



# **USE OF HR METRICS IN SHOWING IMPORTANCE OF HR FUNCTION FOR MODERN DAY ORGANIZATION'S & FRAMEWORK FOR IMPLEMENTATION OF METRICS**

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## **ABSTRACT**

Strategic Human Resource Management has been a breakthrough in the field of HRM, however still plenty needs to be done in the area in order for it to fully justify the effectiveness of HR function. In the age of knowledge workers it becomes essential for organizations to come up with innovative solutions that not only measure their performance but also effectively align the HR strategy with the overall business strategy.

In order to counter the above challenges more and more organizations are resorting to using the right HR metrics. The reason being not only do they effectively gauge the effectiveness of the HR function but also at the same time help in aligning the HR strategy with the overall strategy of the organization. Apart from the above, HR metrics are beneficial from the viewpoint of focusing on key areas of HR at given point of time, be it T&D, Recruitment and Selection, Retention, Performance appraisal and so on. By focusing on key areas of HR, organizations are able to channelize the right amount of resources in the right activities at the right time. Not only does this ensure smooth functioning of the organization, but also at the same time helps organizations to achieve long term success.

It is a widely accepted fact that people are organizations most important assets, however not many organizations are able to take care of them in an effective manner. Reason being they tend to lack measurement frameworks that accurately gauge different aspects related to employees like T&D requirements, career path options, accurate performance levels, job satisfaction levels and so on. HR metrics help organizations to gauge the above accurately, this paper seeks to establish the importance and use of HR metrics to determine effectiveness of the HR function for modern day organizations and suggest a framework for implementation of the same.

## **I. INTRODUCTION**

With the advent of globalization and the concept of knowledge economy evolving, it becomes essential for organizations to take care of their employees in an effective manner. In the age of knowledge workers the entire concept of how organizations operate and take care of their employees has changed drastically. No longer are the age old concepts of scientific management and so on completely relevant when it comes to managing workforce. This has forced organizations to come up with new and innovative solutions to manage their



workforce effectively. HR being a key and integral part of organizations when it comes to managing workforce has therefore evolved in recent years to become a strategic partner in most organizations. The concept of Strategic Human Resource Management is at the fore in most organizations, the concept states that the HR strategy in any organization should be aligned with the overall strategy of the organization. This not only helps in organizations working towards a right direction but also at the same time ensures taking care of organizations most important aspect, its employees.

HR metrics in recent years have come up with new and innovative ways in which organizations can manage their workforce and also at the same time align the HR strategy with the overall organizations strategy. A paper published in Harvard Business Review in the year 2004 points out towards the fact that intangible assets like skills of employees, job satisfaction levels and so on are more important than tangible assets. By quantifying the HR measurement framework and providing near enough accurate analysis HR metrics help organizations to measure these intangible assets. This subsequently leads to organizations creating a clear and transparent measurement framework by removing any discrepancies in measuring performance, job satisfaction levels and so on. Also HR metrics help the organizations to find out what course of action HR needs to take in sync with the overall business strategy of the organization, this subsequently can lead to organizations achieving success in the long run.

## **Literature Review**

According to Bloom 2016, many a times organizations face a dilemma when it comes to taking decision about their workforce, reason being in case if it does not work it can lead to workforce being unhappy, this in turn would lead to low productivity. HR metrics via the means of quantifying things help organizations take clear and transparent decisions about their workforce. Similarly Storey 2009, points out towards the fact that by enhancing the effectiveness of the HR function HR metrics create value for organizations in the long run. Kavanagh et al. 2013 on the other hand mention the fact that by identifying key areas in the HR domain which organization needs to focus at any given point of time, HR metrics help in aligning the HR strategy with the overall business strategy. Kaplan & Norton in Rothwell 2012, mention the fact that HR metrics not only highlight and justify the investments which organizations make in the HR function, more importantly so they showcase how workforce in any organization is creating value for it. In other words how much is HR as a function contributing to the overall success of the organization.

