Numbers behind HR

Benchmarking

Workforce analytics
Traditional HR benchmarking focuses on two things: cost and headcount. This approach focuses attention on HR’s efficiency, not its effectiveness, and seldom reflects HR’s effort to become a transformational, strategic part of the business. When HR focuses on the cost and the elapsed time it takes to deliver services, its focus is strictly operational — and when cost and effort dominate HR’s contribution to designing new programs or deploying improvements, the opportunity to boost business performance gets less attention.

When companies make initial forays into benchmarking HR effectiveness, they survey customer perception. This provides input into growth and development, as well as the way investments are prioritized. Some use balanced scorecards to focus on metrics like speed to productivity, while others commit to fill positions within a set time through service-level agreements. These are all good starts, but none of them takes the next necessary step: demonstrating the business value of the HR functions being measured.

HR leaders should broaden their benchmarking horizons to help chief officers (CXOs) see the beneficial impact of their activities on the business as a whole, not just the table-stakes categories of cost and headcount often derived sought in benchmarks.
This change in perspective not only coincides with fundamental changes in the way companies conduct business and perform in the marketplace, but also measures the degree to which HR functions as a strategic business driver. Both of these shifts are beneficial in a time when revenue and market growth, globalization, and increasing demands for innovation through a contracting labor market combine to increase the relevance of business drivers like profitable growth, globalization, innovation, and talent development. Fundamentally, contributing on a strategic level means driving business performance through HR programs. Tied to benchmarks, key performance indicators and other measurement systems demonstrate the business impact of HR and represent a departure from traditional efficiency-based view. Thus, expanding HR’s benchmark activities beyond cost and headcount aligns HR’s efforts in solving business-related problems through deployment of programs while measuring the effect of those programs.

**Make no mistake.** Measuring cost and headcount is important. Cost effectiveness, speed, and compliance are required components of HR’s core mandate. However, over the past 20 years, business leaders have come to expect this as a matter of fact. The days of recognizing HR only for first-quartile cost structures, correct and on-time payment, and being compliant with the myriad of people-related laws and regulations are over. Nor should anyone say HR can’t benefit from traditional benchmarking — if nothing more, it addresses the 30-second question, “Do our HR organization’s costs and delivery times compare favorably to other organizations’?” Benchmarking can provide that quick answer, but delving into what matters — how HR can respond to today’s market challenges — requires a new type of measurement system along with a new way of thinking about benchmarks.
Making the transition

With a few simple steps, the HR organization can migrate from a traditional to a business- and industry-focused benchmarking approach. The key is not to measure for the sake of measuring. If HR has learned anything from the internal benchmarking of employee engagement surveys, it is this: Ask only the questions that the organization will devote time and effort to addressing. The same holds true for HR benchmarking: Focus on areas that make sense to the business and align with the way HR’s strategy supports the overall business strategy. At the same time, be sure to perform enough traditional benchmarking to be confident that HR compares favorably in cost and headcount.

To migrate from traditional benchmarking to a business-focused approach, companies should do three things.

First, work backwards. Align the overall business strategy — such as profitable growth, globalization, innovation, or talent development — with specific HR projects and programs. In aligning the work of HR with the overall business strategy, the key performance metrics that matter to the business may not be the ones that matter to HR — or that HR thinks matter to the business. Something as simple as the amount of time it takes to fill a position often matters to HR, so HR thinks that matters to the business. Often, however, the business just doesn’t care that HR found a line worker within 10 days. What gets the business excited is knowing when a new hire in a critical workforce segment will become productive, and what investments it will take to make it happen. Each metric should measure the effectiveness and efficiency of a particular HR program, which, in turn, aligns with the organizational strategy to drive business performance measures, such as growth, globalization, innovation, or talent management.

This is how HR can measure what matters to the business.
Benchmarking

After working backwards to align the organizational strategy with HR’s activities and identify what the business may ultimately need, look for benchmarks that support the key performance metrics. Be forewarned: Finding applicable benchmarks that support the key performance metrics will not be easy. The benchmarking industry is, almost by definition, traditional. Comparisons to cost and duration permeate the offerings of HR-related benchmarking organizations. Conduct custom benchmarks studies with peer companies or apply an internal benchmarking approach that collects data over time. The underlying belief is that you get what you benchmark, measure, and reward. Select a peer group that has your organization’s level of maturity for which it makes sense to benchmark. The business will challenge the applicability of the peer group. A deep understanding of the peer group will increase the acceptance of the benchmarking results. Do not be overly concerned if those external benchmarks do not exist because benchmark providers’ offerings often lag behind the innovation that exists within HR itself.

