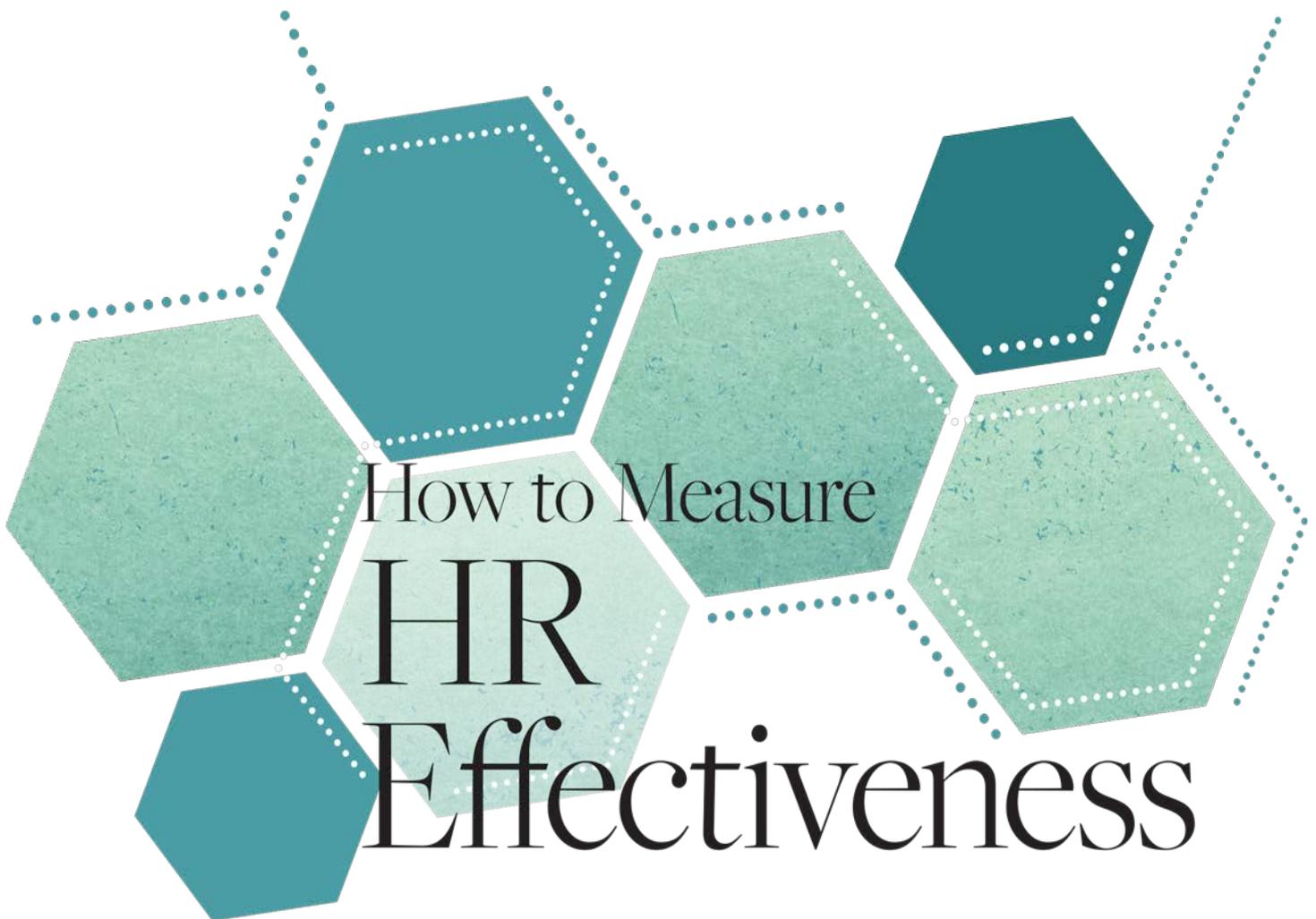


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How do human resources organizations measure their
efficiency, effectiveness and impact?



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hat human resources measurement and analytics features are most associated with HR leaders' ratings of the function's organizational effectiveness and performance? Do

organizational effectiveness and performance tend to be associated with measuring HR departmental efficiency and the quality of its services? Are they associated more with measuring “strategic” or “outside-in” features, such as improving the decisions of non-HR leaders?

