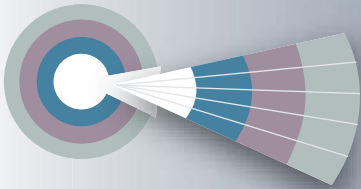


# HUMAN RESOURCES: management or administration of human capital?



*The Performance Manager  
Series*



# INTRODUCTION

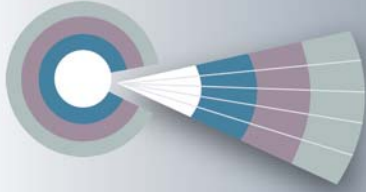
The new business book, *The Performance Manager*, can help you turn the growing information-intensity of your job from a challenge to a competitive advantage. Its thesis is simple—rather than sifting through all the data your organization may produce, if you pay attention to certain sweet spots, you will make better decisions, create better goals, and set better plans about issues that truly drive your company. We're pleased to offer you this chapter for **Human Resources** drawn from the book.

*The Performance Manager, Proven Strategies for Turning Information into Higher Business Performance* looks at the partnership between decision-makers and the people who provide the information that drives better decisions. It offers suggestions for 42 decision areas, or information sweet spots, taking into account your need to not only understand data, but also plan and monitor your performance. These decision areas are organized by the eight major functions of a company: Human Resources, Operations, Product Development, Sales, Marketing, Finance, Customer Service, Information Technology, plus an over-arching section for Executive Management. You will find five of these decision areas in this paper.

Each chapter introduces key challenges and opportunities companies face in the specific function. *The Performance Manager* then dives into each decision area, illustrating the core content of the corresponding information sweet spot. These are organized into two types of measures: goals and metrics, and a hierarchical set of dimensions that allow you to look at the information from a variety of vantage points.

Each decision area then offers advice on who beyond the specific function would benefit from seeing the information (e.g., Marketing should see Sales pipeline targets) to make better performance a truly cross-organizational exercise. We hope you see the value in this white paper and investigate other functional areas and their decision areas, or [take our offer for the whole book, \*The Performance Manager\*](#).

We acknowledge and thank the great thinkers at Business Intelligence International, PMSI, and the staff and customers of Cognos, an IBM company, who offered their insights to make this publication possible.



## Management or Administration of Human Capital?

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*Did you realize that approximately 42% of the average company's intellectual capital exists only within its employees' heads?*

Thomas Brailsford

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Your people interact with your customers to generate revenue. They introduce the small and significant innovations that move your company forward. They set the strategic direction for your organization and then put those strategies into operation. Human capital is your most valuable asset.

It is also typically *undervalued*.

Helping the organization recognize human capital as a valuable asset and competitive differentiator is the strategic role of Human Resources.

Human Resources must demonstrate positive ROI from human capital investments. Human Resources guides the alignment of employee roles, job functions, talent, and individual performance with business results and goals. It finds, engages, assesses, develops, and retains the talent that drives the business. It manages administrative requirements such as payroll, benefits, the recruitment process, policy standards, and holiday and sick leave tracking. Human Resources also acts on behalf of employees, and in this respect is the *conscience* of the organization.

Three critical barriers prevent Human Resources fulfilling its strategic role and hamper it tactically.

**Barrier 1: *Lack of information in defining and selling the role and business value of Human Resources***

Senior management expects every business unit to generate reports and analysis that measure performance against plan. Human Resources is no different. Research suggests that better human capital practices lead to higher financial returns and have a direct impact on share price. Investors, for example, scrutinize headcount and salary or wage ratios. Historically, however, Human Resources has focused more on managing administrative requirements than on communicating—and selling—the business value of human capital management.

