

# What Gets Measured Gets Managed

Although some may argue with this assertion, the overwhelming tide of management talent tells us this is true. Through many of the cycles of business as we migrated from the Industrial Revolution to the boom of technology in the workplace, one single component of the business mix gained less attention – human capital. To be sure, revenue, costs, units shipped, defects and the like all were the targets of close observation, analysis, research and investment. Somehow, the component of “people” was all but lost in the business equation. Common reasons cited for this lack of attention were that “physical assets were more valued and had greater impact on the business” and that “one can’t really measure the human asset contribution”.

Today, it is understood that the “people” component of the business equation is an essential key to the sustained success of business, government, education, sports and entertainment. Talent is sought to seed football, baseball and basketball teams with the right mix of skill to assure victory, ticket sales and maximum advertising revenue. Businesses seek out star performers in R&D, sales, engineering, etc. From services businesses that rely on talent and billing for revenue to equipment intensive manufacturing, processing or distribution systems, people make it work, grow, fail or succeed. It is no wonder that the evolution of top business advisors have integrated the component of people, human capital and talent into the scope of measurement. By understanding the importance of the “people” component and creation of valid metrics, a complete set of corporate objectives and Key Performance Indicators (KPI’s) can be adopted. For most business, this process will broaden the scope of management practices, enhance competitive standing, customer satisfaction, and both the retention and development of human capital.



## Measurement Methodology

There are a number of approaches which are capable of providing corporate executives with insight into mission critical strategic and tactical initiatives. Enlightened leaders are finding ways to extract “real time” data which is compiled into a variety of reporting formats to allow up-to-the-minute views of revenue, expense, project status, and other predetermined business indicators. The move to real-time updates replaces a variety of previous approaches which most typically were periodic (monthly, quarterly, etc.) reports presented at formal business meetings. For sure, there is a need for periodic, face-to-face reporting and planning, however, a much more practical approach incorporates the “real time” view of business status with an “at a glance” view in a system known as the balanced scorecard linked with an executive dashboard which displays work in-progress for a collection of three or four critical business categories. The scorecard or dashboard most typically assesses goal attainment by capturing and reporting financial data, customer data, strategy implementation and people data. Unlike the periodic reporting which is a useful historical way to view past progress, trends and problem development/resolution, the “real time” view provides some or all of the following advantages:

- An opportunity to monitor KPI progress mid course and to carefully guide the outcome of events as they unfold or at least provide assurance that KPI’s are on track
- The opportunity to observe, analyze and, possibly, accelerate or increase the impact of favorable results during the measured period
- The opportunity to enact mid-cycle revisions if unfavorable results are observed. This can allow for advance warning or alerts which can lead to dispatching SWAT teams to fix the problem, reduce the downside or, at least, get a head start on planning the corrective course which may be implemented in the future.

When built effectively, balanced scorecards present data in a visual format, allowing both high level review of goal attainment and drill down ability to monitor status against predetermined corporate objectives. The combination of detailed drill down and visual formatting enables users to easily isolate over or under achievement at the root cause level. A sample of a well done HR balanced scorecard is noted below:

## What HCM components should be measured?

The list of alternatives is huge and can include such items as total headcount, functional headcount, headcount within a given market, product category, industry segment, geographic distribution of human capital, productivity per employee, revenue or cost per employee, employee satisfaction, employee performance, salary budget distribution, attrition, patents per R&D staff, etc. The best way to determine what elements of human capital should be measured is to start with the overall business strategies, goals and key performance indicators. The “people” component KPI’s, if not in direct alignment with the overall objectives of the enterprise, will be of little to no value to the business. Below, we will explore a few of the more universal measures that may be practical in most businesses. (For an expanded list of KPI alternatives, please refer to Appendix I).

