MEASUREMENT OF HUMAN CAPITAL PERFORMANCE IN ORGANISATIONS: 
ISSUES AND CHALLENGES

A. N. Abasilim
Wesley University of Science and Technology, Ondo, Nigeria
and
A.A. Agboola
Obafemi Awolowo University, Ile-Ife, Nigeria
abasilimnneka@yahoo.com  +2348033786414

Abstract

Human Capital Measurement plays a key role in developing and implementing corporate strategies as well as becoming a valued part of an organization’s existence. The measurement of Human Capital of an organization provides the organization with the analytic and data based decision-making capability to influence business strategy with an attempt to make better decisions and Human Capital into strategic partners. Measuring performance of Human Capital involves developing the appropriate set of measures which should be driven by two factors; the overall success of the organization and the attainment of organization’s most important goals. Human Capital Measurement, as such, becomes an important and critical issue for the success and survival of organizations in Nigeria. This paper, therefore, examines the Measurement of Human Capital Performance, the issues and the challenges.

Keywords: Human capital, measurement, performance management, organizations

Introduction

Human Capital management (HCM) has a double role, which in no simple task, provide the company with the best profiles to reach set performance objectives, and the obligation to offer its employees a working environment that is fair and centered on personal development, (Paaume, 2004). For any organization to achieve the best profile to reach set performance objectives leads to what experts in the field of HR call performance management. Armstrong (2009) identified some characteristics elements of performance management to include agreement, measurement, and feedback. He also identified positive reinforcement and dialogue to be consequent follow up to feedback. He went further to say that performance management is concerned with measuring outcomes in the shape of delivered performance compared with expectations expressed as objectives.

Nature of performance measurement in HCM

Performance refers to output results and their outcomes obtained from processes, products and services that permit evaluation and comparisons relative to goals, standards, past results, and other organizations. It can be expressed in financial and non-financial terms, (BPIR, 2011). It also defined measurement as the numerical information that quantifies input, output, and performance dimensions of processes, products, services and the overall organization (outcomes). Performance measures might be simple (derived from one
measurement) or composite. According to BPIR (ibid), performance measurement is one of the cornerstones of business excellence. Business excellence models encourage the use of performance measure but lay more emphasis on the design of performance measurement systems to ensure that measures are aligned to strategy, and that the system is working effectively in monitoring, communicating and driving performance.

Measurement, according to Armstrong (2009) is an important concept in performance management which forms the basis for providing and generating feedback, identifying where things are going well in order to provide the foundations for building further success, indicating where things are not going so well, so that corrective action can be taking. Employees are usually considered the most valuable assets in any organization, but most of these organizations cannot evaluate the contribution made by HR to overall performance of the entire organization. Explaining the most likely reason for this, Becker, Huselid, and Ulrich (2007) posited that it is most probably because the influence of HC, in its broad sense, is difficult to assess, since its concrete, measurable contributions do not appear to be critical for the deployment of strategy.

Measurement provides an organization with information on the status of any performance. It represents a feedback mechanism, indicating what’s working well and what isn’t (Muhammad, 2009). For him measurement seeks to provide information on the effectiveness and efficiency of an organization’s HR management system in comparison to the overall organizational performance. Measuring performance is relatively easier when dealing with quantifiable target, for example, sales, and more difficult in the case of knowledge workers, for example scientist, (Armstrong, ibid). This difficulty is solved by making a distinction between the two forms of result, output and outcome. An output can be measured in reference to what have been achieved in comparison to what were expected, outcome can be expressed in qualitative terms as a standard or level of competency to be attained.

Human capital is the productive efforts of an organization’s workforce (Becker etal, 2002). In line with Armstrong (2009) the authors also developed three steps for managing human capital as a strategic asset. The steps are the right perspective, the right HR system and right performance measurement system. Becker et al (ibid) maintained that measures designed to reflect human capital performance should focus on how well the HR system generates the employee performance behaviours required to drive the firm’s key business outcomes.

Factors to be measured in HCM

Due to the number of functions that the average HR department serves, it is not possible to measure everything that they do (Heathfield, 2009). As such in choosing what to measure, a business needs assessment in the organization will inform the HR manager about what the employees, colleagues and executives believe are important measure for HR. The alternative, according to Heathfield (ibid), is to look at what processes are critical for the organization’s success. The third option is to determine which HR processes cost the organization the most money. The fourth consideration is to determine which HR measures will help the organization most successfully develop the skills and contribution of its employees.

From these considerations, a workable HR score card or key performance indicators (KPI) are developed. Based on this, base measures can be established for each of the process that the organization decides to measure. Some of the processes that an organization may choose for measurement may include, cost per hire, time per hire, employee turnover rate, employee turnover cost, preventable turnover, percentage of performance development plans or appraisals, cost of training and development activities with respect to company goal attainment, employee satisfaction, length of employment and components of the compensation system such as cost of benefit per employee. These processes for measurement
are expressed in the following table.