While managing administrative requirements is essential, there are other critical strategic aspects of managing human capital. Fulfilling them requires that Human Resources understands the strategic objectives of the business, translates these into job skill requirements and individual capabilities, and designs an appropriate performance tracking process. Human Resources should first assign a value to each human capital asset and, by communicating this value, underline the importance of managing its performance.

$$\begin{array}{l}
 \text{Base salary expenses +} \\
 \text{Recruiting expenses +} \\
 \text{Transfer expenses +} \\
 \text{Training expenses +} \\
 \text{Bonus and/or incentive expenses +} \\
 \text{Stock option grant value (estimate) =} \\
 \hline
 \text{Human capital asset investment}
 \end{array}$$

Tracking these factors allows Human Resources to better manage human capital assets by asking the following questions. *What is the quality and value of the employee/employer relationship? What are the training and development needs in this specific case? How should we provide incentives and motivation for employees?* Answers may come from reports on staff turnover, high-performer retention rates, headcount growth, role definitions, job productivity, and individual performance monitoring.

Assessing comparative productivity ratios such as revenue to headcount also helps manage resource requirements, both short term and long term. These information sweet spots demonstrate the asset's strategic business value to the organization. Lack of such information impairs Human Resources's ability to fulfill its strategic role.

**Barrier 2: *Lack of visible and consistent Human Resources practices***

The credibility and business value of Human Resources is often compromised by a lack of consistency in decisions and by insufficient information. This allows an “informal network” to bias the selection and promotion of employees. As a strategic partner in the business, Human Resources should understand and define the factors defining success for employees. *Does the business depend on customer service? On innovation? Low cost?* Based on this understanding, Human Resources can institute practices that guide employees toward consistent and measurable milestones, creating a structured process.

Implementing visible and consistent practices requires quality information. You will not achieve the consistency you need if policy documents, performance reviews, career objectives, and compensation assessments are not combined and positioned within a larger structure. Consistency requires a well-defined and structured process shared across the organization.

You also need a clearly defined process for collecting Human Resources information. *How should this data be stored and retrieved? Can this mostly qualitative information be analyzed usefully, and synthesized into a metric framework?* With such a synthesis, Human Resources gains the ability to compare and contrast different performance drivers. Identifying, managing, and retaining talented individuals is a key competitive requirement, and consistent information and management practices allow you to achieve this.

**Barrier 3: *Human Resources has a natural ally in IT but is not fully leveraging this asset***

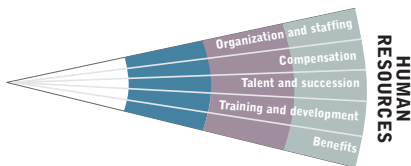
Both Human Resources and IT strive to position themselves within an organization as driving business value instead of expense. They can be seen as two sides of the same coin.

Human Resources is responsible for job design and ensuring that the right skills and competencies are developed or acquired to fill these jobs. In turn, performance in these jobs is defined and measured against goals and objectives. In this sense, Human Resources’s information needs to mirror the performance to be monitored, analyzed, and planned for in a given job. IT must understand a user’s responsibilities in order to include that user in planning where functionality is deployed. Both Human Resources and IT must understand how software tools and skills drive greater productivity. As performance management information becomes more consistent and reliable, it will also enhance the performance and compensation process for which Human Resources is responsible.

## Earning a Place at the Executive Table

Human Resources decision areas:

- **Organization and staffing** → What job functions, positions, roles, and capabilities are required to drive the business forward?
- **Compensation** → How should we reward our employees to retain and motivate them for full performance?
- **Talent and succession** → What are the talent and succession gaps we must address to ensure sustained performance?
- **Training and development** → What training and development do we need to maximize employee performance; is there a clear payback?
- **Benefits** → How do we manage costs and incentives?



**Organization and Staffing**

In a human capital discussion, first define the organization’s requirements. *What are the job functions, positions, roles, and capabilities required to drive the business forward?* The organization chart becomes a road map highlighting staffing needs and the necessary hierarchy. From this road map, Human Resources further refines the role, position, and skill requirements needed to accurately evaluate candidates and current employees.

