

Implementing and Monitoring the HR Operating Plan: A Conceptual Framework for Performance Measurement and Management

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Abstract

This paper presents a proposed conceptual model for implementing and monitoring performance of the HR operating plan based on the resource-based view of the firm (RBV) theory and systems theory and thinking (ST&T). The proposed model should provide organizational and human resources leaders, as well as organizational development practitioners with the ability to develop the organizations' internal environment as a driver of competitive advantage, including recognition of how the whole organization system and the environment influence subsystem components. This proposed conceptual model bridges a gap in literature related to defining an aligned human resources performance measurement and management system and the subsequent link to organizational performance.

Keywords: HR metrics, human resources operating plan, performance measurement and management, RBV, ST&T

I. INTRODUCTION AND BACKGROUND

The aim of this paper is to explore the linkage between implementing and monitoring the human resources operating plan to ensure alignment with business strategy and goals to develop a conceptual model to improve business practice and for future research. Two theoretical frameworks guide the process of analysis in this paper, the resource-based view of the firm (RBV) and systems theory and thinking (ST&T). As applied to human resources plan monitoring, RBV emphasizes the importance of people to the success of an organization through the lens and intersection of strategy and human resources issues (Barney, Wright, & Ketchen, 2001). Based on systems theory precepts, ST&T is an integrated analysis of the whole of the system primarily viewed and appraised relative to its environment, as well as how the components of the system are influenced by the whole and the environment (Yawson, 2012). HR and organizational leaders can utilize ST&T to identify, understand, and interpret elements of human resources management as related to the organization as a system (Iwu, Kapondoro, Twum-Darko, & Lose, 2016).

Organizations conduct business in complex, heterogeneous and uncertain environments (Klepik, Bosnjak, & Mabic, 2011). Nasir, Abbas, and Zafar (2014) suggested that due to increasingly dynamic environments, organizations must implement changes in strategy, structure, processes, and culture on an ongoing basis. HR practices aligned with strategy that produce, enhance, and sustain organizational capabilities and culture positively influence organizational performance (Buller & McEvoy, 2012; Chuang, Chen, & Chuang, 2013). Moreover, it is essential that HR professionals are conversant with business strategy, as well as integral partners in the strategic management process (Buller & McEvoy, 2012). Therefore, organization and human resources practices should align and support business strategy, as well as systematically measure and monitor performance through the human resources operating plan.

The human resources operating plan should be an outcome of organizational strategic planning based on the mission, vision, and enterprise strategy of the company (Emanoil & Nicoleta, 2013). Lengnick-Hall, Lengnick-Hall, Andrade, and Drake (2009) asserted a relationship between HR systems and organizational performance. Furthermore, Lengnick-Hall et al. suggested organizations should ensure employee line-of-

sight to strategic imperatives critical for implementation of HR practices and organizational performance. Therefore, to achieve competitive advantage, strategic human resources planning and objectives should incorporate the organization's mission, vision, and business strategy in the HR operating plan, as well as effectively create, operationalize, implement, and measure the effectiveness of the plan.

Interconnections of organizational structural support, and interdependencies between employees, or systemic parts of the organization, should enhance employee effectiveness in demanding environments (Yawson, 2012). Moreover, strategic and structural agility (flexibility) demonstrated by an organization's management, and ingrained in the culture, allow an organization to exploit opportunities and objectives to allow change at the tactical (implementation) level without the need to transform the overarching strategic plan (Rose & Cray, 2013). Therefore, organizational strategy, behavior, and structure might be influenced by formal and informal systemic elements affected by the individuals and groups within the organization and its environment.

Many organizations have failed to adapt HR policies and practices to support key organizational strategies caused by disruptive economic and marketplace changes (Boudreau & Lawler, 2014; Stone & Deadrick, 2015). While it is acknowledged in literature that effective human resources management outcomes positively influence organizational performance, measuring HR's contribution is challenging (Iwu et al., 2016). Furthermore, Bourne et al. (2013) found indirect evidence of the relationship and contribution of HR practices and performance management to organizational performance, yet confirmed a lack of direct evidence in extant literature. The central thesis of this paper is organizational and human resources leaders need to create strategically aligned performance measurement and management systems to implement, monitor, and measure the effectiveness of human resources activities.