In this article, we will report some of the findings from our 2016 survey of HR leaders in more than 100 large U.S. corporations. The full report will appear in our forthcoming book, “Human Resource Excellence: An Assessment of Strategies and Trends,” which will be published in 2018. We will also compare the findings of our 2016 survey, with the findings from our 2004, 2007, 2010 and 2013 surveys. Our focus will be on HR metrics and analytics. We will examine the extent to which HR organizations measure their efficiency, effectiveness and impact, as well as the effectiveness of the metrics and analytics systems for HR operations and strategic outcomes.

	2004 ⁴	2007 ⁵	2010 ⁶	2013 ⁷	2016 ⁸
Overall effectiveness (all items)	6.8	6.4	6.4	6.4	6.8
HR services	7.0	6.7	6.9	6.6	7.1
Providing HR services	7.8 ^{1,2}	7.4	7.7 ^{1,2}	7.4	7.7 ^{1,2}
Being an employee advocate	7.4	7.3	7.1 ⁸	7.4	7.8 ^{2,6}
Analyzing HR and business metrics	5.9	5.3 ⁸	5.9	5.3	6.1 ⁵
Preparing talent for the future	-	-	-	6.4	6.6
Corporate roles	6.9	6.5	6.2	6.3	6.6
Managing outsourcing	7.3 ^{5,6,7,8}	6.1 ⁴	5.9 ⁴	6.1 ⁴	6.2 ⁴
Operating HR centers of excellence	6.8 ^{2,3}	6.7 ^{2,3}	6.3 ²	6.4 ²	6.9 ^{2,3}
Operating HR shared service units	6.9 ²	6.3	6.6 ²	6.4	6.4
Working with the corporate board	7.1 ⁶	6.8	6.2 ⁴	6.7	7.0
Business and strategy	6.5	6.1	6.4	6.1⁸	6.8⁷
Providing change consulting services	6.5 ²	5.9	6.1	5.8	6.5 ²
Being a business partner	7.1	6.8	6.9	6.8	7.3 ^{1,2,3}
Helping to develop business strategies	6.0	5.8	5.9	5.6	6.4
Improving decisions about human capital	6.7	6.1 ⁸	6.4	6.3	6.9 ⁵

Note: Response scale: 1 = not meeting needs, 10 = all needs met. Empty cells indicate that the item was not asked in that year. Bold numbers are scale means. 1,2,3,4,5,6,7,8 Significant difference ($p \leq .05$) between years. Significance level: t $p \leq .10$, * $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$.

The best way to examine HR's progress is to compare across time how HR leaders rate the extent of its activities and the effectiveness of HR system features, such as the time spent as a strategic partner and the comprehensiveness of their information systems. In our prior surveys going back a decade or more, we've found that the level and effectiveness of HR features has not changed dramatically. For example, the relative time spent on strategic partnership vs. HR administration has stayed constant, although the proportion of leaders saying they have at least an input role or a leadership role in organization strategy has increased somewhat, as we wrote in our 2015 book, "Effective Human Resource Management: A Global Analysis."

It is tempting to conclude that because the level of strategic HR features has remained so constant, then there has been little change in HR effectiveness. However, we did observe an interesting pattern when we examined how different HR features are correlated with HR effectiveness and organizational performance. These correlations indicate where improvements in HR features are associated with these important outcomes. They provide important clues regarding the potential impact of improving different elements of HR and insight into where being highly rated is associated with higher HR effectiveness and organizational performance.

The results we report next suggest that although the absolute level of HR measurement practices and effectiveness has been historically stable or slow moving, over time there is evidence that some of the more "strategic" features are increasingly associated with key HR outcomes. Yet some more traditional features also remain strongly associated with key HR outcomes, suggesting where organizations benefit less from the evolution toward a more strategic HR approach. It also appears that the HR function's effectiveness may have benefited more from this shift toward the greater impact of strategic features, while organizational performance remains associated with more traditional and "internally focused" measurement and analytics features and outcomes.

