In My Opinion

HR Metrics for HR Strategists

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The zeal to accumulate data that can be used to help executives manage their businesses is at an all-time high. Technological progress, corporate governance needs, growing interest in balanced score cards, relationship management endeavors, enhanced competitiveness, and more have led investors, managers, and employees to seek more data about their organizations. As a result, HR professionals have been intimately involved in the growth of these data depositories. Large software system implementations are providing corporate-level data immediately to the desktops of multiple users. Corporate dashboards and other forms of data sharing and reporting to senior executives and line managers are appearing in many organizations, both large and small. Thus, access to important metrics about people is receiving more attention than ever.

But what is HR data? And are we delivering HR data to managers in a way that helps them do their jobs? Even more important, to what degree are the data we provide to executives making a real difference in the way they do business?

What is HR Data?

There are a number of books on human capital and HR scorecards.[1] In these books you can read about types of HR data that are being used to understand the quality of HR services, e.g. efficiency of selection processes, compensation ratios compared to market, etc., and basic people issues, e.g. are they absent? Leaving? Using various HR services? Overall, I think you could conclude that the most frequently used HR metrics are data about employees. We collect data about their salaries, benefits, absenteeism rates, decision to start working for us, hires per applicants, turnover rates and more.

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We sometimes supplement our archival data with employee survey data. Thus, instead of inferring things about our people from information technology (IT) sources, we ask employees to tell us about themselves. We ask if they are satisfied, engaged, how they feel about benefits, what they think about the culture, and more.

But when we reach out to employees and start asking them for data via surveys, there is a huge opportunity for more information that is *not* being seized upon by HR executives. As you develop systems to collect data *about* people that are *from* people, e.g. surveys, you also can ask those same people questions *about* your business.

Learning from Agency Theory

Agency theory is a well-known and influential theory of the firm that has been used by researchers from fields such as economics, finance, accounting, marketing and management. Basically, the theory focuses on the relationship between two groups of people that are referred to as principals and agents. In any social setting where decision-making is delegated from one person to another, an agency relationship exists; one person is the delegator (principal) and the other is the delegatee (agent). The theory assumes that when this relationship exists, the agent does not have the best interests of the principal in mind, and in an employment setting, as the agent works for the principal, the agent may make sub-optimal decisions and do things that are not consistent with the needs of the principal, but instead meet the selfish needs of the agent.

The assumption of human behavior supporting this theory is based on greed, personal interest, and maximization of self-interest. The principal can't do much about this situation because the principal does not have the same information that is possessed by the agent. This particular problem is called information asymmetry. Because information is incomplete, owners may be making decisions that are suboptimal. The problem has been primarily studied from the perspective of owners (shareholder) and senior executives. But the problem of information asymmetry is particularly problematic when you dig deeper into the firm. Each individual manager has a principal-agent relationship with his employees, and those managers do not have adequate information from their employees. Without high quality information about the business, owners may be misinformed about the business. And without high quality information from employees, managers cannot adequately get their jobs done.

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Economists, sociologists, and other behavioral scientists have studied agency theory and the information asymmetry problem for many years. Within the field of HRM, it has been used to examine compensation systems. The answer to the information asymmetry problem has been seen as basically bribing people through compensation. The thought is that you can align pay systems to assure that managers and employees behave in ways that are consistent with the needs of the owners (or senior executives in the case of non-management employees). Now consider how the shareholders and board members of Enron, Andersen, and Tyco feel about the effectiveness of their incentive systems. Perhaps there is another way to solve the information asymmetry problem.

Assumptions about human behavior

I like agency theory, but I don't buy the assumptions about human behavior. I don't believe that employees are really as self-serving as the theory makes them out to be. I don't believe that bribing employees works well. And I certainly have not yet been introduced to a bonus plan, incentive system, or compensation program that is doing a very good job aligning the interests of senior executives with those of the owners. In fact, what I see from incentive systems, in most cases, is a lot of dysfunctional behaviors of employees wasting time trying to figure out how to work the system to get the bonus. Alignment is pretty darn difficult if not impossible. The more complex you make the compensation system, the more elaborate the manager behaviors get when it comes to workarounds.