Organization and staffing analysis is a core Human Resources role. Typically, companies align staffing reports with information about position planning, staffing mix, and staffing transaction activities (new hires, transfers, retirements, terminations, etc.). Analyzing this data helps the company monitor policy standards and legal requirements. Human Resources must track issues such as employee overtime, absenteeism, pay/tax, and termination/retirement to ensure they are managed correctly.

In addition, when senior management discusses strategy and corporate goals, there are typically accompanying reports that show headcount by division/department, turnover rates, loss trends, and high-level project status. These reports help ensure resources are aligned with the global priorities of the company.

GOALS	METRICS	DIMENSIONS	
Avg. Tenure (#)	Absenteeism Days (#)	Employee Decision Role	Job Types
Employee Turnover (%)	Applications per Vacancy (#)	Work Function	Job Type
Headcount (#)	Avg. Age (#)	Decision Role	Job
	New Hires (#)	Employees	Organization
	Open Position Count (#)	Full-Time/Part-Time	Division
	Rejected Job Offers (#)	Employee Name	Department
	Retirements (#)	Fiscal Month	Org. Code
	Sick Leave Days (#)	Year	Plan/Actual Scenario
	Terminations (#)	Quarter	Scenario
	Transfers (#)	Month	
	Work Function Count (#)	Job Grade Level	
	Work Time Actual Hrs. (#)	Job Level	
		Job Name	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit	Executives			•
	Managers		•	
	Professionals		•	
IT / Systems	Executives		•	
	Professionals		•	
Customer Service	Executives		•	
Distribution	Executives		•	
Finance	Executives		•	
Marketing	Executives		•	
Operations / Production	Executives		•	
Purchasing	Executives		•	
Product Development	Executives		•	
Regulatory	Executives		•	
Sales	Executives		•	

### Compensation

Compensation review examines salary costs—existing and planned—across the workforce, as well as how these costs are reflected at the departmental, business unit, and global levels. This decision area defines how you need to reward your employees to retain them and motivate them for the best possible performance. Profiles on base pay, merit increases, promotions, and incentives help you decide the total compensation strategy and individual employee compensation. With this complexity comes the need for systematic methods for identifying and analyzing pay increases, bonuses, and incentive awards. Many organizations now require that performance reviews are ongoing; tracking the review process is therefore a requirement. Plans and reports on the coverage, completeness, and timeliness of the review process confirm your progress against rewards management, career planning, and development targets.

GOALS	METRICS	DIMENSIONS	
Avg. Compensation Increase (\$)	Avg. Compensation Increase (\$) Bonus/Incentive Costs (\$)	Compensation Program Program Type Program	Job Grade Level Job Level Job Name
Avg. Compensation Increase (%)	Compensation Increases (#) Compensation Review (#)	Diversity Diversity Class Employee	Job Types Job Type Job
Compensation Cost (\$)	Employee Promotions (#) Employees (#) Salary (\$) Skills Rating Gap (%) Skills Rating Index (#)	Employees Full-Time/Part-Time Employee Name Fiscal Month Year Quarter Month	O/T Eligibility Status Exempt/Non-Exempt Organization Division Department Org. Code Work Function Work Function

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives Managers Analysts Professionals	• • • •		
Finance	Executives Managers Analysts Professionals		• • • •	
Audit	Executives Managers Professionals	• • •		•
Sales	Executives Analysts		• •	
Customer Service	Executives		•	
Distribution	Executives		•	
IT / Systems	Executives		•	
Operations / Production	Executives		•	
Marketing	Executives		•	
Purchasing	Executives		•	
Product Development	Executives		•	



### Talent and Succession

A company talent and succession review lets management see how current and planned business skills and technical qualifications meet today’s and tomorrow’s requirements. Human Resources must understand both the skill gaps and talent risks within the organization and plan accordingly. Talent review lets Human Resources assess recruiting, staff transfer, and succession planning needs. Other data such as turnover analysis, average tenure, and time in position also help define succession plans.