Mathis et al. 2015, point out towards the fact that people related costs constitute the largest part of overall costs of organization. Under the circumstance it becomes essential for HR to showcase how it creates value for the organization. By calculating the right HR metrics at right point of time HR as a function can showcase any loopholes if any which are there in the functioning of workforce. By rectifying the same HR can help workforce to smooth in an effective and efficient manner thereby creating value for the organization. On the other hand Hartel and Fujimoto 2014, point out towards the fact that choosing the right HR metrics and numbers obtained after calculating them are a clear cut indicator of which areas workforce in any organization is facing problem. Once found HR can come up with ideal solutions to eliminate the problem, this not only helps in smooth functioning of the workforce but also at the same time points out towards the key areas which HR should be concentrating on in order to achieve the overall goals and objectives of the organization.



## II. HR METRICS: A BRIEF HISTORY

Measuring performance of human resources is not something which is new in the field of management.

- The first time humans and their performance was measured was way back in late 1890's and early 1900's with the advent of scientific management (Taylor, 2016)
- In World War II US army psychologists used SJT (Situational Judgment Tests) to measure judgment of soldier in specific situations (Fetzer&Tuzinski, 2013)
- Peter Drucker coining the term 'Knowledge Worker' in 1957 and mentioning that humans are most important aspects of organizations led to many new and innovative ways in which organizations could find out how people create value for organizations (Despres, 2011)
- Invention of the balanced scorecard which challenged the traditional notion that all businesses need to succeed was profits. Instead the concept mentioned that for achieving overall vision and mission of organization apart from financial perspective organizations need to focus on optimizing internal business processes, improving customer satisfaction level and lastly enhancing the learning and knowledge of their workforce. Once all the four perspectives are synergized organizations are able to achieve its overall vision and mission (Kaplan & Norton, 2013)
- With more and more organizations focusing on innovation in the current era of heavy competition, it becomes essential for organizations to develop metrics which clearly indicate how workforce creates value for organizations. Companies like Google have come up with metrics that have highlighted difference in performance between two employees upto 300 times (Sullivan, 2015)

### **Importance of HR Metrics for Modern day Organizations**

Because of the fact that people related costs constitute the largest component of overall costs of organization, it becomes essential for HR as a department to prove their worth to the organization. In recent decades as a result of organizations realizing that people are their most important assets, it becomes essential for them to manage people efficiently and effectively. Looking at the above two one can easily say how crucial HR is when it comes to delivering success to organizations. However how does the HR department show an organization the value it is adding towards achieving overall vision and mission of organization? HR metrics are being used by more and more organizations in recent decades; this is because of the fact that calculating the right HR metrics shows how people create value for the organization. Also at the same time by identifying which areas of HR organization needs to focus at any given point of time HR metrics create a framework whereby the HR strategy can be aligned with the overall business strategy of organization.

Metrics can be categorized into different domains like T&D, Recruitment and Selection, Appraisals, Retention, Wages, Turnover etc. By having different metrics under each category organizations are able to find out which areas of HR are contributing how much to the success of the organization. To give an example, by calculating HR metrics relating to T&D, organization finds out that employees performance is increasing to a great extent highlights the fact that the training and development programs are adding high value to the organization. Not only by increasing skills of employees they are increasing motivation levels, but also at the same time it is leading to increased productivity. On the other hand an organization by calculating recruitment metrics finds out



that the quality of candidates that face the selection round are not upto the mark, then this clearly indicates that there are certain loopholes in the recruitment process of the organization.

