

Effectiveness of HR Metrics and HR Analytics in the Evolution of HR as a Strategic Business Partner

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ABSTRACT

Any organization's functioning, survival and growth is largely a result of the efforts put by the human resources in those firms. More technology has come to the HR workspace and the challenge for HR executives now is to become more tech-savvy. Many studies have highlighted the strategic importance and potential for HR practices. Firms can hugely benefit from the HR measurement tools. They can assess the value of important long-term decisions towards human resources in the business context. HR metrics offer firm specific insights that are more data-driven, enabling the HR professionals and key executives to make important HR decisions. There is greater acceptance existing among the HR practitioners that HR metrics could help project HR as a strategic business partner. The present study is aimed at identifying the different levels of HR metrics in use by the HR professionals. The study attempted to collect HR professionals' opinion on the usefulness and the impact of the HR metrics in making various HR decisions in order to project HR function as a strategic business partner. The results of the study indicated favorable opinion on the utilization of HR metrics and the usefulness to a good level. Also, the metrics were able to impact the important HR decisions in the organizations favoring the study aim about role of HR metrics in promoting HR as a strategic business partner.

1. Introduction

Human resources (HR) are undisputed strategic assets that every organization dreams of to have throughout the organization's lifetime. The right set of human resources can place the organization at business supremacy and help the business create the impact. Any organization's functioning, survival and growth is largely a result of the efforts put by the human resources in those firms. Having the potential to shape the business to lead the globe or to collapse to the worst lows, human resources need special attention. The space for HR representation has also grown from a shrunken low end operational activity to a strategically important function. Thus, the use of technology in HR functions has also become vital for the growth of organization. These technologies are not just supporting the HR functions in organization but are playing important role in unique ways of handling HR functions. There is a greater consensus to make the human capital decisions more strategically relevant. The decisions made should be more sophisticated. However, it is not any simple task for HR professionals to put things into practice. Managers and people associated with HR functions in organizations have to face the challenge (Boudreau & Lawler, 2014).

Technology has enabled all business functions and processes. Use of electronic forms of data and execution of business functions through electronic forms has become key for the success of business. For years there has not been any proper means of measuring and understanding the performance and potential of human resources and the HR function as it was not considered such an important area to focus in business context. Along with all other business functions, the Human

Resources (HR) function is also being managed more electronically. More technology has come to the HR workspace and the challenge for HR executives now is to become more tech-savvy. Organizations have done away the physical filing and paper form storage systems (Dulebohn & Johnson, 2013).

HR's position for long in many organizations has been a mere administrative function that is viewed as a cost center. Very fewer organizations have recognized the HR function to be having importance in strategic parlance to add value to the business (Lawler and Morhman, 2003). The problem is that HR does not seem to be able to effectively position itself as a business partner. In this context, it is important to bring out the measures and metrics that prove HR function not only as a strategically important one, but present the quantifiable performance of HR functions both in terms of numbers and figures as well as the revenues created through HR functions to make the business profitable.

2. Linking HR measurement and HR's Strategic Importance- A Review

Many studies have highlighted the strategic importance and potential for HR practices. HR practices can have a direct bearing on the overall organizational performance. Becker and Huselid (1998) were able to depict a clear association between HR practices and the organization's performance. How the human resource practices are formulated and executed in organizations can level the firm's performance. Studies have established that if HR practices go wrong and unattended there could be significant impact on the overall business results. It is evident that HR functions deserve better projection than their

existing position. Lawler and Mohrman have established that different features of the HR function are closely associated in projecting the HR's role as a strategic partner (Lawler, Levenson, & Boudreau, 2004). Each of the HR functions can directly and indirectly contribute to the business drivers and strategic business outcomes.

Firms can hugely benefit from the HR measurement tools. They can assess the value of important long-term decisions towards human resources in the business context. Top executives of listed companies can get clear understanding of the best management practices they can put in place. And also decide among them the appropriate ones for long-term, sustainable growth offering high value by making use of human resource analytics (Royal & O'Donnell, 2008).

Organization's HR information system should be able to provide rigorous and finer measures of human resources on par with the other business performance indicators. Besides the routine reports that HRIS produces, measures are required which present the levels of productivity, and value of talent besides identifying the extent of effective utilization of talent (Lawler, 2009). With the kind of measures it becomes easy to make effective HR decisions that are well supported by the available metrics.

