Measuring the ROI of HR

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Measurable Results made Clear!

HR Scorecard of Business Results

See how the top 10% of companies compare to the bottom 10% in recruiting, HR practices, outcomes, and business results. The top 10% or Best in Class firms see HR as a top priority and one of the major features of their culture. *The best in class invest in the full cycle of fundamental and strategic HR, knowing that their investments pay off many times over. From Recruitment, On-Boarding, OJT, Continuous Competency Development, Performance Management, Total Rewards, Legal Compliance, a Culture of Safety, Organizational Design and Development and Succession, just to name the shortlist.*

Harvard School of Business survey has measured HR management systems in public companies in the United States. The survey results below show how the top 10% of firms compare with the bottom 10% of firms on several characteristics.

HR Practices	Bottom 10%	Top 10%
Qualified applicants per position	8.24	36.55
Hired based on a validated selection test	4.26%	29.67%
Jobs filled from within	34.90%	61.46%
A formal HR plan including recruitment, development, and succession	4.79%	46.72%
Hours of training for new employees (less than 1 year)	35.02	116.87

Hours of training for experienced employees	13.40	72.00
Employees receiving regular performance appraisals	41.31%	95.17%
Workforce whose merit increase or incentive pay is tied to performance	23.36%	87.27%
Workforce who receive performance feedback from multiple sources (360)	3.90%	51.67%
Target percentile for total compensation (market rate = 50%)	43.03%	58.67%
Workforce eligible for incentive pay	27.83%	83.56%
Difference in incentive pay between a low-performing and high-performing employee	3.62%	6.21%
Workforce working in a self-managed, cross-functional, or project team	10.64%	42.28%
HR budget spent on outsourced activities (e.g. recruiting, benefits, payroll)	13.46%	26.24%
Employees per HR professional	253.88	139.51
Eligible workforce covered by a union contract	30.00%	8.98%

HR Outcomes	Bottom 10%	Top 10%
Note: Each of the variables in the "HR Outcomes" section is scaled from 1 to 6, where 1="not at all" and 6="to a very great extent."		
Strategy is clearly articulated and well understood throughout the firm	3.40	4.21
The average employee understands how his or her job contributes to the firm's success	2.80	4.00
Senior management sees employees as a source of value creation versus a cost to be minimized	3.31	4.21

The executive leadership team is visionary	3.02	4.33
The firm attempts to provide job security, even if confronted with declining financial performance	2.71	4.11
The firm's decision-making style can be described as participative	3.02	3.81
The firm's HR professionals are generally perceived to be administrative experts	3.76	4.56
The firm's HR professionals are generally perceived to be employee champions	3.69	4.40
The firm's HR professionals are generally perceived to be agents for change	3.31	4.12
The firm's HR professionals are generally perceived to be business partners	3.19	4.30
Line managers generally believe that effective diversity management is a business imperative	2.45	3.65
Top management shows commitment to and leadership in knowledge sharing	2.99	4.05
The firm has developed and communicated measures of financial performance	3.38	4.63
The firm has developed and communicated measures of customer reactions	3.02	4.27
The firm has developed and communicated measures of key business processes	3.09	4.13
The firm has developed and communicated measures of learning and growth	2.26	3.12

CLEAR BOTTOM RESULTS

Firm Performance	Bottom 10%	Top 10%
Employee turnover	34.09	20.87
Sales per employee	$158,101	$617,576
Market value to book value	3.64	11.06

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Shari Caudron, Workforce Management

It's impossible to know where to focus your resources unless you have solid HR data. Alicia Main, an HR analyst with Best Practices, LLC, a research and consulting firm in Chapel Hill, North Carolina, shares three ways that HR professionals can track their successes.

1. **Track human resources activity levels with a balanced scorecard to emphasize the department's contribution to company goals.** Best-in-class companies align HR measurements with the strategic goals of the company. By creating balanced scorecards, companies track a variety of financial, quality-oriented, operational, and strategic measurements.

