

Measuring the Effectiveness of HR Activity

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Regardless of whether or not you have established a HR department within your business, you are investing money in HR activities. From expenditure on training and development activities through to consultant and legal fees, it is important to both quantify and assess the return on your HR investments.

Our clients often ask us how to measure this return. We recommend using an appropriate and straightforward set of HR metrics. For example:

Overall Headcount Change:

Both 'starting' and 'departing' employees cost your business money; starting costs include recruiter and advertising fees, whereas 'departing' costs may include settlement costs. There are of course many other invisible costs such as management time, induction costs for new employments and the costs to projects and team morale when an employee leaves.

It is thus very important to track the numbers of new starts and departs. Are the numbers increasing or decreasing? Do you have high levels of departures in specific areas? If so what might be the reason/(s).

Recruitment Costs

Detailed analysis is vital in relation to the amounts your business is spending on recruitment. Many companies calculate a simple metric, called the 'cost per hire' measure. This involves calculating the total fees involved in the recruitment process for a role and will therefore include items such as: agency or headhunter fees, internet and/or newspaper advertising, medical tests, psychometric testing and management time. It is important to agree an acceptable average figure for different types of roles and to ensure that individual recruitment campaigns do not exceed this.

Total Compensation

Analysing total compensation figures is probably a more obvious measure. Is the average figure per employee increasing or decreasing? What does this say about your cost base? Let's say that the average figure is increasing; this may be because a strategic decision has been made to hire more expensive employees who are capable of generating greater revenue per head or it could simply be that your payroll costs are spiraling. It is also important to understand what percentage of the overall total comprises variable pay (bonuses and commissions). If individual compensation

plans are set properly, the variable pay component will only increase when the company is meeting/exceeding its targets.

Return on Training and Development investment

Quantifying the amount you spend on training and development is a critical step for every business. Many Employers count only the actual fees of the training courses.

The travel and expenses incurred from attending courses should also be included as should any costs incurred in providing cover whilst the person was away. Furthermore it is important to broaden the scope when quantifying training investments: perhaps informal courses/workshops were run internally by your staff, perhaps your business paid for further education for some staff or paid for e-learning software. All of these should be included in your training and development totals.

Once the investments are quantified, it is important to consider if there is a positive correlation between

- Training investment and retention?
- Training investment and the number of internal promotions?
- Training investment and customer feedback?
- Training investment and the levels of innovation within the company?

If the correlation is negative, perhaps the wrong types of training interventions are being selected or for some reasons – which must be investigated – employees are not being given the opportunity to apply their learning.

Employee Relations Management

Employers are often shocked when they calculate the annual amount they are forced to spend on dealing with employee relations issues. For example grievance and disciplinary handling requires considerable management time and on occasions; solicitor and consultant fees. When agreement can't be reached sometime settlements and 'pay in lieu of notice' must be paid. It is important to quantify these costs and analyse if they are increasing or decreasing from year to year. What is the reason for the increase or reduction? Are there areas of the business which are more prone to employee relations issues? If so, what proactive steps can be put in place to address these?

HR Department effectiveness

The hiring of a qualified HR professional and the establishment of a HR Department is likely to result in improvements in all of the measures outlined above.

However, you should also assess the HR department's effectiveness by reviewing the extent to which they meet their goals on an annual basis.

These goals must link to the overall strategy and growth plans for your business. For example if your business decides to diversify its operations, the HR Department must respond by ensuring that there are adequate skills, resources and flexibility in place to achieve this. If this is not the case, they must develop plans to address the shortcomings.

For further information on this article or any HR matter,

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