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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	A STUDY ON FORECASTING BSE SENSEX BY USING HOLT-WINTER METHOD <i>DR. M. SHEIK MOHAMED, DR. M.A.SHAKILA BANU & B.DEEPA LAKSHMI</i>	1
2.	GLOBAL MARKET & GLOBALIZATION DRIVE – THE STRATEGIC NEED FOR BRANDS & PRODUCTS: A BUSINESS PERSPECTIVE ANALYSIS <i>DR. S. P. RATH</i>	6
3.	MEASUREMENT OF FRANCHISEE SATISFACTION BASED ON THEIR PERCEPTION ABOUT THE PERFORMANCE OF THE FRANCHISERS <i>DR. MANISH SIDHPURIA</i>	13
4.	IMPACT OF GAAR ON INDIAN EQUITY MARKET: AN EMPIRICAL STUDY <i>DR. SANJIV MITTAL, DR. SUNIL KUMAR, DR. PRADEEP AGARWAL & DR. MOHINDER KUMAR</i>	17
5.	CHANGING FACE OF INDIAN RETAIL INDUSTRY <i>DR. ANIL CHANDHOK</i>	22
6.	ENGLISH LANGUAGE TEACHING IN INDIA: REVIEWING THE RELEVANCE OF THEORY <i>DR. PAWAN KUMAR SHARMA</i>	26
7.	A REVIEW OF THE LITERATURE: WOMEN EMPOWERMENT THROUGH SELF HELP GROUPS (SHGs) <i>U.DHANALAKSHMI & DR. K. RAJINI</i>	29
8.	CONSUMER PERCEPTION TOWARDS BRAND PREFERENCE OF MOBILE PHONE SERVICE PROVIDERS <i>A. MUTHUKUMARAN & DR. M. MATHIVANAN</i>	35
9.	CORPORATE GOVERNANCE IN INDIA: EVOLUTION AND EMERGING ISSUES <i>DR. BADIUDDIN AHMED, RAFIUDDIN & IRFANUDDIN</i>	40
10.	STUDY OF FINANCIAL INCLUSION IN BANKING INDUSTRIES IN INDIA <i>PAVAN KAPOOR</i>	44
11.	SCM PRACTICES AND ITS IMPACT ON TURNOVER, PROFITABILITY AND SUSTAINABILITY IN INDIAN BUSINESS ENVIRONMENT <i>VIVEK PANDEY</i>	49
12.	ENCOURAGING POSITIVE WORKPLACE BEHAVIOUR: ETHICS ON THE JOB <i>GEETU SHARMA</i>	54
13.	A COMPARATIVE STUDY OF PROFITABILITY OF TWO COMPANIES – A CASE STUDY <i>A. S. MANJULAKSHMI</i>	58
14.	A STUDY ON EMPLOYEE RETENTION STRATEGIES AT JAMMU & KASHMIR BANK LTD, AT MISSION ROAD, BANGALORE <i>S. POORNIMA</i>	65
15.	TYPE – A TRAIT FOR EFFECTIVE MANAGER <i>ANASUYA SWAIN</i>	75
16.	IMPORTANCE OF MEASURING HR'S EFFECTIVENESS: A DRIVE TO HR METRICS <i>P. AKTHAR</i>	78
17.	IMPULSIVE BUYING BEHAVIOUR OF RURAL PEOPLE: WITH REFERENCE TO FMCG PRODUCTS <i>J. JOSEPHINE LALITHA & DR. N. PANCHANATHAM</i>	82
18.	AN INTRODUCTION TO EMPLOYEE ENGAGEMENT: SOLUTION FOR EFFECTIVE HRM WITH REFERENCE TO EMPLOYEE ENGAGEMENT MODEL <i>B. KALAIYARASAN & DR. GAYATRI</i>	87
19.	FDI IN INDIAN RETAIL: CHALLENGES <i>DR. MANOJ KUMAR SHARMA</i>	90
20.	WORKING CAPITAL PERFORMANCE: A CASE STUDY ON DABUR INDIA LTD. <i>NIRMAL CHAKRABORTY</i>	93
21.	A STUDY ON PERFORMANCE EVALUATION OF PUBLIC & PRIVATE SECTOR MUTUAL FUNDS IN INDIA <i>DR. BHUPENDRA SINGH HADA</i>	98
22.	HUMAN RESOURCE ACCOUNTING: REDEFINING HUMAN CAPITAL INVESTMENT IN CORPORATE SECTOR <i>MONIKA KHEMANI</i>	104
23.	THE RELATIONSHIP BETWEEN PATERNALISTIC LEADERSHIP AND ORGANIZATIONAL CITIZENSHIP BEHAVIOR–THE MEDIATING EFFECTS OF ETHICAL CLIMATE <i>MENG-YU CHENG, LEI WANG & SRI-DWIJAYANTI LESMANA</i>	108
24.	AIRLINE INDUSTRIAL UNREST AND STRATEGIC MANAGEMENT PRACTICES <i>AHMED ABDIKARIM HASSAN & KARIM OMIDO</i>	118
25.	INTEREST RATE DEREGULATION AND DEMAND FOR MONEY IN NIGERIA (2000-2011) <i>ODITA ANTHONY OGOMEBUNAM</i>	124
26.	REDINGTON IMMUNIZATION THEORY APPROACH TO HEDGING INTEREST RATE RISK IN INSURANCE COMPANIES IN NIGERIA <i>AFOLABI, TAOFEK SOLA</i>	130
27.	MICRO, SMALL AND MEDIUM ENTERPRISES IN WEST BENGAL: AN EVALUATION <i>SOUMYA GANGULY</i>	136
28.	ETHICS IN MARKETING IN REAL ESTATE INDUSTRY IN PUNE FOR CUSTOMER SATISFACTION <i>MEERA SINGH</i>	142
29.	THE EFFECTS OF STRATEGIC MARKETING ON SAVING AND CREDIT CO-OPERATIVES PERFORMANCE: A SURVEY OF SELECTED SAVING AND CREDIT CO-OPERATIVES IN MOMBASA COUNTY <i>ELISHA MKOFIRHA ADE & KARIM OMIDO</i>	146
30.	BUYING BEHAVIOUR - AN ISLAMIC PERSPECTIVE: AN ANALYSIS OF AN IDEAL MUSLIM BUYING BEHAVIOUR <i>TAHIR AHMAD WANI</i>	152
	REQUEST FOR FEEDBACK	156

