

Measurement of Human Resource Activities in India

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HR Roles

The human resource (HR) function in organisations has evolved and matured to a substantial degree in India. HR budgets are increasing in most of the organisations. Subsequently, accountability in human resource management has emerged as an important trend. HR departments have started making attempts to measure the contribution of HR. In this background, the present study has been undertaken to identify measures of HR activities in India. Based on the information collected from 109 HR professionals across India, the study found that the attempts in Indian industry to measure the HR activities improved from a limited extent to a significant extent. But the focus of measurement is largely on traditional HR measures and not on business impact measures.

Human resource (HR) professionals are increasingly challenged to take a more strategic perspective regarding their roles in the organisations. As HR professionals respond to this challenge, measuring HR's performance and its contribution to the firm's performance consistently emerges as a key theme (Becker, Huselid & Ulrich 2001). Measuring HR makes good economic sense to a HR programme's worth by providing convincing evidence. It shows proof of results and the results encourage the HR staff to focus on important activities which can lead to additional resources. It also increases personal satisfaction and position for HR staff (Fitz-Enz 1995). HR professionals must evaluate their value as created in the eyes of stakeholders i.e. customers, investors, managers and employees. They must build value-added HR practices and competencies that align with and help accomplish strategic goals (Ulrich & Brockbank 2005). Research carried out by Albert (1990), Radford and Kove (1991), and Gubman (1994) has supported that good HR practices produce a payoff in terms of bottom-line financial performance. Using Eastman Kodak as a case study, Yeung and

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Berman (1997) has identified three paths through which HR practices contribute to business performance: by building organisational capabilities, by improving employee satisfaction, and by shaping customer and shareholder satisfaction. He has developed HR measures that drive business performance in this new framework.

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Measurement Methods in Literature

A variety of measurement approaches and methods have been developed over a period of time to measure HR contribution. Flamholtz (1985) has proposed human resource accounting system to measure HR contribution. Tsui (1987) has reported a multiple constituency approach to evaluate the effectiveness of HR function. McConnell (1989) has identified 16 categories to be measured in human resource auditing. Pauly (1993) has believed that converting HR function to profit centre concept is the ultimate way in which HR accountability can be demonstrated. Saratoga Institute (1994) has developed standards for key measures and costs such as training costs per employee, benefits as a percent of payroll, and compensation costs that allow organisations to compare their performance with others.

Programmes that relate HR practices to bottom-line contribution are not

limited to compensation programmes such as incentives and gains sharing. They cover a broad range of programmes such as diversity training, and are now being linked to organisational success (Majors & Sinclair 1994). Gomez-Mejia, Balkin and Cardy (1995) have identified key indicators in almost all areas of HR that can be used in HR evaluation. Kaplan and Norton (1996) have developed Balanced Scorecard (BSC), a measurement framework that helps management to translate strategic goals into operational objectives. It provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The generic model of BSC has four categories such as financial, customer, processes, and learning. The logic of BSC is that learning helps organisations improve their internal processes such as product development and services that are critical for customer satisfaction. Customer value creation in turn is what drives financial performance and profitability.

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Based on the available literature and research, Phillips (1999) has identified 12 approaches that have been used to evaluate the HR function such as survey approach, HR reputation approach, HR accounting, HR auditing, HR case studies, HR cost monitoring, competitive benchmarking, key indicators, HR effectiveness index, HR management by

objectives, HR profit centres, and return on investment. Fitz-Enz (2000) has proposed a return on investment methodology for measuring the bottom-line effect of employee performance. Becker, Huselid and Ulrich (2001) have outlined an HR Scorecard model, which aims at managing HR as a strategic partner, and demonstrating HR's contribution to the financial success. Defining clearly the business strategy, building a business case for HR as a strategic asset, creating a strategy map, identifying HR deliverables within the strategy map, aligning the HR architecture with HR deliverables, designing the strategic measurement system, and implementing management are the seven steps in this model. Cascio and Boundrenau (2008) has proposed a methodology of behavioural costing to measure the financial impact of HR activities, which measures the economic consequences of employees' behaviour such as absenteeism, turnover, employee attitudes, work life programmes and employee training.

The Present Study

The present study is designed to find out the measures used by industry in India to assess effectiveness of different HR activities. Recruitment, selection, training and development, performance management, compensation and employee relations are the predominant domains of HR activities. Based on the literature and earlier research survey, 56 possible measures of HR activities have been identified to assess the effectiveness of all domains

of HR. A questionnaire has been developed based on these measures covering all domains of HR activities that has contained 56 measures. A four point scale, as shown below, has been used to record the responses of the respondents.

