2003 Research Quarterly

The Value of People

The Challenges and Opportunities of Human Capital Measurement and Reporting

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Abstract
From both an economic and a strategic perspective, it can be argued that human capital is the most important asset held by an organization. And, on face value, "who better to deal with issues related to people than human resources?" As a profession, however, we must first strive to increase the number of HR practice leaders who are actively engaged as strategic business leaders in our organizations today. If we are to accomplish this, we must ensure that we are in the best possible position to understand the customer and market-driven factors that affect our businesses; effectively influence and contribute to the strategic decision-making process; adapt quickly to and facilitate change in our organizations; and manage and influence organizational culture. How do we accomplish this? The key is in understanding the value of people. The purpose of this article is to challenge HR practice leaders, at all professional levels, to search for ways to utilize human capital measurement systems to optimize the value of people in their organizations.

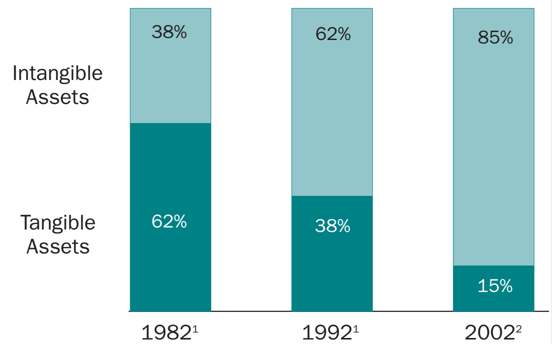
The Value of People: The Challenges and Opportunities of Human Capital Measurement and Reporting

Good managers know that measurement and management go hand in hand. In today's economic environment, however, a company's value depends less on tangible assets and more on intangible ones. As a consequence, the asset base with the greatest potential for adding value to the organization is also the most difficult to define, account for, and manage with precision. This represents both a challenge and an opportunity for the HR practice leader.

Chart 1 **Why is it so Difficult to Execute Strategy?**

The source of value has shifted from tangible to intangible assets.

percentage of market value related to…



1. The Brookings Institution analysis of S&P500 companies
2. Kaplan and Norton

Workers as Investors

"It is time to take the asset metaphor to a new level, to think of workers not as human capital but as human capital owners and investors. Like the employee-as-asset idea, the image of workers as investors is not exactly new … Like the asset notion, the investor notion emphasizes value … Workers, not organizations, own this human capital. Workers, not organizations, decide when, how and where they will contribute it. Like financial investors, some human capital investors are more active than others. The point is that, as the owners of their human capital, they can make choices."[1]

Getting Perspective

Data from The Brookings Institution helps to put into perspective the importance of the measurement and management of intangible assets. In 1982, tangible assets represented 62% of a company's market value on average. By 1992, this figure had dropped to 38%.[2] More recent studies place the average market value of tangible assets in many companies as low as 15%.[3] In other words, up to 85% of a company's expenses may be related to intangible capital. It would seem nothing less than a business imperative, therefore, that the valuation of intangible capital be pursued (see **Chart 1**).

Economic/Business Environment

Two forces have joined to make the measurement of human capital of growing interest and importance to

1 Davenport, T. (1999). *Human capital: What it is and why people invest it.* San Francisco: Doubleday, 7.

2 Blair, M. (1995). *Ownership and control: Rethinking corporate governance for the twenty-first century.* Washington, DC: The Brookings Institution, Chapter 6.

3 Kaplan, R., & Norton, D. (2001). *The strategy-focused organization: How balanced scorecard companies thrive in the new business environment.* Boston: Harvard Business School Press, 2.

Chart 2 Role of HR

Number of Respondents = 1,280

Strategic Partner	34%
Employee Relations Focused	19%
Policy Administrator	17%
Reactive Problem Solver	17%
Program Coordinator	7%
Do not Know	7%
Other	6%

Source: SHRM/Balanced Scorecard Collaborative Aligning HR With Organization Strategy Survey

the business community. The first is business competition, "brought about by the globalization of trade and key economic sectors (for example, telecommunication, electricity, transportation, financial services). The second is the advent of information technologies, most recently exemplified by the Internet. These two fundamental developments—one economic and political, the other technological—have dramatically changed the structure of business and catapulted intangibles into the role of the major value driver of businesses in the developed economies."[4]

One strong testament to this shift is illustrated in the mean market-to-book ratio of the Standard and Poor (S&P) 500 Companies (among the largest companies in the United States), which has continuously increased since the 1980s, reaching the value of 6.0 in March 2001. This ratio suggests that of every $6 of market value, only $1 appears on the "average" balance sheet, while the remaining $5 represents intangible assets. As a result, financial experts argue that the current focus on intangibles is reasonable.