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IMPORTANCE OF MEASURING HR'S EFFECTIVENESS: A DRIVE TO HR METRICS**P. AKTHAR****ASST. PROFESSOR****DEPARTMENT OF MANAGEMENT STUDIES****ANNAMACHARYA INSTITUTE OF TECHNOLOGY & SCIENCE****VENKATAPURAM****ABSTRACT**

One of the most discussed topics in the HR industry today is Metrics and Measurement. From Professional organizations like the Society for Human Resource Management (SHRM) and the Human Capital Institute (HCI) to HR gurus and white papers from management consulting firms like Deloitte Consulting, the topic of metrics is covered extensively. Today's business is driven by knowledge, today's worker is a knowledge worker, today's major cost in many Service and Knowledge driven businesses is the HR cost, and therefore the top management is very keen to have its focus on measuring HR's effectiveness called 'HR Metrics'. This article makes an attempt to understand the importance of measurement of HR effectiveness and the intuitive approach to measure HR is explained with the help of an illustration for measuring the Selection function.

KEYWORDS

HR Metrics, Measurement, Selection.

INTRODUCTION

In today's competitive world, it has become very important to measure the HRM activities from return on HR investment point of view. The practice which has been named as "HR metrics" is being adopted by the companies in the corporate world. These are being viewed as vital requirements to assess HR impact on the various business parameters. Every rupee spent on HR costs, for every rupee of revenue generated, is a critical HR Metric.

HR largely deals with intangibles, its activities are generally considered outside the purview of measurement. However, with changing times, the HR department is slowly realizing the importance of quantifying the qualitative HR practice. In order to be able to do this, it requires the common understanding of modification of measurement from preciseness to approximation so that things earlier considered immeasurable, could also be brought within the realm of *measurement*.

