

IN THE CHANGING WORLD OF HUMAN RESOURCES: MATCHING MEASURES TO MISSION

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Human resource professionals continuously search for methods to demonstrate the impact of their work to managers in their organizations. The authors of this article contend that the traditional measures of human resource productivity have been inappropriate and irrelevant because they have focused on tracking administrative activities and costs. Given the expanding role of many human resources organizations, the authors suggest that more appropriate measures must be closely aligned with the mission of the human resource organization. This article describes the expanding nature of human resource organizations, along with the corresponding implications for the appropriate metrics to evaluate effectiveness. © 1997 John Wiley & Sons, Inc.

Introduction

Human resource (HR) professionals historically have struggled to demonstrate the return on investment (ROI) of their work to their organizations. In recent years, with increased competitive pressures to reduce costs, HR professionals are more frequently expected to justify their contributions to their employer and to account for their existence (Fitz-Enz, 1984; Gow, 1985; Sheppeck & Cohen, 1985). In fact, it is becoming increasingly more common for HR departments to market or sell their services as a way of communicating their value added.

Because of such pressures, HR professionals continue to search for metrics that can demonstrate the impact of their work. While academicians have developed complex statistical models to measure utility (e.g., Boudreau, 1991; Schmidt & Hoffman, 1973), the assumptions and subjective judgments required by these models are frequently questioned by operating managers. Furthermore,

the dollar estimates derived from these models are often so overwhelmingly large that managers become skeptical of the results and, therefore, the methods used to obtain them.

This article reviews some approaches commonly adopted by industry to measure HR productivity. We contend that: (1) HR has historically used measures that are inappropriate or irrelevant; (2) the mission of HR in many organizations has expanded and continues to expand; and (3) the metrics used to measure "worth" to the organization should be consistent with the new broader mission of HR organizations.

Historic Approaches to Measuring HR Productivity

Historically a variety of metrics has been used to demonstrate the productivity of HR. Much of the information gained from these varied metrics has been tracked because it is readily available and can be easily quantified. The ma-

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majority of these metrics have focused on the efficiency with which HR performs administrative tasks (e.g., the amount of time it takes to process benefits checks) or on the cost of the support functions (e.g., cost per hire, student expense in training). In addition, HR functions have been measured on factors for which operating managers should be responsible, such as employee motivation or morale, employee retention, and average length of absence per employee.

These commonly used measures of HR productivity are consistent with HR's historic "servant" role in organizations, where the expectation is to *do work for* operating managers. In this traditional role, HR professionals are required to provide services to their *customers* in the businesses based on the customer's requests. Those in HR are treated as a resource that can be useful as long as HR continues to be responsive and stays "out of the way" of running the business. In light of this role, HR professionals have accepted this customer service role, which has led to collective low self-esteem as a profession. This role is reflected in HR's measures of productivity, which typically emphasize meeting requests on time and with less cost.

The mission of some HR organizations has expanded recently to include helping operating managers build the organization's capability to execute their business strategies. This mission reflects a transition, prevalent in many HR organizations, from doing work *for* operating managers to doing work *with* them, and more recently *helping them* do work. As such, the expectation of the HR professional is to provide solutions that will help the businesses grow successfully, achieve their productivity goals, and create the capability to change. These changes are explored in greater detail in the next section.

Given this new evolving role of HR, the productivity measures traditionally used in HR organizations are inappropriate and irrelevant. If in the new paradigm HR professionals are expected to provide solutions, measures such as efficiency or the cost of the support function will not evaluate whether the HR organization has successfully met its objectives. Rather, the objectives and corresponding metrics used to evaluate HR must emphasize the *solutions* provided.

The Expanding Mission of Human Resources

The mission of HR has expanded in recent years and this expansion continues. This trend, depicted in Table I, includes five distinct phases that may apply to an HR organization. For each phase, the table shows the mission of the HR organization, how HR knows it is successful, what is expected of HR, how HR is viewed, how HR professionals feel, how HR is treated, and some sample metrics that might be relevant to the mission.

The first column of Table I describes the traditional HR mission of providing HR services based on customer requests. As described earlier, HR professionals are viewed as "servants" expected to "just do it" for the manager. Professionals in the HR function are treated as relatively inexpensive employees who should respond when called on. In trying to make substantial contributions in this environment, employees in the HR organization may feel undervalued, frustrated, or have low self-esteem in regard to their professional contributions.

An HR organization operating under this mission could appropriately be evaluated based on the frequency and urgency with which they respond to customer requests. The relevant measures would most often be based on administrative activities. Such measures could include hiring recent college graduates on time or the numbers of benefits claims processed.