One other significant factor should be referenced here: the impending labor shortage. According to the Department of Labor, 11,000 Americans are turning 50 years old every day. The coming retirement exodus caused by the "baby boomers," combined with a sharp decline in the national birth rate, will result in a shortage of human capital and skilled labor that cannot be offset adequately by the immigration of skilled workers to the United States.

4 Lev, B. (2001). *Intangibles: Management, measurement and reporting.* Washington, DC: Brookings Institution Press.

5 Brockbank, W. (2003). *Human Resource Competency Toolkit.* Alexandria, VA: Society for Human Resource Management/University of Michigan/Global Consulting Alliance.

6 Society for Human Resource Management/Balanced Scorecard Collaborative (2002, November). SHRM/Balanced Scorecard Collaborative aligning HR with organization strategy survey. *The Society for Human Resource Management.* Retrieved May 28, 2003, from www.shrm.org/hrresources/surveys_published/CMS_002963.asp#P-6_0

Major Research Studies/Surveys

There are other background factors that require our attention as well, i.e., new ways of doing business require new ways of managing people, and new ways of managing people require new skills from HR. As such, the following research studies have been selected to help crystallize the paradigm shift in relation to the direction of the HR profession, and also to clarify the expectations of senior business leaders related to the challenges and opportunities of human capital measurement and reporting.

The **2002 HR Competency Study** has been conducted at the University of Michigan Business School four times over the last 15 years. As a result, it has provided the most comprehensive empirical review of the HR field available. Over the life span of the study, more than 27,000 HR professionals and their line management associates have been involved. The 2002 iteration includes over 7,100 respondents from 241 diverse companies that were distributed globally across a variety of industries. Five major categories or domains of HR competencies emerged from HR professionals in high-performing firms. Each domain was determined to account for a portion of HR's total impact on business performance. The domains, and their respective weighted impact on business performance, were found to be as follows:

- Strategic Contribution—43%
- Personal Credibility—23%
- HR Delivery—18%
- Business Acumen—11%
- HR Technology—5%

This study is the basis for the new self-assessment tool that has been jointly developed by SHRM, the University of Michigan, and the Global Consulting Alliance.[5]

During the **2002 SHRM/Balanced Scorecard Collaborative Aligning HR With Organization Strategy Survey**[6], respondents were asked to select which descriptor best described the view of HR held by the executives in their organizations. Only 34% indicated that HR was viewed as a "strategic partner." The next highest ranked selection was "employee relations focused" at 19%, followed closely by "policy administrator" at 17% (see **Chart 2**). This survey contains a multitude of other important informational highlights that the business savvy HR practitioner should be familiar with. It can be found on the SHRM Web site at www.shrm.org/surveys, and is available at no charge to SHRM members.

Table 1 Nonfinancial Metrics as Valued by Investors

MOST VALUABLE	LEAST VALUABLE
1. Strategy Execution	1. Compensation Ratios
2. Management Credibility	2. Use of Employee Teams
3. Quality of Strategy	3. Process Quality Awards
4. Innovativeness	4. Product Quality Awards
5. Ability to Attract Talented People	5. Social Policies
6. Market Share	6. Published Investor Materials
7. Management Experience	7. Quality of Customer Service Organization
8. Quality of Executive Compensation	8. Quality of Analyst Guidance
9. Quality of Major Processes	9. Quality of Investor Relations
10. Research Leadership	10. Number of Customer Complaints

Source: Ernst & Young's Center for Business Innovation

The third study is the **2002-2003 Accenture High Performance Workforce Study**.[7] This study provides an overview of the findings from the recently released 2002-2003 Accenture study. A major shortcoming reported in many companies is "a lack of measurement, specifically measurement of the impact of HR and training and development initiatives, which is preventing executives from understanding where and how they should best apply their resources."[8] However, the study reports that some companies are achieving success in this arena. These organizations are more likely to align their workforces with customers; see the HR function, including HR and training activities, as valuable and strategic; measure the impact of HR and training investments against key business results; and use technology to improve workforce performance.

