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What are the Best Processes for Using Metrics to Ensure Organizational Optimization Needs of our HR Clients are Being Met?

Grace Lee
Cornell University

Sebastian Heppner
Cornell University

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Abstract

A major insurance company currently utilizes HR partners to serve needs within the organization. A challenge of this is determining how to drive organizational optimization and measuring how effective HR initiatives are in accomplishing this goal.

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GRACE LEE
SEBASTIAN HEPPNER

EXECUTIVE SUMMARY

RESEARCH QUESTION

What are the best processes for using metrics to ensure organizational optimization (reduction of non-value-added services and support, business growth enablers, performance) needs of our HR Clients are being met?

INTRODUCTION

A major insurance company currently utilizes HR partners to serve needs within the organization. A challenge of this is determining how to drive organizational optimization and measuring how effective HR initiatives are in accomplishing this goal.

ASSESSMENT PROCESS – A BEST PRACTICE MODEL

The following outlines a best practice model derived from an amalgamation of effective approaches organizations have used to establish systematic measurement of organizational outcomes.

1. **Goal Orientation and Alignment.** An effective way to start any performance assessment is to develop, together with clients, a set of mutually agreed goals and outcomes with well-defined timelines that can be measured within a simple accomplished/not accomplished framework. Outcomes then need to be broken down into specific, quantitatively outlined actions that accomplish them. Make every effort to understand what is being told and what initial decisions mean.[1]

2. **Mutually Agreed Measurements.** Clients need to understand and agree with the measures used in evaluating organizational optimization as this often allows key personnel to both get on board with initiatives and track success. This serves two purposes: (1) to reduce misunderstandings between client and partner, and (2) to identify what data will be needed to evaluate outcomes.[2] (See Appendix A). Key performance indicators (KPIs) for HR partner personnel which define how well they are executing their appropriate role in accomplishing outcomes need to be established before they start actually working on initiatives for the client.[3] Identify owners of outcome data to create a cross-functional data team consisting of measurement experts, key line-of-business leaders, and HR leadership. Also take into account indicators of organizational health, social and economic impact, and effective behavior drivers (see Appendix B).[4] Consider: are metrics equally important for all roles, do they measure "best possible" scenarios, what benchmarks can be used for looking at the efficiency of a process, and if there are critical dependencies of success driven by other parts of the organizational or corporate strategy.[5]

3. **Timeline.** Determine if there is to be a pre-initiative assessment for benchmarking, midpoint assessments, and post-initiative assessments. Timing is to be determined beforehand and results can be tracked over time via periodical measurement. Frequency of measurement as well as level of measurement (by line of business, work unit, manager, or department/function) have to be considered.

4. **Analyses of Data.** Collected data needs to be examined for patterns, outliers, correlations, consistency, and validity. Statistical analyses at the very least will define averages, medians, quartiles, standard deviation, and coefficient of determination. This accomplishes three things:
   - *Understanding the relationship between employee initiatives, skills, behaviors, attitudes and meaningful business outcomes.*
   - *Prioritizing types of interventions (i.e., determine where to spend time, money).*
   - *Calculating expected ROI to determine levels of investments and returns.*

5. **Application and Predictive Analyses.** If it is necessary, create interventions that will focus on processes/skills/attitudes/demographics that have been shown to have a direct impact on the organization's desired outcomes. Additionally, statistical examination can help predict future performance in the following ways:
   - **Cause-Effect Analyses** – Use of structural equations modeling (SEM) allows for consideration of multiple independent & dependent measures concurrently, inference of cause-effect relationships, calculation for ROI, and adjustment for measurement errors.[6] The goal here is to develop causal models that specifically address organizational optimization.
   - **Regression Analyses** – Gives HR leaders an ability to examine multiple data sets simultaneously and prioritize the impact on business outcomes. Regression analyses can determine valid correlations to predict future performance and create more accurate prescriptive goals.

6. **Measure and Adjust/Re-prioritize.** Through use of regular measurements, adjustments of initiatives can be made mid-process. It is essential that caution be taken while doing this as frequent changes may change the strategic focus of programs. Concentrate on two or three priorities and build action plans around them. If necessary, re-calculate the dataset linkages and re-prioritize.[3]

ORGANIZATIONAL OPTIMIZATION METRICS – WHICH ONES TO USE

To measure the effectiveness of organizational optimization initiatives, the following metrics are useful for determining success in key areas driving optimization (reduction of non-value-added services and support, business growth enablers, and performance).