II. LINKING STRATEGY, THEORY, AND ORGANIZATIONAL PERFORMANCE WITH AN ALIGNED HR OPERATING PLAN

Organizational strategy is a primary driving force for organizational activities (Buller & McEvoy, 2012). HR management practices can effectively provide line of sight and link organizational, group, and individual activities with the organization's strategic goals and performance outcomes (Buller & McEvoy, 2012). Integration of business and human capital processes through a performance measurement and management system (PMMS) and business planning goal setting are critical to achieving organizational targets (Stahl et al., 2012). However, many organizations struggle to achieve goals because of a failure to link business plans with people management (Kalyani & Sahoo, 2011). RBV and ST&T jointly provide the theoretical lens through which aligned organizational resources and systemic processes influence organizational performance and inform the HR operating plan.

2.1 Resource-Based View of the Firm (RBV)

The resource-based view of the firm (RBV) focuses attention on an organization's internal environment as a driver of competitive advantage and highlights development of the organization's resources to compete in the marketplace (Wang, 2014). Barney (1991) argued that a firm should achieve sustained competitive advantage through focusing on development of resources that are valuable, rare, imperfectly imitable, and difficult to substitute. Barney's proposition was supported by Sadatsafavi and Walewski's (2013) assertion that organizational value-producing resource bundles, based on RBV of firms, contribute to competitive advantage through sustainability elements. Wang (2014) suggested special cases of RBV as knowledge-based view, which focuses how the organization utilizes knowledge to gain competitive advantage, and capability-based view, which focuses on how organizational capabilities and learning must be part of any strategy. Sadatsafavi and Walewski (2013) indicated organizational capabilities may be extended, and internal resources developed, through effectively combining the built environment with the human resource management system.

2.2 Systems Theory and Thinking (ST&T)

Yawson (2012) asserted systems theory and thinking (ST&T) as foundational to human resources development (HRD) theory. Systems thinking is an integrated analysis of the whole of the system viewed, and appraised, relative to its environment, as well as how the components of the system are influenced by the whole system and the environment (Yawson, 2012). Systems thinking may impact the organization through leaders and managers recognizing the impacts of the environmental patterns on the system (organization), which provides a mechanism to establish structured control (Stacey, 2011). Conversely, applying systems thinking to an organization could expose the organization to the potential systems characteristic of unpredictability, which over time might prevent a stable-state that is at the heart of systems theory application (Stacey, 2011). Systems theory helps specifically conceive the environment surrounding individuals (or organization), and broadly defines a system as consisting of linked and interrelated components to form a whole (Hummelbrunner, 2011). Moreover, the integrated and interrelated set of processes, or propositions, linked in systems theory enable and enhance predictive and explanatory capabilities of real-world systems (Adams et al., 2014) such as the human resources operating plan.

2.3 Organizational Performance

Organizations seek to gain competitive advantage in the marketplace and achieve performance goals through effective strategy implementation by employees at all levels of the organization. Martin, Gollan, and Grigg (2011) suggested employees throughout an organization are deeply involved in developing and implementing strategy through their activities and ongoing dialogue. Organizational talent and strategic capacity are necessary to deliver unrivaled attributes that other organizations do not possess (Martin et al., 2011) thus leading to competitive advantage and improved organizational performance (Lengnick-Hall et al., 2009). Bethke-Langenegger, Mahler, and Staffelbach (2011) asserted a positive relationship between talent management practices with strong emphasis on business strategy and organizational financial results.