A 1998 study by **Ernst & Young's Center for Business Innovation, *Measures That Matter***,[9] looked at what "sell side" and "buy side" analysts use as the basis for making buy or sell recommendations based on nonfinancial criteria. More importantly, the study revealed that "investors" take these criteria into account when valuing companies. The study also revealed that, on average, 35% of an investment decision is driven by consideration of nonfinancial data. In other words, *"fully one-third of the information used to justify the investment decision is nonfinancial."*[10] The eight factors surveyed, which included a total of 39 specific nonfinancial criteria that the analysts could rank order, were quality of management, effectiveness of new product development, strength of market position, strength of corporate culture, effectiveness of executive compensation policies, quality of investor communications, quality of products and services, and level of customer satisfaction. These factors either directly link to the HR function, or to the overall corporate performance and culture of the organization—this represents a business environment in which HR has the opportunity to function as a strategic partner (see **Table 1** to learn which nonfinancial metrics investors value most).

Human Capital Measurement Systems

From both an economic and a strategic perspective, it can be argued that human capital is the most important asset held by an organization. And, on face value, it could also be argued, "who better to deal with issues related to people than human resources?" As a profession, however, we must first strive to increase the number of HR practice leaders who are actively engaged as strategic business leaders in our organizations today. To accomplish this, we must be prepared to:

- Ensure that we are in the best possible position to understand the customer and market-driven factors that affect our businesses;

7 Cheese, P., Brakeley, H., & Clinton, D. (2003). The high-performance workforce study. *Accenture.* Retrieved May 29, 2003, from www.accenture.com/xd/xd.asp?it=enweb&xd=services%5Chp%5Cresearch%5Chp_study.xml

8 Cheese, P., & Thomas, B. (2003, April). Human capital measurement: How do you measure up? *Accenture.com*. Retrieved June 2, 2003, from www.accenture.com/xd/xd.asp?it=enweb&xd=services%5Chp%5Cinsights%5Capr03_measure.xml

9 Ernst & Young LLP (1997). *Measures that matter.* Retrieved May 28, 2003, from www.cbi.cgey.com/research/current-work/valuing-intangibles/attachments/MEASURES.PDF

10 Mavrinac, S., & Siesfeld, T. (1998). *Measures that matter: An exploratory investigation of investors' information needs and value priorities.* Retrieved July 15, 2003, from www.crie.coppe.ufrj.br/home/artigos/artigoai12.pdf

- Effectively influence and contribute to the strategic decision-making process;
- Adapt quickly to and facilitate change in our organizations; and
- Manage and influence organizational culture.

How do we accomplish this? The key is understanding **human capital measurement systems.**

The purpose of this article then is to challenge HR practice leaders, at all professional levels, to search for ways to utilize human capital measurement systems to optimize the value of people in their organizations.

Perhaps the best place to start is by clarifying certain basic definitions.

Organizational value is comprised of three major classes of assets that are integral to an organization's ability to produce goods and services. These are:

- *Financial Assets:* Financial assets include assets such as cash and marketable securities, and can also be referred to as financial capital.
- *Physical Assets:* Physical assets include such tangible assets as property, plant and equipment, and other furnishings.
- *Intangible Assets:* Examples of intangible assets, also called intangible capital, include intellectual capital (patent formulas, product designs and process technology, i.e., the methods that delineate the steps in a process), goodwill and **human capital**.

The following definition for **human capital** is provided from the 2003 March edition of the Society for Human Resource Management Research Quarterly, *Human Capital: The Elusive Asset.*

> *A company's human capital asset is the collective sum of the attributes, life experience, knowledge, inventiveness, energy and enthusiasm that its people choose to invest in their work.*[11]

Intangible assets have value just like tangible assets do; you just can't discern them by touch, that is, they are without physical substance and are nonmonetary. From a pure accounting perspective, financial assets and physical assets are easier to classify and value than intangible assets. For example, intellectual property is legally defined and includes such things as patents, trademarks and copyrights. However, these assets are the only form of intangible assets that are precisely defined for accounting purposes. All other forms of intangible assets are loosely defined, open to interpretation, or are simply handled as costs.

