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INTEGRATING HR MEASUREMENTS INTO BUSINESS PERFORMANCE: THE ROLE OF HR IN ENHANCING BUSINESS GROWTH

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ABSTRACT: *Integrating HR into business performance measurement system involves identifying the areas of HR deliverables and its linkage to the organization's strategic plan. The HR deliverables which supports the implementation of the firm's strategy must be clearly outlined and communicated to all staff to serve as the blue print for executing the firm's strategy. HR success drivers are the core people related competencies and capabilities or assets such as employee productivity or employee satisfaction which are considered to be so important and unique to a particular firm for the attainment of its objectives. The study examines how these HR performance drivers serve as a catalyst for achieving organizational objectives .Through interviews and the review of empirical data, the study found that human resource managers tend to focus on HR performance drivers such as employee satisfaction, employee turnover, absenteeism in attempting to demonstrate their strategic influence as well as the difficulty in measuring HR's actual contribution to overall mission and strategy. It recommends the need for holistic business performance measurement indicators that promote value addition and places premium on HR as a function within the organization.*

KEYWORDS: Business Performance, Measurement, HR Deliverables.

INTRODUCTION

HR's role in driving organizational performance is critical when key success factors for measuring HR performance is integrated into the strategy implementation of the firm and the linkage is clearly measurable and quantifiable to the company's success. Measuring HR's effect on business performance enables the firm to quantify its overall HR effect on key performance indicators like productivity, customer service, employee morale, employee satisfaction and motivation, growth and profitability and long term survival.

Over the years the HR function has experienced a dramatic shift from its original emphasis of primarily providing administrative and professional HR functions to playing a part in the firms overall strategy and contributing to bottom line results as a way of justifying its role and dominance in the corporate environment.

The HR function use to concentrate on the level of the individual employee and individual job with the idea that an improvement in individual employee performance would automatically enhance the organisations performance. This did little to extend the range of HR's influence and to advance the HR's role as a source of competitive advantage. This mindset of the HR practitioners didn't encourage HR managers to think of the different ways in which HR was driving performance of their firms.

An Agricultural Director interviewed believes, HR executives in the work place normally talk abstractly and conceptually about employee morale, turnover, and commitment without providing hard facts and figures like the Finance Director who normally provideskey financial

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indicators, including: inventory, margins, product turnover, revenue, expenses, debt, and other financial indicators of success.

HR evolution has ensured that HR systems have been recognized and aligned with the company's larger strategy implementation plans and the quality of the fit assessed.HR needs to replace with evidence, ideas with key facts, and perspectives with assessments.

The HR function such as recruitment,compensation,training and development, performance appraisal,HR administrative role all contribute to the achievement of individual and organizational performance but until HR managers can ensure that their strategic contribution is convincing in terms of developing measurement systems which impacts positively on the firms performance ,HR as a function will continue to be administrative with little contribution to long term strategy implementation and execution of decisions .In most of the firms sampled HR continue to play the role of administrators or secretaries at strategic board meetings due to their inability to appreciate long term decisions of the company.

HR function serves as a strategic partner and its existence has implications for their very survival and sustainability of the firm. Most firms in Ghana have outsourced most of their HR functions while firms are still unsure of the relevance of HR in adding up to financial ratios in the firm due to the absence of a comprehensive system for measuring HR contribution to business performance.

A chief executive Officer of a company was asked of his opinion on the HR function and its contribution to the financials of the company in terms of shareholder funds ,he said' my head of HR is very skilled and effective but this is about profitability and not keeping personnel records' ,he clearly didn't see how the functions of HR such as innovative recruitment processes, performance based pay , employee engagements and welfare programs were adding to the bottom line results of increased shareholder value and high share prices the company was experiencing. He values the HR function but until HR proves that it adds to value creation of firms and its existence is relevant in the firm its most likely to face extinction especially in times of financial down turn.