How We Measured HR Effectiveness and Organizational Performance

Our survey included the 12 HR effectiveness items shown in Table 1. They were rated on an effectiveness scale of 1 to 10. We calculated an overall effectiveness index by taking the sum of these 12 items. The table shows the average ratings of each item on our surveys for 2004, 2007, 2010, 2013 and 2016. As noted earlier, the absolute level of the items has remained relatively stable over the years, they range from 5.3 to 7.8 on the 10-point scale. We measured organizational performance by taking the sum of the responses to the question, "How would you gauge your company's performance, relative to its competitors"

in these three areas: “Societal and environmental sustainability performance”; “HR function performance”; and “Overall company performance” on a scale from 1=much below average to 5=much above average. Note that we began asking the question about organizational performance in 2010, so the tables of results for this outcome show only the survey years since 2010. Next we examined the correlations between different features of HR organizations and HR performance and organizational performance.

What HR Measures: Efficiency, Effectiveness and Impact

Organizations can collect and make use of three types of HR measures: measures of efficiency, effectiveness and impact. Efficiency refers to the amount of resources used by HR programs, such as cost-per-hire. Effectiveness refers to the outcomes produced by HR activities, such as learning from training. Impact refers to the business or strategic value created by the HR activities, such as higher sales.

It is common to recommend that HR measurement focus on business outcomes. This can be incorrectly interpreted to mean that only impact measures are truly strategic. In fact, just as with the functions of finance, marketing and operations, a mix of all three types of measures can be useful, and indeed measuring all three is often required to fully understand how HR investments affect organizational performance. Each calls for somewhat different metrics and analytics. They can complement each other when they’re used together.

RELATIONSHIP OF HR ANALYTICS AND METRICS USE TO HR EFFECTIVENESS

Measures ^a	HR Effectiveness ^b				
	2004	2007	2010	2013	2016
Efficiency					
Measure the financial efficiency of HR operations (e.g., cost-per-hire, time-to-fill, training costs)?	.53***	.42***	.39***	.40***	.30**
Collect metrics that measure the cost of HR programs and processes?	.45***	.49***	.35***	.41***	.33***
Benchmark analytics and measures against data from outside organizations (e.g., Saratoga, Mercer, Hewitt)?	.17	.22 ^t	.38***	.26**	.24*
Effectiveness					
Use HR dashboards or scorecards?	.37**	.29*	.48***	.41***	.22*
Measure the specific effects of HR programs (e.g., learning from training, motivation from rewards, validity of tests)?	-	.32**	.28**	.21*	.44***
Have the capability to conduct cost-benefit analyses (also called utility analyses) of HR programs?	.53***	.19 ^t	.28***	.30***	.46***
Impact					
Measure the business impact of HR programs and processes?	.44***	.24*	.36***	.31***	.58***
Measure the quality of the talent decisions made by non-HR leaders?	-	.33**	.18*	.16 ^t	.41***
Measure the business impact of high versus low performance in jobs?	-	.24*	.34***	.24*	.43***

^aResponse scale: 1 = not currently being considered; 2 = planning for; 3 = being built; 4 = yes, have now.

^bBased on total score for all twelve effectiveness items as rated by HR executives.

Empty cells indicate that the item was not asked in that year.

Significance level: t $p \leq .10$, * $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$.

HR Effectiveness

The results for the relationship between analytics and metrics used and HR effectiveness are shown in Table 2. The measurement features are shown in the rows, and the columns represent different years of our survey. The numbers in the table are correlations, which can range from -1.0 to +1.0. The higher the correlation, the stronger the relationship between the measurement feature and the outcome measure (in this case the index of HR effectiveness).

Using HR metrics and analytics to drive efficiency, effectiveness and impact are all significantly related to HR effectiveness in almost all years. The pattern over time suggests some evolution in the strength of the relationships from efficiency toward impact. Between 2004 and 2016, measuring the efficiency and effectiveness of the HR function shows multiple decreased associations with HR effectiveness. This includes items such as “measuring the financial efficiency of HR operations,” “measuring the cost of HR programs,” “cost-benefit analysis of HR programs” and “using HR dashboards or scorecards.” Over the same period, the corresponding correlations have increased for “measuring the specific effects of HR programs” and measuring the “business impact of HR programs,” “quality of non-HR leaders’ talent decisions,” and “business impact of high versus low job performance.” Over time, measuring the efficiency and effectiveness of the HR function and its services are less associated with HR functional effectiveness, while measuring the pivotal impact of talent, as well as leadership decision quality, are more associated with effectiveness.

