HR ANALYTICS FOR STRATEGIC HUMAN RESOURCE MANAGEMENT

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ABSTRACT
Understanding HR's contributions in driving organizational performance is nowadays essential. HR professionals need to face the new realities and adopt an integrated management model in order to provide the best actions regarding the management of human capital. An organization needs and can quantify the HR's overall strategic impact by finding the proper ways for measuring its impact on the success drivers.
This paper aims to identify and describe the steps needed in order to asses HR's strategic role, by reviewing the relevant literature regarding the integration of HR into business performance measurement.

KEYWORDS : *analytics, HCM: 21 model, measurement, human resources, strategy*

JEL CLASSIFICATION: *M12- Personnel Management*

1. INTRODUCTION

Many HR practitioners have to fight the perception that human resources is a function that only causes expenses or has no actual impact on the organization's performance. The main cause of this misconception is the fact that there is a lack in assessing the real impact of the human resource activities.

Other function's performance can be assessed based on different types of indicators, but how to translate for example how motivated the employees are, other than with "good", "very good" and other qualitative and subjective terms. In this context, the HR function needs to prove its worth by delivering solid evidence of the value added by its services.

Human resource expert and writer, Jac Fitz- Enz, explains that HR need to learn how to speak in qualitative, objective terms, using number to express the activity and value added brought by this function. He also considers that we find ourselves in the most exciting and promising phase of the evolution of human resources management (Fitz-Enz J., 2010).

This evolution changes the role of the HR function and positions it as a value-added partner that contributes to the strategic goals of its organization. Nowadays human resources department has to answer many more questions than it did twenty years earlier: Is it cost-effective to add staff in a given area? Does a training program have a positive impact on costs and sales? How can you increase employee satisfaction?

At a time when human resources managers are under great pressure to accurately measure job performance and defend their budgets against outsourcing, answering questions like these is often a difficult task, yet necessary due to the new role of HR, that of strategic partner for the business.

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2. STRATEGIC HUMAN RESOURCE MANAGEMENT (SHRM)

SHRM is defined as an approach to the management of human resources that provides a strategic framework to support long-term business goals and outcomes (Chartered Institute of Personnel and Development). The approach is concerned with longer-term people issues and macro-concerns about structure, quality, culture, values, commitment and matching resources to future need (Armstrong M., Baron A., 2002). It is a general notion of how integration between HR and business strategies is achieved, the benefits of a longer-term view of where HR can get an organization where we want it (Armstrong M., 2006).

In order for HR to be aligned with the business, it needs to know what is changing within the business. That means that human resource practitioners need to know the fundamentals of the business, including the following: What drives revenues? Who are the major customers? What is our market share? How do our gross margins compare? Are earnings per share rising or falling?

Answering these questions means that we need to link HR activities to business objectives and, ultimately, to the organization's goals. In addition, we need to measure its activity's impact in order to obtain the much needed support for managerial decisions from how much HR staff is needed to how much to spend on HR services - with hard numbers obtained from easy-to-apply formulas and benchmark database examples (Fitz-Enz J., 2000).

3. TIME FOR ANALYTICS

The need of finding prove of HR's importance as a function in figures has been a challenge for many professionals even since the 1980's. Since then, metrics have experienced a slow but constant evolution from a simple transactional monitoring point of view, to predictive analytics, as shown in figure 1.
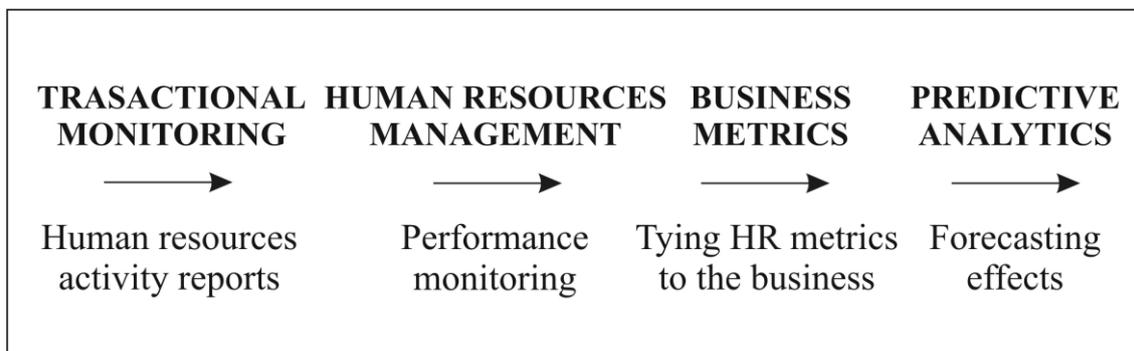