Human Capital Measurement Systems—Levels of Competence

As discussed earlier, up to 85% of an organization's value (organizational value) may be represented in the form of intangibles on a company's balance sheet. Bearing in mind that labor and related expenses (compensation and benefits, administration and overhead) make up the lion's share of those expenses, it will behoove any business entity today to critically evaluate these expenses in a strategic context in order to optimize their value to the organization. Just as there are systems and processes associated with the establishment of hierarchies for the measurement of human capital, there are also levels of skill and competence required in applying these systems. The following levels of competence for HR professionals in relation to measurement are provided as a frame of reference.

Activity Level: Transactional measurement of routine HR activities, such as new hires, terminations, transfers, promotions, job applicants, etc. (i.e., cost per hire, voluntary separation rate, transfer FTE ratio, promotion FTE ratio, time to start, time to fill); may be used to satisfy internal management reporting requirements, comply with government regulations, etc.

Functional Level: Collaboration with functional units of the organization (i.e., department, division); measures activities; collects and analyzes data, translates data into information in conjunction with line management to arrive at conclusions and take corrective action; may use multiple variables over extended periods of time, modifying measurement strategy periodically as corrective action is taken; participants provide return on investment (ROI) analysis at project/program level to management (i.e., a comprehensive turnover analysis that may include recruitment history, training records, performance ratings, tenure and/or exit interview rating(s) of terminating employees by job category by supervisor).

Strategic Level: Highest level of analyses; capable of providing insight into key organizational relationships (internal and external); able to read system and understand organizational big picture; high tolerance for ambiguity; converts information into business intelligence for the purpose of gaining competitive advantage; understands complexities associated with "linking people, strategy and performance," demonstrated expertise with business measurement

11 Weatherly, L. (2003, March). Human capital—The elusive asset; measuring and managing human capital: A strategic imperative for HR. *Research Quarterly, Society for Human Resource Management.* Retrieved June 1, 2003, from www.shrm.org/research/quarterly/0301capital.pdf

Table 2 Saratoga Institute–Standard Metrics

Organizational Effectiveness:	
Revenue Factor:	Revenue ÷ Total FTE
Expense Factor:	Operating Expense ÷ Total FTE
Income Factor:	(Revenue – Operating Expense) ÷ Total FTE
Human Capital Value Added:	Revenue – (Operating Expense [Compensation Cost + Benefit Cost**]) ÷ Total FTE
Human Capital ROI:	Revenue – (Operating Expense [Compensation Cost + Benefit Cost**]) ÷ (Compensation Cost + Benefit Cost**)
Compensation:	
Compensation Revenue Ratio:	Compensation Cost ÷ Revenue
Total Compensation Revenue Ratio:	(Compensation Cost + Benefit Cost**) ÷ Revenue
Compensation Expense Ratio:	Compensation Cost ÷ Operating Expense
Compensation Factor:	Compensation Cost ÷ Workforce Head Count
Training & Development:	
Employees Trained:	Employees Trained ÷ Total Head Count
Training Cost Factor:	Total Training Cost ÷ Employees Trained
Training Cost Percentage:	Total Training Cost ÷ Operating Expense
Training Investment Factor:	Total Training Cost ÷ Total Head Count
Training Staff Ratio:	Total FTE ÷ Training Staff FTE
Training Cost per Hour:	Total Training Cost ÷ Total Training Hours

*FTE—Full-Time Equivalent, or 40 hours per workweek
**Pay for time not worked must be subtracted from benefit cost since it is included in compensation cost.

Source: Saratoga Institute—2003 SHRM National Conference

systems, and/or knows where to go to get the right resources to accomplish business objectives; possesses professional credibility to get the job done.

Human Capital Business Measures

The human capital business metrics presented in **Table 2** are provided as examples of baseline business metrics that an organization may establish to track trends and/or forecast business initiatives within the organization. The metrics range in complexity from the "transactional" to the "strategic," and are representative examples of human capital business metrics in use by measurement-managed organizations today.