Response	Description
1	Not measured
2	Measured to a limited extent
3	Measured to a significant extent
4	Measured & reported to the top management

The questionnaire has been sent to HR professionals working in different sectors in India during September-October 2008. 109 HR professionals working in manufacturing, IT/ITES and service sectors with a minimum experience of two years in their respective organisations have responded to this questionnaire. They have represented private, joint venture and public sector organisations across India. The information collected from these respondents has formed the basis for this study. The mean scores of all HR activities in various domains of HR are presented in Appendix 1.

Domains of HR Activities

The study found that among various domains of HR, compensation has secured first place with an average score

Compensation related activities are measured in the organisations to a significant extent.

of 3.04 on a four point scale. This implies that compensation related activities are measured in the organisations to a significant extent. Training and development has occupied second place followed by employee selection. The remaining domains of HR such as performance management, employee relations and recruitment have occupied the last three positions in terms of using measures to evaluate the effectiveness of the respective activities. On the whole, it can be stated that the HR professionals are making attempts to assess the effectiveness of various HR activities using various measures. But reporting the results of their measurement to the top management and taking necessary action subsequent to results seems to be absent.

Table 1: Domains of HR Activities

Sl. No.	Domain of HR Activity	Means Score
1	Recruitment	2.60
2	Selection	2.85
3	Training and development	2.90
4	Performance management	2.74
5	Compensation	3.04
6	Employee relations	2.63
	Overall	2.79

1) Recruitment Measures: Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation (Flippo 1984). The recruitment process is an important element of successful human resource practices. It starts with identification of job openings in the organisation and ends with getting satisfactory recruits from various sources

and methods adopted by the organisation. Based on the literature and earlier research, the following recruitment practice measures have been identified and incorporated in the present study.

- Applicants per recruitment source
- Applicants selected per recruitment source
- New employee performance rating by recruitment source
- New employee quits (first six months) by source
- Cost per applicant per recruitment source
- The response time by recruitment source
- Satisfaction of the manager who requested the new recruits

It is found that cost per applicant per recruitment source, applicants selected per recruitment source, number of applicants per recruitment source and new employee quits in the first six months of tenure are measured to a significant extent in the process of evaluating the efforts involved in recruitment process. However, it is important to note that new employee performance rating by recruitment source, satisfaction of the manager who requested for new recruits, and the response time by recruitment source are not measured in their evaluation process to a significant extent. None of the reports of any of recruitment measures goes to the top management to take up

necessary action.

New employee performance rating by recruitment source, satisfaction of the manager who requested for new recruits, and the response time by recruitment source are not measured in their evaluation process to a significant extent.

2) Selection Measures: Selection is the process of collecting and evaluating information about an individual in order to extend an offer of employment (Gatewood & Field 2001). Once a sufficient pool of applicants has been recruited, critical decisions need to be made regarding applicant screening and final selection of applicant. Selection decisions can and do have significant economic and strategic consequences for the organisations (Mello 2006). Therefore measuring the success of selection practices is important for any organization. The present study has incorporated the following measures as indicators of selection practices in the organisations:

- Number of candidates moved to selection process
- The new employee performance on the job
- The length of time the selected candidate remained with the organization
- The cost of selection tools, process etc.

- The time taken to complete the selection process
- Acceptance and offer ratio
- Actual staffing requirement and actual selection of the candidates
- Satisfaction of the manager who requested for new hires

It is observed that actual staffing requirement and actual selection of the candidates is the major measure that is used to assess the effectiveness of the selection process. It is also evident from the data that the time taken to complete the selection process is another item that is measured to a significant extent. This is followed by the length of time the selected candidate remained with the organisation as an indicator of the success of selection process. Acceptance and offer ratio, the cost of selection tools, process etc and the new employee performance on the job are other indicators that are used to a significant extent. But the satisfaction of the manager who requested for new hires is not measured to a significant extent. Moreover, as seen with respect to recruitment measures, it is significant that none of the reports of any of selection measures too go to the top management to take up necessary action.

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3) Training & Development Measures: Traditionally, training and

development was not viewed as an activity that could help companies create value and successfully internalize competitive advantage. Today that view has changed (Noe 2005). With training budgets growing, companies expect programmes to show results. Training programmes are now measured at five levels such as reaction, learning, job application, results and return on investment (Phillips 2003). Present study has incorporated the following measures as indicators of measurement practices in the area of training and development.