DEFINITION OF MEASUREMENT

Measurement is a set of observations that are expressed in numbers, which help to reduce uncertainty. When undertaking a metric, the first question the organization needs to answer is what problems in the organization are worth solving or what opportunities for enhancing organizational effectiveness exist? Organizations are drenched in opportunities for amplified effectiveness. Due to current improvements in computing and communications infrastructures, the effort and costs required to build up metrics for different opportunities may not differ radically. Thus, choosing to spend the time on projects with a greater potential return for the company makes good business sense. Given that most organizations' capabilities in HR metrics may not be well developed at this point, focusing on a limited number of potentially high-payback opportunities may be the best strategy associated with developing any new capability.

Once a problem and an opportunity are identified, the first step is to determine the organisational outcome that is linked with the problem. For instance, if the organization is fraught with getting orders shipped to its customers on time, an appropriate outcome metric will measure the extent to which the organization delivers its orders on time. If an organization is concerned with the amount of time positions remain vacant before a new employee is hired, a measure of the amount of time positions remain vacant or the total time required to fill positions may be the proper outcome measure.

Outcome measures capture the extent to which a problem exists and should provide an indication of the extent to which actions taken by the organization are successful. Organizations are also paying attention in factors that cause these outcomes, and will turn the attention to these shortly.

NEED FOR MEASUREMENT

Management scholars have theories of how organizations work. Most organisational members have their own personal theories regarding how their companies work. These theories provide a framework for identifying potentially important information, focusing attention on environmental stimuli, and strengthening the capacity to identify the tactics that can be used to solve problems. A general problem in identifying outcomes is that choices for outcome measures are regularly based on personal theories about how things work in the organization, theories that may not reflect reality. For example, company employees often identify intermediate outcomes, such as implementation of flexible work hours or changes in supervisors, as outcomes of interest. Intermediate outcomes are those that are more immediate indicators of things that employees believe lead to more important outcomes, for example, changes in the two previous intermediate outcomes leading to an employee-friendly workplace. However, in some cases, the intermediate outcomes may not be the best ones on which to spotlight. This situation occurs when changes in decisions impact intermediate outcomes but do not have the expected impact on the ultimate or distal outcomes.

An important test of the appropriateness of outcome metrics is the "why" test. When one considers a potential outcome variable, it is useful to ask why the organization is interested in that particular outcome. If the answer is because it impacts some other variable that influences an important outcome, for example, profitability, then care must be taken to assure that changing the intermediate (or proximal) outcome also impacts the distal outcome. Organizational factors such as pay and working conditions that have influence through their effects on intermediate variables are reasonable targets for assessment, particularly if we understand the succeeding impact these factors have on ultimate, distal, and more important outcomes. Often, changing factors such as pay and working conditions will impact intermediate outcomes but may not produce any effect on the ultimate outcome of company profitability.

Employee turnover of valued employees, for example, is often identified as an important organizational outcome due to the costs associated with it. It is among the most regularly assessed and reported HR metrics in organizations. Most managers concur that excessive turnover is a noteworthy problem. High levels of turnover are troublesome to operations and can cause organizations to lose the critical proficiency and capabilities of employees that depart. The answer to "why" turnover is important is that it interrupts operations and leads to potential loss of knowledge and important skill sets. But, in many cases, it is not clear whether the departure of specific employees actually results in decreasing profits. In some cases, a departing employee is replaced by a stronger performer, which will increase profits. At a minimum, asking "why" helps emphasize the potential causal sequence through which these intermediate variable effects are anticipated to have their influence. These analyses can highlight which metrics are likely to be more critical and provide a framework for understanding how change in these metrics should be interpreted.

A BRIEF HISTORY OF METRICS

Measuring work and workforce analysis is not new; it has a brief history:

- Measuring effectiveness of an organizations' employees can be traced back to the days of Scientific Management (Taylor, 1911)
- Methods of quantitative analysis and its use in decision making were developed during the build-up of both men and material occasioned by world war II (1940)
- Further advancement in measuring occurred during the post world war industrial expansion in the United States that continued during 1970's.

