

MEASURING UP



Highly complex and detailed benchmarking data—usually from external sources—has left some companies wondering ‘so what’. Many HR practitioners are now using benchmarking figures in new ways, and the vast amount of information available is changing form to meet new needs.

■ BY KERRY SUNDERLAND AND FIONA CAMERON

Measuring human resource management performance has historically been a grey area. Unlike IT or sales, HR deals with amorphous variables that traditionalists might define as ‘developing and sustaining human satisfaction’.

“Metrics need to be aligned to a company strategy in order for the numbers to be interpreted as a positive, concerning or indifferent factor,” says Anastasia Ellerby, managing director at HRM Consulting. “An external benchmark only gives you a mark in the sand,” she says, adding that more companies are using benchmarking figures in this way. “The focus has shifted to planning and reporting in the past three to four years. National benchmarking data is the by-product of this work.”

Report providers are beginning to change the material they offer in response to a market demand for more than metrics. Bill Farrell, partner—Human Capital Solutions at PwC Consulting Australasia says the decision not to call the Global Capital Survey it is currently working on a ‘benchmarking study’ represented a conceptual shift. “Although we have incorporated the most-used HR benchmarks into the survey, we are also examining areas which are not so easily measured in numeric terms,” he says.

Mining company WMC partnered 18 months ago with one of the big benchmarking consulting firms, and now applies external benchmarks to internal data extracted through robust reporting and planning procedures. “We [had previously] developed a set of HR data books by extracting data from SAP,” says Jenny Slater, HR adviser—projects at WMC. “It was an epic task and, after doing it, we came to the conclusion that while the figures were very interesting, they were not very useful alone.

“The tendency in HR is that if something doesn’t appear to be an issue, you don’t

report on it regularly. The down side is that if it does emerge as a problem further down the track, you have to do all the data collection and analysis retrospectively.

“For example, our internal recruitment rate is pretty good at the moment, but should it become an issue in the future, we need to have historical data to examine when and why,” says Slater.

Slater explains that it was critical to involve HR personnel based at WMC’s seven operational and three corporate sites when choosing and defining what HR metrics to benchmark. Ensuring the results will be more useful to them has enhanced company-wide ownership of the initiative.

Dr Elizabeth George, senior lecturer in HR at the Australian Graduate School of Management, agrees, but says that while employee engagement is essential, companies need to be sensitive in how they collect and disseminate information. “As soon as you begin gathering opinions, you can set up the expectation that you’re going to act on them,” she says. And the solution to this? Don’t do internal benchmarking, or initiate new reporting practices, unless you’re going to act on it, or can explain your plans.

Slater says that maintaining the level of reporting needed for this kind of internal benchmarking, was a challenge. “We wanted to automate all of our HR reporting to free up our time for analysis and strategic development rather than data extraction,” she says.

The data that WMC now uses is available online, and uses graphs and charts to allow for comparison against both internal and external benchmarks.

Ellerby says this company is not alone in struggling with labour intensive internal reporting. She emphasises also that benchmarking against a company’s own internal record is not enough, as by combining internal historical results with external results and comparisons can be a new source of innovation and ways of

thinking. “You could say that external benchmarking creates the desire for change,” says Ellerby.

Andrew Smith, head of the School of Management at Charles Sturt University, says: “The most important thing is to understand your own performance and then set targets for improvement. In other words, start by establishing benchmarks within your own organisation. Comparisons are needed firstly at the company level. Beyond that, the most sensible comparisons are within industry sectors.”

George says that US and UK organisations are still very externally focused. “Part of that is the legitimacy factor—in making a case for change, it’s easy to do that by linking the change to what others in the industry are

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doing, or by linking the change to the bottom line,” she says. “The more data you have, the better—but it has to be data from comparable companies. This may mean in a similar industry or location, dealing with a similar market, or of a similar size.”

But when identifying external organisations to benchmark against, Paul Coronel, director of consulting company Benchmarking Plus says that companies don’t necessarily get their comparisons from companies of similar size and industry, and he believes this is the case because it is more important to find companies with similar strategies.

“It’s more important to first define: ‘What’s important to us?’, and find partners who share the same view,” he says. “One organisation may have a lean operating strategy, whereas another may offer a higher

level of service. This will affect their statistics," he says.

Les Pickett, manager of professional development at the Australian Human Resources Institute (AHRI), explains that companies successfully using benchmarking are clarifying their goals first to discern which companies they should be benchmarking against.

