

# *Human Resource Management: A Case Study Approach*

## People-Related Measures and High-Performance HRM

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*Dr David Griffiths*

CIPD HRMiC

# *Lecture outline*

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- People-measures for managers to use
- Measures of the effectiveness of the HR function

# *Learning objectives*

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- Explanation of the meaning of 'human capital' and how it differs from 'human resources'
- Explanation of the different kinds of measures that are people-related, and a discussion of the issues in obtaining reliability
- Explanation of how measures can be put together to form meaningful statements for managers
- Understanding and explaining the outcomes of an HR function and how these can be measured
- Creation of a scorecard for measuring the performance of an HR function

# *Human capital measures*

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- Organisations exist to create value or benefits for their stakeholders
- A stakeholder is a person or group that has an interest in the success of the organisation
- Most organisations have at least three main stakeholders: owners, customers and employees
- Every organisation has assets: these are either
  - tangible (money, buildings, equipment, machines, stock)
  - or
  - intangible (customer base, brand names, reputation, valuable contracts, systems, processes, knowledge, methodologies and people)
- The qualities of people (skills, relationships, experiences and creativity) are the *human capital*

# *Human capital measures* Cont.

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- Human capital management thinks of people as value-creating assets and not as just costs
- Human capital management considers the value they have as individuals and teams, and the value they create for others
- Human resource management is the administration of the people resource, and the processes, tools and programmes which maximise people's value and contributions

# *Human capital measures* Cont.

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- Types of measures that may be used in the context of people are:
  - proportions, percentages and ratios
  - indices, which weight and combine several measures
  - ranking in order
  - time-based trends
  - perceptions of how people feel or see things
  - levels of expertise
  - cost and cost-based ratios
  - the absence of negative events (eg accidents)
- All measures depend on the reliability and consistency of the measuring process

# *Human capital measures* Cont.

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- An evaluation of a measure can be carried out in any of three different ways:
  - According to whether the measure is increasing or decreasing compared to a previous figure (a need to look at trends rather than one-off variations)
  - By comparison to similar measures with other organisations (benchmarking)
  - By comparison against a target we have set

# *Human capital measures* Cont.

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## Statistics on the workforce

- can refer to the company as a whole, to a division or to an individual area
- can be analysed by level of employee
- can consider a variety of statistics on:
  - length of service, time in job, disability, gender, ethnic origin, full-/part-time, qualifications, or vacancies
- Useful ratios include:
  - labour turnover, % vacancies, % transfers, % promotions, front line:support staff, use of temporary staff, absenteeism/ sickness or accidents/ill health

# *Human capital measures* Cont.

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- The value of people is difficult to measure
- People can increase their value over time (with new skills and experience)
- The need to identify the distinctive characteristics of employees that epitomise their value, for example:
  - personal attitudes
  - value-alignment with the organisation
  - job-relevant capability/expertise
  - productivity/contribution

# *Human capital measures* Cont.

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- What are the additional characteristics that an individual possesses which indicate the promise of future value, beyond the current task?
- This may include:
  - previous experience
  - potential to grow/take on more responsibility
  - mobility

# *Human capital measures* Cont.

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- Once the factors affecting high performance are identified, they must be weighed for relative importance
- These can then be used to create an overall Human Capital Index
- A key joint manager/HR objective is to constantly increase the total index

# *Human capital measures* Cont.

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- Organisations want engaged employees – committed and keen to do the best job that they can
- Two types of motivation:
  - intrinsic (natural enthusiasm)
  - extrinsic (what the organisation or manager does and does not do)
- Six ways to know if an employee is engaged:
  - Ask people directly
  - Get an independent company to ask people
  - Voluntary resignation rates
  - Excessive absenteeism rates
  - Excessive absence rates
  - Ask the managers

# *Human capital measures* Cont.

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- Research can tell us about the things that motivate people in general
- The most commonly-used surveys on employee engagement are Gallup and the Q12
- If the majority of answers to the Q12 are Yes, there is a strong chance of employee engagement
- Good organisations carry out employee opinion surveys, usually annually, which may cover a number of areas
  - plus additional ‘pulse’ surveys carried out more frequently