Bloom et al. (2012) suggested an organization with robust targets will deliver higher probable financial returns if it effectively monitors performance. Kaplan and Norton (2004) asserted organizations might achieve perceived value by customers through assuring an enticing value proposition potentially increasing customer satisfaction and loyalty relative to other organizations. Furthermore, Filatotchev and Nakajima (2014) suggested organizations can improve stakeholder connectedness, profitability and growth through revitalizing their process and performance, and decision-making structures. In sum, establishing effective performance measures and metrics as part of a PMMS to monitor the HR operating plan provides employees with specific role-based expectations, and strategic line of sight, in contributing to the success of the organization in the marketplace (Choong, 2013).

2.4 Aligned HR Operating Plan

The HR architecture of an organization is comprised of system, process, structural, and employee behavioral elements (Armstrong & Taylor, 2014). HR practices aligned with strategy that produce, enhance, and sustain organizational capabilities and culture effect increased organizational performance (Buller & McEvoy, 2012; Chuang, Chen, & Chuang, 2013). Success of HR strategy is directly associated with effectual links with the organization's business strategy (Kalyani&Sahoo, 2011). Chuang et al. (2013) asserted organizational investments in complementary HRM practices aligned with strategic imperatives were worthwhile. Therefore, human resources (HR) strategies included in the HR operating plan must be monitored to insure the plan remains relevant in perpetually changing market conditions and assure the plan aids in driving competitive advantage.

III. PERFORMANCE MEASUREMENT AND MANAGEMENT SYSTEM (PMMS)

Business and HR managers use a PMMS to aid in clarifying organizational goals, guide implementation of goals and objectives, provide for detection of issues and associated corrective actions, as well as operate more efficiently and effectively (Tung, Baird, & Schoch, 2011). It is readily accepted that the design of a PMMS should provide relevant and actionable information to HR and company management. Conversely, Kalyani and Sahoo (2011) suggested that many organizations struggle to achieve goals because of a failure to link business plans with people management. Implementing an effective HR measurement and management system is contingent on in depth knowledge of an organization's business strategy, plans, and goals (Becker, Huselid, & Ulrich, 2001). Furthermore, top management support and involvement is critical to resolving problems, as well as enhancing PMM effectiveness (Tung et al., 2011).

A PMMS should define what performance indicators HR will analyze, how findings should be processed, and how information from the findings should be translated to enable managerial actions and create value (Taticchi, Balachandran, & Tonelli, 2012). Care must be used when designing a PMMS to identify effective actions that transcend measurement to measurement and management of performance to overcome potential gaps in 'knowing-doing' (Taticchi et al., 2012). A constant monitoring process provides important support to measure and control company investments, such as HR strategies, as well as provide for stakeholder management and employee involvement (Longo & Mura, 2008).

Ideal PMMS performance indicators give appropriate weight to various performance elements and should be high in identifying controllable risk that allow for employee response (Weyhrauch & Culbertson, 2009). Properties inherent with performance measures include risk, distortion, and manipulation (Weyhrauch & Culbertson, 2009). Performance indicators that are low in potential for distortion and low in manipulability would be preferable (Weyhrauch & Culbertson, 2009). Performance measures that account for controllable risk while minimizing, or avoiding, issues associated with distortion and manipulation should be weighted more heavily in incentive systems tied to a PMMS (Weyhrauch & Culbertson, 2009).

A PMMS should be conceptualized as cyclical to capture the myriad interconnections of the performance measurement and management system components (Yawson, 2012). Integration of business and human capital processes through a performance management system and business planning goal setting are critical to achieving organizational targets (Stahl et al., 2012). Furthermore, Boudreau & Lawler (2014) asserted a positive relationship between organizational outcomes and HR skill levels in the areas of understanding business strategies and plans and the connection with talent and organizational design and management.

3.1 Identifying and Implementing HCM & HR Performance Measures and Metrics

HR leaders should review business strategy and goals with senior organizational leaders to determine how HR can best support the indicated strategies (Lee & Lau, 2011) and track improvements, as well as benchmark (Moyle, 2012). Therefore, HR plan monitoring should include human capital management (HCM) measures, and HR measures to insure the plan is focused on broad, strategic aspects, as well as human resources discipline and efficiency aspects of performance, respectively. To support organizational strategy implementation, HR architecture and related measures must align with the organization's strategy and business planning processes (Becker, Huselid, & Ulrich, 2001). Mustapa, Ghazali, and Mohamad (2014) asserted strategic human resource competency in building organizational capacity as the ability of an organization to employ capabilities, resources, knowledge, and processes to achieve established goals.

