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# MEASURING THE PERSONNEL FUNCTION

W Hirsh, S Bevan, L Barber

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## The IES Co-operative Research Programme

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National Westminster Bank plc	

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# 1. Why Measure Success in HR?

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## 1.1 Introduction

It has been, to say the least, a challenging few years for the personnel profession. It seems only recently that HR specialists were being called upon to devise and implement a range of policies to help combat skills shortages and retention problems. The recent recession, of course, changed the agenda to headcount reduction, re-structuring and de-layering. Apart from cursing the vagaries of the economic cycle, personnel professionals have been hard-pressed to keep up with the pace of change.

In normal circumstances, however, these radical shifts in personnel management priorities might have been viewed as being all part of the rich tapestry of organisational life. But this time, the mood in some businesses has been altogether different. A number of pressures have built up which have resulted in serious questions being asked about the role and value of personnel departments. This has meant that, as well as having to move quickly to manage change during and after a recession, many personnel professionals have had to put additional effort into justifying their existence.

In business terms, of course, there is no reason why personnel departments should be exempt from answering difficult questions about their contribution and added value. By the same token, there is no doubt a sensitivity within the profession itself about such questions being asked at all. With so much personnel work to be done, some reluctance within the profession is, perhaps, unsurprising.

It was against the background of this debate that the Institute for Employment Studies (IES) decided, through its Co-operative Research Programme (CRP), to embark on a study to examine how personnel departments were responding to these challenges and, more specifically, how their contribution was being measured.

This report presents the results of this work, and discusses whether or not there is a simple answer to the question 'Can the contribution of the personnel function be measured?' It also presents case-study material of how a number of significant UK employers are tackling these issues.

## 1.2 Objectives of the study

The research study had the following objectives:

- to understand the range of influences on the personnel function to measure its business contribution and success
- to collect information on the approaches used within organisations to measure success
- to examine similarities and patterns in the use of such approaches
- to discover the impact of such measures on the personnel function.

Our working assumption at the start of the research was that the choice of measurement would be dependent on the rationale for measurement. Our interest focused on the strength of this relationship.

## 1.3 Methods

Four main approaches were used in conducting this study within organisations:

- a review of the available literature in this area
- a small survey of some large UK employing organisations
- case studies in nine organisations
- workshops with employing organisations to discuss both technical and political aspects of measuring personnel function success.

A full bibliography based on our review of the literature appears in Appendix 1.

## 1.4 Survey of employers

During the early part of the research, 66 questionnaires were distributed to IES subscribers and CRP members. Thirty-four usable responses were returned, representing an overall response rate of 52 per cent. A copy of the survey questionnaire is included in Appendix 2. The questionnaire asked senior personnel managers for information concerning:

- the organisation's main products or services
- part of the organisation represented
- evaluation exercises carried out over the past three years
- a description of any current initiatives
- willingness to participate as a case study.

**Table 1 : 1 Most measured areas of HR activity**

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<b>Areas</b>	<b>%</b>
Training	85
Management development	82
Pay Systems	82
Communications	82
Recruitment/Selection	79
Absence	76
	n=34

---

Source: IES Survey, 1995

### **1.4.1 Survey findings**

Looking at the areas of HR activity most likely to be the subject of formal measurement (see Table 1.1), it is clear that training (with 85 per cent of respondents claiming to measure it); management development (82 per cent); pay systems and communication (82 per cent each); and recruitment & selection (79 per cent), figure prominently.

It is interesting that over three-quarters of respondents used sickness absence as a measure of HR function effectiveness. The fact that so many did, raises a fundamental question of attribution in HR management, which is discussed later (see Section 4.5). One of our aims in this research was to examine the extent to which measures which were used to look at personnel function effectiveness could be directly influenced by that function. One might argue, for example, that sickness absence is not directly in the control of personnel specialists, though its measurement, costing and administration probably are.

Respondents were also asked to indicate which *approaches* their organisation had used over the past three years to assess the contribution of the HR function.

Table 1.2 shows that, 'senior manager satisfaction' was identified as being the most frequent approach to measurement within areas of personnel work. Ninety-one per cent (31) of the organisations participating in this study reported using this method. Over eighty per cent used costing as a method and 79 per cent used line manager satisfaction.

Again, this illustrates an interesting issue which was also addressed in the case study research. Measures of costs and inputs appeared to be distinct from 'softer' measures of client satisfaction. This raises questions about the use of measures which can be linked to tangible outcomes, and those which measure the extent to which there is a perception that the services which are provided are satisfactory. This is discussed at more length in Chapter 3.

**Table 1 : 2 Commonest approaches to measuring HR activity**

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<b>Approaches</b>	<b>%</b>
Senior management satisfaction	91
Costs	82
Line manager satisfaction	79
Process audit	68
Employee satisfaction	68
Benchmarking other employers	65

n=34

---

*Source: IES Survey, 1995*

## **1.5 Structure of the report**

The report has three main components:

- the case studies of organisational practice (Chapter 2)
- an analysis of the main methods of measurement in use and their pros and cons (Chapter 3)
- a discussion of the more fundamental issues raised by the research (Chapter 4).

## 2. Case Studies of Measurement Practice

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In this chapter we present summary descriptions of each of the case studies conducted. In each case the same format is followed, covering:

- the background and context of measurement
- specific approaches adopted
- the impact of measurement
- issues and learning points raised by the case studies, and likely future developments in measuring the effectiveness of personnel.

The list below summarises the case study organisations.

Case	Organisation	Sector
A	Yorkshire Water plc	Water/environment
B	Marks and Spencer plc	Retail
C	Civil Aviation Authority	Aviation
D	Electronics company	Electronics
E	Financial services company	Financial services
F	Nuclear Electric plc	Energy
G	London Borough of Barnet	Local government
H	Rolls-Royce plc (Aerospace Group)	Engineering
I	(i) Unilever UK National Management (ii) Van den Bergh Foods	Manufacturing

# Case A: Yorkshire Water plc

## Background

Yorkshire water is a privatised water company with over four thousand staff. It is organised into three main business units: the core business of Water Services delivering drinkable water to four and a half million customers and dealing with their waste water; the Environmental Businesses dealing with such things as environmental waste (clinical and industrial); and the Group Head Office. Each of these units has a personnel function, with the majority of personnel staff being in the core business.

At the time the case study discussions were held, there were several pressures to measure personnel work:

- the core business is highly regulated (*eg* OfWat, Drinking Water Inspectorate, HMIP, NRA, Local Authorities)
- there is pressure from senior management to maintain a critical review of the contribution of all functions including personnel
- there is continued need to match the contribution of the personnel function to changing business priorities.

## Approaches to measuring success

### In-depth customer service reviews

As a very data oriented operational company, Water Services has been conducting in-depth customer service studies since 1987 to agree quality standards based on customer opinions. This has led to a need to clarify the role of support functions in relation to the business operations. However, although it is easy to measure service in some personnel areas (*eg* recruitment, training), it is harder to measure the quality of general advice and innovation.

### Global review

The Managing Director and others started a global review of the personnel function by considering the philosophy of human resource management. This highlighted, for example, the extent to which the old industrial relations culture had influenced dealings with people and taken authority away from the line managers (many of whom were quite happy about this).

Senior Personnel Managers produced a 'principles and practice' paper which resulted in the Managing Director establishing a formal Human Resources Network. This was chaired by the Company Treasurer who was seconded from his job for a year to

plan the role, direction and desired abilities of the personnel function and fit these in with the overall company HR objectives.

### **Survey of managers**

In 1993, a survey was conducted among 36 mainly senior managers to obtain their views on the role of HR in Yorkshire Water plc. Using group discussions in the HR Network, a survey guide was drafted. This was sent to the managers, who were interviewed in groups with their subordinates, to fill in the survey and receive comments. It took two weeks to conduct the exercise in eleven groups.

This approach was both designed and conducted using internal resources. The survey found that 59 percent wanted no change in the personnel function activity and service. There was some greater focus wanted on communications and career development. The results were disseminated to HR people, the Managing Director and line managers.

### **Specific exercises**

The personnel function was also measured in the context of specific initiatives. For example, there was a specific need to manage headcount reduction. An objective was set, and negotiated with the trade unions. The management development and training issues arising from the plans were then considered. A plan for managing the change was agreed which could then be measured against the business objectives of the exercise.

The reduction was achieved within time and cost — the most significant measures. It is however difficult to attribute this to any particular part of the process.

## **Impact of measurement**

### **Global review**

The company-wide review of HR helped Yorkshire Water on the way to a Personnel Strategy with focused priorities, quality indicators, and timescales for delivery. The approach has a bottom line focus.

The Human Resources Network has also proved helpful in clarifying specific action areas in personnel and their priorities.

### **Survey**

The survey assisted in the development of a sharper focus for personnel activity. In a general sense it helped to align personnel and line views, and encouraged a fairly speedy process for moving from philosophy to objectives. More specifically it:

- enabled the development of standards of service, against costs
- helped develop the concept of personnel as a contract organisation within Yorkshire Water plc
- involved line colleagues in the issue of how the HR function adds value
- gave line colleagues an opportunity highlight particular changes they desired
- gave unequivocal evidence for discussions at senior management level
- clarified preferred methods of resourcing HR work, especially that of minimal use of consultants.

## Issues and future directions

The experience of a varied approach to evaluating the personnel function has led to a range of conclusions:

- the in-depth customer service evaluation in Water Services was useful and will continue
- it is useful to keep an eye on ratios (such as personnel function to workforce numbers) and activity analysis
- limited use will be made of consultants
- it is important to confront the difficult issues of the theoretical and emotional base of the personnel function. This is done through formal surveys, discussions with line managers, and reflective learning of personnel practitioners.

Yorkshire Water has approached the analysis of the value of the personnel function by looking first at the philosophy of the function, building on this through collecting information — both factual and the opinions of managers and staff, and then rigorously discussing the role of 'personnel'. This has been a useful approach in a company undergoing such a radical change of business context post-privatisation. Considerable senior management time was given to this review. Other, lower profile activities to evaluate personnel work go on all the time: 'Good HR people are always measuring, evaluating, and reviewing their actions'.



## Case B: Marks & Spencer plc

### Background

Marks & Spencer employs over 60,000 staff, is the twelfth most profitable company in the UK and is ranked eighteenth in Europe in terms of market capitalisation. In recent years the company has made successful ventures into Continental Europe and in North America, and has a growing financial services business. Marks & Spencer has a reputation for being one of the best managed businesses in the UK, as well as one of our best employers.

Marks & Spencer has an HR function which is structured to provide services both to stores and the Head Office. The main senior management posts are as follows:

- the Director of Personnel is a main board member who is also Director of Operations and store development
- a Divisional Director of Personnel is responsible for all aspects of personnel (policy and operations) in stores and Head Office
- three Personnel Executives responsible, in turn, for recruitment, training and development; employee relations, pensions/payroll/salaries and Head Office Personnel; Health and Welfare Services.

The nature of the business demands that, compared with companies in other sectors, personnel policy making remains concentrated at the centre, but with a decentralised personnel structure of policy implementation and personnel operations.

The personnel function in Marks & Spencer has traditionally used a combination of HR specialists and experienced managers from line functions to resource senior personnel jobs. The company puts great emphasis on the role of the personnel department in supporting the business, and the impetus to measure and demonstrate the contribution that personnel makes to the business comes largely from this.

### Approaches to measuring success

In assessing the contribution of the personnel function to the business, the company adopts a range of 'hard' and 'soft' measures. The approaches used are broadly aligned to the needs of three main internal constituencies:

- the Board which, among other things, is keen to ensure that costs are controlled, wants the right number/kind of staff in place to meet future business needs, wants an appropriate

range of personnel policies in place, and wants to look after staff

- line managers, both in stores and in Head Office, who want a responsive personnel function which is familiar with their business issues, and can provide solutions at the time they are needed
- staff, who have high expectations of the business in terms of employment terms and conditions, health and welfare, and openness, fairness and responsiveness.

