MSc in Strategic Management and Digital Marketing.

MGT 5203 People Performance Metrics.

Boudreau and Ramstad (2004) make a formal claim that improving the use of HR analytics, and in particular Utility Analysis, will support the development of strategic HR. They argue explicitly that "The evolution of HR and HR measurement will require a sound "decision science" for human capital, that truly informs and enhances decisions about human resources wherever they are made" (p. 3). Cascio (2005) reiterates this position.

However, in a previous paper, Cascio (1996) identifies three major pitfalls for the adoption of UA. The first is that from an applied research perspective there is often a failure to focus on critical, value adding activities that managers regard as relevant and important to their own success; the second is the inability to communicate the results of utility analyses in a persuasive, credible manner to operating executives; and thirdly technical problems, both theoretical and operational.

Taking an objective approach to, and illustrating specific examples about, performance metrics in general, and UA in particular, critically evaluate and debate these standpoints.

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For years human resources lacked respect and credibility by top management in organisations since they believed that human resource management did not drive economic performance and market value for their organisation. They had the presumption that human resource management professionals could only provide them with utility estimates of their proposal's return on investment, this provided little value to an organisations' key decision makers and was not considered to be a worthy project on which they should spend their organisation's limited resources on. Management were only interested in maximising return on investment and thus human resource programmes were often evaluated against the utility of alternative investments such as capital improvements, financial assets and other cash flow generating activities. (Cascio,1989) Therefore, a change in how the development of organizational talent was viewed was needed, that from being an expense of conducting business to an investment to increase productive value and stock value for the organisation. Human resource managers had to resort in making proposals more attractive to decision makers by drawing up the appropriate human resources measures and aligning them with the organisation's strategy.

Whilst top managers in an organisation focused entirely on creating value and gaining competitive advantage through innovation, quality improvement and cost reduction, human resource managers focused in aligning all the members of the organisation to perform synergistically towards achieving the organisations corporate objectives and fulfil the stipulated strategy. Human resources managers were under constant pressure to concentrate their efforts and expertise towards creating critical, value adding activities of which performance and incentives had to be measured and identify the real potential impact they had on the organisation's performance.

Human resource analytics and strategic human resource management are essential components to successful organisation strategy execution and thus utility analysis was more than ever of paramount importance to top managers since the behaviour of the organisations members directly influence the organisational performance and decisions taken. Organizational talent drives organisation success and often than not when it comes to measuring and evaluating the implications of utility analysis there are gaps between the results and management expectations, this is due to the fact that management requires a decision framework that truly represents and provides sound data analysis and reporting. This has been an issue to many utility analysis researchers and even top human resources managers as they could see that utility analysis could not attract strategic managers to utilise it because it suffered from this issue together with other set of problems.

As Cascio mentioned in 1996, utility analysis suffered from various pitfalls that made it unattractive for managers to adopt it and set it as a standard procedure in the assessment of the impact, effectiveness and efficiency human resources programmes and policies. He outlined that a better analysis of what the manager's strategic goals were was needed, those goals that he proposed should be considered to be relevant and important to the manager's performance optimisation, in this way the human resource strategy is aligned with the strategy of the organisation. Another issue which was expressed by Cascio was the fact that the researchers backing utility analysis were not competent in communicating effectively with their customers which resulted in many managers being sceptical about the utility estimates that the human resources practitioners were advocating. This led to a credibility dilemma in which managers were not perceiving human resource managers as supportive of their performance. The other point that Cascio mentioned was that a technical modification was required to the standard deviation as the percentage of the mean and an objective estimate of the average value of the

employee output. This resulted in a more accurate estimate of standard deviation and hence utility. (Judiesch, Schmidt and Mount 1992)

A study which was conducted by the American Management Association outlined that utility analysis failed to convince management to be an analysis tool that effectively aligned to business strategy and value adding activities. Therefore, a scenario where an improved utility analysis as a result of having a more effective alignment with strategy was when a division manager was being reviewed on the performance of productivity, then human resource managers would have paid attention to those targets their customer would be looking on maximising and thus concentrate their efforts in boosting productivity by implementing a more production oriented selection process and training programmes.

A scenario where the adjustment of net utility effects through the use objective evidence resulted in accurate estimations was in times of downsizing where an analysis by Mabon and Westling showed that when taking different scenarios of downsizing it was possible to calculate a more accurate measure estimates of SDy and also an array of different types of downsizing measures. Thus, net utility after downsizing depended on the type of downsizing strategy adopted by the decision makers and other corelated variables that could affect the net utility estimate such as age, performance, and salary.