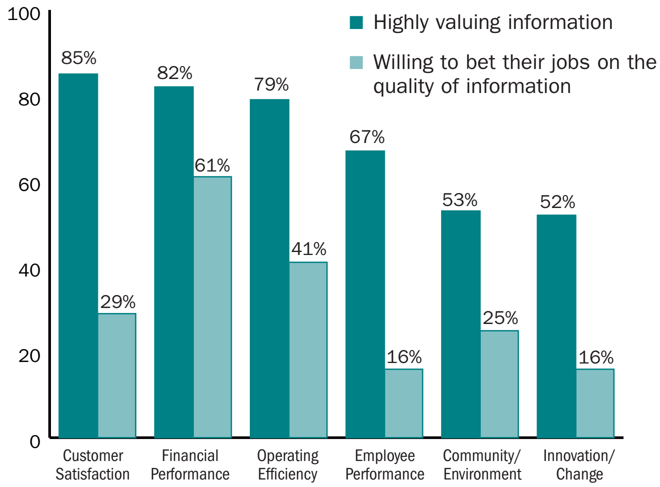
Dynamics of an Organization's Total Capital Environment

The value of even well-managed organizations is often unpredictable. It is whatever the market will bear, based on the inclination and special interests of the investors at any given time (i.e., witness the market variability in recent years going back to the new economy dot-coms). In addition, "it is important to note that a business is not just a storehouse for knowledge, but a viable, dynamic environment. Vital relationships exist throughout an organization and interactions occur with varying degrees of intensity to ensure that knowledge (the tacit knowledge of the group found in the form of organizational culture, the explicit knowledge of an individual, or the structural knowledge of a data warehouse) gets converted from one form to another through, perhaps, multiple transformations, all for the purpose of adding value."[12] In other words, businesses are comprised of people and the value of the business is tied largely to its human capital. As this asset ebbs and flows in the organization—people are hired and leave—the value (intellectual capital/social capital/relationship capital) of the organization is impacted for better or for worse. One thing is certain—it will not remain the same.

What do give a measurement-managed organization a distinct advantage over one that is not are retrospective and prospective indicators of performance. These indicators are called **lagging** and **leading indicators of performance**. Lagging indicators of performance are used to tell a company what it has accomplished (i.e., financial reports, historical records and business reports). The most common analogy used when referring to a "lagging indicator of performance," is that it is like "looking in your rearview mirror to see where you have been." Leading indicators of performance, on the other hand, are forecasts. They help an organization to foresee where it is headed based on emerging trends and other selected indexes (i.e., industry trends, internal business processes; employee learning and growth

12 Weatherly, L. (2003, March). Human capital—The elusive asset; measuring and managing human capital: A strategic imperative for HR. *Research Quarterly, Society for Human Resource Management.* Retrieved June 1, 2003, from www.shrm.org/research/quarterly/0301capital.pdf

Chart 3 Value vs. Quality Measurement



Source: Lingle, J., & Schiemann, W. Is measurement worth it? *Management Review*

indexes; customer growth and retention indexes). Depending on its reliability, this information can also be used by investors to determine organizational value.

Human Capital Challenges and Opportunities

Human capital measurement and reporting poses both a challenge and an opportunity for the HR business leader. On the one hand, it promises the opportunity for greater credibility, contribution and interaction at the strategic level of the organization. On the other hand, an overriding concern may exist that the measurement function could expose HR functions or activities that are inefficient, ineffective, or both. It is likely, after careful thought and consideration, that HR business leaders will determine that the benefits of human capital measurement will far outweigh any possible drawbacks. Here's why.

Measurement—Challenges

According to John Lingle and William Schiemann, companies that dedicate themselves to counting tough-to-count intangibles, as well as financially denominated assets, apparently distinguish themselves by superior performance.[13] A survey conducted by Wm. Schiemann & Associates in the mid-90s revealed that "measurement-managed" companies outperform other organizations (note: although this survey was performed in 1996, it continues to be used by the experts and was referenced as recently as the SHRM National Conference in June 2003). Lingle and Schiemann examined how executives measure six strategic performance areas that are crucial to long-term success: financial performance, operating efficiency, customer satisfaction, employee performance, innovation and change, and community/environmental issues. In addition, two key questions were asked: "How highly do you value information in each strategic performance area?" and "Would you bet your job on the quality of information in each of these areas?" While fully 85% of the respondents said that they value customer data, only 29% said they would "bet their jobs" on the quality of the data. Information on employee performance followed with a similar gap; 67% indicated that they valued the data, but only 16% said they would bet their jobs—an overwhelming gap of 51 percentage points (see **Chart 3**). Lingle and Schiemann concluded that unless measures are clear and the measurement frequency is reliable, the measures will not be viewed as credible.