Let's develop a new set of assumptions about human behavior.

1. Assume that the majority of your employees want your company to succeed because they are part of something bigger than themselves, and they want that something bigger to be successful. In other words, employees want to be proud of their employer.
2. Assume that creating the conditions under which people can share information will lead to information sharing – no bribes needed. Employees will share information because they simply want their companies to succeed.
3. If the company succeeds, and then creates fair conditions of employment where people are rewarded for success, people will continue to share information if you provide the outlets for them to do so.

If you buy the three assumptions, then the information asymmetry problem can be solved if the people who own the business and who are in charge of running the business get the information they need to be successful. Thus, instead of bribing people to get information through incentives and bonus schemes, what if you attack the information asymmetry problem by providing a simple way to share information up – from the bottom of the organization to the very top of the organization? Then, simply treat employees fairly.

The Golden Opportunity: Collect Data From People But About The Business

I am advocating taking the simple path to improving firm performance – get more information. And why can't HR be the group that gets information about the business from the people who are doing business every single day? Why not ask your employees what's going on out there? They are in the front line working with customers; they see processes working and not working; they know if something unethical is occurring; your employees in many cases are your customers.

When HR collects data about the business from employees, and then delivers that information to people who can act upon it, then HR is in the business of reducing the information asymmetry problem, and HR helps the firm maximize its performance. What happens when HR walks into a board meeting or the senior executive meeting with new insights about customers, strategy, new business opportunities, problems that need to be solved and more? Executives listen.

In fact, executives listen much more intently than they do when HR comes in with the latest satisfaction, engagement or culture scores. Management listens because the data HR is providing is meaningful, actionable, and about something in which they care deeply. I'm not saying that data about people is not valuable. Data about satisfaction, absenteeism, turnover, and more are critical metrics, but they do not grab the attention of executives in the same way that information about their business problems and new opportunities for growth can engage managers. Even better, when you collect data from people about the business, you quickly will find out that many things are working well. You can learn from your strengths as well as from your weaknesses.

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The Key to HR Being Strategic

I meet with a lot of HR executives who have said the following to me: "We just finished outsourcing much of our HR work; our employees are effectively using self-service; we have all our HR data in our centralized data base, and now we're ready to be strategic. But we don't know what to do." I've looked at their dashboards, reviewed their pages of reports, and I worry that if these HR executives are having a tough time figuring out what to do with their own HR metrics, then what do we expect managers to do with the reports?

If we want to be strategic, we have to reach out to managers with data that they care about. Once we get them hooked, we can then teach them about other statistics and data. The hook just may be data about the business you collect from your employees.

Challenge to Agency Theorists and to HR Strategists

The information asymmetry problem introduced in agency theory is one that we know is a valid organizational dilemma. If we allow ourselves the freedom to judge individual employees not as self-servicing creatures, but as individuals who want to be part of a team and who want their companies to succeed, then perhaps we can deviate from using incentives, threats, monitoring, and bribery as ways to get people to cooperate and do what's best for the company.

I believe (and have data to defend this position) that employees want their firms to succeed. Unfortunately, we do not provide them with simple and non-threatening modes of voice or with enough alternative ways to communicate.

As HR strategists, we are in a position to help senior executives make their companies more successful. I talk about agency theory because it is not a theory about how an HR department should run; it is a theory of the firm. It's a theory about company growth and wealth creation. And at the core of this theory are employees and assumptions about human behavior. Humans are the targets of HR, and if we utilize what we know about humans, and engage them in our businesses to share information with management, then we can be truly strategic business partners with our leadership teams.

End Notes

1. See for example: Becker, Huselid & Ulrich. *HR Scorecard.* Harvard Business School Press, 2001, Fitz-enz. *The ROI of Human Capital.* AMACOM. 2000, Kaplan & Norton, *The Balanced Scorecard.* Harvard Business School Press. 1996.

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