# THE ISSUE OF ASSESING HR IMPACT FOR THE STRATEGIC HUMAN RESOURCE MANAGEMENT

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**Abstract:** The new tendencies in the theory and practice of human resource management are more and more concerned with implementing a Strategic Human Resource Management. Scholars tried to define this new concept in various manners but the common ground resides in the fact that they all agree that in the next period all organizations need to better understand the linkages between human capital, its management and the extent in which these impact organizational goals, which implies a new series of metrics that organizations should consider. This paper aims to present some of the most interesting perspectives concerning the links between the above mentioned concepts and it is a first step towards a complete assessment of the new human resource management metrics.

**Keywords:** strategic human resources management, assessing impact

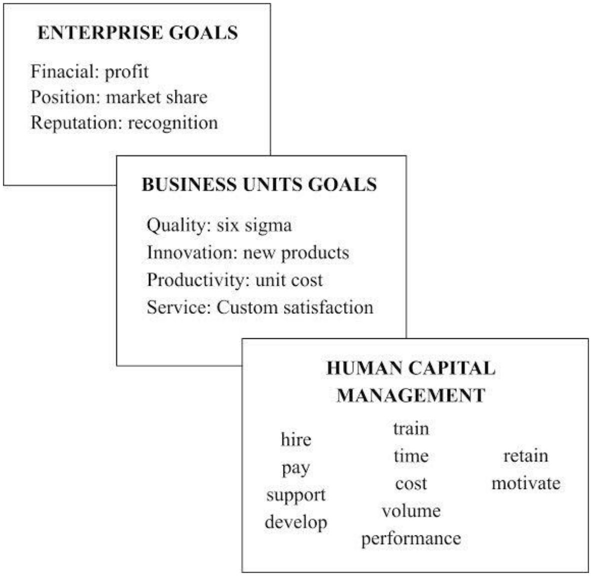
**JEL classification:** M12 Personnel Management

## 1. New HR perspectives

The latest world-wide economic context, post - recession, has impacted the way we perceive resources because we need to be more careful than before when it comes to investments and the return on those investments, particularly when competition between regions and countries is predicted to rise by 50% by 2030 (Kaplan, 2010). This trend applies also to human resources since most organizations are concerned with high-performance, high-involvement, high-commitment work systems and practices.

In the last decade, human resources professionals tried to change their traditional position and to become strategic partners. In theory it makes perfect sense that human resources management plays a crucial role for the achievement of high performance strategic goals, as can be seen from figure no. 1 which depicts the relationship between enterprise goals, business unit goals and human capital management which shows that strategic and operational practices are linked in such a way that all three levels are in effect intertwined.

**Figure 1: The relationship between enterprise goals, business unit goals and human capital management**




Source: after Fitz-Enz J., (2009)

Strategy and structure are linked together because an organization's structure is critical to the achievement of business strategy. The problem is that, in practice, it is difficult to prove the direct impact of most typical HR management activities. This situation is a common one for all things that refer to intellectual capital (human capital being a big part of the intellectual one that consists also in structural capital and relational capital). Besides this, the reality for many HR practitioners is a lack of strategic credibility in the eyes of managers and other stakeholders (Mankin, 2009).

Strategic management is the process that enables organizations to turn intent into action (Truss C. et al., 2012) and strategic alignment is critical to competitive advantage. The context and competition change radically so that the configuration of HR management as we used to know it (figure no.2) is no longer valid, since the connections between elements is so tight, as shown in figure no. 3. The two figures below refer to the changes in HR regarding the structure and communication between components, but there is also a change in the weight of the HR activities, as shown in figure no. 4.

