‘Organisation performance through a human capital lens’

Organisation engagement:

Evaluating your Human Capital Management Signature

Volume 1

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Organisation Engagement:

Evaluating your Human Capital Management signature

By Nicholas J Higgins

For too long, attempts to measure and evaluate human capital management have relied on 'single item' measures such as absenteeism or turnover, with limited success. The complexity and inter-related nature of human capital management requires a more comprehensive approach towards evaluation to provide context for such focused metrics. 'Organisation engagement' sets out a standard approach towards assessing 15 comprehensive areas of people management practice in support of high employee engagement and productivity. Through the combination of qualitative and quantitative assessment in each of these areas, organisations and HR functions now have the ability to measure their 'human capital management signature' across all areas of people management.

For the first time, this true scorecard approach towards measurement and evaluation provides a clear picture of HCM performance, allowing organisations to identify people management actions, priorities, differentials in line and HR perspective. This powerful approach now provides HR functions and owners of people management activities a clear mandate and 'business case' for their involvement, moving the argument away from the potentially misleading 'single metric' approach.

The big picture

When it comes to evaluating people management organisations have strangely been rather limited in their approach. Traditionally it has been left to HR to provide the 'intelligence' on this aspect of organisation performance if at all.

Given the importance of people to most business operating models, it would appear to be rather at odds, some would say even negligent, given the lengths that organisations go to in terms of measurement, targets and progress reporting.

Basic HR metrics have been with us for quite some time and the problem is that most focus is done one-dimensionally, i.e. we tend to talk about the absenteeism ratio or the turnover percentage, recruitment cycle time or other similar metrics, some are outcome driven, but most common people metrics are of the efficiency variety.

Coupled with this is the tendency to focus on a particular metric when action is required, i.e. when something is already out of line or poor in relation to whatever target is thought to be. To illustrate this point, if you read HR related case studies or awards, you tend to notice common examples such as organisation A reducing absenteeism by x%, or organisation B reducing turnover by y%, or HR function C reducing costs by z%.

human capital management signature.

However, to do that would invite a very large and complicated picture without simplification but nonetheless vital if the organisation wanted to know where to invest time and resource and/or to evaluate this time and resource on an ongoing basis, providing both a means of cross-sectional and longitudinal insight for acting upon (i.e. we could drill down to look at a specific component in time or we could observe trends or compare over time).

Unpicking cultural 'levers'

Leaving aside the issue of measurement and simplification, which we will come to later, let us think of certain levers that organisations use to assist in getting the best out of people; getting them highly engaged and performing to their innate talent.

We know that resourcing is a key in terms of recruiting the right people both from the external market-place and in terms of matching internal opportunities with the best candidates. We should also not forget that resourcing also helps organisations in staffing joint ventures, alliances and of course outsourcing type agreements.

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Unfortunately, notwithstanding all the issues around definition, reporting, targets and data reliability, they all suffer from the same perspective - that of reacting to 'fix' an identified problem. But the question really to ask is why were these various areas poor in the first-place? What were the factors or drivers that prompted action? How are we to stop this from happening again? And how can we be more proactive as an organisation/HR function in having intelligence that provides us with a bigger picture than just looking at one dimensional aspects?

For example, there are a number of factors regarding absenteeism. From an organisational perspective, one can see that an individual's employee engagement may be material. Of course the individual's engagement is itself an outcome of other related people management factors.

In fact, before we 'drill down' to look at aspects of absenteeism, we need to have a sense of the bigger picture of what is going on organisationally (sliced down to functional/team/management level where necessary) from a people management perspective – what we term its

Since we touched on internal resourcing, talent management is now another 'lever' that organisations use to manage individual talent across the organisation.

Training and development is a core piece of the puzzle in terms of providing competent people and management from either a capability or performance perspective.

In combination with resourcing, talent and training and development is retention itself. Organisations who do not have retention strategies/policies in place risk losing any investment made in the preceding 'levers' every time an individual leaves voluntarily (and sometimes involuntarily).

In a similar vein, employer brand is becoming another important lever to assist in recruitment as well as cement engagement from within. Added to this, are the effectiveness of reward strategies and policies, diversity, performance management and leadership.

