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# HR measurement as an instrument of the HR department in its exchange relationship with top management: A qualitative study based on resource dependence theory



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## KEYWORDS

Human resource management;  
HR measurement;  
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Resource dependence theory;  
Power;  
Qualitative study

**Summary** Due to the significance of human resources in companies, HR measurement is becoming increasingly prominent. The information that HR measurement provides is an important factor for top management in its management of the company. As HR measurement is usually assigned to the HR department, it also represents a potential source of power for the HR department in its relationship with top management. Drawing on resource dependence theory, this paper considers the exchange relationship between the HR department and top management through an empirical interview study. The results show that HR measurement contributes to the professionalization of the HR department and to an increase in its perceived legitimacy in the company. The paper thus contributes to research on HR measurement and to the discussion on intra-organizational exchange relationships.

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## Introduction

Since the recognition of human capital as an important strategic factor for company success, the management of human resources (HR) and HR processes have grown in importance (De Saá-Pérez & García-Falcón, 2002). In Germany, HR measurement<sup>1</sup> emerged in the 1980s as a reaction

to calls for HR departments to adopt a more business-oriented approach. It entails assessment of the value created by human capital and the management of HR processes and tools in terms of their planning, control and direction toward company success (Torrington, Hall, Taylor, & Atkinson, 2011, p. 664). Therefore, both HR resources and HR management as an organizational unit are the object of HR measurement. HR measurement supports HR-related and company decisions by providing information as well as a basis for recommendations. It represents a reaction of HR departments toward cost-cutting and self-justification pressures, as well as the increasing recognition in companies that human resources and HRM are scarce and strategic success factors. HR measurement can thus move HR departments toward a more business and strategic orientation (Chenhall & Langfield-Smith, 2007, pp. 272–275; Mulvaney, Zwahr, & Baranowski,

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<sup>1</sup> In Germany HR measurement is named as “HR controlling” and one can also find other terms in the literature as well as in corporate practice (e.g. human capital management, HR accounting) that refer to similar content as HR measurement.

2006, p. 435) by “obtaining, analysing and reporting on data that informs the direction of value adding strategic, investment and operational people management decisions at corporate level and at the level of frontline management” (Baron & Armstrong, 2007, p. 20).

HR measurement can be regarded as part of accounting and research on accounting (Gates & Langevin, 2010, p. 112). Its purposes range from the assessment (Johanson, 1999, pp. 91–92) and the strategic management of company human resources to the measurement of a concrete contribution to firm performance (Delaney & Huselid, 1996, p. 950; Pietsch, 2007, p. 254; for a critical overview see also Combs, Liu, Hall, & Ketchen, 2006, pp. 511–512; Wall & Wood, 2005, pp. 426–440). In scientific literature, HR measurement is discussed particularly in relation to the measurement of human resource cost and value and the influence of employee performance on firm performance (e.g. Becker, Huselid, & Ulrich, 2001; Flamholtz, 1985; Huselid, 1995), as well as the assessment and reporting of intellectual capital (Bontis, Dragonetti, Jacobsen, & Roos, 1999; Boudreau & Ramstad, 1997; Edvinsson, 1997; Mouritsen, Larsen, & Bukh, 2001).

HR measurement has grown in importance both among academics and practitioners. This can be attributed to the increase in importance of human resources and human capital. This can be explained first in terms of the resource-based view that human resources are often inimitable resources (Becker & Huselid, 2006, pp. 900–903). Second, its increase in significance can also be explained by the fact that in contrast to past-oriented, figure-based accounting, non-financial measures are also integrated, thus enabling a (qualitative) understanding of processes and structures as well as situative influences (Vaivio, 2004, pp. 45–48). HR measurement and HR accounting thus take a comprehensive and entrepreneurial view and can increasingly play a proactive, value-adding role in companies (Vedd & Kouhy, 2001, p. 92).