# *Human capital measures* Cont.

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- People bring their value to organisations to create value for others – the need to measure their productivity
- Productivity is defined as output over input – it is a ratio
- Inputs could include: number of people, time spent on a task, people cost
- The output measure is a measure of the value added
- Use all four measures together to produce a meaningful result
- Use a Human Capital Monitor or a People Balance Sheet to display the results

# *High-performing HR management*

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- The need to understand and measure the value HR adds
  - Operating effectiveness (how efficient we are, how well our processes achieve their purpose, how good a service level we deliver, what our productivity levels are)
  - Project effectiveness (whether we get a good return on what we spend on special initiatives and programmes)
- The need to consider stakeholders – for HR the key ones are the owners (via senior management), managers and employees

# *High-performing HR management* Cont.

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- Operating effectiveness requires some good internal measures that can be monitored and managed
  - the quality of service provided for the cost
  - what our productivity is
  - what value for money we give
  - how well HR processes work, and how time is utilised
- Service can be measured against service-level agreements
- Productivity requires us to compare output measures against some measure of human effort
- We must consider how much time is spent on non-value-adding activities

# *High-performing HR management* Cont.

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- HR owns, designs and runs, or helps run, many processes that are to do with people management
- We must be clear about the purpose and aims of a process to see how well it is working
- We can consider:
  - the penetration of the process (what percentage of the people who are supposed to use it are actually doing so)
  - the success of the process (the extent to which the intended outcomes are achieved)
  - the time and/or cost taken for completion of a round of the process (whether it is worth the goals achieved)

# *High-performing HR management* Cont.

- When planning for HR projects, we must consider the anticipated effectiveness (whether it will bring a return)
- We must consider whether it will take account of both financial and non-financial added value
$$\% \text{ RoI} = \frac{\text{Financial benefits} - \text{Project costs}}{\text{Project cost}} \times 100$$
- To this we can add non-financial benefits
- To estimate the benefit, we must either make a case or evaluate whether the initiative met its anticipated returns

# *High-performing HR management* Cont.

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- To make a case:
  - Define the measurable objectives of the initiative
  - Calculate the estimated cost of the project
  - Estimate the returns (financial and non-financial) to be expected from the initiative
  - Balance the two and conclude whether the initiative is or is not a worthwhile use of resources

# *High-performing HR management* Cont.

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- To subsequently evaluate the success of a project we need in addition to:
  - make a data collection and evaluation plan
  - collect data before the initiative if a before-and-after comparison is to be made
  - collect data during the initiative as needed
  - collect data after implementation
  - calculate all costs involved at each stage
  - isolate the effects of the programme
  - calculate the financial impact of the data
  - compare this with the costs
  - present together with the non-financial benefits
  - judge whether the actual RoI is satisfactory

# *Lecture summary*

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- There are two main areas of people-related measures – those to do with the human capital of the organisation and those to do with the HR function
- Human capital sees people as value-creating assets and managing them accordingly – it implies measurement as in any part of the business and is as valid for public and private sector organisations
- There are four areas to consider in human capital measurement: workforce statistics, the value of people, the motivation of people, and finally their productivity
- Statistics are about who we have and where – by job family and by department
- We must value people quantitatively in order to have a balance with the focus on costs – we cannot do this in financial terms – we have to evaluate the characteristics of people that make them valuable

# *Lecture summary*

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- Satisfaction is not the same as engagement – we must measure the latter using custom-made surveys
- Productivity is the added value to stakeholders divided by some measure of the human input
- When we look at the effectiveness of the HR function, we have to know the value it adds to its own stakeholders and quantify it
- Operating effectiveness – service delivery, process efficiency, productivity and value for money and time utilisation; project effectiveness – return on investment for projects
- For both sets of measures we need an integrated presentation of the measures – for each group of human capital, a ‘monitor’, for the HR function, a scorecard

# Case study

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## Questions to answer:

You are a consultant who has been asked by the HR director to do two things. Firstly, she would like first a scorecard for the HR function to enable her to monitor the right indicators that will tell her the department is being effective. What would you have in the scorecard and what measures would have to be built? Be specific and not general – you may have to be somewhat creative to think of what would be useful in this context.

Secondly, she would like a human capital monitor for the group of technicians. Think about what make such people valuable in the organisation, what is likely to motivate them, and how the results of their efforts can be measured in value added. How would you summarise clearly such a monitor for the manager? In preparing the monitors/scorecards, can you foresee any practical difficulties? Likewise in implementation?