GOALS	METRICS	DIMENSIONS	
Employee Satisfaction Index (#)	Avg. Performance Rating	Core Competency	Job Types
Succession Gaps (#)	Avg. Skill/Experience Rating (Current)	Skill Type	Job Type
Talent Gaps (#)	Avg. Skill/Experience Rating (Target)	Skill	Job
	Avg. Tenure (years)	Employees	Organization
	Retirements (#)	Full-Time/Part-Time	Division
	Skills Rating Gap (%)	Employee Name	Department
	Skills Rating Index (#)	Fiscal Month	Org. Code
	Succession Reviews (#)	Year	Work Function
		Quarter	Work Function
		Month	
		Job Grade Level	
		Job Level	
		Job Name	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Customer Service	Executives			•
	Managers		•	
Distribution	Executives			•
	Managers		•	
Finance	Executives			•
	Managers		•	
IT / Systems	Executives			•
	Managers		•	
Marketing	Executives			•
	Managers		•	
Operations / Production	Executives			•
	Managers		•	
Purchasing	Executives			•
	Managers		•	
Product Development	Executives			•
	Managers		•	
Sales	Executives			•
	Managers		•	

### Training and Development

When you’ve defined the organization’s required skill sets (to match employee abilities with position descriptions), the next logical decision area is determining the training and development needs of those employees. This decision area lets you review employee competencies and understand the value of improving them. *How much development time and training cost is being invested, and is there visible evidence of the benefit?* With training and development analysis, Human Resources gains a systematic picture of all training investment.

GOALS	METRICS	DIMENSIONS	
Skills Rating Gap (%)	Employees (#)	Employee Decision Role	Job Types
Training and Development Cost (\$)	Skills Rating Index (#)	Work Function	Job Type
Training & Development Cost/Payroll (%)	Training and Development Cost Change (%)	Decision Role	Job
	Training Days (#)	Employees	Organization
	Training Events Completed (#)	Full-Time/Part-Time	Division
	Training Events Planned (#)	Employee Name	Department
		Fiscal Month	Org. Code
		Year	Plan/Actual Scenario
		Quarter	Scenario
		Month	Training Course
		Job Grade Level	Type
		Job Level	Course
		Job Name	Work Function
			Work Function

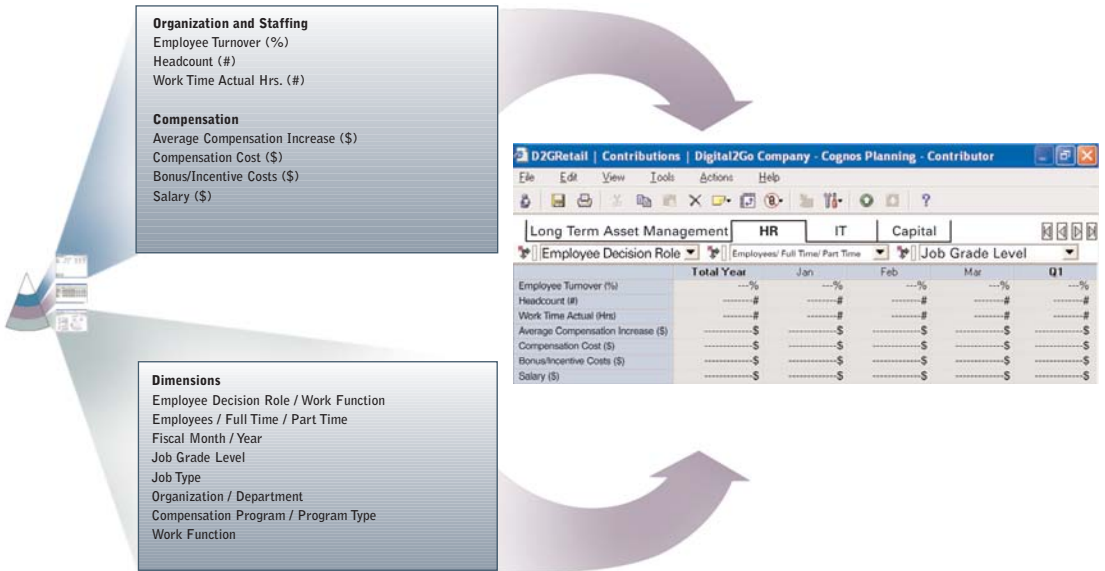
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
<b>Human Resources</b>	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
<b>Customer Service</b>	Executives			•
	Managers		•	
<b>Distribution</b>	Executives			•
	Managers		•	
<b>Finance</b>	Executives			•
	Managers		•	
<b>IT / Systems</b>	Executives			•
	Managers		•	
<b>Marketing</b>	Executives			•
	Managers		•	
<b>Operations / Production</b>	Executives			•
	Managers		•	
<b>Purchasing</b>	Executives			•
	Managers		•	
<b>Product Development</b>	Executives			•
	Managers		•	
<b>Sales</b>	Executives			•
	Managers		•	