Metrics measuring reduction of non-value-added services and support:

- **People Profit –** The number of "people dollars" spent in order to get one dollar of profit.
- **Revenue per Employee –** Organizational revenue divided by number of full-time employees. This helps determine the positive/negative impact of a program on the individual level. However, be weary of using revenue per employee as it tends to concentrate on production levels of a workforce over other outcomes such as customer service.

Metrics measuring business growth enablers:

- **Single-Period Growth Metrics**
  - Set targets to be reached within a specific timeframe and measure results against these targets.
  - Include negative growth targets. E.g., "We intend to reduce HR expenses by 10% this year."
- **Multi-Period Growth Metrics**
  - *Sales Revenues* – Preferred measurement to determine client's organizational size.
  - *Working Capital and Cash Flow* – There is a strong correlation for positive growth rates for these measurements and organizational growth.[7]
  - *Growth Risks* – Along with growth comes risk that needs to be measured. A CAHRS study of 38 companies found reoccurring risks accompanying business growth that need to be addressed (see Appendix C).[8]

Metrics measuring performance:

- **Strategic Metrics**
  - *Return on Invested Capital* – Addresses if money invested in HR partner initiatives is creating positive increases in financial performance.
  - *Economic Value Added* –Estimates organizations profit and is useful determining if major HR partner initiatives are having a desired impact.[9]
- **Operational Metrics**
  - *Accuracy and Speed of Report and Control* – Measures how fast initiatives are being implemented, how precisely they are being executed, how they are being controlled, and the organizational depth and breadth of initiatives.
  - *Social Compliance* - Measures the level to which clients are actually following the guideline and processes put into place by HR partners as well as whether or not people in the organization are on board with them.
  - *Productivity Ratio* – Measuring output for every dollar of "people costs" spent.
  - *Employee Pulse/Satisfaction* – Measures how employees feel about initiatives and what are they saying.[10]

CONCLUSION

In tackling how to determine whether or not organizational optimization outcomes are being met, it is necessary to take a methodical approach. The process above is a valuable starting point from which a solid and sustainable system of measurement can be implemented. While not all the metrics highlighted may always be applicable, they offer a variety of different mechanisms that ensure needs are met via measurement and adjustment of HR initiatives. The essential components of this process involve having both clients and HR partners aligned with organizational goals/outcomes, essential functions correlated with achievement, and properly measuring performance indicators.

[1] Abdulrahman, A. Al-Hussain and Ahmed S. Agha. *Evaluation of Consultant Performance.* http://faculty.kfupm.edu.sa/CEM/assaf/Students_Reports/Evaluation-of-Consultant-Perfor_2.pdf

[2] Gordan, Thomas. *Leader Effectiveness Training.* New York: P.H. Wyden, 2001. Print.

[3] http://www.projectpoint.at/?p=29. Accessed on March 4, 2015.

[4] Wolk, Andrew, Anand Dholakia, and Kelley Kreitz. Building a Performance Measurement System: using data to accelerate social impact. *Root Cause*. 2009.

[5] John Mahoney-Phillips Anna Adams, (2009),"Getting the measure of HR", *Strategic HR Review*, Vol. 9 Issue 1

[6] Mondore, Scott, Shane Douthitt, and Marisa Carson. Maximizing the Impact and Effectiveness of HR Analytics to Drive Business Outcomes. *People and Strategy,* Volume 34, Issue 2. 2011.

[7] Schmidt, Marty. *Cumulative Average Growth Rate CAGR and Other Growth Metrics*. Solution Matrix Limited. 2015.

[8] Laurito, Aaron, Rex Fitzpatrick, and Kurt Johnson. Managing Growth and Its Inherent Risk: A Benchmarking Study. https://est05.esalestrack.com/eSalesTrack/Content/Content.ashx?file=f208b4b0-f56d-4b3b-ac34-716b80b683b1.pdf.

