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HR measures that drive strategic decisions: optimizing decisions about talent

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How many times have you heard that the reason "HR" doesn't get the respect it deserves is because it's "soft" and "we just don't have the measures that accounting, marketing and other areas have."

Consultants are often called to help HR leaders develop more and better HR measures, precisely because HR is seen as "soft." The paradox is that the problem typically isn't a lack of measures at all. In fact, HR organizations have hundreds of measures of their activities, and of outcomes such as learning, attitudes, turnover, etc. Yet, a fixation on measurement can be very dysfunctional.

The real need is for decisions about talent and for organizational investments that are more systematic, consistent, and more shared between HR and non- HR professionals. The fundamental power of measures in more influential decision sciences emanates not just from the measures themselves, but more importantly, from the logic on which they are developed and presented.

Type "HR Measurement" into a search engine, and you get over 900,000 results. Scorecards, summits, dashboards, data mines, data warehouses and audits abound. HR organizations lament the fact that their measurement efforts are stymied by limited budgets. But even among those with significant resources (in fact, especially in these cases), the array of HR measurement technologies is daunting. The paradox is that even when HR measurement systems are well implemented, organizations typically hit a "wall" (Boudreau & Ramstad 2006). Despite ever more comprehensive data bases, and ever more sophisticated HR data analysis and reporting, HR measures only rarely drive true strategic change (Lawler, Levenson & Boudreau 2004).

Over time, the HR profession has become more and more sophisticated, yet the trend line doesn't seem to be leading to the desired result. Victory is typically declared when business leaders are induced or held accountable for HR measures. HR organizations often point proudly to the fact that top leader bonuses depend in part on the results of their "scorecard" measures such as turnover, employee attitudes, bench strength or performance distributions. For example, some incentive systems make bonuses for business-unit managers contingent on reducing turnover to a target level, raising average engagement scores, or placing their employees into the required distribution of 70% in the middle, 10% at the bottom and 20% at the top.

Yet, having business leaders manage to such numbers is not the same as creating organizational change. Many organizations seem to be doing all the measurement things "right," yet increasingly they and their constituents are frustrated by the gap between the expectations for the measurement systems and its true effects.

Why do HR organizations hit the wall? The HR profession is on the cusp of extending its paradigm from focusing only on compliance and services, to including a specific focus on talent and organizational decisions. Recognizing the implications of this paradigm extension provides clues to how HR measurement systems can learn valuable lessons from the measurement systems used in more mature professions like finance and marketing. In these professions, measures are only one part of the system for creating organizational change through better decisions.

This evolution is facilitated by the emergence of a "decision science" for the organization's talent, and how it is organized. That decision science will enable—and even require—that the focus include the quality of decisions about the organization's talent, not just within the HR function but wherever they are made. We have coined the term "Talentship," for this new decision science, and described it elsewhere (Boudreau & Ramstad, 2005). Let's examine its implications.

HR measures are not just to prove the value of the HR function

Many HR measures originate from a desire to "justify" the investments in HR processes or programs. Typically, HR seeks measurement not to improve decisions, but rather to increase the respect for the HR function and its services and activities. In financial measurement, it is certainly important to measure how the accounting or finance department operates. However, the vast majority of measures used for financial decisions are not concerned with how finance and accounting services are delivered. Financial measures typically are focused on the outcomes— the quality of decisions that impact financial resources.

The traditional HR measurement approach – focusing on what the HR function does or the immediate costs and effects of those programs – often puts HR professionals in a bind: If the measurement shows that there is a problem, even when the problem is not caused by the HR function, it is often expected that HR will fix it. For example, HR often measures the time needed to fill vacancies, and if that time is too long, they are expected to fix the problem with faster recruiting or selection processes. Yet, the chief source of delay may be with the hiring managers, outside the HR function.

Compare this with the way the Finance and Accounting measures are used. When a Division is behind budget, the accounting department is rarely responsible for fixing the problem. Rather accounting and finance provide the insight, measures and frameworks that highlight the issue and provide the mental models for the business leader to craft the appropriate response.

The paradigm shift toward the Talentship decision science requires HR to create talent measurement systems that improve talent decisions throughout the organization. This requires a framework for connecting talent measures to organizational effectiveness. Next, we describe that framework.

The "LAMP" framework

We can understand how HR measurement can move beyond the wall using what we call the "LAMP" model (Boudreau & Ramstad, 2006). The letters in LAMP stand for four critical components of a measurement system that drives strategic change and organizational effectiveness. The letters stand for "Logic," "Analytics," "Measures" and "Process." Measures represent only one component of this system. Although they are essential, without the other three components the measures and data are destined to remain isolated from the true purpose of HR information systems.