- Number of employees trained in training programmes
- Number of training days
- Training costs
- Percent of amount spent on training in payroll
- Feedback of participants
- Learning of the participants during training
- Transfer of learning on the job
- Performance improvements made because of training received
- Cost and benefit analysis of training
- Satisfaction of line managers on training

The number of employees trained in the programmes' is the principal measure of assessing the training and development

It is identified that 'the number of employees trained in the programmes' is the principal measure of assessing the training and development with a score of 3.42. This is followed by other measures such as training costs, number of training days, feedback from the participants, learning of participants during training and percent of amount spent on training in payroll. Cost benefit analysis of training, transfer of training inputs on the job and subsequent performance improvements and satisfaction of line managers on training are found to be least followed indicators of training success. It is clear from the data that the organisations make attempts to measure training and development practices. But reporting the findings to the top management for necessary action does not arise with regard to many of the training measures except those such as number of employees trained, training costs and number of training days.

4) Performance Management Measures: Performance management is an important aspect of human resource management in every organisation. It is a system that consists of processes used to identify, encourage, measure, evaluate, improve, and reward employee performance (Mathis & Jackson 2003). Performance appraisal is the pre-dominant tool used in the performance management system. The following measures have been incorporated in the present study to identify the performance management measures followed in the domain of performance management.

Performance appraisal is the pre-dominant tool used in the performance management system.

- Performance appraisals completed on time
- Accuracy of appraisal process to judge individual performance
- Average number of employees whose compensation is performance contingent
- Average number of appeals on the results of appraisal
- Average number of quits on account of appraisal results
- Speed of action plans on appraisal results
- Average number of employees with developmental plans
- Effectiveness of appraisal process dealing with poor performers
- Actual changes in productivity of employees as a result of appraisal process
- Satisfaction of employees with the appraisal process
- Ratio of promotions to number of employees
- Average time frame between promotions

As per the findings of the present study, the most popular measure of performance management is 'performance appraisals completed on time'. This is

followed by average number of employees whose compensation is performance contingent, and ratio of promotions to number of employees. The measures such as actual changes in productivity of employees as a result of appraisal process, average number of quits on account of appraisal results, and average number of appeals on the results of appraisal are found to be least followed measures to assess the effectiveness of performance management systems in the organisations. It is further found in this vital domain of performance management, the assessment is done to a limited extent on many of the aspects. However the measurement is carried out to a significant extent on a few aspects such as performance appraisals completed on time, average number of employees whose compensation is performance contingent, ratio of promotions to number of employees and accuracy in appraisal process.

5) Compensation Measures: Employee compensation refers to all forms of pay or rewards going to employees and arising from their contract of employment. It consists of direct payments such as wages, allowances and incentives and indirect payments such as fringe benefits and services. It is a powerful tool to attract, motivate, and retain employees. The following are incorporated as possible measures in compensation area in various organisations:

- Average salary increase
- Average of current salary against industry average
- Speed of salary action processing

- Percent of employees covered in pay-for-performance plan
- Percent of employees covered for benefits and services
- Percent of employees who use benefits and services
- Speed in extending the benefits and services to employees
- Compensation as a percent of operating expenses
- Compensation as a percent of revenue
- Total compensation expenses per employee
- Employee satisfaction on compensation

Among the measures mentioned above, the study found that 'average salary increase' is the most popular measure in the organisations. This is followed by total compensation expenses per employee, average of current salary against industry average, percent of employees covered in pay-for-performance plan, percent of employees covered in pay-for benefits and services, compensation as a percent of revenue, compensation as a percent of operating expenses, and speed of salary action processing. The aspects such as speed in extending the benefits and services to employees, employee satisfaction on compensation and percent of employees who use benefits and services are found to be considered to a limited extent to assess the effectiveness of compensation systems in the organisations.

6) Employee Relations Measures:

Employee relations is often a collection of miscellaneous programmes and activities aimed at improving employee satisfaction (Phillips 1999). Though employee relations function has undergone changes in recent years, there are certain practices in employee relations that can be measured. The following are the possible measures to be considered in assessing the domain of employee relations in various organisations:

- Percentage of grievances settled
- Average length of time to settle grievances
- Cost of settling employee grievance
- The extent of employee participation
- Percentage of employees making suggestions
- Consistency and clarity of messages from top management and from HR
- Absenteeism rate
- Employee quit rate

The study found that among the measures mentioned above, employee quit rate, absenteeism rate and consistency and clarity of message from top management and from HR are measured to a significant extent. Employee quit rate is not only measured but also reported to the top management for necessary action in some of the organisations. The data shows that all other measures are considered, but not to a significant extent. The aspects such as cost of settling employee grievance, and average length of time to settle employee

grievances are measured to a limited extent.