HR services that would previously have been regarded as a business own responsibility to manage are routinely being purchased from external suppliers as reiterated by TomPeters (1998) 'prove it can't be subcontracted' and a formal policy of a major global corporation quoted by Wheatley (1994) reads,'Manufacture only those items -and internally source only those support service that directly contribute to, or help to maintain, our competitive advantage'.

The IPD(1998) stated that 'the biggest single cause in the increase of outsourcing has been the concept of the core organization which focuses it in-house expertise on its primary function and purchases any necessary support from a range of sources in its periphery'

Although outsourcing has great advantages in terms of ensuring the organization focuses its in-house expertise on its primary function, obtaining expertise and costsaving, the HR function when its well positioned can engage better with such outsourcing companies to ensure that services rendered are in line with the organisations strategic objectives as surveys have shown that a very large proportion of firms that have outsourced are not satisfied with the results. A case in point is when some staff of La Palm Beach Hotel embarked on a sit down strike because of their displeasure with the payroll services outsourced to an external HR company.

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The HR function must identify and meet the wants and needs of its internal customers such as employees, top management and line managers by seeking to understand the needs of the business and its critical success factors such as where the business is going, how it intends to get there, and what are the things that are going to make the difference between success and failure. Asa line manager at a multinational agro processing company puts it ‘the HRmanager must identify the people issues that are important in terms of recruitment, motivation, reward, training and development in order to effectively direct and provide advice on strategic issues during executive board meetings’ this emphasis the perceived roles most line managers andemployees expect the HR function to perform. This is possible with the establishment of HR measurement systems which are holisticand shows its contributions made to key performance drivers in the firm.

This article focuses on howHR canintegrate business measurements with business performance and adds value to business decisions by demonstrating the impact HR activitiesand practices on business results. Incorporating and entrenching of HRissues into business measures and carrying out HR assessments on processes, practices, functions.

LITERATURE REVIEW

Organizations develop their own approach to HR measurement system for evaluating the effectiveness of the HR function .Guest and Peccei (1994) suggest : the most sensible and the most important indicator of HRM effectiveness will be the judgments of key stakeholders the political ,stakeholder,perpective on effectiveness in organization acknowledges that it is the interpretation placed on quantified results and the attributions of credit and blame that are derived from them that matter most in judging effectiveness .In otherwords ,at the end of the day, it is always the qualitative interpretation by those in positions of power that matters most. But they recognized ‘the desirability of also developing clearly specified goals and quantitative indicators, together with financial criteria’.

HR Measurement Systems

There are several HR measurement systems or criteria which organisations develop to meet their needs .These are Qualitative measures or criteria as well as quantitative criteria

Armstrong and Long(1994) established from discussions with chief executives and other directors that the most popular basis for qualifying HR practioners was their judgments related to factors such as understanding of the organization; effectiveness of contributions to top management team decision making on corporate./business issue; the extent to which innovatory, realistic and persuasive proposals were made on HR strategies ,policies and programmes;the capacity to deliver as promised; the quality of the advice they provide, assessed mainly in subjective terms; the ability to build and maintain stable and cooperative relationships with trade unions; the ability to handle difficult situations such as downsizing; ,in very general terms the contribution they make to developing the corporate culture, their influence on management style and their abilities as facilitators and managers of change; their overall credibility and ability to work as a full member of the top management team.

According to Tsui and Gomez-Mejia (1998) methods of evaluation can be distinguished between process criteria -how well things are done and output criteria=the impact made by the process on organizational and operational performance i.e. the effectiveness of the end result.

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In effect they looked at determining the extent to which HR policies, programmes and practices and the advice and support provided by the HR function enable line managers to achieve business objectives and meet operational requirements.

Organisational Quantitative Measures

These include added value per employee, profit per employee, sales value per employee, cost per employee, added value per Ghana cedi of employment costs. As pointed out by Tyson (1995) the business objectives become sold as part of the personnel policies. The discipline of sitting down to look at training objectives for example in terms of sales value or added value brings out what can be assessed and raises the useful question of why we are proposing this programme, if we are unable to relate it to the business.