HR analytics, an advanced level of going beyond the traditional HR metrics offers firm specific insights that are more data-driven, enabling the HR professionals and key executives to make effective long-term, strategic decisions about their human resources (Fecheyr-Lippens, Bruce; Schaninger, Bill; Tanner, 2015). Availability of HR analytical capabilities in organization can help organization compete in dynamic HR decision making environment.

HR metrics and analytics can create business impact. There are several empirical evidences and ample illustrations of business cases that establish the positive business impact the HR function create (Marler & Boudreau, 2016). Recent studies are able to present the quantifiable association between the HR metrics and the corresponding impact on business.

3. Understanding HR Metrics – Different Levels

The advent of technology has created surge in the data capturing and storage capabilities of HR functions. Parallel to the other information systems and functions in organizations, HR information systems have also transformed to integrate the HR data with various business functions. Rapid growth in the access and availability of data has given HR professionals the opportunity to use HR metrics and assess human resources from different dimensions.

This upsurge enabled HR managers to utilize the data in all possible means to develop better HR metrics for the organization. Development of new HR metrics has become essential as organizations are looking to gauge the performance of all functional areas in realistic terms; for this, supportive metrics are the only means of evidence.

Metrics are measurement tools used to assess the results of a function. In a business context, metrics are vital to understand

the performance of a business function. Metrics, though more widely used in the financial, marketing, and operational functions of business, they are equally popular and well employed in understanding the human resource function. By presenting the human resource metrics, performance of HR functions and contribution to other business functions can be established.

A general way to describe metrics is to classify them as efficiency metrics, effectiveness metrics and human capital metrics. While efficiency metrics help understand the productivity and cost of HR functions, effectiveness metrics identify the extent to which the HR programs have yielded the intended results. On the other hand, human capital metrics help gauge the value of human resources in the organization. Another way to measure HR is to use strategic HR metrics. These metrics assess the impact of HR on various business outcomes.

Examples of efficiency metrics include: Expenditure per employee, cost per employee, recruitment yield ratios etc. Human capital metrics look at the factors such as expenses, profits earned per employee, value added through human resources etc. Effectiveness metrics provides measures such as the employee progression, growth in quality teams, that reflect how well the HR policies are being yielding results. The strategic HR metrics look at measuring how HR is contributing to the overall organization and business growth in terms of processes, outcomes etc. Organizations should make use of all the four levels of HR metrics. There is greater acceptance existing among the HR practitioners that HR metrics could help project HR as a strategic business partner.

4. Role of HR metrics in projecting HR as a Strategic Business Partner – The Study

Taking inputs from the studies reviewed, in order to examine the extent of applications of HR metrics in organizations more clearly, HR professionals were approached. A study questionnaire was prepared to capture the responses. The questionnaire primarily focused on the existence of HR metrics at different levels and their corresponding utility in the organizations. The study questionnaire items were developed by utilizing the previous studies by Boudreau (2004), Dulebohn & Johnson (2013). The items were modified to match the current study purpose. The questionnaire was served to a sample of about 140 randomly chosen HR professionals who are working in various organizations in Hyderabad. However, due to time and other limitations, 98 people gave their responses. Of these 98 questionnaire responses were complete in all respects which are considered for the purpose of the study. The first section of the study focused on knowing whether certain level of HR metrics are being used by the organizations, by using dichotomous response. The second section has looked at the usefulness of different levels of HR metrics for the HR professionals by using a five point scale response, where the expected mean of 3 or above is considered as desired. The third section identified the level of impact of the HR metrics on important HR decisions in order to project HR as a strategic business partner.

