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# HR Metrics & Analytics

## MSB21T2001

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## Topics to be discussed

- **HRM AND STRATEGY REINFORCEMENT OF HR STRATEGY FACTORS WITH HR ANALYTICS**
- **HUMAN RESOURCE MANAGEMENT AS A PROCESS**

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## RECAP: SESSION 4

- Introduction to HRM functions
- HRM from normative perspectives-
- HRM models
- HRM theories
- Different school of thoughts
- History of different HRM Perspectives
  - Michigan School
  - Harvard School
  - Guest model (High commitment & Quality)
  - The normative model or perspective of HRM divides HRM into hard and soft types
  - The descriptive-functional model
  - The descriptive-behavioural approach
  - Total preventive maintenance (TPM) approach
  - HRM also from resource-based and behavioural perspectives
  - Configuration approaches to HRM
  - Universalistic approach
  - Contingency approach
  - Institutional theory
  - Dependency theory

## HRM AND STRATEGY

- Again when we examine HRM from the strategic perspective, we find that an HR strategy is the pattern of decisions concerning policies and practices associated with the HR system.
- Organizational HR system encompasses all functional areas and, hence, helps in framing organization-wide strategies.
- Today, embracing the competency-based SHRM approach, HR managers focus on developing human resources for sustainable competitive advantage.
- In managing human resources strategically, HR managers can make use of HR analytics. However, for deeper understanding, we need to have more clarity on SHRM.
- Miles and Snow (1995) defined SHRM as an HR system tailored to the demands of the business strategy. Wright and McMahan (1992) could see it as HR activities that enable organization to achieve its goals.

## HRM AND STRATEGY

- SHRM encompasses the social and economic contexts, establishes relationships between SHRM and business performances, develops the managerial style for new forms of organization and, finally, facilitates in building organizational capability through knowledge management practices.
- All these SHRM activities can become more effective when these are powered by HR analytics.
- SHRM is also seen from universalistic, contingency and configurational perspectives. The universalistic or best practices approach scouts for those policies or practices that contribute to organizational gains in general.
- Contingency and configurational perspectives believe that SHRM practices focus on achieving the strategic intents through shaping behaviours and outcomes.
- The contingency approach aligns organization-level strategic positions with specific choices and practices to achieve the intended results.
- Aligning organizational compensation systems with the strategies could reinforce this approach.



## HRM AND STRATEGY

- Configuration theorists, however, focus on more holistic approaches to examine how a pattern of several independent variables can influence organization-level strategies.
- This approach is based on the principles of equifinality (Doty et al., 1993), i.e., believing that organizational strategic intents can be achieved through different courses of actions.
- Configuration approaches to HRM strategy have been studied by different researchers -observed that the architecture is more important than specific practices.
- Deming's 14 points on quality management are certain recommended set of managerial practices to achieve quality and productivity in organizations.
- Whatever may be the approaches embraced by the organizations, HR analytics undoubtedly can play a crucial role, with data and information, so that HR managers can make their strategic choices as scientific as possible.

## HRM AND STRATEGY

- Universalistic approach: This approach scouts for those policies or practices that contribute to organizational gains in general.
- Contingency approach: This approach aligns organization-level strategic positions with specific choices and practices to achieve the intended results.
- Configuration approach: This approach focuses on more holistic approaches to examine how a pattern of several independent variables can influence organization-level strategies.
- Again while we examine the critical role of HR strategy, we observe the importance of employee behaviours for achieving the strategic intents. Researchers from a resource-based perspective suggest that human resources provides sustainable competitive advantage for an organization.
- This is because human resources is characteristically rare, inimitable and non-substitutable sources for achieving competitive advantage. Other resources do not have such characteristic feature.
- Human Capital Theory of Becker (1964) suggests strategic importance to human resources like other economic assets as knowledge, skills and abilities of the people has economic values.

## HRM AND STRATEGY

- This concept later developed the human resources accounting by Flamholtz and Lacey (1981) and others.
- The transaction cost theory of Williamson (1981) suggests that a strategic HR approach can ensure cost minimization, as this will enhance periodic monitoring and governance.
- The agency theory of Eisenhardt (1989) suggests that a strategic approach to human resources aligns agents' (employees) and principals' (employers) interests and thereby ensures streamlining of employment relations and systems within the organization.
- All the earlier discussed theories justify the alignment of human resources with an organization-wide strategy, and these can be grouped under rational choice theories of human resources.



