six HR Domains Framework. This framework identifies six key areas: staffing, training/development, appraisal, rewards, organisational governance (occupational health & safety, diversity, Industrial relations) and communication. Within each domain there are numerous practices and services however they suggest that each domain address four assessment elements, namely:

- activity (what HR does and resources used),
- customer value (perception of how well HR performs these activities and their importance),
- cost/benefit (formula for measuring the utility or value, expressed financially, through tracking and comparisons over time) and

- research (assessment of HR contribution).

HR evaluation requires identifying cause and effect and this can be contentious. Some writers suggest caution here as the act of monitoring and measuring behaviour change (e.g performance appraisal, training evaluation, survey feedback) may, through the act of measurement, alter the behaviour of individuals and subsequently distort observable outcomes (Cooksey and Gates, 1995). The way to strengthen validity is to adopt a range of measures, where multiple observations, methods, data sources, date types, occasions and locations are used to counteract changeability of conditions, circumstances and behaviours. The writers also implore HR managers to make observations over a period of time to avoid simplistic and ungeneralised cause-effect links, thus establishing important trend information.

The key to any HR measurement is to start small, and build both the confidence within the HR team and within the audience who receives and reviews the information. Find those measures that will have the greatest meaning and impact for your audience. It may be that unplanned absenteeism (sick/carer leave) or staff turnover, plotted by work unit over a two year period will serve as an entry for further measurement. Subsequent reports may show this information by organisational classification/seniority or by geographical location. What must be avoided is the temptation to overload one's potential audience with an avalanche of reports, graphs and information. If the idea of presenting measurement is new to your team, then it is critical to build from a strong base of confidence and credibility.

To further assist in this area, a sample of HR Practice Measures is provided in Appendix 2.

Moving HR measurement from 'inputs' to 'outcomes'

Historically many HR staff have stuck to presenting processing volume that no one outside the unit supervisor cares about or needs to know (Fitz-enz, 1994). Measurement of processing volume encompasses items such as: number of applicants for positions, number of staff attending corporate induction, number of training courses conducted in a specified period. These figures show that HR is potentially busier than last period however the critical question to be asked is 'how does this data (inputs) show us whether we are being effective in our role in attracting and developing the capability of the workforce (outcomes) and how does the program/activity support the business goals?' The outcome measures present a stronger probability in satisfying your business manager and demonstrate in tangible ways how HR is adding value to the business.

Fitz-enz (1990) suggests a reorienting of the profession, enabling a clearer purpose and with it an essential shift from input measurement to outcomes. This is not just a game of semantics here but represents a real shift from measuring activity to measuring costs, lost productivity and opportunity. In

summary all measures should be able to tell a story – they need to answer the question “so what?” If they don’t then the orientation of the measurement needs to shift – potentially from inputs to a more outcomes focus.

Fitz-enz (1990) more specifically suggests HR moves to an Human Value Management (HVM) approach. In suggesting this Fitz-enz seeks to put an end to the ‘activity trap’ where the focus is how busy HR people are, measured by volume indicators (e.g how many candidates were interviewed for a role). He points out that these are ‘inputs’ and do not give an indication of effectiveness, improvements, achieved objectives or signify any impact on organisation. No one should be paid for being busy – but for results: outputs and impacts (Fitz-enz 1990).

This supports other writers such as Nankervis, Compton and Baird (2005) who claim effective and valued membership of the management team requires a ‘results’ or ‘outcomes’ measurement approach. This would mean instead of counting the number of candidates interviewed (an input) the results or outcomes measurement, similar to those in Appendix 2, should consist of:

- time to fill the position (from resignation date to offer and acceptance)
- cost to fill the position (advertising cost and interview costs + selection time x panel members + temporary staff costs).

The time taken to fill a vacancy and the time of members in recruiting new staff have more direct resource implications for the business than the number of people who applied for the role or the number interviewed. Time equates to cost which potentially could have been spent on other business activities including marketing the organisation’s products and services or, indeed, developing new products.

Creating and Delivering Value – What needs to change

The term ‘value-add’ is use widely in today’s business lexicon, however it’s original definition was very specific. Ulrich’s (1997) definition relates to the financial concept of market/book value. This is a company’s “market value of the firm, based on the stock price divided by firm’s assets”, the result of which represents ‘value-add’ by management. The value-add by HR can be tangible as HR plays a central role in assisting organisations optimise their human capital assets and to unlock the potential of each and every employee. Ensuring the organisation can tap into this enormous talent pool is, in Belcourt’s view, the essence of responsible and strategic human resource management in the 21st century (2001 p 36). The challenge for HR is to articulate a more robust case for what this contribution to the organisation represents and by so doing, demonstrate the value-add that would not have occurred without the various interventions and initiatives that talented HR practitioners offer.

Fitz-enz's (1994) HMV model, discussed earlier, places 'value' as its focus and foundation, and anything that doesn't add value is considered 'waste'. The notion of value adding of HR being expressed in financial terms has started to gain traction and have an impact. HR professionals need to give up vague, subjective terms for the more specific, objective language of numbers wherever possible.

In contemplating the advice of scholars in this area, combined with the more practical realities of HR practitioners working in the field, the following roadmap brings together the critical issues for HR practitioners to evolve the profession into the strategic business partner model. The Six Point Road Map serves as a guide to assisting HR practitioners in their journey to demonstrate clearly the added value HR can contribute to the business.