**Figure no.2:**

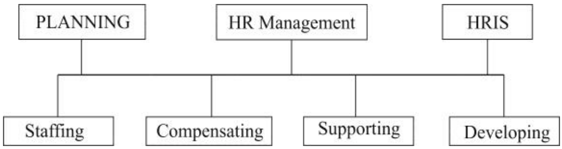
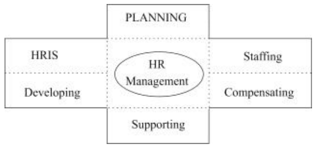


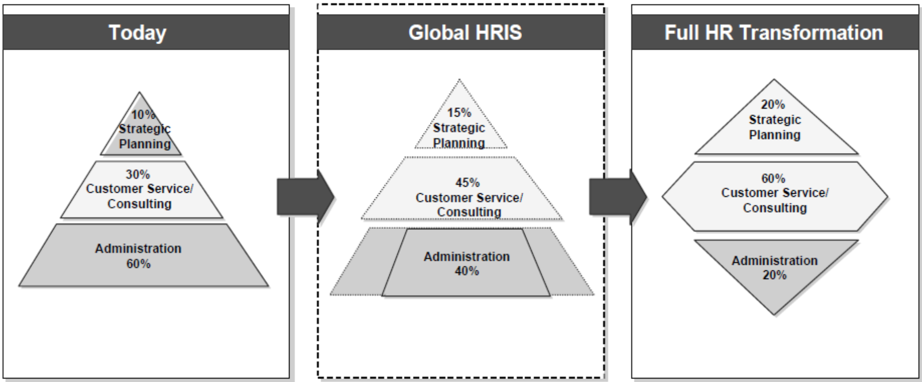

**Figure no. 3:**




Source: Fitz-Enz J., (2009)

The content transformation shown in the figure below depicts a prediction of the near-future change in the weight of the human resource management practice. Those predictions are based on the increasing competiton amongst countries and organizations and it takes into account the important impact of the technological development and in this particular area the constant improvement of Human Resources Information System (HRIS).

**Figure 4: HR transformation**




Source: Wang I., 2004

The effort of changing the old (traditional) human resource management model is inhibited by constraints as well as supported by enablers (Fitz-Enz J., 2009).

• *Constraints* generally refer to uncertainty which makes us hesitant, fearful, and regressive. The uncertain global market and increasing regulations inhibit bold ideas.

• *Enablers* usually refer to the development of the communication technology (like HRIS), decision science tools, and better processes.

HRIS refers to an intersection of human resources and information technology through HR software. This allows HR activities and processes to occur electronically which determines a decrease of the time allocated to administrative tasks which leads to more availability of the HR practitioners to be actively involved in the strategic planning. Wang (2004) writes about companies that predict a 10% increase in strategic planning availability after 5 years post HRIS implementation.

## 2. The ROI of HR

World- renown HR professionals like Jac Fitz- Enz have dedicated much of their research to trying to assess the return of investment of human resource practices (ROI of HR).

The researcher's common ground in this area is that the start of the assessment requires an understanding of the links between human resources management and the business strategy, as explained in table no.1.

**Table 1: The link between HCM and business strategy**

| | CONTENT | HR- SUPPORTING ACTIVITIES | SUPPORTING DATA REQUIRED |
|---|---|---|---|
| **BUSINESS STRATEGY** | • Growth-revenue/profit<br>• Maximize shareholder value<br>• Growth through acquisitions and mergers<br>• Growth in production or servicing facilities<br>• Product development<br>• Market development | • Human resource planning<br>• Talent management<br>• Skills development<br>• Targeted recruitment<br>• Retention policies<br>• Leadership development | ✓ Workforce composition<br>✓ Attrition rates<br>✓ Skills audit<br>✓ Outcome of recruitment<br>✓ Learning levels<br>✓ Outcome of leadership surveys |
| **BUSINESS DRIVERS** | • Innovation<br>• Maximize added value<br>• Productivity<br>• Customer service<br>• Quality<br>• Satisfy stakeholders | • Talent management<br>• Skills development<br>• Total reward management<br>• Performance management<br>• Enhance motivation<br>• Leadership development | ✓ **Balanced scorecard data**<br>✓ **Added value ratios**<br>✓ Productivity ratios<br>✓ Outcomes of employee opinion surveys<br>✓ Analysis of competence level assessment, of performance management assessment, of customers surveys, outcomes of total quality programmes<br>✓ Internal promotion rate<br>✓ Succession planning |