The approaches that the personnel function has adopted to measure how well it meets these demands, are based on both quantifiable indicators and qualitative measures of impact and effectiveness.

### **'Hard' Measures**

Marks & Spencer has not gone down the route of conducting detailed ratio analysis, nor does it worry unduly about whether individual measures are directly attributable to the personnel department or to the implementation of personnel policies by managers. Unlike other businesses, where personnel departments can find themselves developing measures as a way of justifying the existence of the personnel department, Marks & Spencer accept the worth of the personnel function as a starting assumption. This means that they can get on with the job of harnessing personnel resources to support the business.

Thus, the personnel indicators which the company monitors regularly (*ie* monthly) provide the function with a strong sense of how well policies are being implemented and how well personnel resources are aligned with business needs. Among the indicators being used are the following:

- *Retention rates of management trainees*: this provides an indication of the extent to which company investment in management trainees is being repaid, and gives an early warning of problems in the future supply of managers.
- *Proportion of managers who have been on management development programmes*: this allows targets to be set which allows some judgement to be made about the general level of management competence and experience.
- *Numbers of part-time managers*: again, targets are set. This is necessary both in business terms (with increasingly flexible opening hours) and for equal opportunities purposes.
- *Proportion of staff involved in share schemes*: this is felt to be important as a way of getting staff involved in understanding, and driving, business success. The personnel function plays a central part in encouraging and informing employees in this regard.

- *Number of industrial tribunals/legal cases against the company:* the personnel function is expected to create the conditions within which managers in the business manage inside the law. As the source of expert advice, the personnel function is expected to keep these to an absolute minimum.
- *Proportion of staff paying AVCs:* as an indicator of the success of pensions administration.

Other measures include the number of promotions each month, the proportion of the workforce with disabilities, the proportion of staff being paid monthly, and absence/retention rates.

### **'Soft' Measures**

The company also places great emphasis on the use of less tangible measures. These focus particularly on two sets of 'stakeholders':

- **The Board:** where the main requirement is that the personnel function helps the business anticipate, plan for and manage future staffing requirements. This can include headcount increases or decreases to meet business demands, or changes in the skill profile in order to deliver new products in different settings (*eg* out-of-town operations). The emphasis here is for the personnel function to facilitate decision making at senior levels by providing data, feedback and assessments of feasibility.
- **Line Managers and staff:** here the personnel function is judged by how well it communicates and implements policy and practice. It rarely uses high-profile mechanisms for gathering feedback (such as attitude surveys), preferring to use smaller scale focus groups, network groups and meetings to collect views.

As the culture of the company encourages upward feedback, Marks & Spencer have found these more 'low key' approaches satisfactory and effective.

## **Impact of measurement**

It is clear that the impact of these approaches to measurement is felt at two levels:

- At the level of the business it is clear that significant changes in organisation structure, growth or reallocation of resources can be more readily achieved because the personnel implications of such change are, for the most part, thought through at the planning stage.
- Among line managers it is widely accepted that the business appreciation of the personnel function has improved.

Given that the primary aim of measuring personnel has been to ensure that the business can fulfil its plans, Marks & Spencer can be said to have achieved a close link between its people resource and its strategic goals.

## **Issues and future directions**

As the company has managed to achieve a degree of acceptance that the personnel function makes a valid contribution, the future agenda in Marks & Spencer is characterised by a desire for targeted improvement. For example, some effort has gone into ensuring that information systems in personnel are well equipped and accessible. Management development and the role of graduate recruitment are continually under review. Above all, this process has allowed the personnel function to focus on making a positive contribution to the business rather than having to justify its existence at every turn.

# Case C: Civil Aviation Authority

## Background

This is a nationalised but self-financing organisation with about 7,000 employees. It operates in a fairly decentralised way through a number of directorates, and the personnel function mirrors this organisation with a small corporate department, and then personnel staff reporting to the line management in each directorate.

There are strong pressures to measure the effectiveness of personnel. These stem from:

- a culture of measurement, characteristic of operating in a highly regulated environment
- the scrutiny of personnel as an 'overhead' function in a self-financing business
- 'value for money' scrutiny as part of the public sector (*eg* part of Citizen's Charter, information requested by the civil service)
- the presence of a strong internal audit function
- the interest of individual senior managers.

## Approaches to measuring success

This strong pressure to measure has led, not surprisingly, to considerable activity. Some initiatives have examined all aspects of personnel work, but many more have looked at particular areas of policy. Here we will list just some of the examples given.

1. **Internal Audits** are a regular feature of the organisation. The Internal Audit Committee has examined the targets of the personnel function, whether they have been met and at what cost. The Corporate Personnel Department has also been examined in terms of 'value for money'. Audits examine issues of quality and effectiveness as well as cost.

2. Some measures of '**value for money**' have been produced as a direct result of the Citizen's Charter or in reporting to government.

3. **Employee attitude surveys** are conducted every two years and yield information on personnel policies and practices.

4. A study was conducted by the in-house business consultancy service of 'overlaps' between the various parts of the personnel function.

5. **Specific investigations** are regularly conducted into many aspects of personnel work. Often these are conducted by the personnel function but in close partnership with line managers. Examples included:

- Revision of the pay and benefits package. Information from line managers was used to determine if the revised system was simpler (one of its objectives) and external pay data is used to see whether the organisation is where it wanted to be in relation to others (another objective). Data on pay outcomes is also been used to check for gender bias.
- Management development is monitored through pre- and post-course questionnaires. These are used to measure if planned objectives were being achieved, and if participants are satisfied. External benchmarking on both the costs of management training and quality/content is also used to measure effectiveness.
- Training is evaluated at the macro level through the employee attitude survey and through internal audit of the training function. At the micro level, individual courses are carefully monitored to influence decisions such as the allocation of tutors.

## Impact of measurement

With such a wide range of approaches to measuring effectiveness, it was not surprising that a wide range of outcomes were also sought. They included:

- a clearer understanding of the organisation of personnel work and reduced duplication (*eg* the study of 'overlap')
- cost effectiveness and cost control were seen as outcomes of several approaches, especially internal audit and external benchmarking
- improvement of particular processes was the outcome of studies of parts of personnel work (*eg* absence data collection, pay policy, training courses).

## Issues and future directions

This organisation has a very strong emphasis on measuring efficiency and effectiveness, coming from both its need to be self-financing and its public sector status.

- Measurement has to be both quantitative and qualitative. The organisation looks at itself internally and by making external comparisons.

- Particular emphasis is placed on involving line managers in examining personnel work whenever possible, both to get their perspective and their suggestions for change.
- In particular investigations, objectives have been set for the exercise which can then be used later to measure if the desired improvements were achieved.
- Personnel initiatives should be measurable when they are designed. This is easier than 'bolting on' measurement subsequently.
- The organisation will continue to evolve its approach to measurement, and may well use new approaches in future. Audits will continue and benchmarking will increase, making selective use of external networks.

## Case D: Electronics sector company

### Background

The UK part of a United States high technology company, with manufacturing as well as sales and customer support in the UK, in several geographical locations. Reporting lines in manufacturing are to the US, and in sales to a European regional structure. This means the UK personnel function addresses employment issues for staff in the UK, but there is no real UK business centre. The company has always had a strong corporate culture and values, including views about the way people should be treated, management style, and encouraging employees to develop their own potential. Unlike some UK companies, the role of the line manager in dealing with people issues has been strong for many years, and the personnel function has been seen as working in partnership with the line, mainly at site level. Although the corporate values permeate the whole organisation, most aspects of personnel policy and practice are devolved to country or site level.

The company has a strong history of setting and monitoring objectives, cascading down through business streams to departments, teams and individuals. This now takes the form of a very visible planning process (Hoshin Kanri) which covers the entire corporation and obviously has a key influence on how the business measures its effectiveness. It is also linked with approaches to total quality management which are driven from the corporate centre in the US.

### Approaches to measuring success

In the past, staff in the personnel function looked at their success in terms of whether their 'standard products' (training courses, recruitment processes *etc.*) were in line with accepted good practice, whether their objectives were achieved and whether the local line managers appeared satisfied.

In the early 1990s, however, the climate appeared to get much tougher. This was partly a result of serious financial pressures on the business worldwide. Those in the business were increasingly questioning the value of anything not seen as 'mainstream'. This certainly applied to personnel. Those in the function themselves were also raising questions about the value of what they did, including the value of some of their 'standard products' (*eg* performance appraisal) which might not be effective enough to justify their cost. This climate of questioning within the personnel function was certainly heightened by the reducing



numbers of staff employed in personnel, especially at the UK Head Office.

In this context of the need to prove contribution to the business, several approaches to measuring the effectiveness of the personnel function are used:

1. **Ratio measures** are used within the business, especially in the US. In personnel these include measures of cost (*eg* heads in the personnel function per employee — this has shifted from 1:44 to a target of 1:75 in recent years), and measures of process efficiency (*eg* number of performance evaluations outstanding). Those in the function would like to be able to find measures which related their impact to added value or profit per employee, but they have found this to be very difficult. In a highly integrated international business it is quite difficult to establish where the profit is made.

2. **Measures of employee satisfaction** are taken as another barometer of the performance of the personnel function. These are generated by an employee survey held every two years worldwide, and more frequent sample surveys. The survey covers a wide range of aspects of work, with a strong focus on satisfaction with management. However it also includes some personnel processes (*eg* the mechanism for reviewing performance, benefits packages, training and career management *etc.*). Comparisons on standard items against other leading companies are fed back to employees, along with the company's own results. Senior management in the US look carefully at the results of the employee surveys.

3. A **personnel review** is carried out every two years. This is done by a group of personnel people from outside the UK visiting the UK, examining operational standards and interviewing line managers.

4. The newest approach to evaluating the effectiveness of personnel was being conducted at the time of the case study visit. This was using a **corporate approach to quality management**, again designed in the US. It is expected that this approach will be used throughout the corporation, although it may take some time. The Managing Director of the UK sales business was using the approach to evaluate the effectiveness of his entire business operation and was keen for this to cover support functions as well, so the personnel function for the sales business was included in the exercise.

The process is laid out in considerable detail in workbooks and guidance notes. It works on the premise that 'every process should serve the needs of an internal or external customer and possibly both, and their levels of satisfaction and requirements should drive the function's activities'. There is a heavy emphasis on auditing current performance as a means of defining future

goals. The methods advocated include customer surveys and interviews and self audit.

## Impact of measurement

The use of ratio measures may well influence senior views on, for example, how big the personnel function should be. In this company, the use of ratios is not highly developed enough to be a main instrument for measuring effectiveness. Quantified measures against particular business goals are more in line with the planning process and therefore widely used. Those interviewed were rather 'agnostic' about the value of ratio approaches in the personnel field, in common with other case study organisations.

The employee attitude surveys do seem to have a very direct link with the work of the personnel function through the Hoshin planning process. In 1993 several of the Hoshin goals set for the personnel department were expressed in terms of increasing surveyed levels of satisfaction in specific areas. The surveys also provided the mechanism for measuring whether these goals were being achieved on a quarterly basis.

It was too early to know whether the effort going into the total quality approach to personnel service delivery would result in significant improvements.

## Issues and future directions

This company has chosen a way forward on measuring the personnel function which seems to be in line with two very strong aspects of the corporate culture and processes:

- The use of employee attitudes as a measure of effectiveness implies that helping to produce satisfied employees is part of the role of the personnel function.
- Seeing the personnel function as primarily offering a service to managers, it seems natural to integrate attempts to measure effectiveness with approaches to total quality which concentrate on customer satisfaction.