A Six Point Road Map for HR Success in the Boardroom: Surviving and Thriving in the 21st century

Demonstrating the value-add HR makes to the business is central to ensuring HR's success in the boardroom and HR's survival beyond the 21st century. Evaluation and measurement of HR programs, practices and interventions is fundamental. The Six Point Road map draws on the work of eminent writers and researchers in this field, namely Becker, Huselid, Ulrich, Belcourt, and Fitz-enz.

1. **Understand and Use Principles of Good Measurement** – focus on developing a variety of measures and presentation formats using qualitative results, quantitative results and year on year trends together with relevant sector comparisons.
2. **Use Critical Causal Thinking** – identify the linkage between HR architecture (programs and activities) and firm performance: HR deliverables are often positioned upstream in these causal linkages, line of sight between HR and firm performance is long and unless specifically pointed out, they can and are often missed.
3. **Estimate Causal Relationships** – Use a range of judgments and assumptions to underpin quantitative measures – it may not be a perfect science but it is better to than no evidence at all. Assumptions will carry weight if based on logic backed by quantitative estimates. Additionally, HR must be able to see patterns in seemingly unrelated data.
4. **Communicate HR Strategic performance results to senior line managers** – Use 'top down' thinking by understanding what questions managers outside HR want answered and match this to the information/data you present. Don't get distracted by the array of measures and the mechanics of

collection. Ask key questions like: How will I use these measures to manage HR's strategic performance? How will I use them to demonstrate HR's strategic impact on the business?

5. **Create value at all times** - Integrate customer value into all activities and show the results. Shift the perspective from a cost centre based activity/input focus to high impact profit generating centre with a focus on outcomes and benefits for the business.
6. **Earn a place at the board table** - Have something worthwhile to say that the senior managers need to hear and want to know about, delivered in the language of business.

Organisational demands are more complex than ever before and in this climate the business will turn to HR increasingly, for reliance on effective management of the company's most valuable asset: its people. HR's capacity to optimise workforce involvement is key to not only HR's survival in the 21st century, but more importantly, the sustainability of the business into the future.

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Appendix 1

Fig 1. Kirkpatrick's Model applied to Evaluating outcomes of Performance Management

Dimension	Outcome
Reaction	<ul style="list-style-type: none"> • Staff and manager satisfaction levels via surveys incorporate feedback on the system, how their goal setting and performance feedback were handled, the value they place on the feedback and outcome of the review, • General satisfaction with the role, engagement in the role/organisation as determined by retention levels. • Level of compliance with managers who willingly use the PMS vs number of reminders and follow-ups.
Learning	<ul style="list-style-type: none"> • Correlation between the investment in training and development and the relationship to achievement of work goals (determined by the employee and the manager) • Staff survey on access to skills development and importance of development in career development
Job behaviour	<ul style="list-style-type: none"> • Trends in counselling and disputes on job underperformance • Trends in assessment of employee behaviour measurements (ratings of employees displaying values ratings)
Results	<ul style="list-style-type: none"> • Business profitability correlated with adoption and use of PMS • Customer satisfaction • Customer complaints • Strategic goal achievement of business and work units.

Framework adapted and expanded from Moore & McGeorge (2005)

Appendix 2

Fig 2. Six Domains of HR Framework used to establish outcomes focused measures

Domain	Possible Outcome Measures (examples only)
Staffing	<ul style="list-style-type: none"> • Acceptance of offer ratio • Ratio of contacted candidates to those presenting for interview • Time to fill a role • Costs to fill a role • Average tenure of employees (by low and high performers) • Percent of internally filled jobs • Percent of jobs filled with candidates on succession plan • Percentage of bilingual employees
Training and Development	<ul style="list-style-type: none"> • Cost per trainee hour • Percent of employees with completed development plans • Percentage of payroll \$ spend on training • Payroll expense per employee • Time taken for new program design • Level of satisfaction that training met objectives • Level of satisfaction where training met/exceeded attendee expectation

Performance systems	<ul style="list-style-type: none"> • Acceptance level of appraisal process by employees • Effectiveness of performance system in improving underperformance • Effectiveness of performance system in dealing with poor performance which results in dismissal (nil successful unfair dismissal claims) • Percentage of employees whose compensation is performance contingent • Ratio of salary to competitor salary • Labour costs per revenue \$
Governance	<p>OH&S</p> <ul style="list-style-type: none"> • Lost work days due to accident/incident • Almost lost work days due o accident/incident • Cost of injuries • Incidence of injuries • Percentage of employees who are actively involved in wellness programs • Trends in workforce illness (unplanned absence) <p>IR&ER</p> <ul style="list-style-type: none"> • Number of nontraditional involvements of unionized workforce • Days lost due to industrial disagreement • Average time for dispute resolution <p>Diversity</p> <ul style="list-style-type: none"> • Perception of current and exiting employees re consistent and equitable treatment • Compliance of technical requirements of affirmative action • Degree of neutrality and objectivity in rewards and promotions • Nontraditional workforce promotion rate • Nontraditional workforce turnover rate • Average age of workforce • Gender distribution of workforce
Rewards	<ul style="list-style-type: none"> • Distribution of rewards, bonuses by department • Correlation between department goal achievement and distribution of rewards
Communications	<ul style="list-style-type: none"> • Perceptions in consistency and clarity of message from top management and from HR • Effectiveness of HR mediation between employees and management (days lost/time to resolve) • Speed and effectiveness of responses to employee complaints • Percentage of employees making suggestions for improvement • Percentage of suggestions implemented.

Adapted and enhanced from Ulrich and Lake (1990)