3.1.1 HCM metrics

Human capital is comprised of intellectual, social, and organizational capital aspects (Armstrong & Taylor, 2014). Human capital measures represent organizational workforce, or people drivers and outcomes

that have a clear relationship to business strategy and execution of the strategy (Schiemann, 2007). Analysis of HCM might provide a transparent process for all organizational stakeholders to identify good management practices for long-term sustainable growth (Royal & O'Donnell, 2008).

Human capital metrics should align with workforce measures related to efficiency and productivity, customer retention, and customer engagement that have line-of-sight in delivering those organizational outcomes (Schiemann, 2007). Furthermore, Armstrong and Taylor (2014) asserted human capital measures should include factors and data related to the workforce, people development, people perceptions, and performance. Moreover, a critical HR-administered HCM metric is knowledge management related to identification of knowledge retention strategies to mitigate the danger of knowledge attrition (Durst & Wilhelm, 2012). Superior organizational performance may result from linking strategic goals, action plans to organizational capabilities, culture, group competencies, individual knowledge, skills, and abilities (KSAs), motivation, and opportunity (Buller & McEvoy, 2012).

3.1.2 HR metrics

HR measures represent competencies, processes, and other performance facets related to the HR function and which support key people factors (Schiemann, 2007). HR metrics should align with strategic people measures of the organization (Schiemann, 2007). HR metrics should align with HR efficiency measures (Dulebohn & Johnson, 2013), as well as focus on progress toward business goals (Lee & Lau, 2011). Business and HR managers in organizations pursuing a cost-reduction strategy are typically concerned with efficiency indicators while, conversely, business and HR managers in organizations pursuing a differentiation strategy are typically concerned with innovation indicators (Gates & Langevin, 2010).

3.2 Reporting

Reporting HCM and HR metrics should be planned and provide actionable information. Lee and Lau (2011) suggested HCM and HR metrics reporting execution is valuable in assessing people and functional HR strengths and weaknesses, as well as aid in improving HR and business strategies, objectives, and execution of plans. Lee and Lau indicated it is necessary to identify HR functions to be measured that align with organizational objectives, how the HR metrics will provide relevant information to influence business objectives and strategies, and then define each HCM and HR metric and a corresponding formula. Furthermore, an organization must assure managers have the skills and guidance to understand, interpret, and take action on data from HCM and HR metrics (Armstrong & Taylor, 2014).

3.3 Workforce Analytics

Human resources management must provide business leaders with talent information to support business objectives and enhance competitiveness in the marketplace. Workforce analytics pertain to strategies for combining HR data elements into metrics, as well as examining changes and relationships in metrics (Carlson & Kavanagh, 2012). HR executives should use data to provide answers to questions about how employees contribute to organizational performance (Harris, Craig, & Light, 2011). Workforce analytics might include integrated and relevant employee data, talent management targets and segments, investments in key HR areas, predictive employee value proposition (EVA) data, workforce planning, and real-time talent optimization (Harris et al., 2011). HR data analytics must employ analytic models that reflect the core businesses of an organization (Fink, 2010). Fink suggested gaining insight through sophisticated methods, such as econometrics and discrete choice modelling, as alternatives to rated importance methods. Disruptive technology will continue to transform HR processes and practices associated with candidate, supervisor, peer-to-peer, customer, and decision-support interaction technologies (Stone & Deadrick, 2015). Fink (2010) asserted business intelligence (BI) as a prerequisite for sustainable organizational performance. Information technology (IT) and human resources information systems are key enablers of success in employing workforce analytics and metrics monitoring (Corsello, 2012).