- Many of the most common HR Metrics in existence today were first considered and developed (Hawk, 1967)
- Kaplan and Norton's (1996) introduction of the **balanced score card** further refined managers' thinking about metrics. The balanced score card recognizes the limitations of organizations' heavy reliance on financial indicators of performance. Such measures focus on what has already happened rather than providing managers information about what will happen. Balanced Score Cards focus on developing leading indicators of performance from several important perspectives, including customer satisfaction, process effectiveness, and employee development, as well as financial performance.

Before actually establishing metrics, there is a need to understand the philosophy of such metrics in the overall context of the business and the organization. The following questions must be answered:

- What are the activities that are being subjected to the measurement system?
- What is the level of criticality for measurement systems in respect of those transactions?
- By tracking those activities and transactions, what business outcomes can be achieved?
- Is the business manager keen on that measurement? Is it a priority for the HRM or business manager?
- What is the history of such measurement? On how many occasions in the past, did the business manager need or use such data?

The above questions are illustrative and not comprehensive. The purpose of these questions is to make sure that the HRM keeps the measurement exercise relevant to the business and that it is actually meeting a 'felt need' of the business manager.

BUILDING THE RIGHT MEASURES

This is the fact that if measurement, assessment and evaluation are to play a part in achieving sustainable organization performance, they should be impact-oriented, forward-looking and focused on the entire HR system, not just on individual HR practices.

Figure 1 illustrates the cycle of developing and using HR metrics for maximum impact.

The main components are:

- Identifying where HR can make a strategic impact in the organization.
- Developing proper metrics suitable to these areas.
- Get data relating to relevant metrics?
- Drag out insight from the data.
- Take action to communicate metrics and related insights information to provide a robust basis for strategic change and improvement.

The importance of HR capability is also highlighted in Figure 1, as people need to have the required analytical and influencing skills to get the maximum impact from information and accomplish each stage of the cycle. For example, HR need to have a deep understanding of the market in which they operate and the capabilities or weaknesses of the organization to be able to generate insights from data collected, which will help to inform and develop current practice and ultimately help the organization growth.

There are four steps which together will help to identify practical ways forward to develop metrics for maximum impact. The order of these steps reflects the cycle in Figure 1. This cycle will not be a 'quick fix' but will help to think about the necessary stages involved in getting maximum impact from HR metrics, demonstrating HR's strategic impact within the organization.