It is interesting to speculate about what this company would do if the views of managers and employees pointed in different directions. It is also possible, in this approach, for the more proactive role of personnel in anticipating business needs and improving processes, to be undervalued. Indeed some of the line managers interviewed wanted a rather pro-active personnel function which would identify future needs.

Those in the personnel function commented that their impact nearly always occurs via line management. Although this raised

issues for them in terms of which aspects of personnel they could really influence, the practical approaches used for assessing effectiveness and setting goals for the personnel function tended to gloss over this issue.

Line managers also pointed to some possible difficulties which arise when a personnel function gets smaller. Although in general welcoming the attempts in personnel to save on costs, successive reorganisations had resulted in little continuity within the function. In a model which rests heavily on the relationship between managers and local personnel managers, continuity is vital. Line managers wanted a quick response, but also an expert one. Maintaining a high level of expertise in a function in which specialist posts have been reduced, is also clearly an issue for the future.

## Case E: Financial services company

### Background

A major UK banking and financial services company, this organisation has a corporate centre with an increasingly devolved structure beneath. The corporate centre is now smaller than in the past. Responsibility for personnel policies and processes has been moving out from the centre and to business streams (*eg* retail banking as the largest business). Within business streams there is further devolution geographically or by unit. Attempts to assess the effectiveness of the personnel function should be seen against this significant shift away from the corporate centre. The discussion covered a number of approaches to measuring the effectiveness of the personnel function. Some of these had been restricted to the corporate personnel department, and others had been more wide ranging.

The organisation has for many years monitored costs and activities. In personnel, this extended to the practice of evaluating specific interventions. For example, in the field of training, there have been attempts to go back and identify changes in performance resulting from training, over longer timescales. In the mid 1980s, an interview study of line managers shed some light on aspects of personnel they felt to be important. In the late 1980s, a move to a greater focus on output led to a stronger emphasis on setting business objectives and linking reward with performance.

### Approaches to measuring success

Although the personnel function was clearly changing in the 1980s, and asking questions about its own effectiveness, it was not until the early 1990s that these questions became really pressing. This phase of radical re-examination appears to have had several drivers:

- A pressure coming from key individuals at Board level to cut the costs of Head Office support functions, including personnel.
- Within a climate stressing business efficiency, pressure to examine the relevance of personnel work to the business.
- As line managers were perceived as the key 'customers' of the personnel function it was necessary to show that these customers were getting the service they required. This replaced older and more bureaucratic notions of procedures and administration.
- A desire to reflect the changing decision making responsibilities of the corporate centre, business streams,

regions and local units, in the structure and location of the personnel function itself.

These drivers have clearly influenced the purpose and design of a sequence of attempts to grapple with the need for change in personnel function over the period of the early 1990s. The case study discussions centred on four approaches which have been used since 1990.

1. In 1990 a **survey** was commissioned by the personnel function of the importance of various personnel services to its internal customers, and their levels of satisfaction. The study was carried out by an internal service function. This study was rather similar to a later one (see 3 below), but was overtaken by (2) below before it could have a significant impact.

2. In 1991, external consultants were brought in by the Chief Executive to carry out an **Activity Value Analysis** of Head Office support functions, including personnel, with the intention of cutting costs significantly. The method was one of 'bottom up' enquiry. In each function, suggestions for cost saving were captured from staff and examined by a panel of senior people from the function concerned, facilitated by the consultants. Internal customers of the function were also consulted. A vast amount of detailed information was collected over a six month period and an internal team of at least 18 people worked on the project full-time, in addition to panel members. Action areas for cost saving were agreed by the panel.

3. **Survey based audit.** In 1992, continued Board level pressure for cost saving called for a more radical review of some support functions across all business units, again including personnel. However, at this point key players in the personnel function decided that the review could be used for considering deeper issues of purpose, activity and structure as well as the narrow remit of costs. In particular, the issue of devolving the personnel function out from the centre was seen as a key issue to examine. There was also a desire for personnel to move to a more strategic, less administrative, role. This stance taken by the personnel function itself seems to have had a significant impact both on how the exercise was designed and its result.

Although external consultants were used in conducting this study, the audit project was very tightly controlled by personnel staff. Indeed the consultants were chosen largely on the basis of their ability to accommodate the organisation's views on the content and method required. The audit was based on a questionnaire survey of line and personnel staff, including those out in regions and the field operations. Interviews were also used to find out what both personnel managers and line managers (mainly senior) thought about the value of each aspect of personnel work and how they saw their future needs. The audit questions subdivided personnel work into activities (*eg*

staffing, reward, development *etc.*) and sub-activities. Data was collected on the time spent by various levels of personnel staff on each of these activities. This was used as a proxy for cost. Information from the line indicated how important each of the personnel activities and sub-activities was to them, and how satisfied they were with the service received from the personnel function in each. Information was analysed by region so the costs of service and satisfaction could be compared.

The presentation of results was followed by considerable internal debate, especially with regional senior managers, as to the implications for the future of the personnel function.

4. In 1993 the organisation embarked on the development of the '**Balanced Business Scorecard**' approach to performance evaluation. This reviews performance against a whole range of measures which map onto different 'stakeholders' — shareholders, customers, employees *etc.* Developing appropriate measures is obviously the central challenge with this approach. In relation to people aspects of the business, such measures might include: staff attitudes and satisfaction measures, productivity measures (error rates *etc.*), effectiveness of skill mix and training (perceived as very difficult to measure), staff turnover (which is easier to measure, but harder to attribute to causal factors). Benchmarking against other employers may also be used in such measures, although the team involved in this work had serious reservations about the validity of some of the more obvious benchmarking measures (such as cost of the personnel function per employee).

## Impact of measurement

Approaches to measurement prior to 1990 were mainly aimed at improving particular personnel policies and practices. Those since 1990 have been aimed at much more radical goals in terms of cost reduction and a change in the way personnel services are structured and delivered.

The major cost-cutting exercise (see 2 above) certainly achieved short-term cost savings. These appear to have more than paid for what was an extremely costly exercise. Many, usually small, savings were identified through either cutting out unnecessary activities, doing them less often, or doing them more cheaply. These small savings added up to a formidable saving of 15 percent in staff and 20 percent in budget of the Head Office personnel function. It probably also had a significant cultural effect on the organisation by simply questioning the status quo. However it did not yield many radical changes and did not answer more fundamental questions about the kind of personnel function the organisation was going to require. It was not designed to do so.

The second large scale exercise (see 3 above) has had a different kind of impact. It has led to serious debate within the personnel function and between personnel people and senior managers about the purpose and structure of the future personnel function. It will influence both the balance between Head Office, business stream and regional personnel functions, and the roles of the personnel function and the line in delivering the management of people. Senior regional managers have been central in using the study as an opportunity to define what the part of personnel outside Head Office should look like. The result is a three to five year development plan for the personnel function. It was interesting, in the context of recommendations to devolve far more personnel management to line managers, that personnel information systems were identified as a crucial constraint. The need to invest in new computerised personnel systems has therefore been considered in setting the timescale on which this transfer of responsibility can be made.

It is interesting that the first survey study (see 1 above) was similar in content to this exercise but seems to have had very little impact. This may, in part, be due to rather more thoughtful design second time around. However it seems just as likely that it was the seriousness with which personnel and senior management approached the study rather than technical issues which made the difference. This was in turn a function of a climate in which people believed radical change would really occur.

It is too early to say what the impact of the 'balanced business scorecard' will be. It is hoped that it will lead to a more mature consideration of the differing needs of the varied 'stakeholders' in personnel work in evaluating its effectiveness.

## Issues and future directions

Because this organisation had tried various approaches to the problem of evaluating the personnel function, it was well placed to draw some general conclusions from its own experiences. These included:

- The need for a clear view of what each exercise is trying to achieve and the cultural context at the time. Early attempts were clearly pitched at cost cutting. Later ones have been geared to giving line managers the kind of service they think they will need in future. The attitude of the personnel function to successive exercises has played a significant part in their impact.
- The company has learnt by exploring a succession of approaches over time. They do not believe they could have gone to a major review of the function in a one-step process. In particular, early exercises had a crucial role in changing the culture and preparing the function for serious change. The

direct concern of the Board also sent important messages to those in personnel that change was needed.

- Measuring improvement in the workforce is much harder than measuring satisfaction of employees or line managers. The company acknowledges that to date it has based its redesign of the personnel function on what managers value, rather than what is proved to be effective.
- Successive approaches have brought the examination of the personnel function closer to the business. Early exercises were introspective. Later ones looked at the line demands on personnel in a business context. The 'business scorecard' integrates measures of personnel with measures of other facets of the business, and is an approach which will be applicable to all functions.
- As you get nearer to measures of the effectiveness of workforce management and further away from just looking at the functioning and costs of personnel departments, so you are inevitably measuring the personnel effectiveness of the business and not the effectiveness of the personnel function. This has to be clearly understood by those looking at such measures.
- There is a tension between using measures to monitor the performance of the organisation, and using the same measures to set individuals' objectives on which their own pay will rest. The second use can constrain and distort the primary use of performance measures.



# Case F: Nuclear Electric plc

## Background

This organisation is a publicly owned energy authority employing rather under 10,000 people. Decision making is increasingly devolved to site level and the Head Office has reduced considerably. Each business unit has its own Personnel Team, and support from the Central Personnel Function when it is needed.

The organisation is very measurement conscious in a highly regulated industry. Business measures include return on capital employed, measurement of the construction programme and controllable costs. The pressure to measure Personnel comes from the Chief Executive who is concerned about the utilisation of all central functions and their value for money, and from the Personnel Director who is responsible for high quality and achieving results, as the department gets smaller and the remit wider.

## Approaches to measuring success

Past approaches to personnel have been bureaucratic and prescriptive. The changing culture has led to the need to look at the added value of the personnel function.

There has been a wide variety of recent initiatives which all aim to measure or assess the contribution of the personnel function. These are described briefly below.

1. Various **audits of activities** (such as recruitment, remuneration and relocation) have been carried out. For example, the recruitment audit was done internally and mainly involved testing whether the current process ties in with equal opportunities legislation. Two locations were chosen and 18 months' records were examined to see whether relevant procedures in monitoring and recording information were being followed. Some improvement was needed and new guidelines were issued to panel members and to personnel and recruitment staff. As a result, recruitment procedures have tightened up with regard to equal opportunities issues.

2. In the operations side of the business, regular **peer reviews** are conducted, and a pilot peer review was conducted of the personnel function at one site, in parallel with its operational review. The review team included the personnel officer for another site. The objective of the peer review was to look at outputs; that is, what the HR function should be trying to achieve at a specific location and whether it is doing so. The

operational review already covers turnover and training. This pilot review of HR focused particularly on communications and industrial relations processes. It was done through talking to personnel practitioners, observation of processes (such as team briefings, site consultative committee meetings and industrial relations negotiating meetings) and asking other members of the review team to be alert to HR indicators.

As a result of the collection of this data, a draft report was written which gave examples of good practice and identified areas for improvement. The personnel officers involved found this a useful exercise and the company plans to have personnel included in every operational peer review.

3. The whole organisation (including the HR function) went through a **cost management review** which was an attempt to identify the detailed costs of each activity. For the personnel function, the company looked at high cost/low value areas to see which could be removed. They had to make rough estimates of some costs in terms of the number of HR days devoted to them. The relative value of activities was agreed at executive director level in a priority matrix (for example training was high, personnel administration low and service in between). External consultants were used to produce the forms, and helped them to make judgements about how people spent their time.