The degree of effectiveness of organisation communications and indeed climate play their part. Poor performance in these areas certainly has a deleterious effect on people engagement and productivity.

One very overlooked area is that of organisation design, which includes things like job roles and structures, the organisational structure itself, and the propensity to balance competing trade-offs between performance, reward and decision-making to optimise the organisation itself as a people collective.

Against all of these whirling dynamics, it is sometimes easy to forget the employees themselves, and the legacy of how oriented the organisation is with respect to the individual – that is, the organisational reality that people remember versus the organisation rhetoric that we continually aspire to.

And then, there's the HR function having a direct and indirect influence on how the organisation is managing these various 'levers' or spinning plates as one can imagine. This is where the operational capability and 'excellence' plays its part as a supporting mechanism to all of the above areas. A good performing HR function adds value to the organisation, a poorly performing 'toxic' HR function destroys it.

Then finally, there is the strategic governance bit – the part of the HR function that oversees and directs combining focus for both the short-term operational requirements with the longer term (i.e. greater than 12 months) strategic imperatives.

These of course should be driven by the function's own value propositions to the organisation in line with the organisation's requirements. The only limitation to the positive contribution of the HR function is the organisation itself. For many in HR and indeed management, all of these organisational levers go into the mix of what is termed 'culture'.

But unpicking them in this way provides a clarity that has, for too long, been missing in organisation development or culture change initiatives.

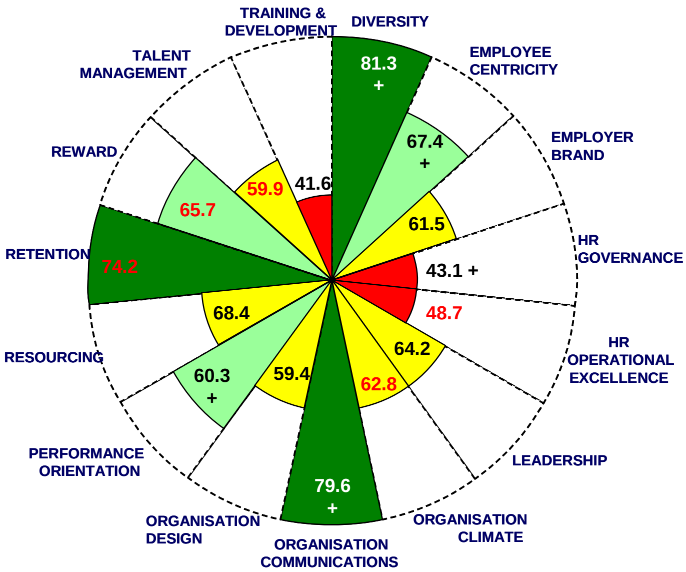
Human Capital Management signature

Those who have read ***Competitive Advantage through Human Capital Management Parts I and II***[1] will perhaps recognise the above with the 'Organisation engagement RADAR', the evaluation of 15 operational people strategies together with employee engagement as described.

The Organisation engagement (OE) 'levers' are represented by the OE indicators which evaluate the effectiveness of human capital management across the 15 designated areas (as shown) that are influenced or driven through HR resource focus combined with line management activity which result in a degree of effectiveness.

This differentiation is key, as it is critical to acknowledge that HR functions cannot be held uniquely accountable for many aspects of human capital management performance.

Human Capital Management signature



Take performance management as an illustration. The HR function's role is likely to include the design of any performance management policies, assessment tools, criteria for evaluation and overall monitoring of performance management activity/outcomes (perhaps with advisory support to line managers and provision of arbitration). It is not likely that the function will itself be responsible for conducting performance reviews, as these are typically included within a line manager's remit given their proximity to their team and understanding of their role.

Therefore the operational indicators reflect the performance of line managers from a human capital perspective, as well as that of the HR function. Two indicators (HR Governance and HR Operational Excellence) relate to the function itself, with no involvement from line management: ***direct*** influence.

In all other indicators, the HR function's role is ***indirect*** (to a greater or lesser extent), through for example attempts to influence line managers (e.g. through appropriate policy, training, support and advocacy). When combined with further operating performance data, more detailed performance modelling (analytics) can be used to establish under/over-achievement on the ground.