3.4 Multidimensional Scorecard

Organizational and HR scorecards aid in aligning and reporting metrics identified to drive organizational performance through strategy, business, and HR planning (Muslim & Firania, 2016). Traditional PMMS typically contain only financial measures and prove inadequate for measuring strategic performance (Tung et al., 2011). Multidimensional performance measures frameworks have been recognized in extant literature as increasing the effectiveness of PMMS by addressing nonfinancial, as well as financial measures (Tung et al., 2011). Choong (2013) asserted measuring multiple dimensions (nonfinancial and financial) in business are necessary to overcome limitations of traditional accounting measurements.

3.4.1 The balanced scorecard (BSC)

The balanced scorecard is an example of a multidimensional performance measurement framework that typically includes financial, customer, internal business process, learning and growth, and sustainability measures (Tung et al., 2011) for all aspects of the organization (Chavan, 2009). A balanced scorecard highlights external and internal measures encompassing the entire organizational system, and including customers, shareholders, business processes, innovation, and learning and growth (Chavan, 2009). Processes of a balanced scorecard might include (a) clarification and translation of vision into strategy, (b) communication and linkage elements for strategic objectives and measures, (c) alignment, planning, and targets for strategic initiatives, and (d) feedback and learning elements (Chavan, 2009). A balanced scorecard might be utilized to manage strategy over the long-term yet it requires a balance of measures representing past performance and those that spur future performance (Chavan, 2009).

3.4.2 HR scorecard

Becker, Huselid, and Ulrich (2001) suggested that an HR scorecard aids in managing HR as a strategic asset and provides visibility to show HR's contribution to an organization's financial outcomes. Human resource management (HRM) practices design, including monitoring via a multidimensional scorecard, should engage the organization, work groups, and ultimately individual employees who possess the required abilities, motivations, and opportunities in the ongoing pursuit of complex, dynamic, and fragile strategic priorities (Buller & McEvoy, 2012). Employee line-of-sight to strategic imperatives is critical for implementation of HR practices and organizational performance (Lengnick-Hall et al., 2009). Muslim and Firania (2016) indicated a HR scorecard should describe cause and effect performance measures through identification of intangible leading indicators in a manner that makes them become tangible lagging indicators.

3.5 Key Metric Communication

Communication, linkage, and feedback and learning process elements should be identified as part of a scorecard (Chavan, 2009). Effective performance management systems focus not only on performance monitoring processes but also on enhancing communication and employees' involvement in performance management (Irs, 2012). HR Leaders should establish guidelines to communicate performance of key metrics within the organization (Taticchi, Balachandran, & Tonelli, 2012). Strategic communication addresses alignment of information needs of intended audiences at multiple levels of the organization (Thomas & Stephens, 2015). Therefore, the HR performance measurement and management system should identify how key metrics are communicated throughout the organization, as well as the frequency of the communication.

3.6 Pay for Performance and Rewards

Employee to strategy line-of-sight, strategy execution, and rewards alignment are critical for an organization (Lengnick-Hall et al., 2009). Management should assure alignment between reward and

performance management programs and organizational strategies, as well as assure reward systems are linked with employee training and development, performance management goal setting, and broader organizational and departmental team performance (Mujitaba& Shuaib, 2010). A pay for performance strategy might improve implementation of PMMS performance drivers (Aryankhesal, Sheldon, &Mannion, 2013). Weibel, Rost, and Osterloh (2009) concluded that a loss of intrinsically motivated behavior should be compensated by external rewards. Organizations should employ suitable pay systems to attract and retain qualified candidates and workers, as well as encourage and reward employees to focus on producing quality services and products in an efficient manner (Mujtaba& Shuaib, 2010).

IV. CONCEPTUAL FRAMEWORK

Building on the previous discussion a conceptual framework of a performance measurement and management system for HR operating plan implementation and monitoring is proposed in Figure 1.