Each manager in the Personnel Department was then invited to identify cost savings. The process was timely because central personnel activities were reducing anyway with devolution. Decisions are still being taken as to what needs to be done centrally and what can be devolved.

4. In an attempt to find out what the customer wanted, and whether the personnel function could improve its service, **line manager satisfaction** and **senior manager satisfaction** surveys were carried out. A service appraisal form was sent to a variety of managers in June 1992 and they were asked to rate the service provided by the personnel department on a number of criteria and then asked to rate them again in May 1993.

A seven point rating scale from excellent to unacceptable was used and a maximum of twenty points were awarded for each of the following five factors:

- the overall quality of service
- communication and feedback of results
- a quick and appropriate response
- the added value of the service and its helpfulness
- knowledge, expertise and professionalism.

This was a broad brush approach and people were warned that it would be repeated a year later to see whether there had been any

improvement. In fact, most customers did feel that there was an improvement during the year concerned.

5. In order to look at the structure and activities of the personnel function, a **customer needs survey** was conducted. Line managers were asked what service they wanted and where, and what activities they valued.

So far this has been used to help restructure the department, but it might also be helpful when the department wants to decide which measures to use for activities valued by customers.

6. The HR department has also been working on the development of **HR vocational competences**. A matrix of vocational and behavioural competences for each of three levels in each of six key result areas was produced for all jobs. It is hoped that this will act as an additional lever for identifying service shortfalls and improving capability.

7. To compare some of their processes with those of personnel functions in other organisations, **benchmarking** is done for policy areas including pay and benefits. As there is central pay bargaining and national pay rates are in force, the market as a whole is compared in terms of the sector (energy or utilities), geographical area, and whether recruitment is difficult.

## Impact of measurement

All attempts at measurement aim to improve business performance. Several examples from the audits and cost review had resulted in cost savings and/or improvement in personnel processes.

## Issues and future directions

The issues and learning points reported by this organisation included:

- The necessity to measure personnel: 'If you can't measure it you can't manage it.' However, timescales and the problems of proving causal effect are difficulties in relation to measuring personnel.
- The peer review process promises to be a most useful one because it concentrates on outputs and service requirements.
- HR vocational competences will be useful in moving on from the quality of the function to the development of individuals within it.
- It is important to make assessing the effectiveness of the personnel function part of the planning process so that measurements are being made against objectives.

Future development will concentrate on:

- Mechanisms to monitor the health and effectiveness of the personnel function, and to identify where the organisation needs to go outside for the necessary expertise.
- Refining the measures used to date, looking at resources required — including development needs of personnel staff.
- Benchmarking, which is likely to become more prominent.

To summarise, this organisation has used a number of methods of measuring the effectiveness of the personnel function. These include an audit of activities, peer review, cost management review, line manager and senior manager satisfaction surveys, a customer needs survey, the development of vocational competences for HR and benchmarking. Mechanisms to fine tune measurement and introduce more systematic benchmarking are planned.

# Case G: London Borough of Barnet

## Background

The London Borough of Barnet is a local authority employing 10,000 people in five directorates.

The personnel function at the time of the study comprised a central personnel department, and a Departmental Personnel Manager and staff for each directorate. There was a separate performance review unit. The departmental personnel units reported to the service directors, with a professional link to the Head of Personnel. Since the study, the structure has moved back to a more centralised one.

The pressures to develop measures of the effectiveness of the personnel function have included the following:

- Elected members wanted to clarify accountability for value for money in HR.
- There was a desire for a better balance between professional and non-professional staff: HR was seen as being primarily an administrative function.
- Better HR planning and skill development was seen as a priority, and clarity was sought over the role of HR in delivering this.
- The Audit Commission recommended that every committee should receive a performance measure of service plans every quarter, resulting in a general need to monitor performance.
- The new Head of Personnel wanted to monitor HR services and their effectiveness.

## Approaches to measuring success

As a result of Compulsory Competitive Tendering (CCT) regulations, the personnel function in local authorities must put a certain proportion of its work out to tender. The percentage targeted and the timing is still under discussion. If an internal bid is to succeed, information about the effectiveness of the structure and resources of the whole personnel service is required. If service-level agreements are to be negotiated, then performance indicators will be necessary.

Efforts to measure personnel more effectively in Barnet have therefore included the following:

- The Performance Indicators (PIs) reported to committees every quarter have been revised in an attempt to focus them on measurable outcomes against objectives.
- The Head of Personnel conducted an internal client valuation survey. The aim was to gain a view from each directorate of how they viewed their operational personnel unit and what they thought was the purpose of the personnel function. This represented both an operational/process review, and a value-for-money analysis.
- The Performance Review Unit was to conduct a review of Personnel Administration Procedures at the behest of the Head of Personnel.

This review has been rapid and pragmatic rather than considered and comprehensive. Barnet recognises that CCT has currently forced them to place a particular emphasis on their approach to measurement.

## Impact of measurement

The results of this approach have been:

- PIs are now presented to show comparisons between directorates.
- The results of the client survey were reported to Members and Directors' to feed into the debate about the shape of the personnel function at business unit level.
- There will be a restructuring based on the results of the survey to facilitate CCT.
- The view among senior line managers that HR is an overhead which contributes little, was challenged.

## Issues and future directions

Barnet found that, while it may be possible to measure the success of the personnel function, measuring inputs is easier than measuring outputs. Output measures, they felt, would be expanded when they felt confident that the information could be systematically collected. The Head of Personnel would use the questionnaire and interview approach again.

The London Borough of Barnet needed a quick approach to look at the value of the personnel function to the Council. The three prongs of effort: performance indicators, client survey and audit of administration, provided some rapid progress towards measurement.

# Case H: Rolls-Royce plc (Aerospace Group)

## Background

As one of the UK's largest aerospace businesses, Rolls-Royce remains a major employer. The last few years have, however, witnessed significant changes in the structure and size of the business. One of the most important shifts has been the move from a site to a business unit focus. With this shift has come a parallel realignment of personnel responsibilities. Each business now has its own head of HR reporting to a Managing Director, with a 'dotted line' to the group HR Director.

In an organisation which faces such strong international competition and which has needed to reduce headcount so drastically in recent times, the personnel function has had a strong role in controlling costs. Indeed, in so far as Rolls-Royce has sought formal measures of personnel effectiveness, its capacity to control labour costs has been prominent among them.

## Approaches to measuring success

Some limited attempts have been made within the company to develop indicators of personnel function effectiveness. These have tended to be associated with specific initiatives (such as the introduction and take-up of share option schemes) or with response times on job evaluation or recruitment requests.

A recent development, however, has been a move towards the formulation of **personnel standards**. The aim of these standards, designed at the group headquarters, has been:

- to provide continuity with other standards-based approaches to managing the business (*eg* ISO 9000 and BS 5750)
- to avoid being too prescriptive on HR policies and procedures to managers in increasingly autonomous business units
- to retain, despite this, a group wide and coherent set of HR values and standards which guide the formulation of local policies and procedures.

A feature of these standards is that they are deliberately pitched at a level which has clear business relevance. This means that they deal with common personnel processes such as recruitment, appraisal, training and development. The intention is that they should allow local managers the freedom to adapt personnel procedures to local business needs, but within the context of standards based guidelines. The standards define where clear policies and processes should be in place, and criteria dealing with their quality.

This approach is generally endorsed by those senior line managers who took part in the IES research. One of their concerns was that, while local personnel staff were predominantly effective, responsive and aware of business needs, the group headquarters was more remote. They felt that the group HR function should be setting a broad agenda, and then allowing the business units to interpret this locally. The fact that such standards were being formulated and consulted on helped them to feel that they were not going to be 'railroaded' into using untested approaches.

## Impact of measurement

As the standards documents were only beginning to be distributed at the time of the case study it is difficult to assess their immediate impact. However, they represented a logical step for the group HR function to take. For many managers at business unit level, the HR function had only a local face. The centre needed to raise awareness of its own contribution to business benefits through determining the group wide HR agenda.

## Issues and future directions

To some extent, this implicit admission that the corporate centre can no longer dictate the 'chapter and verse' of personnel procedures in a highly decentralised business, will go some way to improving its image among line managers. There remains, however, a strong internal resistance to over-complex measurement from two primary sources:

- from line managers, who would resist an over-prescriptive approach from group personnel. They would, however, retain an expectation that personnel staff at local level will continue to provide trouble-shooting advice and ensure that they do not fall foul of employment legislation
- from senior personnel staff, who are less concerned with measurement for its own sake or for defensive purposes.

As the businesses become more autonomous, the group HR function can still exert general influence to improve specific processes and policies by ensuring that local personnel policies are both comprehensive and of high quality, through the application of universal professional standards.



# Case I (i): Unilever UK — National Management

## Background

Unilever UK is a major manufacturing organisation, operating worldwide with 25,000 employees in the UK. With a large number of subsidiary companies operating within the group, there is a strong corporate planning system. Corporate decisions are also taken about senior management. Each operating company has to provide an annual plan and a five year plan which are agreed with the Board. The company is then measured monthly against targets such as return on capital, sales volume and profit, as well as numbers and kinds of people employed. There is a company wide management bonus scheme based on individual targets derived directly from the business plan.

The personnel function is diverse and exists within each operating company. There is a National Personnel Function which provides advice and a few 'controls'. There has always been a strong personnel function in this company, though under a democratic management style.

The organisation is very measurement-conscious, and recently had an overall review. Nothing was excluded and it was felt particularly important to measure the personnel function because of the targeting system. It is easy to make the personnel function targets more numerate, for example, to win 20 liP awards by the end of the year, or to recruit 50 graduates. It is much harder, however, to specify the gains made as the result of an liP award, or to define what the 'best' graduates are.

## Approaches to measuring success

Past approaches to measurement have been very extensive: in fact, there is some concern that they do too much in this area, and produce large volumes of complex statistics.

In the recent past, they have used:

- target setting;
- process audit — because of continual reviews of procedures;
- benchmarking, old and new, which compares people inside with those outside — in a more or less sophisticated way. This includes being members of a productivity group (17 blue chip companies) who exchange detailed information;
- opinion surveys and surveys of works councils, company councils and so on;

- measuring inputs and outputs, *eg* looking at wastage and retention rates, and the movement of managers through the organisation.

The methods used have been chosen pragmatically. They have not consciously rejected other methods. The newer methods are the process audits and the measuring of inputs compared to outputs.

Since all management is measured, they feel that personnel should be treated the same way as other functions. Management is run on a relatively small number of targets — a maximum of three — which forces people to prioritise. The targets are as quantitative as possible; thus no longer 'high quality graduates for operating companies' but '94 high quality graduates' listed by function and type. They have to make sure that the targets stem from the business plan; for example, liP targets are based on overcoming the projected shortfall in people, skills and training. Success has led to greater efforts at measurement: targets on liP, graduate recruits, headcount, absenteeism, wage bills and labour utilisation have been met.

## Impact of measurement

In general, these varied approaches to measurement were seen as focusing the efforts of the personnel function and helping to achieve specific targets. Other examples of measurement showed the impact of more detailed process reviews.

To take a specific example of a measurement project, the Business Education Programme is a series of formal courses for graduates based on a series of one and two week courses during the first four years, which has been offered for a long time. However, it was felt that it needed review because of questions from internal customers, outside trends towards customised MBAs, the business school link and distance learning. A year was spent reviewing the Business Education Programme through setting objectives for the process, talking to senior management, collecting data on the costs of training, the numbers going through the programme, and the quality of senior management delivered through it.

A team comprising senior managers from the companies and some young managers who had been through the programme, recently found that what was currently being offered was neither as useful or cost effective as it should be. A new programme was devised based on modules, and using distance learning. The company will not know the results of this change for a few years.