**Employee Headcount**-The “people” component of HCM KPI’s most commonly will include employee headcount as a category for measurement. The detail associated with this reporting segment is commonly influenced by the business cycle that the company has targeted in its overall strategy. If the company is in expansion mode, it may not only be important to track how many people, in which functional organizations and in which job roles, but also how much time and money it takes to augment the desired staff. A comparison of intended headcount and actual headcount is also of value to most companies. Additionally, the degree of goal attainment will assist decision makers in determining if additional investment or remedial action is needed to assure timely addition/reduction to staff. Among the considerations for action could be assessment of talent acquisition investment (advertising, recruitment agencies, internal recruiting additions) and, perhaps in the more extreme cases, merger/acquisition consideration with other players in the market. Some classic forms of measurement and examples of Executive Dashboard displays to manage this component are provided below:

**Performance Management**- There are many approaches to the development of a sound performance management system within private enterprise and public organizations. Most experts would agree on a few basics which should be present: clear workplan objectives that are aligned with the goals of the enterprise, measurements to assure whether an objective has been achieved, multiple performance categories that allow for the relative ranking of performance within the enterprise, a predetermined periodic assessment of an individual’s achievement and, albeit somewhat controversial, an expected distribution of performance levels within the enterprise or organization. The value of such a system or process serves to deliver a variety of value to both the enterprise and the person whose performance is being assessed. A few such benefits are noted below:

- Work plans and performance targets can and will drive desired goal attainment
- Periodic performance assessment provides the opportunity to focus and develop talent needed to enhance career opportunity
- Work plans and performance appraisal demonstrate personal interest in individual contribution and may foster a more unified and loyal workforce
- Conscientious workers want to know where they stand and how to improve
- Businesses need a basis for assessment of relative contribution and reasonable reward
- Work planning, performance assessment and employee coaching form the basis for sound management practice and, if done properly, serve to enhance justification for removal of unfit members of the enterprise
- Work planning, performance assessment, feedback, coaching and employee training form a strong basis for the enterprise to build, maintain or enhance competitive advantage and increase the probability for corporate goal attainment.

In order to maximize the advantages of a well founded performance management system, reasonable methods for measuring compliance are recommended. Some examples and approaches to do this are noted below:

**Attrition**- Much can be learned about an enterprise by analysis of what leads to an unanticipated loss of human talent from a company or organization. One can discern the relative quality of managerial talent within a company, how well a company rewards employee contribution as well as how employees view the culture and professional opportunity within a given enterprise. By tracking common involuntary termination reasons and assessing the ways that such terminations could have been prevented, organizations create the potential for significant cost savings and add organizational strength to the enterprise. By placing a cost on each termination and determining which of those terminations should have been avoidable and then, structuring a plan to deal with unnecessary termination, expense and organizational turmoil can be reduced. Enterprise savings can be significant given that the typical cost of recruiting, interviewing, hiring, training, indoctrinating and bringing an employee “up to speed” costs an organization about \$150,000 per professional hire (engineer, lawyer, accountant, etc.). By conducting root cause analysis on each termination and taking remedial action, cost can be reduced and the reputation of the enterprise can be enhanced. Some valued methods to assist in this process are pictured below:

**Employee Satisfaction** - The measurement of employee satisfaction can take on a variety of forms and each company will need to select the methodology that provides the greatest value to the achievement of overall corporate objectives. The information measured in this segment can provide leaders with insight into several key areas such as:

- An assessment of employee loyalty
- The perceived effectiveness of human capital focused programs such as training, career advancement, compensation/benefits
- The importance or impact of investment into facilities improvements
- The perceived effectiveness of managerial talent
- The perceived effectiveness of inter/intra departments productivity

One approach for such measurement utilizes a cross industry, standardized survey approach that permits a company to compare its internal level of employee satisfaction against industry norms. Another approach is the use of custom-designed surveys. This latter approach permits companies to create and update employee surveys, which allow for more flexibility in monitoring key internal attributes that may be of unique importance to the enterprise. Additionally, the use of custom surveys provides companies with greater flexibility to explore not only the current



level of satisfaction within the employee population but also allows companies to assess employee loyalty. When properly designed and administered, either form of survey will provide keen insight into current problem spots and also assess the impact of remediation activities and programs that addressed previously identified hot spots in the organization.

More advanced use of employee satisfaction data can be used to assess the impact of employee satisfaction on retention, productivity, customer satisfaction/loyalty, business growth and profitability.

**Compensation/Bonus Administration** - In today's enterprise, several human capital management software systems may contain some form of compensation, bonus, MBO, and stock option administration features and most are quite helpful in assuring that budgets are spent wisely. All too often, however, the information that is most useful in making appropriate decisions for budget distribution is kept "in the back room" and rarely is the information available to the key decision maker – the line manager – who most typically makes the decision to distribute the available budget. Additionally, subsequent levels of management are often unable to compare and assess the relative effectiveness of lower level managers' ability to make key compensation decisions. Thus, an area of managerial strength can be assessed. By bringing compensation/bonus administration metrics to the scorecard/dashboard reporting level, there is an added benefit that allows for the management of cross organization, cross geography, and cross business unit continuity in the approach and decisions influencing pay and bonus distribution.