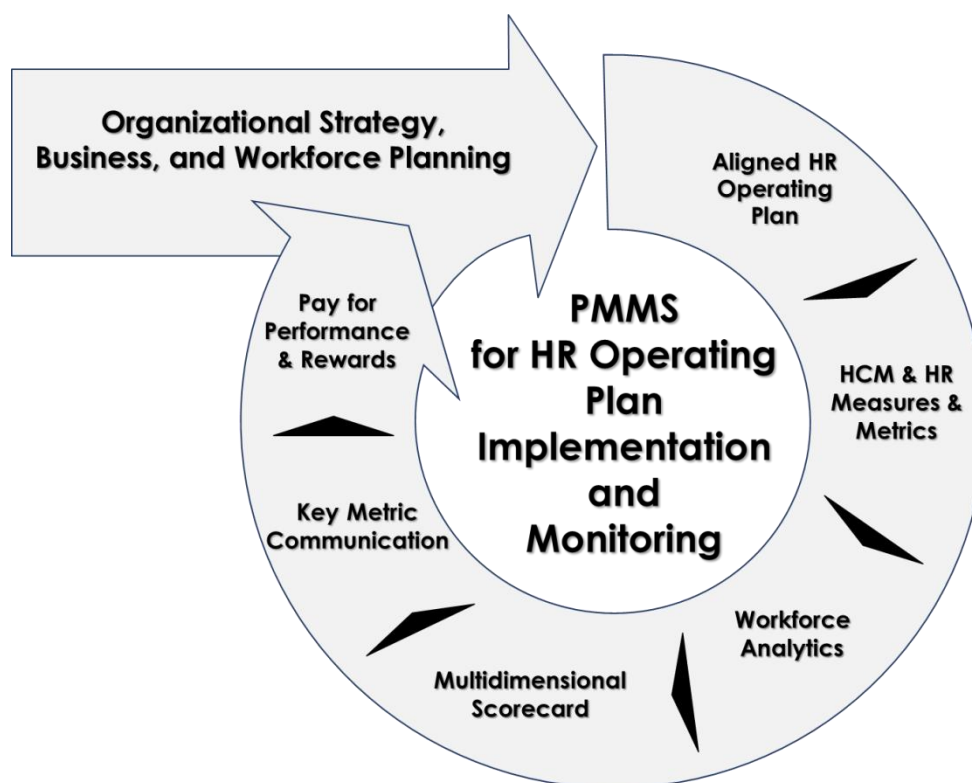


Figure 1. Conceptual framework of performance measurement and management system for HR operating plan implementation and monitoring.

The elements depicted in Figure 1 include (a) aligning organizational, business, and workforce planning (HR) strategies to create an aligned HR operating plan, (b) identification and deployment of HCM and HR measures and metrics, (c) employing workforce analytics based on metrics to enable decision support, (d) creating a multidimensional scorecard, (e) communicating key metric performance, (f) alignment of pay and rewards systems, and (g) monitoring effectiveness of metrics and making adjustments as necessary that cyclically feed the planning process. The proposed performance measurement and management system framework illustrates the interrelated aspects of RBV and ST&T in a continuous cycle of HR operating plan implementation and monitoring. This will subsequently provide organizational and HR leaders with the ability to develop an organization's internal environment as a driver of competitive advantage (Wang, 2014) while recognizing how systemic components are influenced by the whole organization system and the environment (Yawson, 2012). The elements identified in Figure 1 were consistent with effective PMMS model creation posited by Taticchi et al. (2012), as well as a strategic progress accelerator that identified cyclical implementation steps identified by Myrna (2012).

V. CONCLUSION

The proposed PMMS framework for implementing and monitoring the HR operating plan draws upon extant literature, as well as contributes to the understanding of needed specificity of PMMS performance measure attributes asserted by Choong (2013). The primary limitation of the proposed framework is the specificity of a PMMS related to the HR operating plan. The proposed framework is offered as a research tool for exploring the structure, implementation, and use of the PMMS in implementing and monitoring the HR operating plan. The proposed PMMS framework provides a tool which organization and HR managers can utilize to structure, implement, and monitor the HR operating plan. Additionally, the framework is useful to continuously monitor and evaluate the effectiveness of the HR architecture, as well as deploy control processes to ensure the organization's strategies and plans are effectively implemented and meeting planned objectives.

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