## Issues and future directions

The organisation has concluded that a wide range of approaches to measurement is useful, and that is why they use them all; they cannot really identify one approach as being better than the others.

They do not believe that the personnel function can be measured as a whole; component parts, however, can be measured to some degree and this is extremely valuable. It is impossible to measure success, but it is possible to say what has been done and to measure targets.

There is likely to be a continuing interest in measuring the personnel function, and initiatives will become more sophisticated. With flatter management structures, the parts of the business will need to examine constantly whether what they are doing is still relevant. Its component companies will learn from one another and from other organisations' best practice. It is important to be satisfied that each part of the organisation has clear business plans with the people issues built in.

This organisation constantly measures itself in numerous ways, and measuring the personnel function has always been an extension of this. However, they are now demanding more quantitative measures and measuring actions against targets. Approaches to measurement are not changing radically but they are becoming more sophisticated.

## Case I (ii): Van den Bergh Foods

### Background

This is a large consumer manufacturing business within the Unilever group (Case I (i)) with a head office of its own in the UK, and several manufacturing sites.

The personnel function is fairly small, led by a Personnel Director. The pressures to measure personnel are rooted in the culture of the wider group. Key financial indicators and ratios are measured, as are key performance processes. The company is very quality management (TQM) oriented and thus they look at such measures as operational efficiency, wastage, customer delivery, customer satisfaction, consumer complaints, people's ideas (from the suggestion scheme) and the number of training days per employee.

The personnel function works in very close partnership with the line. This makes it quite difficult to separate out the specific contribution of personnel in many areas of 'team effort' (*eg* industrial relations, absence control).

### Approaches to measuring success

Over the past few years, attitude surveys, total quality (TQ) meetings and projects, internal customer consultation, training measurement and productivity measures (the effect on people, rather than the technical analysis) have all been used in looking at the efficiency of the personnel function. Approaches have not changed over time since TQ was adopted in 1987, although the process now runs more smoothly.

The company hopes to improve quality through all its personnel initiatives, and TQ encourages this process. For example, in the area of staff training and development, there were complaints that the company did not appear to be committed to staff development despite the fact that it has always spent a lot of money on training (£4.5 million pa). People did feel that they had been well trained to *do* things, but not that they were continuously developed. Therefore the company has launched 'the Learning Organisation' to bring TQ to employee development initiatives and gain better feedback. TQ meetings are a vehicle for people to raise specific problems.

Two recent methods of measurement used are customer consultation, and attitude surveys. Customer consultation covers both the macro level (asking people for feedback in a structured process), and the micro level where they have covered recruitment, training and relocation recently. All this helps with

continuous improvement, and is part of the TQ philosophy. It is carried out whenever either the company feels that it is appropriate, or when the customer asks for it. Customer consultation is important to the personnel function which must understand the needs of its internal customers.

## **Impact of measurement**

Obviously, with measurement so much a part of the culture it is difficult to look at total impact. Real impact comes from each review or attempt to measure. For example, one of the outcomes from the customer consultation exercise has been to develop a revised employee development activity, based on some clearly stated principles. This opinion echoed the view from Unilever National Management that each measurement exercise should have a particular impact.

## **Issues and future directions**

It is possible to measure a subjective evaluation of the personnel function and it is desirable to do so. It is also possible and desirable to measure some aspects, such as recruitment processes, empirically. However, the personnel function is a department of limited resources, and therefore must look for key issues and attack them. The most useful approaches have been customer consultation and other direct approaches. They are most useful when they are bite-sized because people can be involved easily, the time can be carefully picked and the results can be used immediately and practically.

The line managers interviewed in this case study organisation felt Personnel was most effective when it involved the line through a process of policy change, rather than waiting until proposals were produced before consulting. They did not want a bureaucratic function, and valued rapid response and competent individuals at local level.

This is a company within a larger group with a strong TQM and measurement culture, and it is therefore constantly measuring the effectiveness of every part of the business, including Personnel. In Personnel, it is easier to measure subjective responses and these are constantly canvassed, but empirical measures are also taken wherever possible. The effectiveness of the personnel function, especially at local level, depends on the quality of a few individuals. The company believes there is no point trying to do the ultimate assessment of the personnel function. It is important to operate within tolerance bands, and to use specific topics for discussion to make the process of review and measurement less threatening. The measures taken are immediately used, fed back, discussed, and improvements implemented. Those in Personnel recognise that they can improve still further and are working at doing so.

## 3. Methods and Issues in Measuring Effectiveness

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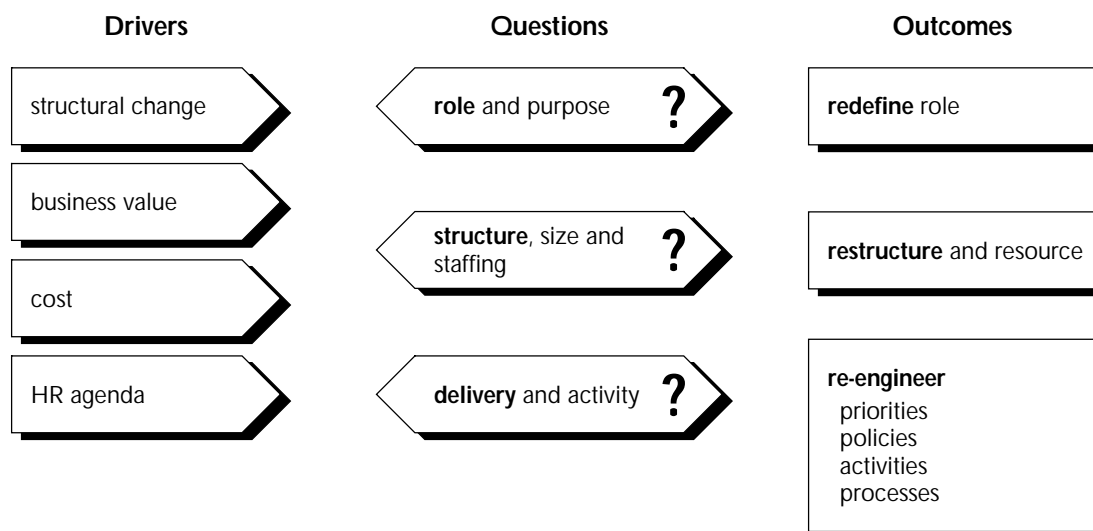
In this chapter we draw out some of the general patterns in the approach taken to measuring the effectiveness of personnel or HR. We begin by looking at the crucial issue of the purpose of measurement and the context in which it takes place (Section 3.1). We suggest a simple classification of measurement approaches (Section 3.2) and then each approach is examined, with illustrations from the case study organisations. The chapter concludes with a summary of the pros and cons of the alternative approaches to measurement (Section 3.6).

### 3.1 The context of measurement

The measurement of the effectiveness of the personnel function or of personnel management does not take place in a vacuum. In all the case study organisations it was relatively easy to identify one or more pressures to measure. These we might call the 'drivers' of measurement, and they tend to influence the kinds of questions which are really being asked about the personnel function, even if these questions are not made explicit. The drivers also imply expected sets of changes which might result from the measurement exercise.

Figure 3.1 shows some of the common drivers, questions and expected outcomes. *Structural change* in large organisations is certainly a frequent reason for reviewing the personnel function. In particular, the devolution of responsibility for personnel policy away from the corporate centre and out to business streams or local units, raises questions about the role, size and activities of personnel departments at these different places in the organisation. Likewise, changes in the relationships between line management and support functions (including personnel) also raise questions. At its most radical the question might be: 'if line managers are responsible for managing their people, why do we need a personnel department at all?' The kinds of outcomes expected from following the driver of structural change, include re-definition of the role of personnel at each of its locations in the structure, leading to physical re-structuring of personnel departments and a new approach to delivering personnel services on the ground.

Figure 3.1 : Drivers, questions and outcomes



Source: IES, 1995

Fundamental questions are also raised by the driver of *business value*, which looks at all activities in relation to business goals and 'added value'. With a continued pressure to improve efficiency, many of things done by personnel might be 'nice to have', even 'best practice', but of limited proven financial value to the business. This driver again can raise issues of role and purpose, but also more specific questions about service delivery. Reviewing from the standpoint of business value could have a range of expected outcomes, from quite modest changes in priorities and activities, to a major structural overhaul of the whole function. The degree of fervour with which 'added value' logic is pursued, will determine how radically support functions (like personnel) are changed as a result of measuring their business value.

Somewhat cruder than business value is the driver of *cost*. All 'overhead' functions are subject to periodic scrutinies of cost. The expectation is that some costs (usually people) will be shed, and activities reviewed in the light of somewhat reduced resources. The cost driver alone will not usually lead to a re-definition of role unless, as in some of the case study organisations, it broadens out into business value.

Changes in the personnel or HR agenda of the organisation can stimulate attempts to measure. These changes may be identified from business planning processes, or come from the priorities of individual executives, or be identified within the personnel function. Several case studies commented on the decreasing importance of industrial relations and its re-emergence in issues of communication, performance and motivation. The importance of skill development, as something wider than running training courses, is another example of change in the HR agenda. These may well lead to changes in the priorities of the personnel

department and a shift in their resources, including the skill mix of their staff.

So much for some of the main drivers and their possible impact on the process of measurement. Figure 3.1 groups the kinds of questions raised in reviews into three broad categories: questions about the role and purpose of personnel, questions about the structure of the function (including how big it should be and what kinds of people it should contain), and questions about its mix of activity and how its services are delivered on the ground.

We have already touched on some of the outcomes expected from the process of measurement. Figure 3.1 also shows these grouped into three broad clusters, which relate to the three sets of questions. Measurement can result in a re-definition of the personnel function (what is it for?), a re-structuring of the function (what does it look like?) or a re-engineering of its work (what exactly does it do?). This last category may include re-setting priorities or objectives, re-designing various personnel policies, changing the pattern of activity (for example in relation to how it interacts with the line), or re-engineering specific processes (for example, exactly how recruitment takes place, or how personnel information is held and transmitted).

An understanding of the context can help a great deal in choosing appropriate methods of measurement and involving the right people in discussing the results obtained. However, the variation in drivers also means that some organisations measure personnel effectiveness in a climate of threat or attack, while others do so under the assumption that what they do is valued but can still be improved. There is a danger that the context can so overshadow the process of measurement that those involved are in a state of serious stress (not conducive to open enquiry) or decide on the answers before the exercise even begins (in which case *why bother with the exercise at all*). In the case study organisations where the climate had become very threatening, the personnel professionals were going through the motions but felt their attempts to measure were not really going to have much effect. In those where the climate was open to real enquiry, even if radical change was the expected result, there was a serious commitment to measurement as a means of gaining better understanding of what the personnel function should be offering.

Senior managers initiating reviews need to handle this issue of climate with care, and ensure that decisions which have already been taken are not merely implemented through an exercise masquerading as an audit or review.

## 3.2 Main approaches to measurement

In this section we examine types of measures of effectiveness of the personnel function, and how these measures are obtained. A



**Figure 3.2 : Methods of measurement**

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<b>Type of measure</b>	<b>Method of measure</b>
<i>Hard:</i> inputs	regular monitoring
outputs	evaluation studies
input/output	external comparisons
outcome	
<i>Soft:</i> priority	customer surveys
satisfaction	employee surveys
	external comparisons
<i>Process analysis</i>	process analysis
	total quality approaches
	'benchmarking' on 'best practice'

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*Source: IES, 1995*

simple classification of measures and methods is shown in Figure 3.2.

