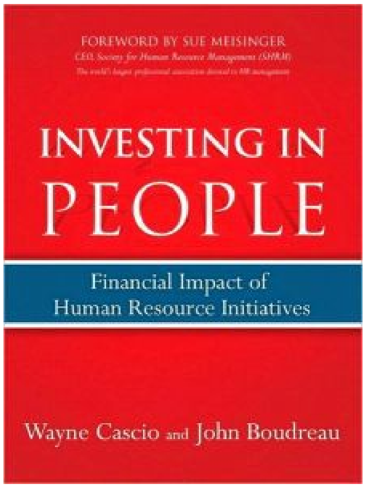

Book Investing in People

Financial Impact of Human Resource Initiatives

Wayne Cascio and John Boudreau
FT Press, 2008
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Recommendation

Human resources managers work hard to create value for their companies. Still, many firms treat HR as a cost center and outsource a number of its processes, such as benefits management, payroll and recruiting. Wayne Cascio and John Boudreau argue that HR managers need to stop trying to sell their functions based on service delivery. Instead, they say, HR should use decision management tools and analytical models to measure and report on its impact as a fiscal and strategic resource. The authors discuss ways to evaluate and manage major areas of HR practice, including absenteeism, hiring, staffing, benefits, work-life balance, training and employee attitude. They also show you how to apply mathematical models by working through real life case studies. *BooksInShort* suggests approaching this book as a practical guide rather than an academic or statistical treatise. While handling the math might be a bit challenging, HR professionals will gain a great deal by becoming more familiar with these evaluation tools.

Take-Aways

- Measuring and analyzing human resources (HR) activities is useful only if the information helps managers make talent-related decisions that improve the firm.
- HR should use analytical tools to measure the quality of its choices and to assess its fiscal impact on the company.
- HR can apply these tools to measure and improve every facet of its practices.
- These areas include absenteeism, hiring, staffing, benefits, work-life balance, training and employee attitudes.
- If your absenteeism measures are too stringent, you will drive off good employees.
- Employee attitudes and customer satisfaction correlate, but causality isn't proven.
- Measure the utility – that is, the profit impact – of your staffing and talent decisions.
- Focus on pivotal positions where staff members have a direct effect on profitability.
- Probationary programs are costly, but they're often less expensive than firing, and they lead to faster diagnoses of problem employees.
- Measure the business impact of your training and development programs to make decisions about their utility.

Summary

HR Measurement and Strategy

People keep saying, "You can't manage what you don't measure," because it is true. Some human resource managers measure the wrong processes simply because those activities are easy to assess. To pick productive programs to measure, first identify the outcomes you want as an HR manager. Then determine which activities lead to those results, so you know what to measure to get the data you need to manage those business engines. Measuring HR activities and creating reports is useful only if it enables you to make decisions that strengthen and improve your organization. The most crucial HR decisions involve hiring, retaining, developing, encouraging and promoting the best talent available for any given position.

Decision Science and HR

Most HR measurements track performance, such as how much people learned in training or how their peers rate their work. But that is not all you need to know. You need information that shows HR's financial and strategic impact, as well as analyses that help you select projects.

> "HR measurement is valuable to the extent that it improves vital decisions about talent and how it is organized."

As you decide what to measure, avoid a few common pitfalls. For example, do not look at two seemingly related events and assume that one causes the other. Correlation does not prove causality, though it can be instructive in your analysis and decision making. To decide if a project would be worthwhile, use basic financial concepts, such as the time value of money, and calibrate the fixed, variable and opportunity costs. Return on Investment (ROI) is very indicative in a cost-benefit or a cost-effectiveness analysis. Use weighted factors to assess a project's or program's utility. To build HR's strategic impact, use the "LAMP" framework: focus on the right business Logic and appropriate Analytics, use the right Measurements and implement the best Processes.

> "We envision a future in which leaders throughout organizations increasingly understand and are held accountable for the quality of their decisions about talent."

Consider how you might analyze crucial factors, particularly cost, in several areas of HR practice, including absenteeism, separation, benefits, staff attitudes, development, work-life balance, hiring, placement, training and cost cutting, whether through layoffs or by other means.

