

Causation not correlation

HR measurement is very simple when you know what you're doing. However, if you make it overly simplistic don't be surprised if no one is interested in the results. HR benchmarks based on a spurious correlation between business performance and HR practices convince no one. The basis of really effective and convincing HR measurement starts with clear causation, not correlation. These are my five top tips on how to produce credible measures that focus and guide HR activities and also demonstrate a significant contribution to value.

1. Design HR activities based on existing business measures

The most important lesson is to get your measures sorted out at the beginning. Don't launch an HR initiative (whether it be 360° feedback, coaching, etc.) and then try to measure its impact.

First think about which existing business measures you want to impact, then design your HR solution with that end in mind. But be sure the measure you choose is one that's worth impacting in the first place.

2. Added value per employee

This metric is the ultimate in HR measurement and is one of the simplest to produce. Just take your net profit and divide it by the number of employees or equivalent number of full-time employees (FTEs). For example, a business making UK£100 million profit a year with 10,000 employees produces a figure of UK£10,000 added value per employee. If you work in a governmental or not-for-profit organization use "total income" in

the calculation instead of net profit.

This should provide your *baseline*, a sacrosanct principle of any measurement, but especially important in HR measurement. Once you have a baseline you can decide what you want to happen to it. In a commercial organization you would probably want this figure to increase. This now becomes the guiding light for HR analysis – what is the root cause behind these numbers and how can we make them improve?

3. Added value measures

There are only four variables that HR (or indeed any manager) can influence to add value:

- Outputs (number or quantity of products or services produced by your organization).
- Costs.
- Revenue.
- Quality.

Most accountants would argue that reducing costs will "add value," but in the case of a hospital just reducing costs (i.e. reducing the funding of the hospital) will actually look like a reduction in value per employee. To gauge real value we must look at outputs as well as costs.

4. Composite output measures

What we need is a composite measure. If the hospital "produces" 100,000 cured patients a year for UK£100 million then, in effect, the "value" of each patient is UK£1,000 (i.e. UK£100 million in costs/value ÷ 100,000 patients).

If we also divide the hospital's value by the number of employees we find this produces a figure of UK£10,000 per

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employee (i.e. UK£100 million costs/value ÷ 10,000 employees). Together these make a key, composite measure of value. If the hospital manages to treat 1 percent more patients, without incurring higher costs, the hospital will be "worth" UK£101 million (even though its costs don't actually rise). Moreover, the extra 1,000 patients treated raises the value per employee to £10,100.

This composite can be described as a measure of "patient UK£s per employee" and it is a number we want to see increase as much as possible.

5. Personal performance measures

All employees could be given this composite as a personal performance measure but they would have to understand what it was and know how they, personally might improve it. Working 10 percent more efficiently would help, but how about reducing the number of cancelled appointments or keeping wards clean and reducing the incidence of cross-infections? Every HR activity can then be expressed in terms of what impact it might have on this one key measure.

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