The sustained discussion of HR measurement in academia and in practice highlights that it has become an important part of HRM. Nevertheless, because of the many different perspectives on HR measurement, there is no clear consensus as to what exactly it is. Comparable to “controlling” it struggles with its identity and legitimation within the scientific community (Messner, Becker, Schäffer, & Binder, 2008). Some of the different perspectives of HR measurement tend to neglect the interests and individual aims of the actors involved and thus diminish HR measurement to a rationalistic, economic concept (Fitz-Enz, 2000; Flamholtz, Bullen, & Hua, 2002).

Thus in research on management accounting and HR measurement, there are voices that question the rationality of this concept (Haunschild, 1998; Mouritsen, 1994, p. 194). However – or rather for that very reason – individual behavior and organizational processes are characterized by the bounded rationality of actors, their individual interests and goals, conflicts between goals, and interdependencies and power (Drory & Vigoda-Gadot, 2010, p. 194; Ferris & Judge, 1991, p. 448; Galang & Ferris, 1997, pp. 1404–1405). This makes it necessary to adopt an actor-focused perspective of HR measurement that concentrates on how actors utilize HR measurement in order to pursue their interests and retain their legitimacy.

An actor-focused perspective takes actors into account who come into contact with HR measurement (Elias & Scarbrough,

2004, p. 23). HR measurement as an instrument that provides HR data and information is used in the exchange relationships between these actors. These *exchange relationships* are characterized by interdependencies, power and different resource endowments. However, although there is an intensive discussion on behavioral accounting (Abdallah & Fairchild, 2010; Birnberg & Raghu Nath, 1967; Birnberg, 1993, 2011; Bruns, 1968; Hofstede & Kinard, 1970) and on the political influence based on measures (e.g. Carpenter & Feroz, 2001; Verbruggen, Cristiaens, & Milis, 2011), there is still a dearth of research on these exchange relationships, interdependencies and resource flows. This is surprising in the light of the practical relevance of HR measurement and the importance of analyses of exchange relationships and related power and dependencies in other areas of (HR) management (Farndale & Hope-Hailey, 2009; Hillman & Dalziel, 2003).

Even though HR measurement is applied by various departments within a company, it is commonly an institutionalized part of the HR department (Elias & Scarbrough, 2004, p. 30; Torrington et al., 2011, p. 664). In line with studies by the German Association for People Management (DGFP e. V., 2007, p. 3), our paper assumes that the HR department is the key actor that utilizes HR measurement. Nevertheless there are still interfaces to other departments and HR measurement plays a co-ordinating role (Haunschild, 1998, p. 259). From all the other relevant actors, top management plays an important role due to its hierarchical position in the company, through which it directs the company and influences resource allocation (Koontz & O'Donnell, 1972, pp. 56–58; Mintzberg, 1973, pp. 54–96). In order to enhance scientific discourse an explorative empirical study is needed. Therefore, the aim of this paper is to empirically analyze the exchange relationship between top management and the HR department adopting an exchange perspective. In doing so, it seeks to explain to what extent the HR department utilizes HR measurement in this exchange relationship to pursue its interests. In order to do so, the key elements of an actor-focused perspective of HR measurement are developed in the next section. Then, a conceptual framework is constructed on the basis of an extended version of resource dependence theory that forms that basis for the empirical investigation. The description and analysis of the results of the investigation are presented and the paper concludes by highlighting contributions.

## Conceptual background

### An actor-focused perspective of HR measurement

Several different perspectives can be found in the literature on HR measurement, some of which are based on the assumption that actors behave rationally. According to them, the HR department supports top management through HR measurement, or even provides a counterbalance to risky behavior on the part of top management, as well as ensuring rationality in HR-related areas (Baron & Armstrong, 2007, pp. 152–153; 158; Haunschild, 1998, p. 160). According to this *rationality-focused perspective*, HR measurement provides an “efficient service, meeting client needs and being seen to contribute to organizational goals” (Farndale, 2005, p. 660). In contrast,

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