Absenteeism

Set careful goals as you consider the cost effectiveness of your efforts to eliminate absenteeism. At some point, the cost of turnover might become so high that the goal of 100% scheduled attendance becomes counterproductive. Absenteeism is an expensive problem, but punishing it is not necessarily as effective as using positive incentives to get people to come to work. Missing employees create costs by forcing other people to cover for them (and perhaps neglecting their own work or incurring overtime) or by halting business processes that depend on their presence, thus delaying other progress. Absences affect benefit costs, especially healthcare. A company with a large staff and an anticipated absenteeism rate might tend to overstaff, thus incurring expense and lessening efficiency. While encouraging attendance with incentives costs money, it might be more economical than overstaffing and reducing your efficacy.

Employee Separation

Many employers think that recruiting and training are the only costs of replacing an employee. While those steps cost more than most people anticipate, they only hint at the expenses your firm incurs when an employee leaves, voluntarily or not. When good people leave, you lose efficiency because their departures disrupt their teams and their projects. When you fire someone, you cauterize the costs associated with their poor performance, but then you must hire a good replacement and rebuild team effectiveness. Separation costs include an exit interview, management time, a separation allowance, unemployment taxes, lost business, hiring costs and even lowered performance while a new employee becomes acclimated. New hires aren't cheap either. You have to advertise the open position, interview, test and sign up the new employee, and perhaps pay for relocation or for medical exams to satisfy your insurer. Beyond the costs of replacing employees, expend time, money and effort analyzing why turnover is occurring.

Health and Welfare

Most large companies offer employee wellness and assistance programs in order to compete for and retain talent while controlling some healthcare costs. Lifestyle choices and chronic healthcare issues are connected, so companies try to lower their costs by helping their employees live more healthfully. Some employers even impose lifestyle taxes on staffers who smoke, remain overweight or develop costly health conditions. Some firms screen potential hires for dangerous activities, such as skydiving, while others require employees to be nonsmokers on and off the job. When staffers experience personal problems, providing them with access to counseling and other aid can help resolve these situations quickly, so the firm doesn't lose a good person permanently due to a temporary problem. Many studies prove the cost effectiveness of Workplace Health Programs (WHP). For every dollar that well-run programs cost, they return $3 to $6 in benefits.

Employee Attitudes

Most HR managers instinctively agree that engaged, happy employees serve customers better, and that this increases customer commitment and, thus, revenues. Studies show a correlation between employee attitudes and customer satisfaction, but they do not demonstrate if one causes the other or if the two are related. Over several studies, Gallup interviewed many thousands of workers and managers. It identified 12 positive "worker beliefs" or "measures of employee satisfaction-engagement," including, "I know what is expected of me," "My opinions seem to count," "...I have received recognition or praise" and "The mission/purpose of my company makes me feel my job is important." Employees who agree with these statements have lower turnover and better performance. If you embark on a program to change employee attitudes, be patient; neither change nor improvement will be immediate. Try your best, and measure how your efforts seem to relate to the desired outcome.

Work-Life Balance

For the past several decades, executives have competed for top spots by dedicating their entire lives to their firms. Some, such as GE's Jeffrey Immelt, brag about having worked something like 100 hours per week for more than 25 years. This total commitment to the job filtered down into companies run by such driven executives, and the strain damaged many workers' personal lives and families. Employees finally pushed back and demanded a more favorable work-life balance. Younger workers prefer companies whose corporate cultures support their personal lives. Those with children want their employers to support healthcare, childcare and flexible work conditions. Many employers find that creating "flexible, cafeteria-style benefits" allows them to be more supportive. While CEOs might have to focus totally on work, most employees do not want to compete for such a position. Some very talented people will share their gifts generously with the company, while still focusing much of their energy on their outside lives. Analyze the cost of work-life balance programs against their benefits in terms of recruiting, retention and the value employees create.