"The trend is towards goal setting and establishing success criteria. Then you can ask, 'to what extent can we use external data to do this?' And then; 'what type of external data should we use? Industry competitors? Labour market competitors? Do we buy off the shelf or conduct our own research?'" says Pickett.

Many companies are wary of international comparisons because definitions and data collection can vary so greatly.

Smith says: "Collecting data from different countries is problematic because the definition of training and development differs so greatly from country to country. Even in a country like the US, which is culturally akin to Australia, comparisons can be misleading. The notion that anyone can waltz into international comparisons is very simplistic."

OPTIMUM PERFORMANCE AD

2002 InfoHRM Benchmarking report

Key findings and trends from 2001 data

Organisational effectiveness

- The return on human investment ratio (that is, profit in relation to remuneration) increased by 27 per cent in 2001. This is because profit levels increased in 2001 while total remuneration rate remained virtually the same as in 2000. The 2001 return on human investment ratio indicates \$0.38 profit for each dollar invested in remuneration. While an increase on the 2000 figure, it remains lower than the 1999 median of \$0.44.
- Other labour rates (non-employee labour costs as a percentage of operating expenses) started to climb in 2001, having remained steadily less than three per cent since HRM Consulting began reporting this measure in 1998. The 2001 median is 3.71 per cent. This measure has increased

across all major percentiles, with the 75th percentile of 7.16 per cent. The results suggest the much-anticipated trend to outsourcing may be taking place, though very slowly. This has a number of implications for HR professionals, including the need to develop organisational capability to manage through alliances and partnerships.

- Male to female staffing ratio has generally been around 1.2 males per female since 1996, but the ratio of females increased in 2001 (1.07 males per female). This increase in females occurred despite a decrease in the rate of return from maternity leave. It is pleasing to note an increased ratio of female managers and professionals, with the median decreasing from 2.9 in 1996 to 1.8 in 2001. Increasing number of women at managerial and professional levels has implications for work/life balance initiatives, and maximising learnings from different gender approaches to leadership/management.

- In recent years, labour force analysts have continued to note the increasing percentage of casual, fixed term and part-time staff in the Australian workforce. However, these workforce profile measures have been very stable for InfoHRM members. This may be because InfoHRM members tend to be relatively large organisations. It may be that larger organisations are continuing to employ a traditional workforce (full-time and permanent). This may restrict their ability to be 'lean and agile' and to respond to environmental and organisational change. It could also mean that larger organisations are recruiting and retaining the cream of the labour pool, as research suggests that many casual and part-time workers actually want full-time work.

Absence

- Total unscheduled absence per employee rose very slightly to 7.25 days per employee during 2001 (from the median of 7.03 days in 2000). This is fairly consistent with trends in the USA for stable absence levels.

Continued on page 23

But Pickett argues that organisations operating on a regional basis, or even globally, can effectively use international information about HR practices.

“Last year I was asked by a senior HR development manager at one of Australia’s larger financial institutions for comparative US and European data on investment in training to support HR planning and budget proposals. He telephoned some weeks later, excited, to say that this data had been the key to gaining executive approval for the strategy proposed.”

Some useful international data can be bought off-the-shelf, although it is almost always qualitative in nature, and usually written up as case studies.

In the United States, the leading source of HR benchmark data is the Saratoga Institute, and general data is also available from the Bureau of Labor Statistics and the Bureau of National Affairs. Mercer/WatsonWyatt provides a national source of benefit and wage information. Another key player is the Washington-based Corporate Leadership Council.

Joan Moore, president of The Arbor Consulting Group in the US and a member of

the Society for Human Resource Management (SHRM), says that SHRM also provides a lot of information through its research services and foundation.

To avoid common problems associated with collection, evaluation and application of data, Moore warns: “The process of benchmarking has only begun rather than ended, once one has the data or information. Poor

“Measuring a few key people-related metrics that make sense for an organisation is what is important”.

benchmarking and unreliable data can create problems for HR, if it creates unrealistic expectations or results. Like most areas, the more work one puts in to lay a solid and accurate foundation, the better the results of benchmarking will be.”

Paul Coronel explains that often, numbers by themselves don’t mean anything. “It’s important to apply strict definitions to numbers. What is meant by productivity, for example?

“Also, using percentage ratios on a factor like absenteeism, for example, rather than a number like a headcount, enables small and large companies to be compared.”

Ewen McDonald, manager of people management at the Department of Education, Science and Training (DEST), reports that the Australian National Audit Office is finalising a report on how managers lead and manage people to achieve business outcomes in the Commonwealth Public Sector.

The report, which is due for release around the middle of this year, examines the work of 14 Commonwealth agencies and includes HR benchmarking within and outside the public sector.