## HRM AND STRATEGY

- These theories focus on constituency-based interest. This is because the strategic approach to human resources is not empirically proved as a contributor to organizational performance. More specifically, the institutional theory argues the need for strategic acceptance from stakeholders; the dependency theory, on the other hand, argues this will unduly enhance the level of influence over the organizations (from human resources) and thereby will defeat the purpose. Hence, there exists a need for balancing.
- Institutional theory: This theory argues the need for strategic acceptance from stakeholders.
- Dependency theory: This theory argues that strategic acceptance from stakeholders can unduly enhance the level of influence over organizations from human resources; hence, there exists the need for balancing.

# HRM AND STRATEGY

- Environmental , organizational, institutional and technological factors are potential influencers in a strategy.
- The relative importance of each such factor will depend on organizational characteristics.
- SHRM, therefore, requires formulation of HR objectives, strategies and policies.
- SHRM can be strengthened by HR analytics, as with the availability of data and information, organizations can make their best strategic choices to achieve the goals and objectives.

# HRM AND STRATEGY

- In this heading we will discuss how HR strategy factors can play a pivotal role in achieving organizational success. All HR strategy factors can be substantially influenced by HR analytics.

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## REINFORCEMENT OF HR STRATEGY FACTORS WITH HR ANALYTICS

### Recruitment and Selection

Strategically, an organization needs to determine whether it should outsource or recruit employees on direct pay-roll. If it is on direct pay-roll, whether it should be contractual or permanent. While recruiting, potential employees should be selected based on multi-skill attributes or specialization? There are other issues such as can the recruited employees be groomed for future leadership positions? Can they be developed, retained and considered in organizational talent pool, etc. All these strategic recruitment and selection decisions can be facilitated by HR analytics. HR managers can take strategic recruitment and selection decisions, leveraging data and information from the HR analytics solutions. In fact, HR analytics are largely used by the organizations across the globe for strategic recruitment and selection-related decision-making. Also, a large number of software vendors provide dedicated solutions for strategic recruitment and selection decision through their workforce analytics suites.



## REINFORCEMENT OF HR STRATEGY FACTORS WITH HR ANALYTICS

### Career Development

Career development, *per se*, is one of the critical strategic HRM functions. Integrating career development with talent management functions, organizations can enhance their strategic competence and can sustain and grow. Career mapping, succession planning, management development and organizational development (OD) initiatives are the important areas of activities covered under this area. Most of the HR analytics solutions are known as talent analytics applications.



## REINFORCEMENT OF HR STRATEGY FACTORS WITH HR ANALYTICS

### Performance Management

Performance management is essentially an employee development function. Hence, this can supplement talent management activities of the organization also. With systematic performance feedback, employees can self-assess their strengths and weaknesses, and accordingly can pace their self-development with organizational support. Organizations also can design effective employee development programmes, balancing employees' and organizational needs. Designing effective performance management systems for measuring the performance of employees is also a strategically relevant HR decision. Performance-management-related decision-making processes can be reinforced by HR analytics. Like workforce analytics, here also we have some available HR analytics solutions.

### Training and Development

Training and development functions are again another strategically relevant HR activity. HR analytics can facilitate training and development functions with relevant data and information developing in-house training, return on investment (ROI) models for evaluating training, training budgets, training transferability and so on.

## REINFORCEMENT OF HR STRATEGY FACTORS WITH HR ANALYTICS

### Compensation Designing

With suitable compensation and benefits programme, organizations can not only optimize the cost of compensation but also attract and retain talent. Strategic compensation designing requires organizations to benchmark with the peer group companies, and even with the best paying companies, so that organizations can remain competitive in the market. Issues such as compa-ratio (comparative ratio) to measure equity/inequity, compensable factor for decisions on pay design and so on require data and information, which can be made available through HR analytics solutions.

### Human Resource Planning (HRP)

HRP-related activities are also strategically relevant, as these can provide vital information on future manpower requirement with different set of competencies, assess the in-house availability of manpower and match the same with the future manpower requirements to understand the gap, predict the availability of a talent pool and so on. Some workforce analytics solutions can reinforce such decision-making processes, making data and information available.

