

What does HR do and what does it deliver?

HR must measure what matters.



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CEOs are not satisfied with HR's performance despite the evolution in the discipline, and keep asking, "Does Human Resources practice make a difference in business results?"

The answer in some organisations is, "This function is still doing marginal, mainly administrative, tasks and shows no demonstration

of their initiatives. They give us lip service and no deliverables."

From their side, HR leaders and practitioners are depressed and frustrated. They are not appreciated, ignoring the fact that they do what they are asked to do. This is, however, one of the most important, if not critical, topics for discussion in the HR arena – the way HR contributes to business success. For the function to effectively partner with business, there needs to be a combination of knowledge, expertise and tools to properly act upon business requirements and demands. Measuring HR's performance is an increasingly important concern for both HR Professionals and CEOs.

HR measures are sometimes talked about in the context of measuring the contribution of the HR function. An example of such measures might be the staffing costs of the HR function, recruitment speed, training delivery, management satisfaction with HR advice and services, and so on.

Such factors are clearly down to the people in the HR function and are under their control. There are many more measures, however, which may be only partly within the control of members of the HR function, and partly within the control of others in the organisation, and indeed there are some measures over which the HR function may have no control, particularly in an organisation where HR is delegated to line managers.

The challenge of HR measurement becomes particularly noticeable when top management asks HR to justify its contribution to the organisation. It is important to ensure that what they measure is relevant to the organisation, its context and the particular people issues it faces. So choose a measurement framework that suits your organisation, not one just taken off the shelf.

The HR Measurement Framework you select will have to depend on the nature of the business/service, the operating environment, the strategy and priorities, the local labor market and the workforce. Selecting the 'right' measures is the first step in implementing effective HR measures suited to your organisation.

The Key Performance Indicators that you are going to select will be determined by the resources available and which you are prepared to commit, and the effort needed for data collection, analysis, management and reporting. It is better to focus on a few measures of activities which are critical to business success rather than try to capture everything.

To respond to the CEOs' question mentioned above, HR practitioners have to think on five levels of measurements.

HR is at the heart of finding, attracting and retaining talent. But how do we know that the HR function is delivering everything it needs in the most effective way possible? In this article I will try to demonstrate what we have to focus on in order to show the strategic worth of HR and its contributions, and prove the true value of its programmes, efforts and initiatives.

1. Strategic contributions

Here we are looking to evaluate the overall effect of what people do, as well as how they are managed and led, based on the performance of the business. Measuring this is critical for the execution of business strategy, the management of change and the conveyance of results. These are measures of the strategic contribution of HR and of people overall, and show the link or correlation between people measures and business measures or key performance indicators. These include:

- Relationships between changes in levels of employee engagement and customer satisfaction levels;
- Cost of staff attendance/absence and impact on business results;
- Relationships between employee capability levels, employee productivity and business outputs; and
- Proportion of staff retained with core skills critical to business success.

2. Value added

The global economy has witnessed a radical change in the way people work and in their employment relationships. This change has been from a psychological employment contract based on reciprocity to one that is based on continuous improvement and workplace innovation. Measuring this level assesses the added value and/or contribution of the people in the organisation.

To develop meaningful HR measures, a framework is needed to outline how HR can impact business performance. Human capital has been defined as 'the sum of the knowledge, skills, experience and other workforce attributes that reside in an organisation's

workforce and drive productivity, performance and the achievement of strategic goals'. Such measures show how the skills, knowledge and expertise of employees is converted to intellectual capital – such as customer relationships, processes, systems, brand and ways of doing business.

These are elements that are unique to each organisation and differentiate it from other similar organisations or competitors. These are human capital added value measures and enable the organisation to value its intellectual assets. These include:

- Proportion of employees with particular skills, capabilities and qualifications; changes in those proportions;
- Proportion of employees with different performance assessment ratings;
- Cash value of innovations made by employees; and
- Customer perceptions of service quality and staff expertise.

3. People management

These measures evaluate the vital role of managers in releasing the contribution of people in the organisation. The precise role will vary with the business, the HR environment and expectations of managers, and needs to be clearly defined in each organisation. The impact of manager capability and the degree to which they enact HR policies affects the morale, engagement, contribution, productivity and added value of employees.

People management measures enable HR and managers to evaluate the quality and effectiveness of people management. These include:

- Assessments of manager/leader competence and capability;
- Employee perceptions of line management, leadership and teamwork (for example as people managers or change managers);
- Employee sickness/absence rates and ratios;
- Employee grievance levels;
- Perceptions of and enactment of people management policies such as personal development plans, appraisals and feedback; and
- Quality of two-way communications and staff involvement.

4. HR impact

Each organisation has its own HR strategies, policies, practices and activities in place to recruit, train, develop, retain, engage and progress people so their contribution to the business can be maximised. The particular combination of HR practices will vary between organisations. They will reflect different types of organisation, strategy, business models and workforces. These measures assess the effectiveness of these practices in recruiting and retaining people and how they contribute to the skills, attitudes and behavior of employees, managers and leaders. These

are measures of HR impact and enable HR to evaluate how its activities affect people in the organisation.

HR impact measures might include:

- Number and ratios of recruits selected, promotions made and employees retained;
- Number of participants in learning and development activities, learning outcomes achieved and impact on performance ratings;
- Number of participants in talent programmes and outcomes achieved; and
- Employee and manager perceptions of the quality and value of HR activities.

5. HR effectiveness

The HR department provides services to the entire organisation and develops and implements policies, programmes and initiatives for effective people management and employee engagement and retention. Thus, HR needs to assess the quality, consistency, responsiveness and efficiency of these services and their cost to the business. These are measures of HR effectiveness. They enable the HR team to manage the function successfully. The precise measures to be considered will depend on the particular HR structure in place and may include:

- Speed, responsiveness and consistency of HR services and advice;
- Volumes and types of enquiries resolved by HR;
- Manager and employee perceptions of the quality of HR transactional or business partner service;
- Ratio of HR employees to total employees; and
- Ratio of HR costs to total costs.

Final comments

When you ask HR leaders what they measure and what they use to measure, the obvious reply is KPIs. True, but what do KPIs measure that is important?

To be successful, HR leaders need to understand their business colleagues, design consistent processes, and measure more than work and cost. For HR measures to be valuable, they need only be accepted and, more often than not, it doesn't require a Ph.D. in mathematics, robust organisation wide samples or complex formulas.

Measures don't just tell us about the performance of a system – they can drive the performance of the system. The right measure in the right place can be transformative; the wrong measure in the wrong place can be equally transformative.

If we want to put people first, we need to put person-centered measures first, but we need to get the right measures in the right place by thinking about context and about coherence. In other words, we need to be rigorous and methodical in our approach. ■

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