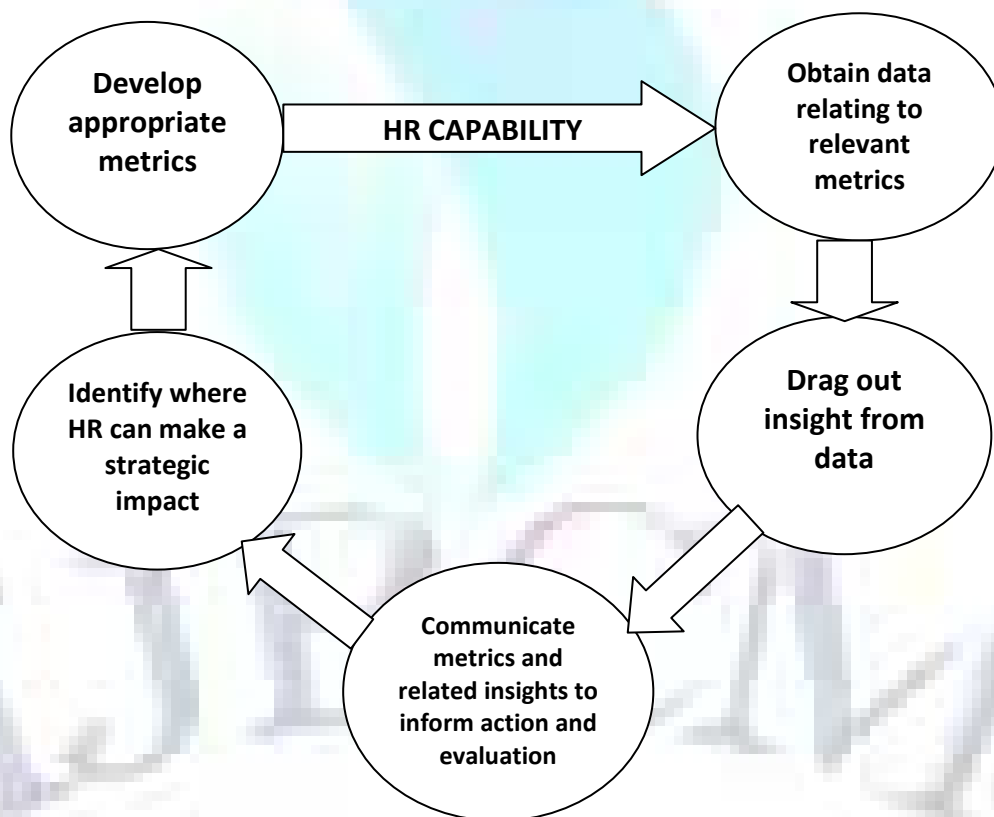


Figure 1: Use of HR Metrics for Maximum Impact

STEP 1: IDENTIFYING WHERE HR CAN MAKE A STRATEGIC IMPACT

This step focuses on determining the areas where HR can make a strategic impact in the organizational context. It enables to identify priority areas for measurement which are aligned with organizational goals and strategies and identify capability opportunities or problem areas from a business partner perspective.

STEP 2: SELECTING APPROPRIATE METRICS FROM WHICH ORGANIZATIONAL INSIGHTS CAN BE DRAWN

This step is the 'heart' of this cycle. Building on step 1, it gives a framework to help in developing appropriate metrics to assess the efficiency, effectiveness and strategic impact of the people management processes. It also provides the building blocks for step3.

STEP 3: EFFECTIVELY COMMUNICATING INSIGHTS FROM METRICS FOR MAXIMUM IMPACT

This step focuses on how you can most effectively communicate the insights drawn from metrics to inform action and hence enable HR to deliver maximum strategic impact.

STEP 4: THE HR FUNCTION AND MEASUREMENT CAPABILITY

This step focuses on capability development for the HR function, which spans all stages of the cycle, as illustrated in Figure 1. This step enables to identify a range of analytical and influencing skills that helps in further development of HR function to ensure they have the capability required for all aspects of measurement, assessment and evaluation highlighted in this tool. It encourages identifying current areas of strength as well as development priorities.

These steps provides an action plan facility to identify the key actions and also take forward these key actions to make a sustainable improvement to the development and use of metrics in the organization.

AN INTUITIVE APPROACH TO MEASURE SELECTION

Before discuss the process of measuring the Selection function, it would be appropriate to discuss the term ‘intuitive approach’. By intuitive approach, what is meant in this paper is that measuring HR functions is not something which is very difficult and requiring special skills. On the contrary, HR measurement issues can easily be understood and identified, if one understands the objective of the HR function. This is further outlined and detailed with the example of Selection function.

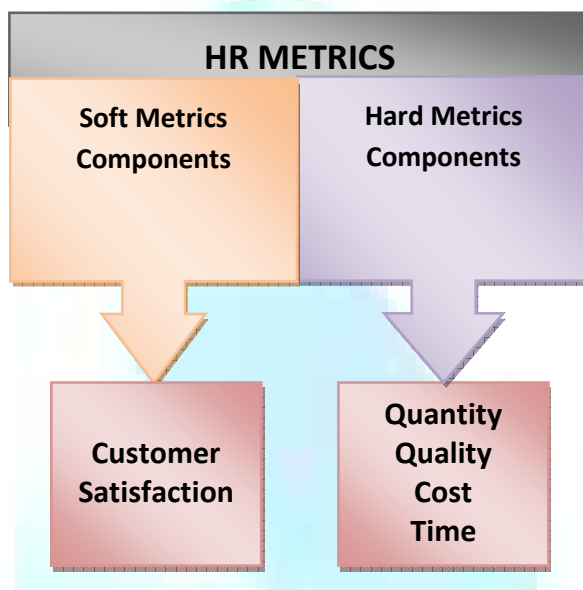


Figure 2: HR Metrics include Hard Metric & Soft Metric Components

To begin with, the measurement challenge for an HR function would be what to measure. This may not be difficult to identify. As stated above, if one is able to clearly outline the objectives of a particular HR function, further identifying what to measure, becomes relatively simple. For example, the objectives of a selection function could be To sort out those judged unqualified to meet the job and organizational requirements, To choose the most suitable candidate for a given job from prospective employees, To evaluate the effectiveness of the selection program periodically, To determine right salary and To ensure competitive advantage.