Figure 1: The evolution of HR metrics
Source: Fitz-Enz J., 2010

Nowadays, some practitioners are preoccupied with more than just assessing the results and impact of HR, they are in the point of predicting the future outcomes. Jac Fitz- Enz presents in the book entitled *"The new HR analytics – Predicting the economic value of your company's human capital investments"* the results of an eighteen months study regarding *predictive management*. The concept refers to a management model and operating system for the human resource function (Fitz-Enz J., 2010). The model was first used in 2008 and it has been very successful under the name HCM: 21 (human capital management for the twenty-first century).

It is defined as a framework of logic, meant to gather, organize and interpret data so that it can predict the probability of upcoming events.

The HCM: 21 model consists in four phases (Fitz-Enz J., 2010):

1. Scanning – the assessment of all the internal factors that might have an influence on human, structural and relational capital;

2. Planning – the creation of a system that provides an alternative to the structured system by relying on sustainable human capability rather than on just filling positions;

3. Producing – HR are view as processes with inputs and outputs and statistical analysis is used in order to reveal the most suitable combination of inputs that drive the desired outputs;

4. Predicting – the system consists in analysing strategic, operational and leading indicators.

The linkages between the above mentioned phases are evident and they need to be assessed by using a series of algorithms, as seen in figure 2.
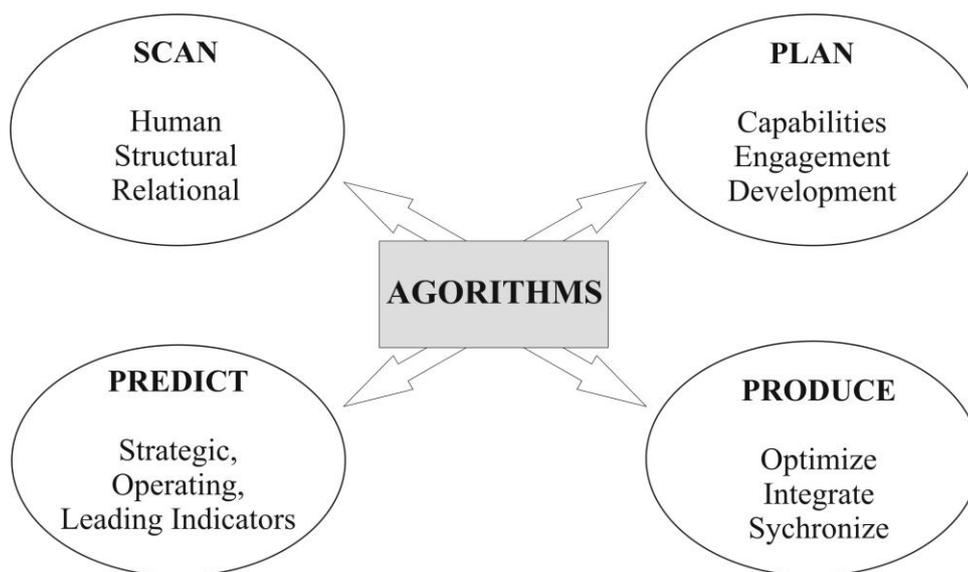

Figure 2: The HCM: 21 model
Source: Fitz-Enz J., 2010

Measuring in general means choosing one of five ways of assessment, based on one or more of the following aspects: cost, quantity, quality, time, and human reactions. The big challenge consists in determining the proper way of measuring something at a certain time.

Practitioners propose five steps of analytics (Fitz-Enz J., 2010), figure 3:

1. Recording the work: hiring, paying, training, supporting, retaining;
2. Relating to the organization's goals: quality, innovation, productivity, service;
3. Benchmarking: comparing our results to others;
4. Descriptive analytics: understanding past behaviour and outcomes;
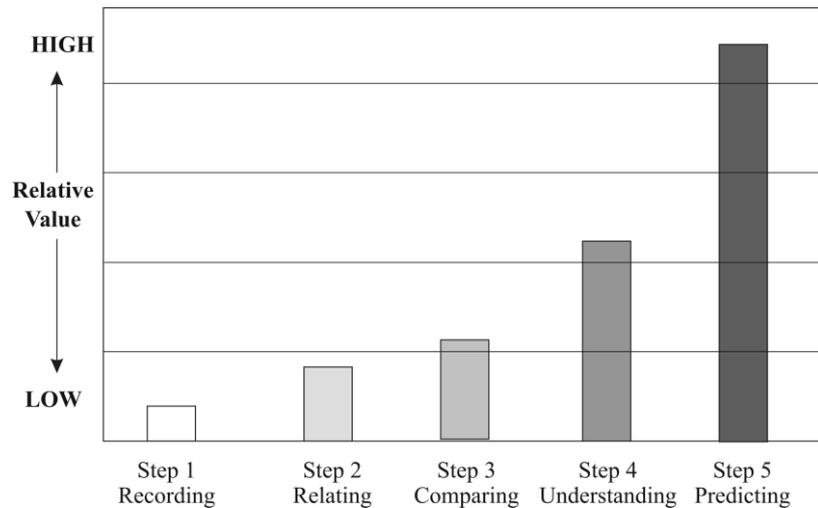5. Prescriptive analytics: predicting future outcomes.

Figure 3: The measurement's steps and according values
Source: Fitz-Enz J., 2010

The HCM: 21 model is a framework for analysing data at an organizational level. It can consist in key information from financial statements, market researches, production reports or interviews. All the organization's functions provide different data that needs to be assessed and more, it needs to be assessed in relation with the other outcomes of the other functions. In this respect, the informatics system and its algorithms is the key element.
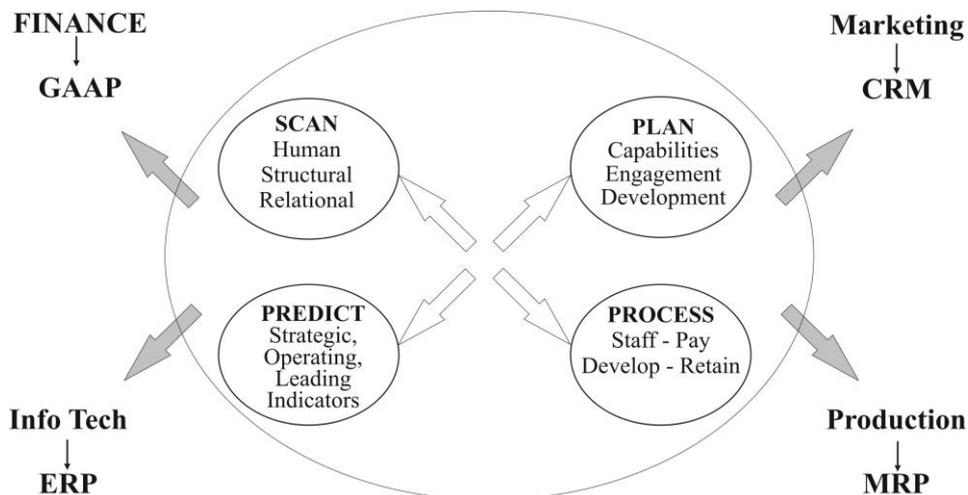

Figure 4: Software support for the management model
Source: after Fitz-Enz J., 2010

Business management software has become the core of the modern organizations and will become the center of the future ones. These enterprise resource planning (ERP) systems help companies to collect, store, manage and interpret data from many business activities: product planning, cost,

manufacturing or service delivery, marketing and sales, inventory management, shipping and payment and human resource management.

The model is designed to help HR managers confidently measure all major personnel functions - evaluate human resources activities and costs, including: staffing, training, ERP services, employee turnover, employee absence control, and the pay and benefits system; and, collect data on costs, time, and the quantity and quality of work - and make tough managerial decisions. It is a very useful tool that measures from a specific task to the way your entire department is organized.

4. CONCLUSIONS

Aligning HR and organizational strategies for competitive advantage has become a necessity, more and more organizations considering the HR department a value-added business partner.

Strategic human resource management can be regarded as a necessary approach for the modern organizations which need to identify ways for assessing its impact on performance and the process that need to be undertaken for the maximum productivity.

Human resources is an enabler that performs several functions vital to the desired operation of the enterprise that is why we need to learn how to better measure and manage overall HR productivity and service, from hiring and staffing, to compensation and benefits, to training and development, to employee relations and retention programs and more by giving your company a competitive edge.

The HCM: 21 model represents a tool that allows you to rate the effectiveness of your department and communicate with senior management in the quantitative business language they understand.

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