Apart from the above, key metrics related to performance appraisals can indicate how much each employee is contributing to the success of the organization. This in a way can help organizations to find out which employees would be needed for which project, how many employees would be required, what should be the key skills and competencies they need to possess and so on. In a way calculating these metrics will ensure the achievement of the golden rule of 'Right people, at the right place, at the right time'. All in all it can be said that HR metrics are important for organizations in following ways:

- Clearly highlight the contribution of HR as a function towards achievement of organizations Vision & Mission
- Indicate by how much and in what way an organizations workforce is adding value to it
- Which areas of HR the organization should focus on in different situations
- Alignment of HR strategy with the overall organizational strategy (Justification of objectives of SHRM)
- Act as motivational tool for employees by ensuring fair performance appraisals, increment in pay in sync with performance etc.

### **Main Objectives of HR Metrics & Strategic Framework for Implementing Them**

Human resources in any organization have a maximum impact on productivity; also at the same time they are the ones who determine the overall success story of organization. Under the circumstance metrics have a main objective of justifying to the business how much costs should be allocated to people related activities. Over the past few years more and more organizations are outsourcing their HR function, to put it simply HR has become a back end function and organizations outsource the activities from the viewpoint of concentrating on their core competencies. Taking into consideration the above discussion it is clearly evident that HR metrics can play a major role in making HR a part of core business process. This can be done via the means of analyzing and showcasing how can HR strategy in sync with overall business strategy can lead organizations towards success.

In order to enhance the capacities of the HR function, organizations need to decide which set of metrics are crucial to them at any given point of time. Also whether the same showcases how much of an impact HR has on productivity, at the same time the prime objective of the metrics is to ensure how much amount of resources should be allocated for each activity related to production.

HR metrics in general are segregated into three different categories historical, real time and forward looking. The reason for doing so is the fact that when it comes to measuring performance and finding out how much value human resources are contributing towards the organization, one needs to look into past, present and future. This is because HR professionals need to analyze what they had done in the past as a result of which they what are they contributing now, this will showcase whether the strategy is working or not. Once done the next phase is of finding out loopholes if any in past and present and what should be done in order to ensure the same does not happen in future. This indicates that HR metrics main objective is to showcase to the organization whether the HR strategy implemented in the past has resulted in success today, and if not what should be done today to



ensure that it leads to success tomorrow. Because of the fact that HR metrics quantify results, it becomes easy for management to see how much of an impact HR has made towards business success.

For achieving any goal or objective set out, organizations need their employees to have certain skillsets and behaviors. In case if either of the components is missing organizations would not be able to achieve their goal and objectives. By measuring motivation levels, relationship between people, key skillsets, communication patterns and so on HR metrics provide organizations with valuable information with regards to their workforce. Also it helps organizations to understand whether its workforce is capable enough of achieving their ultimate goals and objectives. In short HR metrics objective is to showcase to the organization whether they have the workforce with right skill sets and behaviors that could lead to achievement of overall goals and objectives.

The following is the proposed framework for implementation of metrics:

- Analyze and evaluate the overall business strategy of the organization
- Find out which areas HR needs to focus on in order to contribute towards achievement of overall organizational goals and objectives
- Develop key metrics related to the identified domains (T&D, Recruitment & Selection etc.)
- Collect relevant data and calculate the metrics
- Analyze and evaluate past and present data
- Communicate results and suggest future strategies

### III. CONCLUSION

On the basis of all of the above discussion it can be concluded that in recent decades as a result of need to focus on core competencies more and more organizations are outsourcing the HR function. This is because of the fact that they no longer consider HR to be a part of mainstream business. However the emergence of strategic human resource management has led organizations to understand the need of aligning the HR strategy with the overall business strategy. HR metrics go a long way in justifying this stance taken by organizations; they not only highlight how much its workforce is adding value to the mainstream business but also at the same time showcase which areas of HR organization need to focus on in any given situation. It can also be concluded that HR metrics are beneficial from the viewpoint of finding out whether the workforce has the skillsets and behaviors to achieve the overall organizational goals and objectives; this subsequently helps in allocation of right amount of resources at the right place at the right time. All in all it can be said that HR metrics have indeed transformed HR from being a back end function to being a part of mainstream business process.

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