Some HR organizations, or some specific functions within an HR organization, have moved beyond the traditional role; their mission includes optimizing HR processes and systems. HR functions know they are successful in achieving this mission if they perform their work more efficiently. For example, the organization may implement new computer software or other technology that allows them to process information more quickly. As before, HR is expected to do what is asked of them, but is asked to do it with fewer and fewer resources, which leads to high anxiety on the part of HR professionals. Ironically, the more successful the HR organization is in achieving this mission, the smaller and less likely the HR organization is to exist as an internal function in the organization. In this

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TABLE I Phases of an HR Organization.

<i>HR's Expanding Mission . . . (from → to)</i>				
Providing request human resources services.	Optimizing human resources processes and systems.	Building competitive advantage by helping create productive organizations.	Shaping business' future success.	Leading the creation preservation, and utilization of human and intellectual capital.
<i>How We'll Know When We're Successful . . .</i>				
We respond to our "customers" requests.	We get HR work done efficiently.	The business can implement their strategies.	The business creates winning strategies with our help.	Intellectual capital grows, stays, and is accessible.
<i>What is Expected of Us . . .</i>				
"Just do it!"	"Do what we ask— for less and less and less . . ."	"We need your expertise to help us build a capable, committed organization."	"Partner with us to help achieve <i>focus</i> . . . define our destiny, determine how to get there, and what we can do together to realize it."	"Keep giving us ideas regarding how we can build intellectual capital. Don't worry about costs or resources, . . . we will find the ways to act on your ideas."
<i>How We're Viewed . . .</i>				
"Servant"	"Expendable servant"	Expert consultant	Fellow leader	The primary source of genuine competitive advantage.
<i>How We Feel . . .</i>				
No self-esteem	High anxiety	Valued and validated	Self-actualized	Beyond self-actualization
<i>How We Are Treated . . .</i>				
"You don't cost much and you meet my needs. Continue to be responsive, don't get in the way, we'll call you if we need you."	"Prove to us that you are efficient and deserve to exist."	"Here's what went on in the meeting. My managers really need your help if they are to execute."	"You are invited to the meeting and are expected to contribute like the rest of us."	"We meet when and where HR wants to."
<i>Typical Measurement:</i>				
Activities based: <i>Example:</i> Hire college graduates on time.	Output/cost. <i>Example:</i> Cost per new hire.	Demand for our services. <i>Example:</i> All managers come to our sourcing operation because we find the best.	Impact on business strategy. <i>Example:</i> HR's idea to out-source software development helped us to be first to market and make a bundle and save jobs.	Growth, retention, and accessibility of intellectual capital. <i>Example:</i> We corner the market on semiconductor software design talent so competitor's products fall behind.

role, the HR professional is viewed as an expendable servant and is treated as if each person must prove s/he is efficient and deserves to exist.

Metrics that would be relevant for such HR organizations emphasize output versus cost, the extent to which HR is successful in doing more with less. Relevant measures might include the hiring cost for each recent new hire, the training cost per employee, or the number of forms processed per employee. Much of the published material about HR productivity seems to focus on these types of measures.

The third column in Table I describes an HR organization that has expanded its mission to include building competitive advantage by helping create productive organizations. In other organizations, one department or subset of HR exists to fulfill this mission. HR organizations are successful in fulfilling this mission when the people in the businesses can implement their strategies because they have the organizational capability (e.g., skills, staffing, culture, systems) aligned with the specific strategies they are executing. In this contemporary view, HR is expected to provide expertise to help managers build capable and committed organizations. The HR professional is viewed as an expert consultant who is needed to execute the strategies defined by the businesses. HR employees providing this support feel valued and validated.

An HR organization operating under this mission would most appropriately be evaluated based on the business' demand for their services. Similar to the evaluation of an external consultant, a high demand for the consultative support, along with a high level of satisfaction with the support provided, suggest that the employee is providing value to the organization. Demand for more strategic action, such as working to change or enhance employees' skill mix, changing the reward system to be consistent with the behaviors valued by the organization, and providing candidate slates of internal employees for critical positions, would be indicative of success.

More progressive HR organizations, or more commonly some functions within HR organizations, have broadened their mission to include shaping the business' success. As a full member of the business team, the HR pro-

fessional helps define business strategies which build competitive advantage and which capitalize on the human resources existing within his/her organization. HR professionals in this role know they are successful when they are helping businesses create these winning strategies and feel self-actualized when they are able to do so. They are viewed as fellow leaders who are invited to strategic meetings and are expected to contribute like every one else. To successfully fulfill this mission, HR professionals must be truly respected and viewed as a credible asset for the organization. They must help focus the organization on the mission, objectives, and strategies that will make the organization successful. In order to do so, the HR professional must clearly understand the business, or sometimes more importantly, have the ability to ask the "right" questions to facilitate leaders to define the strategic direction.

