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

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

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.

Keywords
human resources, organizational optimization, outcomes, performance assessment, metrics

Comments
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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

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.

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. 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. 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). 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.

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. 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.  

**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.  
  - **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).

**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.
- **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.

**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.


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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:**
   
<table>
<thead>
<tr>
<th>Number of errors</th>
<th>Dollar net profit</th>
<th>Number of new customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of rejects</td>
<td>Dollar cost reduction</td>
<td>Number of people trained</td>
</tr>
<tr>
<td>Number of complaints</td>
<td>Number of items produced</td>
<td>Number of deadlines met</td>
</tr>
<tr>
<td>Dollar sales volume</td>
<td>Number of deadlines met</td>
<td>Scores on tests</td>
</tr>
</tbody>
</table>

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.
## Common Organizational Health Indicators

<table>
<thead>
<tr>
<th>Financial Sustainability</th>
<th>Team Capacity</th>
<th>Implementation Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ amount of revenue, expenses, net surplus (loss)</td>
<td># full-time and part-time staff</td>
<td>% milestones met</td>
</tr>
<tr>
<td>% annual expense budget covered by currently committed funding</td>
<td># board members</td>
<td>% goals achieved</td>
</tr>
<tr>
<td>% variation between budgeted and actual revenue and expenses</td>
<td># volunteers</td>
<td></td>
</tr>
<tr>
<td># months of cash available at current spending rate</td>
<td># staff hours devoted to each program</td>
<td></td>
</tr>
<tr>
<td>% revenue mix (individuals, foundations, government, earned income, etc.)</td>
<td>ratings of staff and volunteer satisfaction</td>
<td></td>
</tr>
<tr>
<td># funders at various funding levels, $ amount, and % of revenue contributed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programmatic Areas</td>
<td>Direct Service</td>
<td>Advocacy/Policy</td>
</tr>
<tr>
<td>--------------------</td>
<td>----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Activities</strong></td>
<td># inquiries or applicants</td>
<td># petitions launched</td>
</tr>
<tr>
<td></td>
<td># classes or sessions</td>
<td># supporters recruited</td>
</tr>
<tr>
<td></td>
<td>average length of service</td>
<td></td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td># beneficiaries served</td>
<td># petition signatures submitted</td>
</tr>
<tr>
<td></td>
<td>% participants who complete program</td>
<td># emails, letters, or calls to legislators</td>
</tr>
<tr>
<td><strong>Quality</strong></td>
<td>% beneficiary satisfaction</td>
<td>% petition drives meeting signature target</td>
</tr>
<tr>
<td></td>
<td>% beneficiaries recommending your organization to their peers</td>
<td>% supporter satisfaction</td>
</tr>
<tr>
<td></td>
<td>qualitative interview data</td>
<td>qualitative interview data</td>
</tr>
<tr>
<td>Program Costs</td>
<td>$ amount for individual program areas</td>
<td>$ amount for individual program areas</td>
</tr>
<tr>
<td></td>
<td>$ amount per beneficiary served</td>
<td>$ amount per campaign, petition, or policy recommendation</td>
</tr>
</tbody>
</table>
## Common Social and Economic Impact Indicators

### Programmatic Areas

<table>
<thead>
<tr>
<th></th>
<th>Direct Service</th>
<th>Advocacy/Policy</th>
<th>Association/Network</th>
<th>Capacity Building</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcomes</strong></td>
<td>• # beneficiaries experiencing targeted outcomes</td>
<td>• # policy changes implemented</td>
<td>• # members indicating that they experience targeted outcomes</td>
<td>• # clients demonstrating improvement in key capacity areas</td>
</tr>
<tr>
<td></td>
<td>• % success rate</td>
<td>• # new coalitions created</td>
<td>• % success rate</td>
<td>• % success rate</td>
</tr>
</tbody>
</table>

| **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.