

# Make it count

*Having the best HR practices may not count for much when you can't show the impact on the bottom line. Stewart Forsyth outlines new research to help come up with the numbers.*

The chairman leans encouragingly towards you after your annual presentation to the board. 'That was marvellous, thank you, we really appreciate the effort you have been putting into this vital area. But how important do you think these HR initiatives are in terms of the bottom line?'

Until recently you would have said 'If we want to be the best, that means best practice in all areas, including, obviously, HR.' Or, 'Ultimately it's all about people, and we have to do the best we can for them.' Or something much more articulate, but unfortunately without any numbers or dollar signs.

Now research in the US, UK and NZ, allows you to say 'With the bundle of HR practices we have implemented we have already seen a 15% increase in productivity, and we have the potential to double that over the next two years – that means an extra \$1 million on our bottom line so far, and all other things being equal, such as sales, another \$1 million by 2003.'

Powerful? You bet! Scary – as in, how do I justify those numbers, or the predication? Not really.

## Stepping up

The steps to follow:

- Identify, using number driven models, the productivity and value drivers in your HR practices;
- Bundle the drivers, using your own and others' research to tune the mix, into organisational and cultural change initiatives;
- Manage the change;
- Keep monitoring and managing your progress.

## High involvement

In the late 1990s a visiting American, James Guthrie, surveyed a range of NZ corporates. His study aimed to demon-

strate that businesses using a bundle of 'High Involvement Work Practices' (HIWP – see box) would out-perform less with-it enterprises in terms of both staff retention and financial performance. Guthrie gathered information from 164 New Zealand organisations with 100+ staff: his measure of financial performance was sales/employee.

The result? The difference between low performing and high performing organisations in terms of HIWP was the difference between sales per staff member of \$228,600 and of \$396,200 respectively. How would you like to be able to tell your chairman – 'I predict that we will be achieving an extra \$167,600 per staff member when I next present to the board'? Now that's a message a chairman can understand!

## Turnover impact

High involvement businesses also kept their staff longer, and there was an interaction between the extent of use of high involvement work practices and staff turnover. Keeping people longer:

- Increased the bottom line impact of HIWP;
- Decreased the bottom line impact in more 'control oriented' businesses.

In other words – in HIWP environments you need to invest in keeping people. In high control environments it is probably better to ensure staff turnover does not go too low.

## The right mix

Getting practical – how do you set up these measurement systems? Most of this is simply a more thoughtful approach to existing HR practices. You can get a whole lot more leverage out of your annual staff opinion surveys by introducing a bit more rigour into their design and analysis.

The key extra value you can extract, using modern statistics, is the identification of the drivers of culture and performance in your business. This gives you a whole lot more power in designing your HR initiatives. The power to:

- Know the leadership development initiative is hitting the mark;
- Persuade your MD that this is a crucial business investment – with, for example, a payback period of within 12 months.

You need to review the research to identify the 'bundles' or themes of best HR practices. Then you need to fit that with your own results – there is no evidence yet that one size fits all, or that you only need to get 11 things right. Rather it is a case of getting the mix sorted for your business.

That mix is critical. You need to have a mutually reinforcing set of practices that help create the performance culture for your people. There is not going to be such a good return on your huge training investment, for example, if existing incentive systems are serving to perpetuate existing skill sets and patterns of behaviour.

## Measuring what matters

You need to have a commitment to measuring what matters. Retention is clearly important, and you are obviously measuring it already (in your voluntary staff turnover stats). So why is it so few businesses measure the drivers of such 'out of here' behaviour? The indicators



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– the attitude measures consistently related to actual turnover – are:

- Organisational commitment;
- Intention to leave.

It's obviously a lot better to identify an issue and start to work on it before rather than after the key people have resigned!

## Take heart

As an aside – there is a range of comfort among HR people with doing the numbers. This is clearly going to be a more important part of HR competency requirements in future:

- Spend some time with the textbooks, or with a friendly advisor;
- Get to grips with how to do the calculations and use the numbers;
- Amaze your colleagues with trend charts and cost-benefit estimates!

Meanwhile, take heart from the evidence that best HR practices do make a significant difference to the bottom line. The businesses that know how to do this better are going to be the ones who do better. And so improve their chances for a long term future – for them and their staff. **ET**

## HIWP

J P Guthrie, *Academy of Management Journal*, 2001

Guthrie's bundle of High Involvement Work Practices:

- Internal promotion;
- Promotion on performance;
- Skill based pay;
- Group based incentives;
- Employee shareholding;
- Employee participation programmes;
- Information sharing;
- Attitude surveys;
- Teams;
- Cross-training or cross-utilisation;
- Future oriented training.

See also Richard Rudman's excellent review of US and UK research – [www.hrinz.org.nz](http://www.hrinz.org.nz)

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