Organizational performance has had its strongest association with HR metrics focused on functional efficiency, benchmarks and HR program effects.

Organizational Performance

Table 3 shows the associations between the use of efficiency, effectiveness and impact measures and the ratings of organizational performance. Organizational performance shows a different pattern than we saw above for HR effectiveness.

Historically, organizational performance has had its strongest association with HR metrics focused on functional efficiency, benchmarks and HR program effects. Over time,

organizational performance is less strongly associated with measuring the quality of leader decisions and the pivotal impact of job performance.

Despite frequent calls for HR measurements to engage users and drive decisions outside of the HR function, such activities haven't shown an increasing association with organization performance, yet they do show an increasing association with HR effectiveness. Perhaps measuring decision quality and the impact of pivotal performance are just emerging and reveal their effects first as differentiators of the quality of the HR function. Their impact on organizational performance may require more evidence of their effects or a more sophisticated understanding of them by non-HR executives such as corporate boards and investors.

RELATIONSHIP OF HR ANALYTICS AND METRICS USE TO ORGANIZATIONAL PERFORMANCE			
Measures ^a	Organizational Performance ^b		
	2010	2013	2016
Efficiency			
Measure the financial efficiency of HR operations (e.g., cost-per-hire, time-to-fill, training costs)?	.13	.14t	.31***
Collect metrics that measure the cost of HR programs and processes?	.14	.14t	.20*
Benchmark analytics and measures against data from outside organizations (e.g., Saratoga, Mercer, Hewitt)?	.09	.06	.27**
Effectiveness			
Use HR dashboards or scorecards?	.13	.20*	.21*
Measure the specific effects of HR programs (e.g., learning from training, motivation from rewards, validity of tests)?	.20*	.20*	.28**
Have the capability to conduct cost-benefit analyses (also called utility analyses) of HR programs?	.23*	.19*	.10
Impact			
Measure the business impact of HR programs and processes?	.34***	.02	.20*
Measure the quality of the talent decisions made by non-HR leaders?	.04	.23**	.13
Measure the business impact of high versus low performance in jobs?	.24**	.08	.00

^aResponse scale: 1 = not currently being considered; 2 = planning for; 3 = being built; 4 = yes, have now.

^bResponse scale: 1 = much below average; 2 = somewhat below average; 3 = about average; 4 = somewhat above average; 5 = much above avg.

Significance level: t $p \leq .10$, * $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$.

HR Metrics and Analytics Outcomes: Strategy vs. Functional Contributions

The previous section looked at what is included in HR measurements. In this section, we examine the outcomes of the HR measures, contrasting effectiveness in supporting the HR function and its operations with effectiveness in supporting more strategic contributions.

HR Effectiveness

Table 4 shows the correlations of elements of HR measurement outcomes with the index of overall HR effectiveness.

Effectively supporting HR functional and operational contributions showed decreasing associations with overall HR effectiveness between 2004 and 2016, while effectively supporting strategy contributions either held constant at high levels or increased. Notably, effectiveness in every measurement outcome is consistently associated with HR function effectiveness, so it's important to emphasize that more effective measurement supporting HR functional and operational contributions does distinguish effective HR organizations. Still, the notable increase in many of the items reflecting effectiveness of strategy and decision support suggests that HR effectiveness will increasingly associate with these categories.

RELATIONSHIP OF HR ANALYTICS AND METRICS OUTCOMES TO HR EFFECTIVENESS					
Metrics Effectiveness ^a	HR Effectiveness ^b				
	2004	2007	2010	2013	2016
Strategy contributions					
Contributing to decisions about business strategy and human capital management	.52***	.55***	.58***	.53***	.51***
Identifying where talent has the greatest potential for strategic impact	.47***	.49***	.51***	.52***	.48***
Connecting human capital practices to organizational performance	.42***	.57***	.40***	.44***	.56***
Supporting organizational change efforts	.47***	.56***	.45***	.65***	.51***
HR functional and operational contributions					
Assessing and improving the HR department operations	.61***	.63***	.50***	.55***	.41***
Predicting the effects of HR programs before implementation	-	.50***	.43***	.50***	.45***
Pinpointing HR programs that should be discontinued	.52***	.52***	.46***	.54***	.40***

^aResponse scale: 1 = very ineffective; 2 = ineffective; 3 = neither; 4 = effective; 5 = very effective.