The real difference here is that calculating these indicators is through three dimensional measurement treatment not one-dimensional metrics myopia.

[1] See the Journal of Applied Human Capital Management Volume 1 Number 1 March 2007

Next generation measurement

Each 'OE indicator' is calculated through a combination of qualitative and quantitative data to evaluate the outcomes of people management practice. For example, the 'Retention' indicator is calculated through combining respondent perception of the effectiveness of any intended and relevant approaches together with an input of relevant retention data that includes metrics such as actual turnover figures. In effect, each organisation engagement indicator has its own scorecard of metrics and measures.

This 'mixed methods' approach is the 'next generation' in that it has superior advantages over existing traditional methods.

A further benefit of combining qualitative and quantitative data in the assessment is the unprecedented level of insight possible through drilling down into specific scores, as well as any misalignment. For example, a raised level of turnover (however defined) can be taken as a symptom of issues within underlying aspects of human capital management.

By review of the perception-based responses to questions relating to retention, analysis can be performed to identify specific underlying issues.

As an illustration, high turnover could result from any combination of:

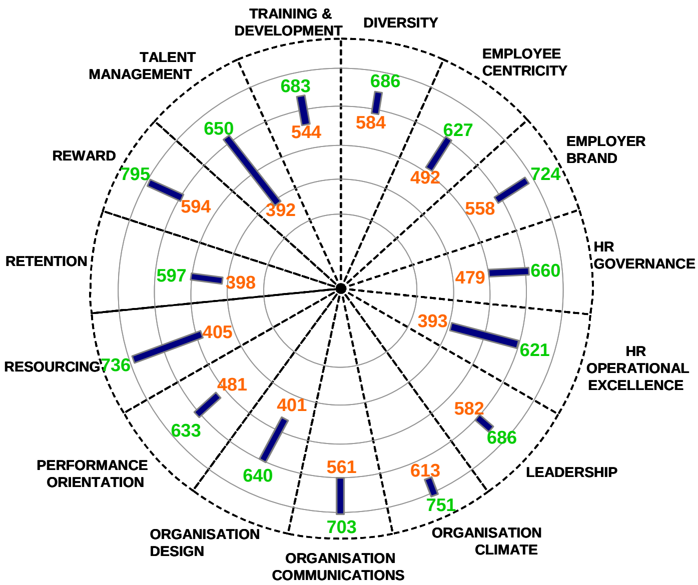
- lack of formal approaches towards retaining staff
- insufficient role clarity
- poor job design
- inadequate reward provision
- limited development opportunities
- inadequate line management and so on.

Factor analysis of scores relating to these areas allows organisations to pinpoint where issues exist (either in perception or reality) that affect outcome performance.

The operational indicators, therefore, offer for the first time a robust and comparable evaluation of human capital management performance, that can be applied within (e.g. business unit level) and across organisations (e.g. 'true' benchmarking).

consistent across organisations, suggesting either that organisations have similar approaches, or that whatever organisations are attempting to do within these areas is not significantly affecting outcome performance.

Ranges contained within HCM signature database



Just as these indicators can (and should) be calculated from the perspective of line management as well as HR, identifying the differences in scores across each of the 15 operational indicators on this basis will highlight areas where HR (typically) overestimates human capital management performance relative to line perspective.

The diagram overleaf is an illustration in point taken from live data. Where HR overestimates performance in a particular indicator (supported by appropriate drill-down analysis) it risks not delivering to line expectations (and potentially not allocating sufficient resource-time to underlying activities). This can also indicate that the HR function over-estimates its own influence.

"The real opportunity for HR is that it doesn't or shouldn't need to justify why it's there – it can now turn the argument around and ask the organisation to justify why it needs HR to do what it is asked."