Employee Behaviour Measures

These include employee retention and turnover rates, absenteeismrate, ratio of suggestions received from number of employees, numberof usable proposals from quality circles or improvement groups, cost savings arising from suggestions and or quality circle recommendations, frequency/severity rate of accidents, ratio of grievances to number of employees, time lost through disputes, number of references to industrial tribunals on unfair dismissals ,equal opportunity, equal pay, harassment, racial discrimination issues etc.

HR Efficiency Measures

Armstrong (1992) the types of performance measures which can be used to evaluate the HR function are Money measures which include maximizing income, minimizing expenditures and improving rates of return; Time measures which express performance against work timetables, the amount of backlog and speed of activity or response;Measures of effect ensures attainment of a standard ,changes in behavior ,physical completion of the work and the level of take up of a service; Reaction indicates how others judge the function or its members and is therefore a less objective measure. Reaction can be measured by peer assessments, performance ratings by internal or external clients or customers or the analysis of comments and complaints.

HR Business Performance Measurement And Strategy Implementation

Kaplan and Norton (1996) postulated that 'what gets measured gets managed and what gets managed gets accomplished'. Measuring organisational processes provide competitive advantage and developing measurement competency is equally important because it can add value to the firm. Few HR managers have competencies in financial measurements and the researcher as a qualified accountant realizes that the inability for most HR managers to have competencies in finance is a barrier in providing advice on bottom line results.

Kaplan and Norton(1996) pioneered the balance scorecard approach of moving beyond mere financial measurement and indicated that a firm must specify not only the financial elements of its value chain but also the customer, business process and the learning and growth elements and it must develop tangible ways to assess each.

The methods of measuring HR effectiveness rely on collecting and analyzing internal data and opinions but it is important to benchmark what the HR function is doing within the organization with what is happening elsewhere. This involve gaining information on best practice which

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even though may not be transferable in total to the organisation could at least provide information on areas of improvement.

HR performance drivers are 'core people related capabilities or assets, such as employee productivity or employee satisfaction. There are no single correct set of performance drivers, each firm custom identifies its own set based on its unique characteristics and the requirements of its strategy implementation process. Enablers reinforce performance drivers'

(Kaplan and Norton, 1996)

Aligning HR Strategy with Business Strategy

Strategic Human Resource Management (SHRM) is defined as "the pattern of planned human resource deployments and activities intended to enable the organization to achieve its goals" (Wright, P.M., McMahna, G.C., 1992) and "the undertaking of all those activities affecting the behaviour of individuals in their efforts to formulate and implement the strategic needs of business" (Schuler, R.S., 1992)

Strategic integration involves linking specific aspect of human resource management policies and activities to explicit business strategies which collectively will form the building blocks of overall HR strategy .No two organisations will face the same issues ,and each will address it in its own way.

This integrating process will aim at matching available human resources to the unique requirements of the organization. It will also establish the competencies required at all levels in the organization to ensure that business strategies are implemented and will then take the human resource development initiatives required to provide those competencies and will provide the levers required to manage strategic change.

RESEARCH METHODOLOGY

The objective of the research is to examine how HR measurements can be integrated into business performance.

Research Design

This research is descriptive by nature since the researcher aims to assess the situation as a prerequisite to making inferences and generalizations. The study made use of the mixed method (qualitative and quantitative).

Target Population

The target population of the study was HR professionals/Managers working within the agricultural business company, Savings and Loans company,Information,Communication and Technology company and Banking industry.

Data Collection Instrument

Questionnaire and interviews were used to collect data as well as review of secondary data. The questionnaires were designed to get information on HR practices, systems and deliverables from the respondents.

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Data Analysis

SPSS was used to process the data collected and calculations of percentages were used in analyzing data and interpretation.

Sample Size

A sample of four companies was chosen which is representative of the population.