If one were to break down this objective in to individual components, the following parallels can be drawn:

- | | |
|--|-------------------------|
| • To sort out those unqualified to meet the job requirements | = Quantity |
| • To choose the most suitable candidate | = Quality |
| • To determine right salary | = Cost |
| • To evaluate selection program periodically | = Time |
| • To ensure competitive advantage | = Customer Satisfaction |

It can be seen from the above example that, most of the HR metrics would have these five components. Out of these five components, four are considered to be hard metrics (quantity, quality, cost and time) and customer satisfaction considered as a soft metric. This example also provides us with a idea of how objectives can easily be translated in to what to measure.

The second and the most difficult challenge for any HR function is how to measure. If what to measure is clearly identified and if it directly follows from the objective, identifying ways to measure may not be again as difficult as perceived to be. Taking the same example of the selection function, the following section will try and attempt to explain the ways in which it can be measured.

To begin with, the issue of *Quantity* is simple to measure with respect to selection. Quantity here means sorting out/eliminating those applicants who are judged unqualified to meet the job and organizational requirements. If this kind of evaluation is done, one can easily know where HR stands with respect to meeting the objective of matching the candidates profile with job requirements.

With respect to the issue of *Quality*, one can look at the quality of selection by comparing the performance assessment score of people in the same position, as compared to the new recruits. In other words, If the average performance scores of new personnel are greater than the average performance scores of the existing employees in the same position, it can easily be said that one can meet the objective of choosing most suitable and good candidate.

Coming to the third factor of the *Cost*, it is again something that can be easily measured. Cost of hire is something which is regularly computed by many organizations along with cost per hire. Cost of hire relates to the cost of hiring a person and essentially takes into account the cost to the Company, where as cost per hire looks at the total cost incurred on the recruitment function during a particular recruitment drive divided by the number of hires. If this kind of evaluation is done, then one can meet the objectives of reducing cost associated with selection process.

With respect to the issue of *Time*, here time means periodically evaluating the effectiveness of selection program. If this kind of an assessment is done periodically, one can easily know where HR stands with respect to meeting the objective of effective selection.

The four hard metrics discussed above can be easily computed, as many numbers are already available with the HR department and all that needs to be done is to maintain a proper record of it and compute these metrics regularly to see to what extent it is meeting its objectives.

The last metric of *Customer Satisfaction* is a soft metrics, as the data should be collected from the internal customers about whether selection ensures competitive advantage through innovation, low cost, new products and fast delivery to gain customer satisfaction. Competitive Advantage is a process where a company through its unique feature gain more market share than its competitor. In the other words, the company through its unique feature like innovation, low cost or fast delivery of products & services can gain customer satisfaction which leads to get more market share than its competitors. Here the HR department needs to design a data collection instrument that can, to a large extent, objectively capture the satisfaction.

The discussion and the identification of specific metrics in the previous section clearly show that developing such metrics for measuring the selection function is not at all complicated and, in most of the cases, the data is easily available. All that needs to be done is to compute metrics on a regular basis, so that the performance of the HR department can be compared over a period of time.

CONCLUSION

In this business world of numbers & measurements, HRM, as a function, has started giving importance to measurements of HR transactions. This article highlights the increasing importance and need of measurement for HR. It tries to point out that, though the outcomes of the HR functions may not be measurable, it is generally considered to be intangible. However, by changing our understanding of measurement, there is a possibility of measuring many of the objects that were earlier considered to be immeasurable. It then goes on to take an example of the Selection function and explains how metrics can be easily developed for measuring this HR function.

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