Employee quit rate is not only measured but also reported to the top management for necessary action in some of the organisations.

Conclusion

The attempts made in Indian industry vary from a limited extent to a significant extent to measure the HR activities undertaken in various organisations. It may be further concluded that employee compensation related activities are given more importance when compared to other domains of HR in measurement. However, the measurement is confined to HR professionals without reporting the measurement results to the top management for necessary action.

The HR domain-wise analysis leads to the conclusion that the measures with respect to recruitment are not given much importance whereas selection measures are given relatively more importance. Successful recruitment is threshold requirement for successful selection of employees. Therefore HR professionals may give equal importance for both these domains.

Further, based on the measures that scored relatively high, it may be concluded that when compared the traditional HR measures such as number of employees trained in various training programmes, training costs, completion of performance appraisals on time, av-

erage salary increase, employee quit rate etc are considered in measurement, but not the business-driven measures such as actual changes in productivity of employees as a result of performance appraisal process, performance improvements made because of training received etc. It is true that the positive results of traditional HR measures reinforce HR managers for their contribution, but may not stimulate change for business impact. Therefore, it may be suggested that having achieved significant progress with respect to measuring HR using traditional measures, the HR professionals now may focus on measures that show concrete business improvements.

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Appendix 1: Measures of HR Activities

Sl. No.	Recruitment Measures:	Mean Score
1	Applicants per recruitment source	2.72
2	Applicants selected per recruitment source	2.9
3	New employee performance rating by recruitment sources	2.15
4	New employee quits (first six months) by source	2.7
5	Cost per applicant per source	2.91
6	The response time by recruitment source	2.59
7	Satisfaction of the manager who requested the new recruits	2.22
	Over all	2.60

Selection Measures :

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8	Number of candidates moved to selection process	2.7
9	The new employee performance on the job	2.81
10	The length of time the selected candidate remained with the organization	2.98
11	The cost of selection tools, process etc.	2.87
12	The time taken to complete the selection process	2.99
13	Acceptance and offer ratio	2.92
14	Actual staffing requirement and actual selection of the candidates.	3.16
15	Satisfaction of the manager who requested for new hires	2.38
	Over all	2.85

Training and development :

16	Number of employees trained training programmes	3.42
17	Number training days	3.28
18	Training costs	3.35
19	Percentage of amount spent on training in payroll	2.75
20	Feedback of participants	3.16
21	Learning of the participants during training	2.84
22	Transfer of learning on the job	2.57
23	Performance improvements made because of training received	2.52
24	Cost and benefit analysis of training	2.61
25	Satisfaction of line managers on training	2.51
	Over all	2.90

Performance Management :

26	Performance appraisals completed on time	3.34
27	Accuracy of appraisal process to judge individual performance	2.84
28	Average number of employees whose compensation is performance contingent	3.09
29	Average number of appeals on the results of appraisal	2.52
30	Average number of quits on account of appraisal results	2.5
31	Speed of actions plans on appraisal results	2.54
32	Average number of employees with developmental plans	2.65
33	Effectiveness of appraisal process dealing with poor performers.	2.66
34	Actual changes in productivity of employees as a result of appraisal process	2.25
35	Satisfaction of employees with the appraisal process	2.63
36	Ratio of promotions to number of employees	3.04
37	Average time frame between promotions	2.78
	Over all	2.74

Compensation:

38	Average salary increase	3.33
39	Average of current salary against industry average	3.16
40	Speed of salary action processing	2.94

41	Percent of employees covered in pay-for-performance plan	3.15
42	Percent of employees covered for benefits and services	3.11
43	Percent of employees who use benefits and services	2.89
44	Speed in extending the benefits and services to employees	2.66
45	Compensation as a percent of operating expenses	3.08
46	Compensation as a percent of revenue	3.08
47	Total compensation expenses per employee	3.3
48	Employee satisfaction on compensation	2.71
	Over all	3.04

Employee Relations :

49	Percentage of grievances settled	2.6
50	Average length of time to settle grievances	2.42
51	Cost of settling employee grievance	2.12
52	The extent of employee participation	2.48
53	Percentage of employees making suggestions	2.5
54	Consistency and clarity of messages from top management and from HR	2.68
55	Absenteeism rate	2.96
56	Employee quit rate	3.26
	Over all	2.63
	Grand Overall Mean Score	2.79