Cascio agreed with Boudreau's argument that utility analysts had to shift their focus from how to develop the best human resources measurement to how should they drive change through human resource measurement systems. This means that organisations should be learning systems and training and development must be a component of the organisations strategy plan and not merely the only measure managers tend to understand – dollars. (Cascio,1989) Therefore appropriate selection systems and human resource practices which could be measured aspects beyond economic viability was necessary. Therefore, overcoming the

shortcomings of utility analysis could be done by developing a decision framework that works for the organisation by revolving around the needs of the top management and the organisational strategy. It is noted that human resource managers often demand accurate human resource measurements economically and timely which often comes at the cost of not producing the strategic impact human resource managers are capable of and limiting their ability of taking measurement systems to the next level.

The LAMP framework aids human resource managers in determining appropriate values for a measurement system in a way to gear it towards driving strategic change and organisational effectiveness, as mentioned earlier, a shift from a 'how processes are done' system to 'how processes should be done' system. This unlocks the potential of directing management to focus on information that truly informs and enhances decisions about human resources. (Boudreau and Ramstad, 2004) Increased decision support in human resources measurement system can be obtained by focusing beyond measurement, other critical components outlined by the LAMP model are 'Logic', 'Analysis' and 'Process'.

A 'logical' approach towards human resource measurement will require human resource practitioners to ask questions related to; how certain policies will impact the performance of the organisation; how human resource programmes could create aligned employee behaviour through capability, opportunity and motivation; and how efficient practices and policies are at returning results for the investment. Therefore, the more precise the logic put behind the questions being asked by practitioners the more likely it is that they are of precision and of credibility which is essential when communicating the results to other key decision makers.

'Analysis' is another core component for better human resource measurement capabilities. Analytics extends to the logic required behind asking the appropriate questions by drawing focus on the skills required when conducting analysis of the vast amount of structured and

unstructured data that nowadays organisations are exponentially collating. Analytics is the process of transforming meaningless data into meaningful information, information that must be of rigor and relevance to the needs of the decision makers and therefore the human resource practitioners are responsible of collating this information and ensure that the insights are of value.

'Measures' has been the most utilised aspect in strategic human resource management. Practitioners are always demanded to focus in quantifying the timeliness, completeness, reliability, and consistency of human capital activities that at times offer limited insight in comparison to the bigger context of human resource metrics. Excessive focus on the measurement may lead to the practitioners into developing measures that are out of context and not aligned with what the decision makers objectives are. Therefore, is it advised that mindful generation of measures is needed and when combined with the other components of the LAMP model it would provide an improved decision support framework.

'Process' refers to the management' behavioural response to the implementation of the decision support framework which would determine the effectiveness of achieving strategic success. It is advised that it is essential to communicate the decision framework by creating initial awareness with the same analytical logic typically used by management then proceed to communicate the sophisticated analysis beyond the cost metrics. Once management understands that human resource decisions have economic effects, they may be more receptive to greater sophistication of metrics.

When utilising the LAMP framework, human resource practitioners would be guided towards formulating new metrics by adopting a logical point of view, this ensures that the practitioners are developing plausible measurements and can further improve current process effectiveness. Using the right analytics ensures that relevant questions are questioned, and the results are of

value whilst using the right measures ensures that sufficient, timely and reliable data is used for the measures. Utilizing the right processes will result in more effective knowledge management by key decision makers and improve the odds for strategic success. These factors all contribute to addressing the pitfalls that Cascio pointed out with the aim to close the gap of measurement systems and top management expectations. Therefore, practitioners can develop utility analysis estimates that will reveal true economic value for management and reduce their unwillingness to adopt utility analysis as it gains more credibility as the technical modifications are effectively managed. Human resources decision sciences evolved their measurement systems through these improvements over the years which contributed to an organisations' effort to develop effective, efficient and impactful human resources analytics and human resources measurements which in turn aid decision makers to take informed decisions about talentship and how their organisation is organized.

Utility analysis together with human resources data analysis can be used to be a useful tool to help decision makers understand the cost and benefits of alternative selection strategies. Utility analysis also helps human resource practitioners and top management understand how selection systems work as systems and it provides a perspective to help the managers decide on how they would revise the selection process. If the gap between measurement results and management expectations is narrowed and the measurement systems overcome the 'wall', managers would be more open-minded to use utility analysis. Human resource programs and processes have the potential to become even more powerful as the new decision science adopted by practitioners incorporates all the field researchers' suggested improvements and with new technologies such as artificial intelligence and increased data capture and handling methodologies available, organisations should consider giving human resource management a prominent role in the organisation structure, which could be competitive advantage over other organisations.

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