To effectively evaluate the role of the HR organization operating under this mission, the appropriate metrics would emphasize HR's impact on business strategy. For example, leaders of the client business could evaluate the HR employees' contribution to defining the strategic direction of the business. Similarly, ideas generated by the HR organization, such as outsourcing parts of the organization, expanding into new markets, and utilizing the organization's resources differently, should be included in the evaluation. The quality, not the quantity, of HR's contribution in facilitating or generating good ideas that might not otherwise have developed, determines whether the organization has successfully achieved its mission.

Finally, a few truly advanced HR organizations or functions have progressed to a mission in which they lead the creation, preservation, and utilization of human and intellectual capital. This phase is described in the fifth column of Table I. HR is successful because the intellectual capital (e.g., knowledge) grows, stays, and is accessible to those who need it. In this role, the HR professional develops strategies and designs systems, directly linked to the strategic direction of the business, that allow the organization to maximize its intellectual capital. HR is viewed as the primary source of genuine competitive advantage and is essential for success. HR professionals who

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successfully achieve the mission are beyond self-actualization in their professional goals, as they fully realize their contributions to the business. Employees in the function are treated with the utmost respect, and the HR employees' schedule partially dictates when and where the meeting will be held (We can dream, can't we?).

The authors recognize that few, if any, HR organizations have successfully achieved the mission just described, but believe that it will become a critical role for HR in the future. To measure the effectiveness of a HR professional in this role, the metric should focus on the growth, retention, and accessibility of intellectual capital, including the knowledge of current and future employees of the organization. To be effectively evaluated, the HR organization would be measured on the ability of the organization to grow, retain, and access the critical talent of employees in the organization. For example, leaders in the organization could evaluate the HR function in each of these areas, and supporting information such as turnover rates, numbers of positions needed to be filled externally due to lack of internal talent, dollars spent on external consultants, and employees' attitudes regarding the full utilization of their skills may be included.

Table I is meant to demonstrate that the measurement of an HR function or organization should be consistent with the mission of the organization. As HR organizations modify or expand their mission, they should also modify the metrics used to evaluate their success. Also, depending on the types of work performed, different departments within an HR organization have different missions, as described in Table I. Few, if any, HR organizations could be characterized as falling completely in the far right column. It is perfectly appropriate for some HR functions to have a mission in one of the left columns of Table I.

Contemporary View of HR Productivity

As demonstrated above, most HR organizations are moving beyond administrative activities to engage in the work of building competitive advantage for the organization. Although these organizations vary dramatically from one to another in terms of their

progress, most organizations are moving toward roles as internal consultants that are an integral part of the business (Corporate Leadership Council, 1995). HR professionals are expected to provide solutions, work with managers to create business strategies, and manage the intellectual resources of the business. Furthermore, employees and managers are being asked to become more self-reliant and take on responsibilities that traditionally have been provided by HR (e.g., using kiosks to answer benefits questions).

In any organization, the metrics used to evaluate HR productivity should be consistent with the mission of that particular function. Each HR function must define the mission of its organization (i.e., Why does it exist?), specific tangible objectives (i.e., What will it look like?), and two or three *pivotal* strategies for the future (i.e., How will it get there?). The function then should routinely measure whether or not it was able to accomplish the objectives. All other metrics should be irrelevant for that function.

This concept of using appropriate metrics may be easily demonstrated through an example. A Sourcing department may have a mission to "corner the market on the best semiconductor software design talent." Objectives for this organization might include having at least three solid candidates identified for each software design position that becomes available. Another objective may be that managers agree that the skills of the newly hired software designers are sufficient for implementing their business strategies. Metrics appropriate for this HR function might include the number of qualified candidates available/interviewed for each software design position and managers' satisfaction with the skills of newly hired employees. Other metrics, such as the cost per hire or amount of time required to fill positions, would be irrelevant if inconsistent with the agreed-upon mission.

If HR is to achieve its full potential, and maximize its impact as a profession on business success, then we in the profession must not only develop a clear vision of the role we can play, but also select metrics to evaluate our contributions based on what we are trying to accomplish. HR organizations too often measure and track long lists of meaningless criteria simply because of the availability of the in-

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formation. While the mission of many HR organizations has recently expanded, the metrics used to evaluate their productivity in many cases has not changed. HR organizations must

clearly define the missions of their organizations and identify tangible objectives that can be translated into measures of their success.

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