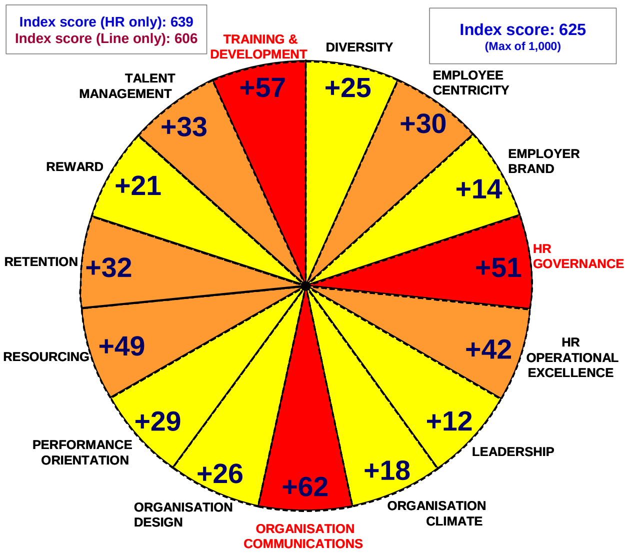
The following graphic illustrates the type of insight possible through this evaluation. It is noticeable that the 'gap' between high and low scores within each indicator differs.

Talent Management and Resourcing have large 'gaps', implying that organisational approaches and their effectiveness differ widely in these areas.

Diversity and Leadership appear relatively

Here three indicators (HR Governance, Organisation Communications and Training & Development) show a particular divergence between line and HR perspectives. In these cases, the ability to 'drill-down' into responses and quantitative data provides insight into the sources of divergence.

Thus, for the first time, HR functions can establish their individual value propositions with regard to the operational strategies (and employee engagement), the setting of targets and the carrying out of regular assessments (i.e. annual) and to these operational strategies relating them back to the inputs of the HR function.



With the appropriate analysis and through combining insight derived through the resource cost exercise, value curve [2] and operational indicators, HR functions can now identify how their activities contribute value, how this influences human capital management outcomes and how explicit 'value propositions' can be developed for functional delivery. Based on a scientific (i.e. evidence-based) approach, HR Strategy development and its effectiveness can be evaluated as well as HR functions themselves having the means to demonstrate their contribution.

The real opportunity for HR is that it doesn't or shouldn't need to justify why it's there – it can now turn the argument around and ask the organisation to justify why it needs HR to do what it is asked. What HR has to do is to ensure it knows where the organisation [3] is (across the business units) in people management expectations (value attributes) and deliver to those as well as driving improvement in areas identified with reasoned business cases.

The Challenge

Calibrating and calculating the human capital management signature means that HR functions and their organisations have the requisite business intelligence to:

- Evaluate current people management impairment and its effect on employee engagement
- Link with other organisational data to provide real performance insight that has not been available before
- Provide rationale for 'people management intervention' business cases
- Derive measurable targets on important people management areas that have remained intangible up until now
- Provide insightful Return-on-Investment ratios that have remained either immeasurable or too challenging
- Ensure alignment of value between HR and the organisation over requisite HR delivery
- Provide a means of setting an implementable HR strategy and use ongoing
- Perform evaluation and trend analysis for improvement and educational purposes
- Provide predictive intelligence through the use of modelling data

The challenge is for organisations (and their HR functions) to take people management effectiveness seriously and evaluate accordingly on a par with other areas such as supply chain management, customer relationship management and financial performance.

For HR functions, the propensity to be able to link HR input activity (HR profiler and the HR value curve[4]) with people management outcomes (the organisation engagement RADAR) provides for the first time a clear line-of-sight.

Neither the organisation nor its HR function should any longer be in the dark over the why, what and how of people management or its effectiveness.

An organisation's human capital management signature is of prime importance. To ignore it in these competitive times is to basically condemn the organisation to 'walk blind' and in so doing increase the probability of higher incurred (transaction) costs and lower collective performance. Why would any smart organisation want to do that?

[2] see Brave New HR World - part II JoAHCM Volume 1 No 2 2007
[3] Or each individual country, business unit or directorate or equivalent

[4] Again see Brave New HR World - part II JoAHCM Volume 1 No 2 2007

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VaLUENTiS Group

Global Headquarters
2nd Floor
Berkeley Square House
Berkeley Square
London
W1J 6BD

Tel: +44 20 7887 6108
Fax: +44 20 7887 6100
www.valuentis.com