## **REINFORCEMENT OF HR STRATEGY FACTORS** **WITH HR ANALYTICS**

- Apart from the earlier listed strategically relevant HR functions, other HR functions such as managing discipline and industrial relations, grievance handling, managing trade union activities and so on can also be facilitated by HR analytics.
- Today's HR managers require data-driven decision-making, as with the complexities of business, intuitive decision-making processes have become more risk-prone.
- Hence, without HR analytics, a strategic HR decision-making process may become futile.
- The HRM function today is, therefore, much more integrated and strategically aligned. The increased strategic importance of HRM means that HR managers must demonstrate how they can contribute to the goals and missions of an organization.
- Obviously for this reason, HRM functions today need to be measured and evaluated. All these once again legitimize the importance of HR analytics.

## HUMAN RESOURCE MANAGEMENT AS A PROCESS

- Tracing the process of development and growth of the world economy, we find that in 1990s, people or people-centric approaches in managing organizations have received the importance.
- For example, total quality management (TQM) practices to achieve organizational excellence throughout the 1990s focused on people-related issues as key drivers for organizational change and transformation.
- Subsequently, the six-sigma approach to achieve zero defects also laid emphasis on the people-centric approach.
- Looking at some of the excellence models, such as European Foundation of Quality Management (EFQM), Shingo Prize Model and Malcolm Baldrige Model, it is evident that people-centred issues have received the highest attention over technology and process.
- Obviously, such renewed focus on HRM made it necessary for us to focus on effective HRM practices with support of data and information.



## HUMAN RESOURCE MANAGEMENT AS A PROCESS

- The six-sigma approach suggests recreating an existing process to make it error free. At the six-sigma level, we need to perform at 99.999666 percent accuracy, i.e., natural occurrence of defects can only be 3.4 in one million jobs.
- The EFQM, Shingo Prize, Malcolm Baldrige and so also the Investors in People Models consider HRM as critical input to enhance business success. Some of the common HRM criteria considered by these models are



# HUMAN RESOURCE MANAGEMENT AS A PROCESS

- Planning, managing and improving the human resources.
- Identifying, developing and sustaining people's knowledge and competencies.
- Involving and empowering people.
- Thus, HRM inputs have a significant impact on the performance of an organization.
- Hence, to ensure HRM process is more effective, HR managers need to improve their decision-making process more and more, using HR analytics.

## HUMAN RESOURCE MANAGEMENT AS A SYSTEM

- A system is an entity that maintains, exists and functions as a whole, interacting with its parts. Therefore, the behaviour of any system depends on how its parts are interrelated.
- Parts are the elements or components but they have inter-connectivity. For example, Hay's performance evaluation system has several components.
- Sear's three C (compelling place to work, compelling place to shop and compelling place to invest) has 74 elements or parts to evaluate a particular employee on how far he/she is meeting the three C requirements.
- The ISO 9000 quality system has several elements or parts which together make one quality assurance system. An individual element of ISO 9000 quality system hardly has any significance, unless it integrates with the total system.
- Therefore, the properties of a system are the properties of the whole.

## HUMAN RESOURCE MANAGEMENT AS A PROCESS

- When we consider HRM has a system, different elements or components of HRM such as procurement (HRP, recruitment and selection function), maintenance (compensation, discipline and industrial relations) and development (performance appraisal and training and development) act as parts.
- Checkland (1984) used systems engineering principles while categorizing an HRM system into hard and soft categories.
- The hard system approach deliberates on organizational requirements and identifies ways to meet such requirements.
- Thus, this approach using well-defined systems formulates goals, identifies problems, ascertains and evaluates options, and finally selects and implements a rational plan to achieve the desired outcome.
- For these reasons, hard systems are considered as a task-focused approach.

## HUMAN RESOURCE MANAGEMENT AS A PROCESS

- The soft systems approach, on the other hand, focuses on understanding what the purported HR system should do and how it should behave.
- More logically, it can be considered as an approach to refer to a problem situation with the intention of developing a conceptual model that defines how a system should operate.

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Thank You

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