Based on the literature and case study experiences, **types of measure** can be grouped into three very broad categories:

- hard measures: numerical measures of inputs, outputs or outcomes
- soft measures: attitudes and perceptions of managers and employees
- process analysis: evaluations of the clarity or efficiency of particular processes or activities.

Although at first sight 'objectives' or 'targets' to be achieved seem like a separate category of measure, in practice these are nearly always some combination of 'hard' or 'soft' measures. However, summarising a set of measures in the form of objectives, goals or targets can be a very useful way of integrating different measures of effectiveness, and making them visible both to those in the personnel function and those outside. The methods of monitoring the various objectives will vary according to whether they are 'hard' or 'soft' measures. Several of the case study companies used objectives, goals or targets to summarise their measures in this way. Figure 3.3 shows an example of using key objectives in this way.

Each of the three broad categories of measure requires a different **approach to data collection**, also shown on Figure 3.2. Each of these will be explained in more detail below, but some major differences and similarities should be stated first. As for differences, hard measures obviously require the collection of numerical data, and soft measures require the collection of

**Figure 3.3 : Example of selecting measures as key objectives**

Some measures against key objectives for personnel management were highlighted and made visible. They were printed on small plastic cards for easy reference. Measures in this case included:

- number of staff on courses each month
- % of staff disabled and from ethnic groups
- absence rates
- % of staff paid weekly/monthly
- leavers each month

Source: IES, 1995

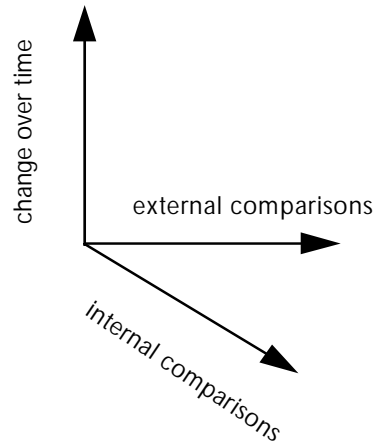
attitudinal data. Getting at process efficiency requires a detailed analysis of how a certain part of personnel management is delivered, and this is different from either of the other two. In looking at the detail of various approaches, we should not lose sight of these three basically different sets of measures and approach. The case studies show that companies see each as bringing a distinct perspective, and a good rule of thumb might be to make sure you are doing at least something from each of the three categories.

There are also some similarities between the three. All can be covered in something called an 'audit' or 'review'. These terms do not seem to imply a particular methodology and therefore are not useful for distinguishing approaches. Most 'audits' include collecting attitudinal data, but might well use numerical data and process analysis as well. Likewise the term 'benchmarking' turns out to mean just about anything you want it to mean. It can be taken to mean finding external comparators for numerical measures (*eg* cost of the personnel function per employee). It can also embrace external comparators for attitudinal measures (*eg* are our employees more or less satisfied with the appraisal process than employees of other large companies?). Increasingly the term is used for a detailed comparison of how a process operates in one company as against another, in search of ideas about 'best practice', and comes under the process efficiency approach. Figure 3.2 therefore shows external comparisons under each of three categories.

Just as external 'benchmarking' can apply to each of the three types of approach, so can internal 'benchmarking', *ie* comparisons between different parts of the same organisation. Indeed, several of the case studies felt that such internal comparisons were probably more valid and informative than external ones, and should be used more often. The same is true of tracking each type of measure over time. Those companies which have taken hard or soft measures seriously, have soon realised the importance of monitoring them consistently over time. Companies espousing total quality approaches to personnel management are also committed to tracking the impact of

**Figure 3.4: Comparative measurement**

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*Source: IES, 1995*

process changes over time and going through a continuous cycle of analysis, improvement and evaluation.

Figure 3.4 is a reminder of the way all or any of the measurement approaches can be used to provide comparative information through forms of 'benchmarking' and tracking. Each measure should be thought of as moving in this three-dimensional space. Its position and direction of movement is our only fix in this difficult area of whether our company is 'good' or 'bad' or getting 'better' or 'worse' at a particular aspect of personnel management.

The next three sections describe in more detail each of the main approaches to measurement, illustrated from the case study organisations. This is followed by a summary of the pros and cons of different approaches to measurement.

### **3.3 Hard measures**

All the case study organisations used some hard measures of personnel management, and a small selection of these are shown on Figure 3.5.

The commonest measures in use are those which examine inputs to personnel, and often these measures are restricted to the cost and size of the personnel department itself. Of course this presents a very misleading picture of the costs of personnel management, because of the considerable amounts of managers' time involved in most personnel activities. It is important to remember this distinction when using such measures.

Some of the case studies collected more detailed information on the amount of resource used in particular areas of personnel activity. One, for example, conducted a survey of the personnel function which combined information on resource inputs with

**Figure 3.5 : Examples of hard measures**

<p><b>Inputs</b> Numbers of staff in personnel function (per employee) Time spent of various personnel activities Costs of personnel function or personnel activities</p> <p><b>Outputs</b> Training courses run, training days per employee Number (proportion) of appraisals conducted Existence of succession plans</p> <p><b>Input/output ratios</b> Recruits per £ spent Cost of training per fully trained employee</p> <p><b>Outcomes</b> Size, structure, cost and skill mix of the workforce Surpluses/shortages/ease of filling vacancies Retention Disputes resolved</p>
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Source: IES, 1995

perceptions of service delivery. The resource inputs were measured in terms of the amounts of time spent in each main aspect of personnel work (*eg* industrial relations) and in each main sub-activity within this (*eg* pay negotiations). Time inputs were expressed by level of staff involved (from personnel director through to clerical support). These estimates were then used with average salaries for each broad level to arrive at an estimate of cost in terms of staff time within the function.

Outputs were also frequently measured in terms of the volume of some kind of personnel activity conducted. These mapped quite often onto specific objectives or targets for the personnel function (*eg* to achieve a 90% coverage for performance reviews). Obviously, measuring the amount of something being done, does not necessarily tell you whether it is being done very well, or whether it has much impact.

However, outputs do provide a crude method of monitoring and control in organisations where personnel administration has been rapidly devolved. In one of the case study organisations there had been a move away from centrally designed personnel procedures (*eg* for appraisal). Line managers were instead being held accountable to ensure that various activities, like appraisal, took place. In this organisation, measures of output (how many appraisals actually had taken place) were an obvious means of monitoring the change. However, whether or not this measure could be attributed to the actions of the local personnel function was another matter.

Measurements of efficiency of any process should really look at outputs in relation to the inputs they use: input/output ratios. This was much less common in the case study organisations than measures of inputs or outputs alone. Input costs are not very

often sufficiently separable in personnel work to be able to attribute them to specific outputs. One exception is in areas like graduate recruitment, where the activity is quite well defined. Some of the case study organisations did measure costs per recruit, measured by the costs of personnel function time and sometimes other direct costs (brochures, travel *etc.*). However, this cost still tended to exclude the time of line managers. Input/output measures may be easier to obtain for personnel services which have been contracted out of the organisation, and for which a cash payment is made (*eg* outplacement services).

The hard measures we should really be trying to develop are those of outcome — what really happens to the workforce and its effectiveness as a result of personnel policy and practice. So a recruitment measure should really look at how well recruits perform and how long they stay, as well as how many join. Although there are well established methods of evaluating some types of outcome (*eg* in recruitment) they are not often used. In some other cases where an outcome is relatively easy to measure (*eg* unfilled vacancies, labour turnover), it can be difficult to relate back to causal activity either of the personnel function or of line management. Outcome measures related to specific activities and practices are generally only likely to be available where processes have been put in place with the specific intention of evaluation.

### 3.4 Soft measures

The main types of soft measures of effectiveness found in this study were:

- measures of priority
- measures of customer satisfaction with the personnel function
- attitudes to, and satisfaction with, aspects of personnel management.

A number of the case study organisations had used surveys — usually of managers — to establish the priority attached by ‘customers’ of the personnel function to different areas of personnel work. In at least one case, this approach was used to compare and contrast the views of different groups of managers according to their level and organisational location. In the same exercise, information was obtained on time spent in various activities (a hard measure of ‘input’) and views were sought from personnel professionals of their perception of priorities, currently and in future. The results were used in a radical review of the role and structure of the personnel function.

Such surveys of customer priority can be coupled with obtaining the second main type of soft measure: customer satisfaction. Again ‘customers’ were normally taken to be managers in the

**Figure 3.6 Example survey of customer priority and satisfaction**

(10 point rating scales)	How important is this personnel activity? LOW ←→ HIGH	How satisfied are you with the service provided? LOW ←→ HIGH
AREAS OF PERSONNEL		
<b>1. Training and development</b> ..... (sub-areas) ..... .....		
<b>2. Personnel operations</b> <i>eg</i> face to face advice overall service quality info on procedures policies and benefits performance measurement		
<b>3. Compensation and benefits</b> .....		
<b>4. Personnel systems</b> .....		
<b>Overall rating</b>		
<b>Comments</b>		

Source: IES, 1995

organisation. Figure 3.6 shows a fairly typical example of this approach.

In surveys aimed at obtaining a comprehensive view of the customer perspective, it is common practice to present personnel work as subdivided into various areas, and often sub-areas. The example in Figure 3.6 divides personnel work into four main areas (training and development; personnel operations; compensation and benefits; and personnel systems), with each of these being further subdivided. Another organisation used ten categories: staffing; development; industrial relations; organisation; reward; information; health and safety; management development; business planning; and 'other'. A third used five broad categories: resourcing; development; reward; employee relations; and strategy.

The relative simplicity and similarity of the design of surveys of this type should give encouragement to organisations seeking to carry out an exercise of this kind for the first time. However, the normal care needs to be taken with coverage, sampling, confidentiality and analysis to get the most out of the exercise.

Measures of priorities for, and satisfaction with, the personnel function seem to assume that the customers of the personnel function are restricted to management. Of course we can treat all

employees as customers of the personnel function, but the case study organisations tended not to ask the workforce directly about their satisfaction with the personnel function. Rather, they used employee attitude surveys to provide measures of employee satisfaction with various aspects of personnel management.

Figure 3.7 shows an example of an employee attitude survey which was used to give feedback on a wide range of issues including the general effectiveness of management, communications, fairness in the workplace, staff morale, quality improvement and so on. However it also included specific aspects of personnel policy and personnel management, especially performance management, rewards and development.

If no general attitude survey is regularly conducted, it is possible to design one to look particularly at personnel management issues, or indeed at a subset of personnel policies and practices.

As with surveys of managers, employee surveys require the normal ethics and disciplines of survey work. However, being even more visible, the results do need to be fed back to the workforce in a suitable form.

**Figure 3.7: Example of an employee attitude survey**

In this organisation, an employee attitude survey was used to monitor satisfaction with many aspects of management, including personnel management. Results fed directly into the priorities for the personnel function, and were also fed back to employees.
The information collected included:
<ul style="list-style-type: none"> <li>● background information, <i>eg</i> department, function, job group, gender</li> <li>● responses to a wide variety of attitudinal statements, some positive, some negative, each scored on a five point scale.</li> </ul> <p>Some statements were very general, <i>eg</i>:  <i>I would recommend this company as a good place to work</i>  <i>Management is effective in achieving business results</i></p> <p>Some statements addressed management behaviour in personnel management, <i>eg</i>:  <i>My manager gives me regular feedback on my performance</i>  <i>My manager places sufficient emphasis on training and development</i></p> <p>Some statements dealt with the clarity of personnel policy, <i>eg</i>:  <i>I have a reasonably good idea of my possible career paths</i>  <i>I find it difficult to understand the company's benefit package</i></p>

Source: IES, 1995

### 3.5 Process analysis

The third main approach to measuring the success of the personnel function is to examine, in some detail, all or some of the processes of personnel management. Some companies have a long tradition of periodic evaluations of specific parts of personnel work (*eg* recruitment, training courses, appraisal systems). These evaluations may involve getting feedback from participants in the process, and looking at hard measures of cost and outcome as well. However, until recently these organisations were in a minority and many personnel management practices went largely unevaluated.