Finally, as table stakes, conduct efficiency benchmarks to answer the 30-second fly-by question. Establish a realistic goal when compared to other HR organizations. Being a first-quartile organization in cost, while supporting an overall business objective of profitable growth, might hinder an HR organization’s ability to invest capital on other strategic business objectives such as innovation or globalization. While being realistic, any CHRO will have a hard time defending that a cost structure in the third quartile is good. Be competitive in cost and duration. Use benchmarks to help prioritize HR investments that support the overall business strategy.

Seeing the desired end state

Once the organization selects appropriate benchmarks and begins to measure performance, the impact of HR activities on business performance is obvious. To an extent, leaders can attribute changes in business performance to these measurements. Performance benchmarking relative to peer organizations not only provides valuable insight into the effectiveness of HR investments, but can also help HR prioritize new investments. The fundamental nature of discussions between HR and the business also changes. For example, people may start talking about how the organization is growing profitably relative to its peers, thanks to productivity and innovation enhancements they can trace back to HR investments in reward and selection programs. HR has joined the strategic leaders of the business.

By following the guiding principles, an organization can efficiently transition from traditional to business driven benchmarks. Benchmarks should be simple, comparable, cost-effective to collect, and fully documented. For example, the number of people who enjoyed taking a particular training course is not particularly interesting to the business. What the business likely cares about is the specific type of behavior change. Benchmarks should be standardized. Paradoxically, the distinction that makes a particular metric applicable to the business might also make it more difficult to benchmark — until the industry catches up with this type of innovative behavior. Benchmarks should be repeatable. Simply knowing a point in time (and a lagging point at that) provides a data point. The effect of HR programs on the business can only be tracked over time. Thus, in designing business-focused benchmarks, follow these guiding principles: business driven, standardized, and repeatable.
A worthwhile transformation, but not without challenges
As organizations integrate traditional benchmarking with business-focused benchmarking, they face three challenges: comparability, alignment, and credibility. The current state of HR benchmarking reflects simplicity and a 20-year history of HR’s focus on efficiency: cost to deliver services, prevalence of various operating models, and headcount. It might not be possible to find standardized benchmarks that align with the organization’s strategy until the benchmarking industry begins to see beyond cost, quantity, and structure questions. Of course, custom benchmark analyses and internal benchmarks might suffice until such time as the benchmark industry catches up.

As HR aligns its efforts to improve business performance (alongside cost reduction and process efficiencies), HR may struggle to identify meaningful programs and measurements of business performance that it can link to an HR program. It is easy to identify cost savings: *HR reorganized and has 10 fewer people*. It is not as easy to measure behavior change, but it is not impossible either. Credibility comes from giving a solid answer to the age-old executive question, “If you can’t pay my fill-in-the-blank correctly, on time, how can you contribute to business performance?” This is the place for strength, commitment, and consistent communication from HR to the business: *It is time to move on. HR has a new agenda and of course, we still need to pay people timely and correctly.*
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To improve the transition between traditional and a business-driven benchmarking, businesses should begin with certain attitudes:

**Matters and to whom.** As CHROs examine the effectiveness of their programs on growth, globalization, talent management, innovation, and other measures of business performance, the relevance of the measurement systems — and the comparability of those measurement systems — are entirely based on where someone sits within the organization. The COO, Chief Marketing Officer (CMO), and CIO have different views of how HR contributes to business performance. HR’s measurement systems should reflect value in the eye of the beholder, which means HR may need different benchmarks for different measurement systems that cater to a different audience.

**Let’s face it — in managing human capital, one size does not fit all.** Whether employees play roles in a succession plan or are marked as high-potential people of diversity, business leaders, or innovators, some people are more critical to a business than others. Focus and measure critical metrics and benchmark those metrics first.

**Conclusion**

The demands on HR today are greater than they have ever been. HR’s move to align itself with business strategy and, more importantly, measure the effectiveness of its programs prompts consideration of a new type of benchmark. Simply answering the “cost or headcount” question leaves HR stuck in the mode of focusing on efficiency, not on effectiveness. It is time for HR to look at the world through a business lens and become a strategic driver. The emerging business focus of globalization, talent management, and innovation prompts new ways of thinking — and, more importantly, behaving. HR’s efforts and programs must focus on improving business performance aligned with the overall organizational strategy. The effectiveness of those programs, as measured through key performance indicators KPIs ought to be tracked and benchmarked using measurement systems explainable to the business and capable of demonstrating the value of the HR organization as a whole.