Source: Armstrong M., 2011

Jac Fitz- Enz in his book entitled "The ROI of Human Capital" makes a very pertinent comparison between a strategic business plan and a race plan: *"The plan's goals are to reach the finish line first. Data systems are the vehicle. Information is the fuel. But the vehicle is not a self-propelled,* *perpetual-motion machine. It needs a driver, the human being. Measurement is the dashboard gauges. They tell us how fast we are going, the condition of the car, and how far we have gone. Only the driver knows if we are headed in the right direction. When management is the sole driver, the only one who has access to the travel plan and the odometer, we can go a long way in the wrong direction before we realize it. By having someone checking the map against the road signs while others watch the speed, fuel gauge, and temperature and pressure lights, we increase the probability that we will arrive at our destination on time, as well as enjoy the trip."*

In order to have a successful trip we need to be able to understand both modern and traditional ways of reading and interpreting ***supporting data*** (Table 1).

The Balanced Scorecard is the most well-known strategic performance management tool. The term was introduced by Robert S. Kaplan and David P. Norton in the article entitled "The Balanced Scorecard -- Measures that Drive Performance", appeared in the Jan/Feb 1992 issue of Harvard Business Review. This tool was created as an approach to measurement and was initially designed as a semi-standard structured report, supported by a series of design methods and automation tools. After noticing the manager's tendency of relying mostly on financial accounting measures, Kaplan and Norton established their tool as a scorecard that took also other measures into account, including process measures and customer satisfaction. They proposed a matrix with four types of measures: *Financial Measures*, *Internal Business Measures*, *Innovation and Learning Measures*, and *Customer Measures.*

Other very important data that help us assess human resource management are a series of ratios that quantify the relationships among the employees and the operating variables. Through those ratios we acknowledge the way in which turnover rates, staffing strategies employee relations, training investments influence *product quality*, *innovation*, *productivity* and *customer service*, *outcomes that* Jac Fitz- Enz shortly refers to as QIPS.

The causality relationship between human resource management activities and QIPS cannot always be statistically demonstrated, but the connections are without a doubt visible. Any well developed and performance driven organization needs to move passed the traditional single gross measure derived from the income statements of organizations: revenue per employee. This ratio is no longer relevant because it does not separate the effects of human effort from the leverage of other assets since we cannot distinguish in it the effects of automation, better inventory control, improved quality, training, effective marketing programs, monopolistic conditions, or anything else (Fitz-Enz J., 2009).

In order to develop new, more relevant metrics, we first need to understand the costs of human capital (the most important 4 being pay and benefit costs for employees, pay costs for contingents, cost of absenteeism, cost of turnover), keeping in mind that, contrary to traditional view, there is more to human resource management than costs.

There are a number of metrics than can be developed regarding the relationship between investments in human capital and human resources related activities, but they need to be created according with the typical context of each organization and this is way all the general schemes need to be customized. Each organization just needs to develop their own scheme for determining this impact, always taking into account the business strategy on one hand and business drivers on the other hand.

## 3. Conclusions

Aligning HR and organizational strategies for competitive advantage has become a necessity since the perception towards all resources is changing and in particular the one regarding the rarity and importance of human resources. More and more organizations consider the HR department a value-added business partner and regard strategic human resource management as a necessary approach for the performance-driven organizations.

Organizations need to identify ways for assessing the impact of strategic human resource management on performance and the process that need to be undertaken for the maximum productivity.

Measurement of the effectiveness of human capital has always been difficult since we cannot find it defined in the financial reports. The alternative is developing a frame for determining this impact and balanced scorecards that help us develop new customized ratios are definitely needed.

Human capital can be linked to economic value added, corporate productivity, cost structure, and profitability if we develop metrics that are placed into a scheme that includes quantitative and qualitative indicators of performance at all the levels. Every organization’s scorecard from this point of view should be unique because we need to choose measures that reflect what we value.

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