



How do we measure HR's effectiveness?

There is ample evidence to show that people are an organisation's most valuable asset, and it is the role of HR to manage and develop that asset. But how do you measure HR's effectiveness in that role? How can we tell when HR is adding to an organisation's bottom line?

One of the potential obstacles to measurement of the effectiveness of HR is that the asset HR manages (human capital) is an intangible asset (unlike buildings, equipment, and so on). Yet, increasingly, it is in the intangible assets of organisations that the value of those organisations resides.

James Chestnut, chief financial officer of Coca-Cola, observed after transferring the bulk of Coke's tangible assets to their bottlers that the company's \$150 billion market value derived largely from its brand and management systems.
("Real Assets, Unreal Reporting", Fortune, 1998)

But the value of the intangible human asset is certainly possible and very feasible.

Nexus has helped many organisation's implement a HR function and to implement HR Best Practice (eg., best practice in performance appraisal, OH&S, reward and recognition, selection, work design, and so on). Best practice certainly positively impacts on the bottom line. But improving organisational performance through the organisation's people must involve more than best practice: it requires the adoption of Strategic HR (see the article entitled "What is Strategic HR?" in our library and further information is available elsewhere on our web site). Strategic HR involves the alignment of the HR function with the core value proposition (the strategic focus) of the organisation.

We can measure HR in two main ways: (1) in terms of "doables", and (2) in terms of "deliverables". Strategic HR requires not only the former but also the latter.

Measurement of HR in terms of doables involves measurement of HR competencies, HR practices, and HR systems. For example, to measure HR in terms of competencies may involve measurement with respect to such matters as administrative efficiency (eg., response time for benefit information); measurement of employee advocacy (eg., retention rates); measurement in terms of strategy execution (eg., workforce understanding of the business's strategy); and measurement of cultural change competency (eg., employee knowledge of the status of change efforts).

But measurement where it really matters is in the deliverables. HR must deliver the appropriate workforce: workforce success is the ultimate aim of any HR system. And workforce success occurs as the workforce positively impacts on the key drivers of organisational performance.

In the strategic model we follow, the HR deliverables are:

- workforce mindset
- workforce competencies
- workforce behaviours

One of the most effective ways of measuring these deliverables is through a Nexus Climate Survey: this is a valid and reliable way of measuring these deliverables. In addition with our HRD Online system and its built-in verification feature we can quickly assess workplace relevant skills and knowledge. Further information would come from performance appraisals conducted in accordance with the organisation's strategic focus.