   According to Mark Huselid, who along with Brian Becker and Dave Ulrich wrote *The HR Scorecard: Linking People, Strategy, and Performance* (Harvard Business School Press, 2001), an HR scorecard is a mechanism for describing how people and people-management systems create value in organizations. It is based on a "strategy map," which is a visual depiction of what causes what in an organization, beginning with the people and ending with shareholder or other stakeholder outcomes.

For example, in a pharmaceutical company, shareholder returns may come from growing revenues. Revenues, in turn, are driven by developing innovative drugs and marshaling them through the regulatory process. And developing innovative drugs depends on a stable, high-talent R&D function, which is the job of HR. By tracing its strategy back to HR needs in this way, a company can see the direct cause and effect between HR and revenue.

By using a strategy map, HR knows what to deliver, and the metrics on the balanced scorecard-which are linked directly to the deliverables and may include such things as cost per hire, turnover rate, HR competencies, and alignment of HR practices-tell HR if it is delivering.

Implementing an HR scorecard focuses the company on the deliverables that lead to competitive business advantage and enables HR executives to monitor costs while tracking the value added to the company's bottom line.

2. **Track HR performance metrics at the corporate level to ensure consistent measurement and predict overall company growth.** Although the phrase "what gets measured gets managed" is so overused that it's almost a cliché, the fact remains that the statement is true. Tracking specific HR metrics at the corporate level gives executives an overall view of the company's HR activities and successes.

   Some corporate metrics to track are employee turnover rates; top talent defection rates; absenteeism; safety incidents; overall head-count; compensation and benefits competitiveness; total employees trained; total training hours; HR expenses as a percentage of total operating expenses; internal customer satisfaction; diversity; time to fill positions; and cost per hire.

3. **Survey employee attitudes and identify informal thought leaders to detect workplace concerns.** Best-in-class companies consider employees to be the internal customers of the HR function. Just as success for a business depends on its customer-satisfaction levels, the success of HR in such organizations hinges on the satisfaction of employees.

Best-in-class companies regularly survey employees to identify effective practices and determine employee concerns. Typically, employees are surveyed about such things as morale, job fit, teamwork, physical working conditions, promotion opportunities, training practices, and treatment by the management team.

The 12 Elements of Great Managing

To identify the elements of worker engagement, Gallup conducted many thousands of interviews in all kinds of organizations, at all levels, in most industries, and in many countries. These 12 statements – the Gallup Q^{12} – emerged from Gallup's pioneering research as those that best predict employee and workgroup performance.

1. I know what is expected of me at work.
2. I have the materials and equipment I need to do my work right.
3. At work, I have the opportunity to do what I do best every day.
4. In the last seven days, I have received recognition or praise for doing good work.
5. My supervisor, or someone at work, seems to care about me as a person.
6. There is someone at work who encourages my development.
7. At work, my opinions seem to count.
8. The mission or purpose of my company makes me feel my job is important.
9. My associates or fellow employees are committed to doing quality work.
10. I have a best friend at work.
11. In the last six months, someone at work has talked to me about my progress.
12. This last year, I have had opportunities at work to learn and grow.

What are engaged employees?

Engaged employees work with passion and feel a profound connection to their company. They drive innovation and move the organization forward (Gallup, 2004). In contrast to this are the not-engaged employees who are essentially "checked out." They are sleepwalking through their workday, putting time-but not energy or passion-into their work. Actively disengaged employees aren't just unhappy at work, they are busy acting out their unhappiness. Every day, these workers undermine what their engaged coworkers accomplish.

Results of a Gallup (2004) survey estimate that the lower productivity of actively disengaged workers costs the U.S. economy about $300 billion a year. This survey was based on a nationally representative sample of 1,000 employed adults aged 18 and older. Interviews were conducted by telephone October 2000-April 2004 by the Gallup Organization. An example of how employee engagement can increase productivity is DHL, the Deutsche Post (Business Wire, 2007). Employee turnover at DHL decreased 27 percent by their use of rewards and recognition to enhance employee engagement, attract and retain employees, boost overall productivity, and drive successful business results. DHL received the Carrot Culture Award for this achievement.