HR measurement will advance most quickly if it focuses on the ultimate objective of measurement – better decisions that drive organizational effectiveness. Measurement systems are only as valuable as the decisions they improve, and the organizational effectiveness to which they contribute. Measures must enhance talent and organizational decisions where they most affect strategic success and organizational effectiveness. Each of the four components of the LAMP framework defines this more complete measurement system.

Logic: impact, effectiveness and efficiency

We have described a logical framework for connecting investments in talent and organization, to the strategic outcomes that are most vital (Boudreau & Ramstad, 2005). Here, we will concentrate on the three anchor points of strategic HR – impact, effectiveness, and efficiency.

"Impact" asks, "How much will strategic success increase by improving the quality or availability of a particular talent pool?"

"Effectiveness" asks, "How much do HR programs and processes affect the capacity and actions or interactions of employees in each talent pool?"

"Efficiency" asks, "How much HR program and process activity do we get for our investments (such as time and money) in HR programs, practices, and functions?"

Using Impact, Effectiveness and Efficiency provides a logic that reveals the most important connections to be measured. With the logic in place, the other three elements of the LAMP framework are more effective.

The logical elements of the HC BRidge framework – Efficiency, Effectiveness and Impact, also provide a template for building measurement systems. Conference Board research (Gates, 2004) suggests that the vast majority of HR measures fall into the Efficiency anchor point of the HC BRidge framework. Recent research at the Center for Effective Organizations shows that having measures in all three areas of Efficiency, Effectiveness and Impact is correlated with the degree to which HR leaders play a significant role in strategy formation (Lawler, Boudreau & Mohrman, 2006).

In our work with organizations, we have found that using the anchor points as a diagnostic framework shifts attention away from simply listing measures, or organizing those measures using standard scorecard categories, and directs the attention toward how each of the measurement elements connects, to "tell the story" about the logical connections embodied in the framework.

Measures: counting what counts

As noted earlier, the Measures part of the LAMP model has received the greatest attention in HR. Lists of HR measures abound, often categorized into scorecards and dashboards. Yet, lacking a context they can be pursued well beyond their optimum level, or they can be applied to areas where they have little consequence.

For example, HR organizations have spent countless hours debating the appropriate formula for turnover, or the precision and frequency with which it can be calculated. HR analytics teams often build very sophisticated turnover tracking data and Web interfaces. Well-meaning business managers then "slice and dice" the data in a wide variety of ways, each pursuing their own pet theory about turnover and why it mattered (ethnicity, skill levels, performance, etc.) Yet, with no common logic about the role of employee turnover in affecting business or strategic success, those well-meaning managers may draw conclusions that are misguided or even dangerous.

The implications of any HR measure are very different depending on the strategic and business context. Consider turnover for example. When applicants are well-qualified and quickly master the job, high turnover incurs costs of churn and cutting turnover can alleviate shortages. Thus, how much time it takes to fill a vacancy is the key factor in considering turnover implications. A completely different situation occurs where it takes time to learn the job, and experienced individuals are leaving, only to be replaced by inexperienced ones.

Reducing turnover or filling vacancies quicker may not address the problem, if the organization is losing experienced individuals only to quickly hire inexperienced ones. Measures must be considered in the context of decision support.

Many measures that already exist in other management systems could be usefully incorporated into the talent and organization measurement approach, to reflect Effectiveness and Impact. For example, many of the vital processes and resources from the Impact part of the HC BRidge framework exist, but they are the purview of other functions such as supply-chain, information systems, manufacturing, R&D, etc.

Analytics: finding answers in the data

Even a very rigorous logic with good measures can flounder if the analysis is done incorrectly. For example, is it possible that improved employee attitudes are conveyed to customers who in turn have more positive experiences, and purchase more? Many organizations test that premise by relating employee attitudes with customer attitudes across locations. Indeed, customer attitudes and purchases are often higher in locations with higher employee attitudes.

Yet, a simple correlation between employee and customer attitudes does not prove that one causes the other, nor that improving one will lead to improvements in the other. For example, a high correlation between employee and customer attitudes can occur because stores in locations with more loyal and committed customers are a more pleasant place to work. Customer attitudes can actually cause employee attitudes. If so, then spending resources to raise employee attitudes in poor store locations won't do much to improve sales.

Analytics draws on statistics and research design, but it goes beyond them, to include skill in identifying and articulating key issues, gathering and using appropriate data within and outside the HR function, setting the appropriate balance between statistical rigor and practical relevance, and building analytical competencies throughout the organization. Analytics transforms HR data and measures into rigorous and relevant insights.

Where can good analytics be found in the organization? Analytical methods have long been a standard part of the training of social scientists in areas such as psychology, sociology and economics. Many HR organizations already employ HR research teams. Other organizations rely on analytical capabilities outside the HR function. For example, organizations with very strong capabilities in customer and market analysis often engage their market analysts on HR issues. Finally, some HR organizations call on outsiders for analytical capabilities, with a wide variety of commercial vendors or universities.