The Lingle and Schiemann survey also revealed that companies that make a concerted effort to track performance in these areas excel in three very significant ways: identification as an industry leader over the prior three years (74% of measurement-managed companies versus 44% of others), reported financial performance in the top one-third of their industry (83% versus 52%), and self-reported success at last major cultural or operational change (97% versus 55%).[14]

Measurement—Opportunities

In the area of business knowledge, knowledge of internal operations does not in and of itself distinguish high-performing and low-performing HR professionals. According to Wayne Brockbank, Director, Global Programme for Management Development, University of Michigan, "What distinguishes high-performing and low-performing HR professionals is knowledge of the external environment—competitors, customers, financial markets and globalization. Knowledge of these is what makes the difference. The challenge is that our data also show that the average HR professional is relatively deficient in these areas of business knowledge. Furthermore, high-performing HR professionals are learning to bring change agendas to the leadership

13 Lingle, J., & Schiemann, W. (1996, March). Is measurement worth it? *Management Review,* 56-61.

14 Lingle, J., & Schiemann, W. (1996, March). Is measurement worth it? *Management Review,* 56-61.

table. They are not just partners sitting at the table, but they proactively contribute to the business decisions. They contribute to determining the future direction of the firm—what the future product and service mix has to be."[15] **What this should mean to the savvy HR business leader is that we are responsible for crafting our own opportunities.**

Making the Transition to a Measurement-Managed Organization: Next Steps

Building the Foundation—A Systems Approach

In considering a transition to a measurement-managed organization, the following steps are offered:

1. **Re-visiting strategic planning process**—The critical path for any organization committed to making a transition to a measurement-managed company will be in how it conducts its strategic planning process now and in the future. A reassessment of the existing strategic planning process should be undertaken immediately to determine any adjustments that should be made to support the transition to a measurement-managed organization. Two excellent resources on establishing measurement-managed companies utilizing a **balanced scorecard** approach are *The Strategy-Focused Organization* by Robert Kaplan and David Norton, and *The HR Scorecard, Linking People, Strategy, and Performance* by Brian Becker, Mark Huselid and Dave Ulrich. In certain cases, a company may elect to use a modified balanced scorecard approach. In addition, any well-defined strategic planning process can be utilized, provided that it is designed to meet the objectives of a comprehensive strategic planning process. In the final analysis, however, the president and chief executive officer, in conjunction with his or her senior management team, will determine which strategic planning methodology the organization will use. The HR practice leader will need to have the flexibility and the competence to adapt to the strategic planning process adopted by the organization.

2. **Clarifying organizational roles**—HR professionals and line management will need to determine how they will work together; consensus should be reached and roles and responsibilities clarified in order to establish a comprehensive HR system (i.e., inclusive of staffing, reward and recognition, training and development programs and processes, etc.). This may require a re-evaluation of past patterns and practices in relation to existing organizational roles for both the HR practitioners and the line managers within the organization.

3. **Establishing strategic relationships**—Understanding strategic organizational relationships between human capital measurement systems and drivers of financial performance will take time and will, for example, almost certainly require an investment in customized information technology support services to support human capital measurement and reporting opportunities throughout the organization. Key strategic relationships will need to be reinforced and/or fostered to ensure a favorable outcome for the strategic initiatives undertaken.

4. **Selecting benchmarking metrics**—Internal benchmarking metrics for the organization will be established by senior management based on level of strategic interest and competitive advantage to the organization; emerging industry trends, customer/supplier/investor relationship indexes; financial reporting and control, human capital indexes;

Figure 1 The GTE Experience

GTE provides a very interesting illustration of how an organization can estimate linkages across several performance drivers in a strategy map. GTE's Network Services unit (approximately 60,000 employees) "hypothesized" that market share was driven by customer valuation of its service, which in turn was driven by customer service quality, brand advertising and inflation. The driver (the leading indicator) for customer service was a set of strategic employee behaviors focusing broadly on employee engagement. GTE HR created what it called the "employee engagement index" (EEI) based on a subset of seven questions from the GTE employee survey as a measure of these strategic behaviors.

The analysis supported the hypotheses and demonstrated the wisdom of HR's "balanced" approach to performance measurement and management. For example, GTE found that a 1% increase in the EEI resulted in nearly a $^1/_2$% increase in customer satisfaction with service. In other words, GTE examined a key section of its "strategy map" and explicitly tested its hypotheses that employee behaviors are indirect leading indicators of key strategic measures (market shares).