[9] http://ocw.mit.edu/courses/aeronautics-and-astronautics/16-852j-integrating-the-lean-enterprise-fall-2005/lecture-notes/12_metrics.pdf

[10] Moving Beyond Absenteeism & turnover Stats. Koenig & Associates Inc. http://www.koenig.ca /files/ HR_Metrics.pdf

APPENDIX A: Steps for developing mutually accepted measures for performance.

1. Ask key leadership personnel to develop a list of desired outcomes, key functions necessary to accomplish these outcomes, and develop measures for each of these functions. Leaders can be coached by asking questions such:

    a. "How do you know when your people are operating at their best or when they are properly performing that function?"
    b. "What measures do *you* have in your mind?"
    c. "What data or facts are you looking at when your organization is performing well? Or poorly?"

2. Encourage key leaders to identify or develop *quantitative* measures whenever possible, but remember, for certain functions precise quantitative measures may not be available or useful. In such cases focus on what quantitative measures would be intended to achieve in the first place and determine alternative approaches. An alternative for example that comes from Deloitte Consulting consists of asking supervisors to evaluate subordinate performance based on four questions:

    1. Given what I know of this person's performance, and if it were my money, I would award this person the highest possible compensation increase and bonus. (agree / disagree).

    2. Given what I know of this person's performance, I would always want him or her on my team. (agree / disagree).

    3. This person is at risk for low performance. (agree / disagree).

    4. This person is ready for promotion today. (agree / disagree).

    Possible Quantitative Measures:

Number of errors	Dollar net profit	Number of new customers
Number of rejects	Dollar cost reduction	
Number of complaints	Number of items produced	Number of people trained
Dollar sales volume	Number of deadlines met	Scores on tests

3. Develop your own measures for each of the client's selected organizational functions.

4. Get together and compare measures. Then discuss, evaluate, modify. End up with mutually accepted measures for each of the organizational functions

APPENDIX B: Indicators

Common Organizational Health Indicators

Financial Sustainability	• $ amount of revenue, expenses, net surplus (loss) • % annual expense budget covered by currently committed funding • % variation between budgeted and actual revenue and expenses • # months of cash available at current spending rate • % revenue mix (individuals, foundations, government, earned income, etc.) • # funders at various funding levels, $ amount, and % of revenue contributed
Team Capacity	• # full-time and part-time staff • # board members • # volunteers • # staff hours devoted to each program • ratings of staff and volunteer satisfaction
Implementation Effectiveness	• % milestones met • % goals achieved

Common Program Performance Indicators

		Programmatic Areas		
	Direct Service	**Advocacy/Policy**	**Association/Network**	**Capacity Building**
Activities	• # inquiries or applicants • # classes or sessions • average length of service	• # petitions launched • # supporters recruited	• # members • # events • # member communications	• # workshops • # articles disseminated • # coaching hours
Outputs	• # beneficiaries served • % participants who complete program	• # petition signatures submitted • # emails, letters, or calls to legislators • # policy proposals developed	• # members engaged through program activity • % members using services	• # clients served • # clients engaging in programming
Quality	• % beneficiary satisfaction • % beneficiaries recommending your organization to their peers • qualitative interview data	• % petition drives meeting signature target • % supporter satisfaction • qualitative interview data	• % member satisfaction • % members recommending your organization to their peers • qualitative interview data	• % client satisfaction • % clients recommending your organization to their peers • qualitative interview data
Program Costs	• $ amount for individual program areas • $ amount per beneficiary served	• $ amount for individual program areas • $ amount per campaign, petition, or policy recommendation	• $ amount for individual program areas • $ amount per member	• $ amount for individual program areas • $ amount per client

Common Social and Economic Impact Indicators

	Programmatic Areas			
	Direct Service	**Advocacy/Policy**	**Association/ Network**	**Capacity Building**
Outcomes	• # beneficiaries experiencing targeted outcomes • % success rate	• # policy changes implemented • # new coalitions created	• # members indicating that they experience targeted outcomes • % success rate	• # clients demonstrating improvement in key capacity areas • % success rate
Outcomes Costs	• $ cost per successful outcome			
Impact Generated	• $ amount saved in social service costs • $ amount in new economic activity generated • Quantitative and qualitative data addressing higher-level systemic outcomes, such as new practices that your organization brought to its field or new stakeholders engaged in addressing the target social issue			

APPENDIX C: Percentage of time growth risk was mentioned by organizational personnel during study.