Sampling

Four respondents were selected for this study, since descriptive research required detailed analysis of the study area hence a small number of samples were used.

Sampling Technique

Nonprobability sampling method was used. Stratified sampling was applied where the population was divided into separate strata on a characteristics assumed to be closely associated with the variables under study. The company selected was chosen through simple random sampling of the companies in the each stratum.

Stratification produces a lower standard error because the total variation for any particular variable in a population may be regarded as composed of variation between strata and variation with strata,(Osula,1993)

Sources of Data

Primary data and secondary sources of data were used for the research. Throughreviews of organizationalpolicies, systems and practicesinformation was gathered to authenticate the research whileprimary data was collected through questionnaire and interviews and observation around thematic areas relevant to the research.

Data Analysis Technique

The study will make use of the Moderated Regression Analysis (MRA). Hence, it is a special application of multiple linear regression that will be used for the purpose of analysing and determining whether the moderating variables will strengthen or weaken the relationship between independent variables and dependent variable. The model is specified bellow;

$$\boldsymbol{BPRF} = \beta_O + \beta_1 AS_t + \beta_2 NFM_t + \beta_3 FM_t + \beta_4 SF_t + \varepsilon_t$$

Where

$\mathrm{BPRF} = \mathrm{Business\ Performance}$

$\beta_O = \mathrm{constant\ ofthe\ model}$

$\beta_1 + \beta_2 + \beta_3 = \mathrm{coefficient\ of\ the\ model}$

$\mathrm{AS} = \mathrm{Accountability\ to\ stakeholders}\ .$

$\mathrm{NFM} = \mathrm{Non} - \mathrm{Financial\ Measures}$

$\mathrm{FM} = \mathrm{Financial\ Measures}$

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SF = Strategic Focus

ε_t = stocastic variable or error term

DISCUSSION OF FINDINGS

Regression Analysis of the Relationship between Business performance and HR measurements

This section discusses the results from the regression analyses in order to determine the relationship between business performance and HR measurement.

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Standard Error	Change Statistics				
					F change	df 1	df 2	Sig	Sig F
1	0.686	0.750	0.865	0.059	0.585	1	4	.000	.001

a. Predictor: (Constant), accountability to stakeholders, non financial measures, financial measures and strategic focus.

b. Dependent Variable: Business performance

Source: Researchers field data, 2017

Table 4.2: Coefficient Analysis of the Study

Model	Unstandardized Coefficient		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
Constant	0.143	1.545		7.395	0.000
AS	0.251	0.031	.915	0.315	0.000
NFM	0.480	0.012	0.114	0.126	0.000
FM	0.085	0.043	0.428	0.213	0.004
SF	0.127	0.012	0.522	0.185	0.001

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a. Dependent Variable: Business performance

b. *5% Significant Level*

Source: Researchers field data, 2017

The established regression equation was;

a. $\mathbf{Y = 0.251\, X_1 + 0.480 X_2\ 0.085 X_3 + 0.127 X_4 + e}$

The result in table 4.1 above depicts regression model analysis used to determine the relationship between business performance and HR measurements which are accountability to stakeholders; non financial measures such as time, money, cost/benefit analysis and HR audits, HR focus on strategy and operational issues, providing HR support to line operations and significantly contribute to the company's success through value addition;. Financial measures such as use of financial ratios to measure HR performance such as total employees to HR professionals, ratio of dollars spent on HR function to total sales, general and administrative cost, achievement of performance indicators against plan, attainment of HR annual budgets against projected activities.

The study looked at the significant value of the F test which stood at 0.001 to see if the overall model is significant or not. The study shows p-value of zeros (.000) which made the model significant at 95 percent confidence level. This implies that the variable in the model is jointly significant in explaining the variations in the business performance.