GTE was able to do this for three reasons. First, the HR department has a clear story in mind of how employee behaviors actually drive strategy in its organization. Second, HR recognized the need to collect and merge information from multiple sources and multiple time periods. Third, it had access to the technical expertise necessary to make these statistical estimates.

Source: *The HR Scorecard: Linking People, Strategy, and Performance*, p. 122.

15 Brockbank, W. (2001, May). This will be the decade of the human side of business. *Praxis,* 22-29. Retrieved June 3, 2003, from www.hinduonnet.com/businessline/praxis/pr0302/03020220.pdf

Figure 2 The Experience at Sears

Customer advocacy is a key driver of profitability at Sears. But as Sears found, the relationship between customer satisfaction and advocacy is nonlinear. For example, when customers rated their overall satisfaction with the shopping experience as a "10" on a scale of 1 through 10, 82% of them were likely to recommend Sears to friends or family—a key driver of business success in retailing. However, when customers rated Sears a "9," only 33% were likely to recommend Sears as a place to shop. While Sears managers initially believed that a "9" on a 10-point scale was a high rating on customer satisfaction, analyses showed otherwise. Thus, satisfied customers were not enough—what they needed were enthusiastic customers to drive referrals. Understanding these relationships helped Sears managers understand how much customer satisfaction was "enough."

Source: *The HR Scorecard: Linking People, Strategy, and Performance*, p. 124.

cycles for their periodic review will be established and agreement reached as to target and action levels for goals and objectives.

While it is important for HR professionals and the organization to stay abreast of competitive/comparative practices, external benchmarks should be selected judiciously. As noted by Jac Fitz-enz, author of *The ROI of Human Capital*, "Only in rare instances will you be able to adopt the discovery directly to your operation. It is much more likely that you will have to interpret the findings and modify the practice to fit your situation."[16]

5. **Establishing HC infrastructure**—Finally, as the significance and contribution of the human capital asset becomes better defined through the establishment of management, measurement and reporting systems throughout an organization, the CEO and the senior management team will need to grapple with who will oversee this critical aspect of the organization's infrastructure. Will it reside with HR, or elsewhere in the organization? This question will need to be resolved and supported by all concerned for this process to have the opportunity to reach optimum potential in the organization.

Measurement-Managed Organizations in Practice

Some of the best examples of measurement-managed organizations in practice are those documented by Becker, Huselid and Ulrich, which can be found in *The HR Scorecard, Linking People, Strategy, and Performance*. Two examples are shared from this book, The GTE Experience (**Figure 1**) and The Experience at Sears (**Figure 2**). In both cases, the value of linking people, strategy and performance through a systems approach to measurement is illustrated.

The Measurement-Managed Organization—Implications for HR

While the infrastructure to support successful measurement-managed companies does not necessarily have to report through HR, it is a logical choice. Much will depend on the willingness and ability of the chief HR officer (CHRO) to meet the leadership requirements expected of a strategic business leader in their organization. A brief outline of these requirements includes the ability to:

- Secure senior leadership team commitment.
- Educate all managers and team members on how to use strategic measurement tools and strategic performance measures.
- Engage all managers and employees in the measurement process to create a sense of ownership and personal investment.
- Garner team consensus for key project plans and the method for their review and accountability.
- Confirm and measure alignment of HR with business strategy.
- Mentor and develop new team members.
- Facilitate and stimulate process innovation and creativity.
- Recognize, reward and celebrate successes!

Working for a "measurement-managed" organization speaks volumes about the organization itself; it tells the world and the people who work for it that this is a company with the foresight and the desire to "do it right the first time."

To quote Jac Fitz-enz from *A New Vision for Human Resources*, "To move to the center of the organization, HR must be able to talk in quantitative, objective terms. Organizations are managed by data. Unquestionably, at times, managers make decisions based on emotions as fact. Nevertheless, day-to-day operations are discussed, planned and evaluated in hard data terms."[17] Today, the new vision is human capital management. We've come to realize that nothing happens until a human being makes a conscious decision to act. The HR function has the opportunity to move from the background to the forefront of the business equation. Let us ensure as a profession that we do our best to capitalize on this opportunity—for ourselves and the people who are counting on us.

16 Fitz-enz, J. (2000). *The ROI of human capital: Measuring the economic value of employee performance.* New York: American Management Association.

17 Fitz-enz, J., & Phillips, J. (1998). *A new vision for human resources.* Menlo Park, CA: Crisp Learning.

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