Table 1: HR effective measures

<table>
<thead>
<tr>
<th>HR performance “Employee” turnover metrics</th>
<th>HR performance : “Recruiting” metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per hire</td>
<td>Vacant period</td>
</tr>
<tr>
<td>Turnover cost</td>
<td>New hires performance appraisal</td>
</tr>
<tr>
<td>Turnover rate</td>
<td>Hiring manager satisfaction</td>
</tr>
<tr>
<td>Time to fill</td>
<td>Turnover rates of new hires</td>
</tr>
<tr>
<td>Length of employment</td>
<td>Financial impact of bad hire</td>
</tr>
<tr>
<td>“Retention” metrics</td>
<td>Training and development metrics</td>
</tr>
<tr>
<td>Overall employee Turnover</td>
<td>Learning and growth opportunities</td>
</tr>
<tr>
<td>Preventable Turnover</td>
<td>On the job learning content</td>
</tr>
<tr>
<td>Diversity Turnover</td>
<td>Opportunities for new hires</td>
</tr>
<tr>
<td>Financial Impact</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Muhammad (2009)

The information contained in the table focuses on the three components which most measurement system strive to address, that is, impact, effectiveness and efficiency. To measure impact, questions are asked on the relationship between the changes in the quality of employees and the competitive success of the organization (Boudreau and Ramstad, 2002). The authors also explained that measures that examine effectiveness looks at the relationship between HR practices and the quality of the employees.

It addresses the question of how HR programs affect capability of the employees, opportunities offered to the employees for contribution and motivation of the employees so as to be willing to contribute. Also Muhammed (ibid) explained that a focus on effectiveness is on whether the HR programmes and practices have the intended effect on the people or talent pool toward which they are directed. On efficiency, measures address the level and quality of HR practices produced by employees from the resources that were spent in the organization. It looks at how well the H.R function performs its basic administration tasks.

Methods of measurement in HCM

According to Becker, Huslid and Ulrich (2007), an appropriate measurement system has to be balanced and incorporate action indicators (R&D, customer satisfaction, strategic guidance for employees) and report indicators (e.g. financial data). The authors went further to say that the process of turning HR into a strategic advantage for the company can be illustrated via a HR performance chart. The creation of performance chart specific to HR is the central tool allowing HR’s key contributing factors to be identified and their impact on results to be measured. The two purposes served by HR performance chart include allowing HR to be managed as a strategic advantage and demonstrating the contribution made by HR to the company’s financial performance.

Becker et al (2007), identified four elements involved in HR performance chart which consists of; HR deliverables which are HR actions that convert human capital into a strategic advantage (i.e. value creation within the company); High-performance work system (HPWS) which is made up of all HR practices aimed at maximizing employee performance; Alignment which merges HR’s external alignment with corporate strategy to optimize HR’s strategic deliverables; Efficiency which is measured not only in terms of cost reduction, but also in terms of strategic effectiveness, reflecting genuine value creation. HPWS and alignment are action indicators, whereas HR’s efficiency and deliverables are report indicators. The HR performance chart incorporates these four elements in order to reach a balance between the notion of cost control (resulting from efficiency) and that of value creation (resulting from HR deliverables, alignment and HPWS). Another key function of the HR performance chart is to assess how a
company’s current HR architecture differs from the ideal architecture using cost-benefit analysis techniques. These analyses complement the data derived from performance chart.

Apart from HR performance chart, HR score cards or dash boards is another measurement tool that can be used in HCM. Kaplan and Norton (1996) came up with the score card by proposing adding measures of customer (such as customer satisfaction, market share etc.), internal processes (such as cycle time, quality and cost), and learning and growth (systems, organization procedures and people that contribute to competitive advantage) to traditional financial measures. The score cards include measures that reflect the alignment and arrangement of measures into the four perspectives of Becker et al. (2007).

Sink and Tuttle (1989) identified seven criteria for measuring performance in organizations. The criteria include efficiency; inputs: effectiveness (outcomes); productivity (outputs/inputs); profitability/budget-ability; quality; innovation and quality of work life. The authors linked the measurement of organizational performance to the strategic planning process.

Another method of measuring performance is the performance improvement measurement methodology as propounded by U.S. Department of Energy (1994). The PIMM is a tool designed to measure organizational performance. It is structured to measure progress against defined near-term and long-term goals, to use customer inputs in setting those goals and to have an internal quality check. The PIMM identified three criteria for measurement, as against Sink and Tuttle seven criteria. The three criteria of measurement are objectives achievement, cost performance, and “technology risk” reduction.