## Conclusion

In conclusion, real-time scorecard or dashboard reporting accelerates the time in which business decisions can be made and increases the probability of KPI attainment. With the conveniences offered by technology today, such data can be displayed on managers' computer screens, personal digital assistants (PDA's) and even cell phone screens. Once properly constructed, the KPI real-time reporting, coupled with a low cost reporting device, can and will remove much of the guess work and surprise factor in business formerly inherent in traditional business reports.



## Appendix I Alternative Human Capital Management KPI's

(the following are additional possible metrics for usage in HCM dashboards and scorecards)

### Performance Management

- Completion rates for periodic company-wide performance appraisals
- Completion rate drill down by division, country, location, department, manager, work group, industry or product category
- Performance rating distribution by total company, division, country, department, etc.

### Headcount

- Population growth/reduction by total company, division, country, location, department, manager, work group
- Organic headcount growth/acquisition headcount growth
- Headcount comparison vs. planned headcount by predetermined category

### Productivity

- Revenue per employee
- Revenue per sales representative
- Customer engagement per employee (transactions per employee)
- Customer satisfaction
- Cost per employee
- Patents granted
- Product delivery cycles
- Time to fill critical vacancies (e.g., opportunity costs associated with Sales Representative hire/train/full speed cycle)
- Cost of mis-hired employee

### Training

- Skills training completed
- Management training completed (possible measures of effectiveness include attrition/litigation/succession planning attainment)
- Induction process (recruit-to-fully productive)

### Attrition

- Attrition by company, division, country, department, manager, workgroup
- Attrition by performance rating
- Attrition of patent holders
- Attrition by organic/acquired, source of hire
- Attrition by division, country, department, manager, workgroup

- Attrition cost by company, division, country, department, manager, workgroup
- Attrition by category (planned/unplanned, etc.)

#### **Compensation**

- Compensation budget distribution by company, division, country, department, manager, workgroup
- Compensation budget distribution by performance rating by company, division...
- Compa ratio by salary grade level
- Compa ratio by performance rating
- Promotion increase assessment
- Commission payout/attainment
- MBO payout/attainment by performance rating
- Profit Sharing Bonus payout by performance rating and grade level
- (same could apply to bonus and stock distribution)

#### **Employee Satisfaction/Culture Assessment**

- Employee satisfaction index and/or trend by company, division, country, department, manager, work group
- Culture assessment index and/or trend by company, division, country, department, manager, work group

#### **Customer Satisfaction/Customer Loyalty**

- Customer satisfaction/customer loyalty by company, division (if appropriate), country, department, location, manager work group

#### **Staffing Assessment**

- Cost per hire by company, division, country, location, department, manager, work group
- Source per hire
- Time to fill open requisitions (assessment by grade level and job title) by company, division...
- Source of hire for patent holders
- Source of hire for high level performers
- Source of hire for high level Sales Representatives
- Tenure by source of hire

#### **Benefits**

- Population eligible for benefit coverage by company, division, country, location
- Population enrolled for coverage by company, division, country, location
- Average cost of benefits by company, division, country, location

#### **Workforce Demographics**

- Average tenure
- Tenure by performance ratings
- Grade level of high level performers
- Expected continued service of high level performers
- Average total cost of employment by company, division, country, location

#### **Potential Correlation**

- Customer satisfaction, employee satisfaction, longevity, productivity, revenue growth, customer loyalty
- Source of hire-patent grants, longevity, training investment, revenue growth
- Source of hire-sales revenue attainment, longevity, training investment
- Attrition management training, litigation/settlement
- Culture index, corporate performance
- Employee training, productivity, customer satisfaction/customer loyalty
- Corporate strategic initiative results (any appropriate categories...)

### **Variation by Industry**

Measurement categories will be modified to reflect appropriate metrics by industry and, in some cases, by market. The categories noted above would apply most directly to a knowledge worker population. Hotels, retail stores, distributors, manufacturers, construction, financial services will use some varied metrics such as room nights, pounds shipped, units produced, rework, scrap, failure rates, absenteeism, on time completion, new accounts, capital under management, etc.