^bBased on total score for all twelve effectiveness items as rated by HR executives.

Empty cells indicate that the item was not asked in that year.

Significance level: t $p \leq .10$, * $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$.

Organizational Performance

Table 5 shows the correlations of HR measurement effectiveness with ratings of organizational performance.

It shows a pattern that is similar to the one for HR effectiveness. Three of the four strategy contribution outcomes increased their association with organizational performance from 2010 to 2016, while two of the three HR functional and operational contribution outcomes decreased their association with organization performance over the same time period. The results for organization performance reinforce the view that measurement effectiveness in strategy and decision support is emerging as having stronger associations with success than traditional measures of functional and operational outcomes have.

RELATIONSHIP OF HR METRICS AND ANALYTICAL OUTCOMES TO ORGANIZATIONAL PERFORMANCE

Effectiveness ^a	Organizational Performance ^b		
	2010	2013	2016
Strategy contributions			
Contributing to decisions about business strategy and human capital management	.19*	.07	.33***
Identifying where talent has the greatest potential for strategic impact	.38***	.18*	.20*
Connecting human capital practices to organizational performance	.19*	.11	.37***
Supporting organizational change efforts	.10	.09	.24*
HR functional and operational contributions			
Assessing and improving the HR department operations	.16†	.09	.13
Predicting the effects of HR programs before implementation	.16†	.09	.27**
Pinpointing HR programs that should be discontinued	.19*	.10	-.02

^aResponse scale: 1 = very ineffective; 2 = ineffective; 3 = somewhat effective; 4 = effective; 5 = very effective.

^bResponse scale: 1 = much below average; 2 = somewhat below average; 3 = about average; 4 =somewhat above average; 5 = much above average.

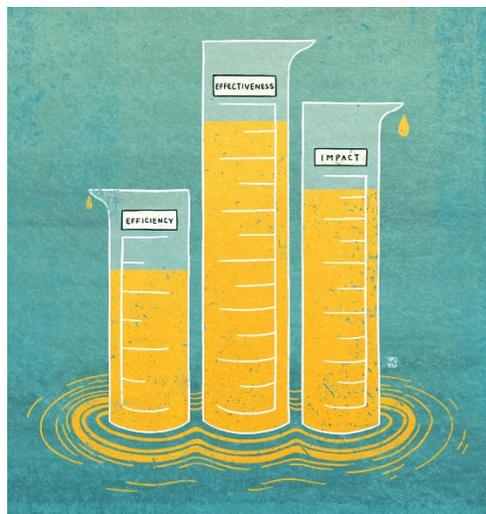
Empty cells indicate that the item was not asked in that year.

Significance level: † p ≤ .10, *p ≤ .05, ** p ≤ .01, *** p ≤ .001.

Conclusions and action steps

Our results suggest that a variety of HR metrics and analytics usage features and effectiveness outcomes relate to both HR effectiveness and organizational performance. Enhancing these HR features and outcomes offer some of the most potent paths to greater HR and organizational effectiveness, especially considering that their historical level is only moderate.

There also is evidence that the strategic use and outcomes of HR metrics and analytics are increasingly associated with HR effectiveness and organizational performance. This is particularly true for HR functional effectiveness, while the results for organizational performance are more modest and mixed.



HR effectiveness and organizational performance aren't the same thing, and they're not perfectly correlated. This means HR leaders face a difficult choice with respect to what they focus on. They can choose to enhance the more strategic HR measurement elements to improve the effectiveness of the HR function, even though it may not have as large an effect on organizational performance as more functionally focused measurement improvements. Leaders outside the HR function are likely to encourage HR to improve more traditional and internally facing measurement features and outcomes, because the connection to organizational performance is somewhat greater.

Because the results suggest that both operational and strategic measurement features and outcomes have some relationship to both HR effectiveness and organizational performance, we encourage HR leaders to push for key improvements in both. Moreover, considering the historically increasing associations between strategic metrics and analytics elements with HR effectiveness and performance, we encourage HR leaders to improve the strategic elements in particular. They're increasingly associated with HR effectiveness, and we believe it is only a matter of time before that trend extends to organization performance.

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