Staffing

Employees can contribute more to your company if you match their individual talents appropriately to their jobs. Most companies have (or want to have) systematic selection procedures to find, recruit and place people in the jobs where they will perform best. Obviously, all staffing systems incur costs, but the right approach will have benefits beyond its expense. Models that you can apply to measure the tradeoffs in staffing systems include the Taylor-Russell Model, the Naylor-Shine Model and the Brogden-Cronbach-Gleser Model. Taylor-Russell produces a selection-system success ratio by dividing the number of successful hires by the total number of people hired. Naylor-Shine tries to increase its criterion score for all employees rather than trying to sort out good and bad employees. In simple terms, the Brogden-Cronbach-Gleser model uses "linear regression" to relate utility (dollar value) to "the cost of selection" and other variables. Each model has its advocates and each one can do some things the others cannot do.

Talent and Value

Getting the right talent in the right slot is a crucial aspect of HR, but some positions matter more than others. As you consider how your firm uses talent to create value, identify which jobs have more financial impact in your value chain. These pivotal positions deserve most of your attention and effort. For example, Disneyland managers found that the performance variation between the best and worst Mickey Mouse actors was small, partly due to the way the job is structured, but the difference between the best sweepers and the worst ones was huge. Given the importance customers place on park cleanliness, high-quality sweepers are "pivotal." Sweepers also give guests directions and respond to their needs. The actor playing Mickey is obviously vital, but the sweeper job has higher staffing utility because of a bad sweeper's negative impact. Your utility decisions do not have to be perfect, but do correct any process errors that lead to decision errors.

Selection

Approach hiring decisions as financial investments. Compare the value of the job's future salary and benefits, plus its current hiring costs, against the estimated benefits and value the employee will generate. If the calculation is positive, make the hiring investment. But you must hire the right person. Bad hiring decisions often don't manifest until the person has performed poorly for some time. Since dismissing people is costly, make use of probation periods. Determine if the accuracy that a probationary period adds to your hiring process is valuable enough to outweigh its costs. Some companies use multiple selection tools to aid in more accurate staffing decisions. They conduct background checks to verify resume claims, hold multiple rounds of interviews, and use assessments to screen job seekers for work attitudes and soft skills.

Development

HR teams are constantly pushed to prove the value of their development programs. Companies spend vast sums on training and adapting corporate culture, and managers want to know the results. Companies want every competitive advantage, but they must cut any costs that do not add value for the customer. Businesses face radical changes in the nature of the workforce and the skills needed to compete. They must train existing employees in new technologies while evaluating new hires for their ability to learn and adapt. Someone who is a tech expert today, but who can't adapt to tomorrow, will become a liability and grow obsolete. Some companies are evolving on-the-job training without costly travel or classes. Evaluate your training programs carefully, and don't assume that you are or aren't getting benefits based simply on cost and anecdotal evidence.

Using Talent-Investment Analysis to Drive Change

Decision tools can help you avoid mistakes if you need to cut costs because of an immediate financial crisis. Poorly considered layoffs might save money, but they also might weaken your competitive position by driving out pivotal talent. Clear cost-benefit analysis also can help you avoid the groupthink that leads many companies to slash healthcare and employee support benefits to preserve cash flow. Such short-term savings might cost your company more in the long run through higher turnover and lower morale.

> "At Disney, sweepers are actually front-line customer representatives with brooms in their hands."

A contented, committed workforce is an asset. Many talented people are glad to make valuable contributions but do not want to put in the 70 to 100 hours per week required on the CEO track. If you have a passive program that treats all your workers as if they are competing to run the company, think about what it is costing you. Are some of your top recruits choosing to work for a competitor with more thoughtful work-life balance policies? You put a lot of effort into building an effective chain of suppliers, so shouldn't you be just as careful in how you recruit, hire, retain and develop the employees that convert that supply chain into value? This includes keeping the skills of your current workforce up-to-date. The way you measure the effectiveness of these programs will differ according to your organizational needs, but to get hard numbers, use the basic tools of cost-effectiveness, utility and the time value of money. Then you can understand and manage your HR initiatives according to their financial contributions.

About the Authors

Wayne F. Cascio teaches at the University of Colorado, Denver and wrote *Costing Human Resources*, which is considered a classic in its field. **John W. Boudreau** teaches business at USC, and is recognized as an authority on human capital and competitive advantage.