The study revealed an Adjusted R-squared of 0.865 or 86.5% in the regression model. It tells us the fraction of the variation in the dependent variable that is accounted for by the changes in the independent variable. This was inferred that the independent variable accounted for 86.5% changes in the business performance .The remaining 13.5% was accounted for by other factors such as level of skills and influence of HR manager and the credibility of the HR measurement criteria especially when it conflicts with the financial indicators. The study beta coefficient in table 4.8 indicated the beta value for the business performance as (B = .251 and also indicating a significance level of .000). This revealed that the model is significant at $p<0.05$ and inferred that a unit increase in the accountability to stakeholders led to an increase in business performance by 0.251 units and verse versa. This shows that the organization adequately improved its business performance through increased shareholder value when it is more accountable to its stakeholders such as shareholders, managers, employees etc

The study beta coefficient in table 4.2 indicated the beta value for the business performance as (B = .480 and also indicating a significance level of .000). This revealed that the model is significant at $p<0.05$ and inferred that a unit increase in the non financial measures led to an increase in business performance by 0.480 units and verse versa. This shows that the organization adequately improved its business performance through the use of non financial measures and was able to adequately affect productivity and success of the business.

The study beta coefficient in table 4.2 indicated the beta value for the business performance as (B = .085 and also indicating a significance level of .004). This revealed that the model is significant at $p<0.05$ and inferred that a unit increase in the non financial measures led to an increase in business performance by 0.085 units and verse versa. This shows that the organization improved its business performance through the use of financial measures and was able to impact on productivity and success of the business.

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The study beta coefficient in table 4.2 indicated the beta value for the business performance as (B = .127 and also indicating a significance level of .001). This revealed that the model is significant at $p<0.05$ and inferred that a unit increase in the strategic focus of HR managers led to an increase in business performance by 0.127 units and verse versa. This shows that the organization improved its business performance when HR managers focus more effort on providing strategic direction of their departments and the organization as a whole they made and impact on productivity, profitability and business success.

CONCLUSIONS AND RECOMMENDATIONS

The research work sampled four companies from different backgrounds in agricultural business, banking, small and medium size company and Information, communication and Technology Company.

The study revealed that there was a significant positive relationship between the HR measurements (accountability to stakeholders; non - financial measures such as time ,money ,cost/benefit analysis and HR audits, HR focus on strategy and operational issues, providing HR support to line operations and significantly contribute to the company's success through value addition ; Financial measures such as use of financial ratios to measure HR performance such as total employees to HR professionals, ratio of dollars spent on HR function to total sales, general and administrative cost, achievement of performance indicators against plan, attainment of HR annual budgets against projected activities) and business performance .

From the analysis non financial measures greatly contributed to business performance as compared to the financial measures, strategic focus and accountability to stakeholders.

Traditionally, HR efficiency was measured by the internal costs it saved through helping line operations to save cost and perform efficiently, this however was not considered as substantial on shareholder funds and profitability of the company.

By reviewing data and interviews with HR managers on HR contribution to business results through the various business performance measurements employed by the various firms, it is evidently clear how HR practices impact on business success through improvement in productivity, people and processes .

The seemingly fear of someHR professionals of quantitative measures stem from the lack of knowledge and experience with such measures in the assessment of HR work which meant that most of the measures used by HR practitioners were qualitative measures only,HR business performance measurement although could be complex, difficult, and at times confusing, when HR has a clear understanding of business goals then they can turn this into measureable HR practices by focusing on HR deliverables which create value for the company.

HR audits seems to be gaining popularity among companies sampled although it remains the preserve of the auditing function undertaken by the internal audit department or by external auditors in case of the bank which is required to satisfy Bank of Ghana regulation .In assessing the compliance of internal controls applicable to the HR function, it is an emerging area which HR professionals can undertake and have ownership of the process in order to help it assessing its contributions to organizational success.

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HR and practitioners mustmeasure their impact and develop tools integrated to business goals and takes steps to ensure they are a force to reckon with by linking their performance with business results to ensure HR does not continue to be seen as part of administrative functions rather than contributing to strategy and business success.

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