Definitions of Employee Engagement

However, a problem exists with the term employee engagement. In the books reporting Gallup's research, considerable time is used explaining the meta-analytic techniques used to find the relationships between the items in Gallup's Workplace Audit (GWA) questionnaire and the business unit level outcomes as productivity, profitability, employee retention, and customer service (Buckingham & Coffman, 1999). Less time is spent defining and validating the constmct of employee engagement. Because of this lack of constmct definition, subsequent users interpret the constmct in different ways.

For example, Harter, Schmidt, and Hayes (2002) define employee engagement as "the individual's involvement and satisfaction with as well as enthusiasm for work" (p. 269). Lucey, Bateman and Hines (2005) interpret the Gallup Engagement Index as measuring "how each individual employee connects with his or her company and how each individual employee connects with their customers" (p. 12). Development Dimensions International (DDI, 2005) uses the definition "The extent to which people value, enjoy, and believe in what they do" (p.l). DDI also states that its measure is similar to employee satisfaction and loyalty. A leader, according to DDI, must do five things to create a highly engaged workforce. They are:

Ten Employee Training Tips

Well-trained employees are the key to your small business success. Studies have shown that the most successful, productive employees are those who have received extensive training. They’re the cream of the crop, often having the strongest stake in the company’s future.

In an ideal world, you would be able to hire people who already possess the exact skills your business needs. But in today’s competitive labor market, demand for skilled workers far exceeds supply.

That’s where training comes in. Not only does instruction arm your employees with needed professional or technical skills, but it also shows that you are invested in them and interested in bringing them with you into the company’s future. This helps keep workers motivated and involved.

To successfully launch an employee training program in your own company, follow these 10 helpful tips:

1. **Stress training as investment.** The reason training is often considered optional at many companies is because it is thought of as an *expense* rather than an *investment.* While it's true that training can be costly up front, it's a long-term investment in the growth and development of your human resources.
2. **Determine your needs.** As you probably don't have unlimited time or funds to execute an employee training program, you should decide early on what the focus of your training program should be. Determine what skills are most pertinent to address current or future company needs or ones that will provide the biggest payback. Ask yourself, "How will this training eventually prove beneficial to the company?" Repeat this process as your business needs change.
3. **Promote a culture of learning.** In today's fast-paced economy, if a business isn't learning, it's going to fall behind. A business learns as its people learn. Communicate your expectations that all employees should take the necessary steps to hone their skills and stay on top of their professions or fields of work. Make sure you support those efforts by providing the resources needed to accomplish this goal.
4. **Get management on board.** Once you have developed a prioritized list of training topics that address key needs within your company, you need to convince management to rally behind the initiative.
5. **Start out small.** Before rolling out your training program to the masses, rehearse with a small group of users and gather their feedback. This sort of informal benchmarking exposes weaknesses in your training plans and helps you fine-tune the training process.
6. **Choose quality instructors and materials.** Who you select to conduct the training will make a major difference in the success of your efforts, whether it's a professional educator or simply a knowledgeable staff member. Having the right training materials is also important — after the training is over, these materials become valuable resources for trainees.
7. **Find the right space.** Select a training location that's conducive to learning. Choose an environment that's quiet and roomy enough to spread out materials. Make sure the space is equipped with a computer and projector, so you can present a visually stimulating training session.
8. **Clarify connections.** Some employees may feel that the training they're receiving isn't relevant to their job. It's important to help them understand the connection early on, so they don't view the training sessions as a waste of valuable time. Employees should see the training as an important addition to their professional portfolios. Award people with completion certificates at the end of the program.
9. **Make it ongoing.** Don't limit training solely to new employees. Organized, ongoing training programs will maintain all employees' skill levels, and continually motivate them to grow and improve professionally.
10. **Measure results.** Without measurable results, it's almost impossible to view training as anything but an expense. Decide how you're going to obtain an acceptable rate of return on your investment. Determine what kind of growth or other measure is a reasonable result of the training

you provide. You’ll have an easier time budgeting funds for future training if you can demonstrate concrete results.