The practice of process analysis as a means of securing continuous improvement has recently become very visible in large UK organisations. Successive waves of initiatives have all been aimed at securing such improvement: 'customer first' programmes, total quality management (TQM), and process re-engineering. In addition, organisations looking to cut costs may bring in consultants to carry out overhead value analysis (or similar processes) to identify inefficient or unnecessary processes which offer opportunities for cost savings.

TQM type approaches tend to start off in the 'core' activities of the business, but in some of the case studies were spreading fast to personnel activities. Personnel, as an 'overhead' function, has always been subject to cost-cutting reviews, and several of the case studies had looked in some detail at personnel work with this intention. In the public sector, the competitive tendering process has also been examining certain aspects of personnel work. As we will discuss later (Section 4.2) the context in which processes are analysed influences both those in the personnel function and other managers involved. In particular, exercises set up to save costs tend to look for substantial activities which can be cut. Those set up to improve 'total quality' may end up with more radical re-thinking of how personnel management is actually delivered, and how personnel activity and information flows between the personnel function and others involved.

Those involved in process analysis stemming from a TQM perspective were mainly enthusiastic about its potential. Figure 3.8 describes an example of this approach. It shows some of the aspects of process analysis which need careful consideration. Perhaps the biggest danger is in the exercise become bigger and bigger, losing focus and never reaching the point of implementing process improvements. Careful project management is required, and piloting the approach on one or two aspects of personnel management may be helpful. A second danger is in the function being too introspective, which needs to be balanced by involving managers and employees outside the function.



**Figure 3.8 : Example of a total quality approach to reviewing the personnel function**

In this organisation, a structured approach to total quality was taking root in the main operating areas of the business. From here it was extended to personnel. The approach was supported by expert advice from within the company and self-help documentation.

- Several activities were aimed at identifying 'customers' for the function, and researching their needs and satisfaction with service. This might include a customer survey.
- The function had to look at its own planning process and check whether plans were supported by information and action, and whether there was a proper process for review.
- Key personnel processes were identified, documented and measured.
- The preceding steps led to the identification of improvement projects. These could arise from areas of customer need, key planned activities, or from processes which information showed to be in need of improvement.

The projects resulting from this review process were then linked into the personnel function's own plans, and subject to project management disciplines.

The whole total quality process was also evaluated in terms of employee involvement.

*Source: IES, 1995*

Of course, the TQM approach goes much further than simply assessing the work of the personnel function. It leads directly to improving particular processes. Also, it is more realistic to consider this as an approach to assessing personnel management, rather than just the personnel function.

### **3.6 Pros and cons of alternative approaches**

Some organisations have a strong history of measuring their business in financial terms and find it natural to turn to 'hard' measures. Other organisations, particularly those which have had a strong emphasis on valuing the employee and internal communications have for many years used employee attitude surveys to act as barometers on the health of the organisation and often also to get feedback on specific aspects of personnel management. These organisations also find it natural to ask managers, as customers of the personnel function, how they feel about the service they receive. For others, newer approaches to total quality are placing strong emphasis on the views of customers, but are also encouraging the definition and monitoring of 'hard' measures of performance in every business area.

These various approaches to measurement offer several kinds of information and are suited to different uses. In this section we summarise the particular strengths and weaknesses of each approach.

### 3.6.1 Hard measures

'Hard' measures of personnel activity have two great attractions: they appear objective, and they can often be expressed very simply. This simplicity also makes them attractive candidates for comparative use (as described in Section 3.2), and for expression as objectives or targets for the personnel function.

However, in the way in which hard measures are typically used, they also have two significant dangers. The first danger is that hard measures too often look at inputs (typically the size or cost of the personnel function compared with that in other organisations) or volumes of activity (outputs) rather than at ratios (cost per recruit) or — what we really want to know about — outcomes. So we have seen many organisations in which the size of the personnel function has been cut simply because it is bigger than that in some other companies, rather than because it was not effective. Organisations need to balance concern with inputs with development of measures of outcome.

The second danger of hard measures is that they can seem to ascribe causality where none exists. Take the common example of an organisation which saw its labour turnover fall in the early 1990s. Is this because people are being better managed? Is it possibly due to some initiatives taken by the personnel function? It is more likely that economic factors outside the company were having this effect, but only soft data or in-depth investigations could tell us the answer. Hard measures should often be regarded more as indicators of change than as measures of success.

### 3.6.2 Soft measures

The main advantage of soft measures is that they help us understand *why* certain aspects of personnel management are regarded by those inside the organisation as effective or not. They are therefore a natural next step if a numerical indicator is seen to be changing. As we have seen, soft measures can embrace both the issues of what is seen as important, and whether those things are seen as being well done. If we take a 'customer' based view of personnel, then measures of customer priority and satisfaction have an obvious use in re-structuring and setting priorities for service.

Another potential advantage of soft measures is that they can make explicit the views of different 'stakeholders' and parts of the workforce or company. However, the data collection instruments have to be designed with this in mind. If attitudinal data cannot be disaggregated, it can give a very misleading picture of what 'management' or the 'workforce' thinks, and present these views as much more homogeneous than they actually are.

Soft measures carry three dangers. Firstly, they usually have to be collected through a fairly visible activity (typically a survey). Surveys are not cost free and can raise expectations that something will be done. Surveys, therefore, need to be timed and designed with care, and thought should be given at the outset to feedback and subsequent use of the data.

Secondly, soft data may be affected by anxiety on the part of the giver and bias on the part of the receiver. For these reasons, soft data should be based on a proper sample of information, given in confidence. Perceptions based on some informal chats between senior managers and some people in the personnel function they know well, are not likely to constitute valid data.

The third danger of soft data is that it can produce a 'wish list' of things the organisation would like people to feel better about. These should be viewed against the future of the business as well as present circumstances and also against cost. Soft measures of importance and effectiveness are at their most useful when combined with compatible measures of activity and cost.

### **3.6.3 Process analysis**

Evaluating personnel management by looking at processes in depth has some powerful advantages, which can turn easily to disadvantages if not well managed.

The first advantage of this approach is that it really gets inside the activities of the personnel function to identify how outcomes are produced and where processes could be improved with re-design. This can easily turn to a disadvantage if the personnel function 'gazes at its own navel' for too long and with no evident change being implemented.

The second advantage of process analysis is that it typically involves all levels of staff in the function, and also 'customers' of the function. This enables a rounded view to be taken and may help in gaining acceptance for resulting changes. However, this degree of involvement also makes process analysis expensive and visible, raising expectations.

So the secret of effective process analysis or 're-engineering' lies in managing this form of evaluation: in ensuring commitment to some sort of action, in involving the right people and in applying the disciplines of project management to the process. As organisations become increasingly familiar with using structured investigations as a route to improvement, so they should become more confident in applying these disciplines to personnel management.

## 4. Issues in Measuring the Effectiveness of Personnel

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This study provides an overview and case study illustrations of methods of measuring the effectiveness of the personnel function. It also highlights some broader issues for personnel professionals and senior managers. These arose in the course of case study interviews, and at seminars held by IES on this subject during the course of the project. Several are reflected in the literature. They concern various aspects of the purpose of the personnel function and limits on the validity of attempts to measure its effectiveness.

### 4.1 What kind of measure is best?

Some discuss hard and soft measures as though they represented alternative factions or schools of thought in the measurement debate. Is it better to use factual numerical measures of personnel effectiveness (which we call hard measures) or measures of how people feel about personnel services or their own employment environment? Even if attitude surveys express these attitudinal measures in numerical terms, they are still measures of perceptions (which we call soft measures). Some organisations are using more detailed analysis of processes as a third approach to measurement. We have already shown in Chapter 3 that the different approaches are complementary rather than in opposition to each other. Although tending to start with one tradition or the other, most of the case study organisations were moving towards a combination of 'hard' and 'soft' measures, seeing both as shedding light on how the personnel function is performing. They were also likely to be evolving approaches to process review and re-engineering.

### 4.2 Getting what you ask for

Organisations do not assess the contribution of the personnel function in isolation. Some organisations in this study were seeking to cut costs. In the case of the public sector, the objective of contracting out services and 'market testing' were a particular instance of this. Others were looking at personnel because they expected it needed a radical change of purpose or structure. Some were more satisfied with the function as a whole, but were measuring aspects of its effectiveness in order to improve certain policy areas, or parts of service delivery. As discussed in Section

3.1, these diverse circumstances will tend to lead to different approaches to measurement and varied expectations of the results. If senior managers want to understand what the personnel function is delivering, and what it is not, they should be wary of setting up exercises where the outcome sought will drive the process of information collection and interpretation. Likewise, those in the function must guard against the danger that they will only see what they want to see. As one case study company put it 'you have to be careful you don't just hold up a mirror and see yourself reflected back'.

### **4.3 Independent change agent or service provider?**

The measures found in practice in the case study organisations, concentrated on the achievement of fairly short-term objectives and/or satisfying the current customers of personnel: managers and, to a lesser extent, employees. This amounted to saying that the personnel function was doing a good job if it contributed towards already stated business aims, and did what senior managers asked it to do or felt comfortable with. However, one of the roles of the personnel function may be to act as an independent proactive force for change.

There are at least two ways in which this may occur. The personnel function may anticipate business needs, as yet unarticulated by management, and see the need to change established policies and practices which managers may not wish to change. Many businesses say this is something they expect the personnel function to do. However, evaluating this kind of contribution would require measures taken over longer periods of time than were evident in this study.

A second area for proactive contribution may be in the area of ensuring that all employees are treated equitably and with a degree of care. At the seminar on this subject held by IES in 1994, several participants felt that the 'customer satisfaction' approach to measuring the contribution of the personnel function could lead to situations in which the company wished to adopt practices that personnel professionals could not condone. They were hinting at some more absolute external measures of appropriate conduct, more like those found in other areas of work which impinge on individuals (*eg* medicine and the law).

### **4.4 Customer satisfaction for whom?**

Even within the apparently clear remit of satisfying the customers of personnel services, we should recognise that there are varied customers with different service needs. This has already been recognised in research studies, particularly by Tsui (1987) in the USA.

There may be obvious tensions between satisfying managers' priorities and satisfying employees' individual demands on the personnel function. For example, individual employees may look to the personnel function for confidential advice on a whole range of issues from their own employment rights to opportunities for training and career development. Managers may see some of these services as operating in opposition to the personnel function acting on behalf of the business, or cutting across managers' own desires. Although such tensions must surely exist, they were little discussed in this study by those companies which used measures of both employee satisfaction and manager satisfaction with personnel services.

If we turn to the satisfaction of managers' demands we run the risk of underestimating the various requirements of different groups of managers. These vary both by level (from Board down to first line management) and by business location (corporate, business stream centre, local unit). The rhetoric of a strategic personnel function, freed from day to day administration, is very appealing to senior managers at corporate level. However, the case studies which had investigated customer priorities had found that senior managers at business stream level wanted a personnel function which would design policies and processes to meet their particular needs. Going further down to line managers, especially at local level, there is a real need for a responsive and knowledgeable personnel presence which can help them with particular issues on a day to day basis. Such managers often need the personnel function to supply information and administer some systems. They may be very ambivalent about the devolution of personnel work to the line, suspecting — often with good cause — that it simply transfers to them the routine administrative tasks (see Bevan and Hayday, 1994, for further discussion of the role of the line manager in personnel management).