4.1 Utilization of Different Levels of HR Metrics

	Yes		No	
	Count	Percentage	Count	Percentage
HR Efficiency Metrics	47	54.0%	40	46.0%
HR Effectiveness Metrics	38	43.7%	49	56.3%
Human Capital Value Metrics	47	54.0%	40	46.0%
Strategic HR Metrics	44	50.6%	43	49.4%

Table 1: Utilization of Different Levels of HR Metrics

4.2 Usefulness of Different Levels of HR Metrics

	Mean	Standard Deviation	Rank
Efficiency Metrics	2.78	1.38	4
Effectiveness Metrics	3.11	1.45	2
Human Capital Value Metrics	3.00	1.41	4
Strategic HR Metrics	3.22	1.43	1

Table 2: Usefulness of Different Levels of HR Metrics

The table depicts the usefulness of different levels of HR metrics as found by the HR professionals. The study identified that respondents found the HR efficiency metrics (with a mean value below 3) to be of less useful. A significant result of the study is that the strategic HR metrics were found to be having higher usefulness (mean value 3.22) than the other levels of HR metrics thus ranking '1'. Hence, HR professionals find the strategic HR metrics as more useful in projecting the HR's role as a strategic business partner.

The study found that nearly half of the respondent organizations were not using either one level of HR metrics to the full extent. Fewer organizations are focusing on HR the effectiveness metrics, which is an important way to tell the organization how well the HR practices and functions are able to meet the desired goals.

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Efficiency Metrics	-1.480	86	.142	-.21839	-.5117	.0749
Effectiveness Metrics	.739	86	.462	.11494	-.1941	.4240
Human Capital Value Metrics	.000	86	1.000	.00000	-.3014	.3014
Strategic HR Metrics	1.420	86	.159	.21839	-.0872	.5240

Table 3: One-sample test for Usefulness of Different Levels of HR Metrics

In the One-sample test Sig. (2-tailed) values for all the levels of metrics indicate $p > .05$, for the mean values above '3'. Hence

it can be inferred that the respondents have found all the levels of HR metrics to be useful.

4.3 Impact of HR Metrics on Important HR Decisions

	Mean	Standard Deviation	Rank
Extent of Analytic Support for Business Decisions	3.22	1.32	3
Extent of Support for Strategic planning	3.13	1.46	4
Extent of Support for Operational planning	3.33	1.26	1
Extent of Support in Planning for HR functions	2.79	1.31	6
Extent to which HR metrics help Linking business drivers and HR drivers	2.90	1.36	5
Extent to which HR metrics support Predictive HR decisions	3.25	1.36	2

Table 4: Impact of HR Metrics on HR Decisions

The study found that much of the HR metrics were creating impact at the operational planning (ranked '1') and also making predictive HR decisions (ranked '2') (with a mean of 3.33 and

3.25 respectively). However, the support in planning HR functions and the ability to link business drivers were found to be of low impact (with mean values 2.79 and 2.90 respectively).

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Extent of Analytic Support for Business Decisions	1.538	86	.128	.21839	-.0639	.5007
Extent of Support for Strategic planning	.807	86	.422	.12644	-.1850	.4379
Extent of Support for Operational planning	2.460	86	.016	.33333	.0640	.6027
Extent of Support in Planning for HR functions	-1.470	86	.145	-.20690	-.4867	.0730
Extent to which HR metrics help Linking business drivers and HR drivers	-.707	86	.481	-.10345	-.3942	.1873
Extent to which HR metrics support Predictive HR decisions	1.738	86	.086	.25287	-.0364	.5422

Table 5: Impact of HR Metrics on HR Decisions

In the One-sample test Sig. (2-tailed), except for support for operational planning, all other values for extent of impact of metrics indicate $p > .05$, for the mean values above '3'. Hence it can be drawn that the respondents have found some extent of impact of HR metrics on HR decisions.

5. Conclusion

Measuring the HR activities is of significant importance for HR professionals to claim the position of importance on par with the other business functions. Many firms have started placing systems in place to continuously track the status of HR functions. HR metrics to this extent have been developed to report the various levels of HR functions. The present study attempted to understand whether there is utilization of HR metrics in organization. Though all the organizations reported to

be using the HR metrics, not all the metrics are in place in all organizations. Besides, the study captured the opinion of HR professionals about the usefulness of different levels of HR metrics. The study identified higher usefulness with strategic HR metrics and low usefulness with efficiency metrics as reported by the HR professionals. Also, the extent of impact of HR metrics on the HR decisions is captured. The study established that HR metrics were creating impact significantly on operational planning decisions and predictive HR decisions, yet, are unable to support its own HR function decisions. The results of the study are favorable in positioning HR as a strategic business partner by using the HR metrics effectively. The present study is limited by time and sample size constraints, which can be overcome in the further studies.

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