Thor (1994) introduced another measurement framework called ‘family of measures’. This describes five measurement categories; profitability; productivity; external quality (customers field performance); internal quality (efficiency waste); and other quality (innovation, safety, organizational culture). According to the author, each unit in an organization should have some measures that are unique to it, aside from having a single, overall measure reflecting how the organization is performing.

The program logic model is another performance measure used in a collaborative setting in which program staff, partners, and customers create a model describing the course of action a program takes to achieve its vision and strategic goals, (Corbeil, 1992; Rush &Ogborne, 1991). According to the authors, the power of the program Logic Model is that it not only communicates the performance path, “what leads to what, but also communicates the key points at which progress should be assessed to enable program improvements.

Another method of measuring HR, according to Muhammad (2009) is the Saratoga Measurement Model. This model applied measurement and benchmarking methodology which incorporates both tangible and intangible aspects of people management, bridging the gap between HR inputs and processes, and business outcomes. Going further, the author posits that the model advocates treatment of human capital as any other organizational asset, that the model provides an avenue for human capital measurement and links and aligns HR strategies to the business strategies. The model focused on a number of areas which include HR programme effectiveness and HR delivery effectiveness allowing management of an organization the right interpretation of the work force productivity level, efficiency and effectiveness of process and system, the work force contribution to the unit costs and the output level. It also establishes an accountability framework for key personnel who incorporate three key workforce metrics namely, return on workforce investment, workforce productivity and unit costs.

Apart from the on-going Heathfield (ibid) identified some other general performance measurement approaches which include among others; Direct observations; Specific work result (tangible evidence that can be reviewed
without the employee being present); Reports and records, such as attendances, safety, inventory, financial records etc; Commendations or constructive or critical comments received about the employee’s work.

Challenges in performance measurement

BPIR (2011) identified problems associated with performance measurement approach as: dominant financial or other backward-looking indicators; failure to measure all the factors that create value; little account taken of assets creation and growth; and a concentration of immediate rather than long-term goals. The BPIR also noted that challenges faced while designing an effective performance measurement system may include the following; how to measure non-financial performance; what measures to choose and why; how to use them and what to do with the results; who should be responsible for using the results; and how and to whom, to communicate the results. Price (2011) stated that performance management arouses controversy pointing to their weaknesses in methodology and basic philosophy. Employees are often not satisfied with the methods of performance management systems and managers are frequently reluctant to engage in the process because of its confrontational nature.

Another grey area in performance management, is the use made of performance information especially in public sector (Moynihan and Pandey, 2010; Al-Raisi et al, 2010). Performance information requires both the supply-side approach that ensures that information is made available and demand-side approach that fosters norms consistent with information use. Human capital is an elusive concept. To think of the best way to measure it, one must bear in mind that measures are answers to questions, not ends in themselves (Becker, etal, 2002). To determine an appropriate measure depends on the issue that the organization is trying to address. For instance, an organization that wants to reduce cost will address the cost of human capital expressed in annual expenditure on training or cost per hire.

Measure of human capital is difficult because the units that human capital is likely to influence such as customer satisfaction, innovation and service delivery are at the mercy of other contextual factors (Hurst, 2009). He maintained that though it is relatively easy to collect information on workforce and certain prevalent practices, it is more difficult to develop credible and reliable measures and decide what the measures will provide. Hurst (ibid) concluded that more important than measurement itself is the communication of human capital information. This is based on the fact it is the systematic collection, analysis, and communication of information on the value of an organization’s human capital that is vital as it will to determine the design and implementation of the HR policies and practices needed to maximize the impact on business performance. However, to achieve efficiency and effectiveness, every organization must decide which specific measures are relevant to them bearing in mind the business needs of the organization, the processes that are critical for the organization’s success, the HR processes that cost the organization the most money and finally the HR measures that will help the organization most successfully develop the skills and contributions of its employees.

Conclusion

Performance measurement is fundamental to organizational improvement. The importance of performance measurement has increased with the realization that to be successful in the long run requires meeting (and therefore measuring performance against) all stake holders’ needs. The stakeholders include customers, consumers, employees, suppliers, local community and share-holders. While the importance of PM is difficult to quantify, it is evident that, in virtually all texts, research, and case studies on organizational improvement, that PM is a requirement for benchmarking and business excellence (BPIR, Ibid). Price (2011) argues that from the strategic perspective, the process of assessment is an exercise in management control. It is a method by which an enterprise can evaluate its employees and feedback the organizations views to them.
A proper performance measurement system, according to Becker, et al (2007) should focus on what creates value and makes it possible to justify decisions concerning resource allocation. For Boudreau and Ramstad (2002), measurement should go far beyond simply justifying HR practices, or making the HR function seem more businesslike, it should as matter of fact fulfill the promise of improving human capital decision throughout the organization, which was the ultimate goal of measurement in the first place.
References