These variations between different groups of managers are also reflected in the way different groups of personnel managers see their roles. The 'personnel function' is no more a singular entity than 'management'. Corporate personnel directors may favour the strategic role for the function which seems to satisfy the senior corporate managers with whom they work closely. Personnel managers at business stream level may be enthusiastic for the move of personnel policy design out from the centre, as this helps them align policies to the priorities of the managers to whom they report. Site or unit personnel managers are still often called upon to solve immediate or individual problems, and know that meeting the needs of their local managers is their priority.

Measurement systems should be sensitive to these different customer constituencies and preferably show their priorities and levels of satisfaction separately. This would facilitate more careful discussion of balancing the multiple roles carried by a

typical personnel function. It might also reduce the somewhat sterile debate about whether the personnel function has to be strategic or operational. Clearly in most large enterprises it has to be effective at both.

## 4.5 Cause and effect in personnel management

Now we come to one of the most fundamental obstacles to measuring the effectiveness of personnel management. The Holy Grail for those involved in such measurement, is to be able to relate a real change in business performance to something done within the organisation, in the way people are employed or managed at work. Although it is perfectly possible to look at correlations between business performance and aspects of personnel management (Fernie *et al.*, 1994), such correlations do not necessarily tell us whether such relationships are causal. Sectoral variations in performance over time are one source of difficulty. Some of the more sophisticated approaches to personnel or HRM have developed in the parts of manufacturing which experienced poor economic performance in the early 1990s. Did they perform poorly because of these practices, or would they have done worse without them? Did the financial sector do well in the 1980s because of its personnel practices, which many inside this sector saw as overdue for change at that time?

The external labour market is another cause of change in workforce behaviour which can mask the impact of practices inside the organisation. Personnel effectiveness has long been measured by the rate of labour turnover. So is the low labour turnover experienced by employing organisations in the early 1990s, a function of their excellent employment practices? It seems more likely that much of the change is due to a real lack of alternative employment for many who would otherwise move job. In this situation, measures of employee satisfaction may give us better insights into a desire for leaving which is being suppressed by labour market conditions, than merely measuring the rate of labour turnover itself.

However hard we try, it is virtually impossible to run controlled experiments on personnel management. Comparisons over time cannot allow for the endless differences between successive economic cycles. Comparisons between firms cannot allow for the full range of differences in their history, structure, culture and labour markets. Even within the same company, comparisons between sites face similar constraints. While academics will continue to wrestle with the technicalities of this issue, practitioners in the case study organisations were having to face up to it at a more basic level. They believed that they would never be able to prove for sure that a particular personnel policy or process was causal in improving business performance. This was one of their reasons for seeking to understand softer information on impact, from managers and employees. It is also

a reason for using more limited validity studies to examine cause and effect in some specific aspects of personnel management practice (eg recruitment) rather than seeking to measure personnel management as a whole.

## 4.6 Personnel management or the personnel function?

Even if we could ascribe changes in business performance to changes in personnel practices, who has been the agent of this change? Most of the case study interviews touched on the difficulty of assessing the effectiveness of a function (personnel) which has most of its impact on the workforce indirectly (via line managers). As the model of personnel has moved progressively away from dealing with employees on behalf of the business, to a model in which the function facilitates the line in managing people, this problem intensifies. Those in companies where working alongside the line has been the approach for some time are reconciled to never being able to quantify exactly what portion of change they can attribute to their actions, and what the line would have achieved anyway. If we believe that breaking down functional barriers may be a key to more flexible and effective organisations, the real question should be about the effectiveness of personnel management, and not the effectiveness of a particular department or function. Again, soft measures and process analysis shed some light on how cause and effect might be linked, but this information will be largely subjective.

## 4.7 A learning tool not an answer

We knew when we started this project that there would be no simple answer as to how the effectiveness of the personnel function should or could be measured. The companies funding the study surely knew this too. However, the practical examples given here may give those engaged in the same attempt some fresh ideas, and also the reassurance that many of the most powerful methods are really quite simple. Also, these methods should be seen as largely complementary, not as conflicting. Numerical measures can signal change. Attitudinal measures can explain change and identify areas for improvement. Process analysis can pinpoint problems and facilitate re-engineering of personnel management processes.

We also hope that senior managers happening across our findings will reflect on the problems of multiple constituencies, cause and effect, and attribution. This may lead them to consider more carefully how they measure the effectiveness of both personnel management and the personnel function.



## Appendix 1. Selected Annotated Bibliography

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The following bibliography represents literature that is concerned with aspects of measuring personnel management. The bibliography is arranged in three parts, each having a distinct yet related focus. The first part introduces the reader to the controversial debate concerning the distinction between Personnel and Human Resource Management. The second focuses upon literature regarding the success of the Personnel function in general, whilst the final part offers reading directly concerned with methods of measurement.

### 1. Personnel or human resource management?

Some authors argue that Human Resource Management is just another label for Personnel Management. Others stress that although the two are related they are, or should be, fundamentally different. Torrington (1988) considers whether a change of emphasis within the function might lead to a paradigm shift. Guest (1989) is amongst those who stress that Human Resource Management is not just a change of vocabulary but one of substance. The following section has been compiled in order to offer some insight into the issues, tensions and concerns of those who argue that the two terms are not synonymous.

Armstrong M, (1990) *Management Processes and Functions*, IPM

Dawson C, (1989) 'The Moving Frontiers of Personnel Management: Human Resource Management or Human Resource Accounting', *Personnel Review*, Vol. 18, No. 3, 3-12

Guest D E, (1989) 'Personnel and HRM: Can You Tell the Difference?', *Personnel Management*, January, 48-51

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- Torrington D, Weightman J, and Johns K, (1989) *Effective Management: People and Organisation*, Prentice Hall

## 2. Evaluating the personnel function

Personnel, like other organizational functions, has become increasingly more accountable and dynamic. Historically, Personnel was often viewed a re-active department, however, the function is now perceived by many as being pro-active. This part of the bibliography offers readings that relate to key issues regarding the effectiveness of Personnel departments. Examples of existing practice, research, case studies, remedies and models are cited together with some discussion concerning the methodological difficulties, see Falconer (1991) and Sisson (1989). The importance of both financial and moral support from management is emphasized by Gordon (1972) in effectively evaluating personnel interventions.

- Allen K R, (1991) 'How Middle Managers View the Function', *Personnel Management*, June, 40-43
- Armstrong P, (1988) 'The Personnel Profession in the age of Management Accountancy', *Personnel Review*, Vol. 17, No. 1, 25-31
- Beaumont P B, (1987) 'The Perceived Clarity of Personnel Objectives: Some Determinants', *Personnel Review*, Vol. 16, No. 1, 10-14
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- Caple T, Downey N, Mansfield B, Wood B, (1992) *The Personnel Standards Lead Body Occupational Map*, Prime Research Development Ltd
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- Chapman R, (1990) 'Personnel Management in the 1990s', *Personnel Management*, January 28-32
- Drennan D, (1992) 'Can you hear me down there?' *Director (UK)*, July, Vol. 45, No. 12, 44-45
- Falconer H, (1991) 'Personnel Audits — What it all adds up to'', *Personnel Today (UK)*, 22 October, 36-37
- Farnham D, (1986) *Personnel in Context*, IPM
- Fernie S, Metcalf D, Woodland S, (1994) 'What has Human Resource Management achieved in the workplace?', *Employment Policy Institute Economic Report*, May, Vol. 8, No. 3
- Flanagan H D, (1992) 'Making the NHS personnel function effective', *Health Manpower Management (UK)*, Vol. 18, No. 2, 13-16
- Fowler A, (1984) 'Quantifying the Worth of Personnel Departments', *Local Government Chronicle*, 30 November, 26-29
- Fowler A, (1992) 'How to structure a Personnel Department', *Personnel Management Plus (UK)*, January, Vol. 3, No. 1, 22-23
- Glassman M, McAfee B, (1992) 'Integrating the Personnel and Marketing functions', *Business Horizons (USA)*, May/June, Vol. 35, No. 3 52-59
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- Smith A, (1992) 'Cash on delivery', *Personnel Today (UK)*, June 22-23
- Tyson S, (1987) 'Management of the Personnel Function', *Journal of Management Studies*, September Vol. 24, No. 5, 523-532

### 3. Measurement techniques

The final part of the bibliography is devoted to literature that is directly concerned with methods of evaluation and measurement. Fitz-Enz (1984) and Tyson and Fell (1992) examine ways in which the Personnel Function might be evaluated. Further specific examples of measurement devices are cited by other authors. Philips and Seers (1989) present twelve approaches to evaluate Human Resource Management. Some writers argue the need for both quantitative and subjective measures in order to be effective, see Guest and Pecci (1992).

The need for Personnel to be accountable has affected both public and private sectors. Many Local Authorities endeavoured to measure the effectiveness of Personnel Management as budgets were reduced and compulsory tendering introduced. As a result, much of the available UK literature cites case studies from within the public sector, see Collins (1992).

- Collins M, (1992) 'Evaluating the Personnel Department' *Health Manpower Management*, Vol. 18, No. 2, 8-10
- Connock S, (1991) '*HR Vision: managing a quality workforce*', IPM
- Dahl Jr H L, (1979) 'Measuring the Human ROI', *Management Review*, January, Vol. LXVIII, 44-50
- Fair H, (1992) '*Personnel Profit: the pay-off from people*', IPM
- Fitz-Enz J, (1980) 'Quantifying the Human Resources Function', *Personnel*, March-April, Vol. LVII, 41-52

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- Fox S, Burgoyne J, *The Barefoot Evaluator*, School of Management & Organisational Sciences, University of Lancaster
- Guest D E, Pecci R, (1992) *'The Effectiveness of Personnel Management in the NHS'*, Unpublished
- Harper J, Coopers L D, (1990) *Research Project into Labour Costs with particular reference to the cost effectiveness of the Personnel Function*, November, Unpublished
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- Industrial Relations Review Services, (1992) 'Auditing the management of Human Resources in the NHS', *Industrial Relations Review and Report No 510*, April, Employee Development Bulletin: 28, 6-10
- Key P, (1990) *Evaluation of Management Development: An Introductory Guide for Managers*, NHS Training Authority Good Practice Series, Bristol
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## Appendix 2. Questionnaire: Assessing the Contribution of the Personnel Function

1. Name of Organisation .....
2. Main products/services .....
3. The grid below shows various areas of personnel work and possible methods of assessing the contribution of the personnel function in these areas. Please tick any box in which your part of the Organisation (*ie* corporate centre, division *etc.*) has carried out evaluation exercises over the past three years.

Areas of Personnel Work	Approaches to Assessing Contribution of HR Function										
	Performance as a profit centre	Measured outputs	Measured inputs (eg. cost)	Input/Output ratio	Achieving objectives	Line Manager satisfaction	Senior Manager satisfaction	Employee satisfaction	Process audit	Benchmarking other orgs.	Other (please specify)
Function overall											
Productivity											
Pay systems											
Other benefits											
ER/Communications											
Recruitment/selection											
Training											
Management development											
Performance management											
Career development											
Redeployment											
Severance											
Retention											
Absence											
Personnel records											
Other, please specify ..... .....											

4. On behalf of which part of the organisation have you replied to Question 3? *(Please tick the appropriate box(es))*

Group/corporation

Division/business stream

Unit

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

5. Do you have any current initiatives in evaluating the personnel function? Please describe briefly.

.....

.....

.....

.....

.....

.....

Thank you for completing this questionnaire.

If you have any documents relating to ways you have of assessing the contribution of the personnel function, please enclose them, marked 'confidential' if you wish them to be used anonymously.

Are you willing to be contacted with a view to participating in this project as a case study?

Yes

No

Name: .....

Address: .....

.....

Telephone No: .....

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