Process: making the insights motivating and actionable

The final element of the LAMP framework is Process. The ultimate criterion for HR measurement is organizational effectiveness and sustainable strategic success. Measurement affects these outcomes through its impact on decisions and behaviors, and those decisions and behaviors occur within a complex web of social structures, knowledge frameworks, and organizational cultural norms. Thus, a key component of effective measurement systems is that they fit within a change-management process that reflects principles of learning and knowledge transfer. HR measures and the logic that supports them are part of an influence process.

Education is a core element of any change process. The return on investment (ROI) formula used by finance is actually a potent tool for educating leaders in the key components of financial decisions. In the same way, as the Talentship decision science takes hold, HR measurements will educate constituents, and become embedded within the organizations learning and knowledge frameworks.

How specific measurements illuminate the logic of the decision framework

How can organization leaders begin to use their existing measures more effectively? A significant first step is to examine available measures in the organization through the perspective of a common language that connects investment in talent and human capital to strategic organizational outcomes. As described earlier, work with many organizations has suggested that the three general anchors of "efficiency," "effectiveness," and "impact" help to provide this perspective. Let's consider each in turn.

"Impact" asks, "How much will strategic success increase by improving the quality or availability of a particular talent pool?" So, understanding impact often requires drawing upon measures that reside in organization measurement and data systems outside the HR function. The financial reporting system, as well as specific data systems for key processes such as supply-chain, customer relations, sales, manufacturing, and R&D will often present very valuable measures. It is currently very common for organizations to correlate measures of HR practices with ultimate financial outcomes in the balance sheet or income statement, to see which HR practices relate to "bottom-line" results. However, my work with many organizations suggests that the more interesting insights are often found by considering how investments in HR and talent programs relate to the vital strategic process improvements such as those noted above. The line-of-sight between improvements in individual talent or organizational structures is often much more tangible when they are related to these intermediate processes, than when they are simply correlated with ultimate organizational financial outcomes. So, HR leaders should look not only to high-level financial statements, they should also seek out key process owners and ask, "What measures do you really look to, to know if your processes are working well?"

"Effectiveness" asks, "How much do HR programs and processes affect the capacity and actions or interactions of employees in each talent pool?" The key here is to examine how HR and talent programs enhance the culture and capacity of the organization, where it matters most to vital actions and interactions. An important factor here is to define these vital actions and interactions strategically, and then tailor measures to them. For example, in one organization, the key to effective cross-selling of new products lay not with improving the sales force, but rather in improving the performance of product integrators. Such individuals had long been perceived as merely clerical employees, recording product features in a form that the sales force could use. Once the organization understood that even a great sales force could not sell poorly-integrated products, the importance of enhancing the actions and interactions of these product integrators was obvious. So,

the organization developed HR programs such as training, selection and rewards that elevated their roles to more creatively integrate diverse products into synergistic combinations. The key effectiveness measures focused on areas such as learning, engagement and group interactions. However, rather than generic measures, or measures based on the old clerical tasks, these outcomes were now reframed to clearly reflect the actions taken to produce game-changing product integration, and the existence of the culture and human capacity to make those actions happen. Thus, effectiveness measures often reside in the HR data system, and include elements of capability, motivation, engagement, trust and communication. When they are aimed at vital aligned actions, they take on far more significance and strategic value.

"Efficiency" asks, "How much HR program and process activity do we get for our investments (such as time and money) in HR programs, practices, and functions?" As noted earlier, evidence shows that efficiency measure such as cost-per-hire, time-to-fill vacancies, and total HR headcount divided by total employee headcount, are the most common measures available. The data for such measures often already exists in the accounting system, or in the benchmark and dashboard systems of the HR function. An important factor here is to ensure that all relevant resources are considered. For example, the time that employees and leaders devote to HR programs is often overlooked because such costs are not directly budgeted or paid when programs are conducted. The true cost of such time commitments is actually the "opportunity cost" of what employees and managers would otherwise be doing if they were not investing their time in HR programs. Estimating such costs will often be somewhat imprecise, but even rough estimates often show the significant "hidden cost" of HR programs. This is not meant to imply that HR programs are not highly valuable, but it does imply that a full accounting of efficiency requires examining not only the direct costs of HR programs, but their opportunity costs as well.

Conclusion

HR leaders must increasingly define their contribution to include not only the important roles of cost control and program development, but also the role of decision support. Mature professions such as finance and marketing more often employ measures that drive strategic organizational effectiveness through their effect on decisions. HR will similarly evolve toward a world in which measurement not only helps describe what the HR function is doing, and what it costs, but will describe and enhance the quality of decisions about talent wherever they are made.

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