Defining Effectiveness and Efficiency Measures in the Context of Human Resource Strategy

J.W. WALKER and T.P. BECHET

Introduction

Well managed companies that address important business issues through the implementation of human resource strategies often seek to measure performance of the human resource function in terms of both effectiveness and efficiency. Effectiveness relates the results of activities to the achievement of objectives (i.e., "are we doing the right things?"). Efficiency relates the yield of outputs to the energy, time, or resources applied as inputs (i.e., "are we doing things right?") (Drucker, 1973).

Human resource staff functions need to measure both efficiency and effectiveness. Some companies attempt to measure the efficiency of the human resource function (often relying on a series of quantitative measures). Few companies adequately measure their effectiveness in relation to implementing human resource strategy and achieving specific objectives. Efficiency addresses the relationship between key results and short term human resource activities. Effectiveness addresses the relationship between key results and longer term issues and strategies.

The focus of many effectiveness and efficiency measures is on the performance of the human resource staff function, as a service unit within a company. The concept of measuring effectiveness and efficiency could be applied to any or all human resource functions, including those performed by line managers. Measures of effectiveness and efficiency can be applied to human resource staff performance. They can also be used to measure human resource management efficiency and effectiveness throughout an organization. As a result, measures may be as useful to operating managers as they are to staff managers.

This paper presents a framework for defining effectiveness and efficiency measures. It describes how such measures are applied in practice in four companies studied. The companies included a diversified services company, a consumer products company, an industrial and aircraft equipment component manufacturer, and an oil exploration and production company. Our findings are based on knowledge developed through consulting relationships with these companies.

J.W. WALKER and T.P. BECHET - The Walker Group, 3713 E. Equestrian Trail, Phoenix, AZ 85044
The Human Resource Planning Context

All the companies studied develop human resource strategies on an ongoing basis (see Figure 1). The process begins with a review of business plans and strategies, definition of external and environmental changes, and definition of internal organizational issues. Analysis of this "strategic context" includes the identification of the critical human resource issues and implications inherent in the environment, plans, strategies, and organization issues. These human resource issues are typically defined in detail and ranked by priority (Schuler and Walker, 1990; Walker, 1990).

Next, companies define the human resource strategies that can best address the most critical human resource issues and implications. These strategies tend to be longer term (i.e., longer than one year) directional plans that usually require the application of significant resources. Sometimes several strategies may be required to address a single issue. Similarly, a single strategy may address more than one issue.

The specific human resource actions, programs, and activities needed to carry out each strategy are then planned and implemented as required. Throughout the planning period, strategies and activities/programs are modified as necessary to ensure that critical issues are being addressed adequately. Finally, the results of the activities that are implemented are measured and documented.

The "upstream" elements of human resource planning (i.e., issue identification and strategy development) are oriented toward line managers as "customers". These upstream activities are conceptual and of a long term nature. As the process unfolds, "downstream" elements of the human resource planning process (i.e., activity development and implementation) are more directly related to the human resource function itself. These downstream activities tend to be transactional, tangible, and immediate.

Human resource planning helps a human resource function manage strategically. When this approach to human resource planning is applied, all the human resource activities and programs that are implemented are linked directly to the resolution of business needs. The approach helps management ensure that all important issues are being addressed and that all actions are aligned with the strategies. Through human resource planning, human resource activities are better integrated as well. For example, the recruiting aspects of various strategies can be combined to create a coherent strategy for recruiting needed talent throughout the organization.

![Figure 1: Human Resource Planning Context](image-url)