**Benefits**

The benefits decision area lets you manage the costs of healthcare programs, savings and pension plans, stock purchase programs, and other similar initiatives. It compares the company’s benefits with those of the competition. Benchmarking benefits helps determine whether you are aligned with the marketplace. As well, because investors scrutinize benefits costs for risk and liability, understanding this area helps demonstrate your company’s management acumen.

GOALS	METRICS	DIMENSIONS
Benefit Cost Increase (%)	Avg. Benefits per Employee (\$)	Benefits Program
Benefit Costs (\$)	Benefit Market Comparison Index (#)	Program Type
Benefit Costs/Payroll (%)	Benefits Approved (#)	Program
	Benefits Claimed (#)	Claim Type
	Benefits Claimed (\$)	Type
	Benefits Paid (\$)	Identification #
	Payroll (\$)	Employees
		Full-Time/Part-Time
		Employee Name
		Fiscal Month
		Year
		Quarter
		Month
		Insurance Carrier
		Distributor/Carrier Type
		Carrier
		Insurance Coverage
		Type
		Coverage
		Job Grade Level
		Job Level
		Job Name
		Loss Control Program
		Program
		Organization
		Division
		Department
		Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Human Resources	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Audit	Executives			•
	Managers	•		
	Professionals	•		
Finance	Executives			•
	Managers		•	
	Analysts	•		



*The Organization and Staffing and Compensation decision areas illustrate how the Human Resources function can monitor its performance, allocate resources, and set plans for future financial targets.*



# ABOUT THE PERFORMANCE MANAGER

The book, *The Performance Manager*, is authored by:

**Roland P. Mosimann** *Chief Executive Officer, BI International*

As CEO and co-founder of BI International, Roland has led major client relationships and thought leadership initiatives for the company. Most recently he drove the launch of the Aline™ platform for on-demand Governance, Risk and Compliance. Roland is also a co-author of the Multidimensional Manager and the Multidimensional Organization. He holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics.

**Patrick Mosimann** *Founding & Joint Managing Director, PMSI Consulting*

As co-founder of PMSI (Practical Management Solutions & Insights), Patrick has led major client engagements and has significant experience across a number of industry sectors. Patrick Mosimann also holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics, University of London.

**Meg Dussault** *Director of Analyst Relations and Corporate Positioning, Cognos, an IBM company*

Meg started her marketing career 15 years ago, beginning with campaign management for the national telecommunications carrier. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos, now an IBM company. She has been with Cognos for 8 years and has worked extensively with executives and decision makers within the Global 3500 to define and prioritize performance management solutions. This work was leveraged to help shape the vision of Cognos performance management solutions and to communicate the message to key influencers.

**About Cognos, an IBM company**

Cognos, an IBM company, is the world leader in business intelligence and performance management solutions. It provides world-class enterprise planning and BI software and services to help companies plan, understand and manage financial and operational performance. Cognos was acquired by IBM in February 2008. For more information, visit <http://www.cognos.com>.

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