PwC Consulting published its HR Benchmarking 2000 survey two years ago. The survey did not include Australia or other Asia Pacific countries, but it is now working on its new Global Human Capital Survey of 40 countries.

Many firms offer a range of consulting services focusing on HR benchmarking, and sell syndicated research reports.

Those companies seeking information about training investment now have to pay for it, says Andrew Smith.

HR PARTNERS AD

"There is no modern national comparative data following the demise of the annual Australian Bureau of Statistics survey in 1996. Companies are now faced with going to a consultancy and paying lots of money."

But an advantage of commissioning a report is that it enables detailed, process benchmarking. Paul Coronel explains that while performance benchmarking of the type done in off-the-shelf reports can identify performance gaps, process benchmarking explores the reasons for the gaps, and—more importantly—how to close them. Usually in this situation one would benchmark a specific organisation against three to six identified companies.

Elizabeth George believes companies find it difficult to find good-quality data that is not expensive. "Companies do have a tendency to grab anything that's available—but if you're an astute HR practitioner you can learn a lot from what's out there," she says.

Organisations representing about 10 per cent of the Australian workforce, in both the public and private sector, participate in either one of the two main national HR benchmarking studies.

Roughly 54 per cent of the 240 Australian organisations that subscribe to the Corporate

Benchmark Report produced by Mercer Human Resource Consulting respond to their annual survey, which is due for release later this month.

And about 100 large companies participate in HRM Consulting's InfoHRM benchmarking program. The 2002 InfoHRM Benchmark Report was published this month (see box).

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Duncan Brown, assistant director general of the Chartered Institute for Personnel Development in the United Kingdom, reports that about 30 to 40 per cent of UK companies engage in "some form" of HR benchmarking, although probably only about 15 to 20 per cent do it in a systematic way.

Bill Farrell from PwC says there are

currently over 500 Asia-Pacific organisations involved in the Global Capital Survey it is currently working on.

According to Damien Wilson, information consultant at Mercer Human Resource Consulting, "Measuring a few key people-related metrics that make sense for an organisation is what is important".

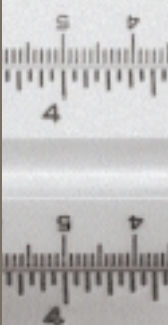
The eight quantitative measures Mercer has identified as of most importance to HR benchmarking are: staffing ratios; training expenditure; employee turnover; OHS and sick leave; human resource function budgets; overtime; recruitment, salary costs and profit ratios. HRM Consulting identified the most important workplace measurements as labour turnover, unscheduled absence, OHS, training and investment, recruitment source, and as a by product of labour turnover, employee-initiated separations, by length of service. Its most important HR function measurement is HR staffing numbers.

These enable qualitative information to be developed, such as performance in people management and employee satisfaction.

■ KERRY SUNDERLAND and FIONA CAMERON are freelance journalists.

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2002 InfoHRM Benchmarking report

Continued from page 20

Separations

- The employee-initiated separation rate remained virtually stable in 2001, with a median of 8.3 per cent. This is the lowest rate for this measure since at least 1995. The other components of total separation, for example, organisation-initiated separation, separation by transfer and separation by contract expiry, have also remained quite stable.
- This stable employee-initiated separation rate is consistent with the USA where the sagging economy left more workers unable or unwilling to pursue new employment opportunities in 2001. The Bureau of National Affairs notes that, after climbing to their highest levels in roughly two decades, "turnover rates began heading south along with the economy in late 2000".

Recruitment

- 'Brand management' in recruitment is expected to be an increasingly important tool, both in promoting the organisation's business to stakeholders, and in recruiting staff and contractors. However, in 2001 any brand management strategies in place did not affect the level of investment in recruitment, with the recruitment cost factor decreasing from \$1,917 in 2000 to \$1,565 in 2001.
- While more analysis would be required to establish any causal relationship, we note two negative movements associated with this decrease in recruitment investment:
 - a reduction in recruitment response ratio from 11.5 applications per vacancy in 2000 to 10.3 in 2001, and
 - a reduction in external acceptance rates from 99.4 per cent in 2000 to 95.6 per cent in 2001. In particular the external acceptance rate for managers and professionals declined to 90.7 per cent.

Training and development

- Training investment per employee (excluding trainees' remuneration) increased for the first time since 1998, and the increase was significant (up by 29 per cent) with a 2001 median of \$817 per employee.

- A proportion of the increased training investment per employee will be due to increased induction and initial training costs associated with growth of the permanent workforce (external recruitment rate—permanent increased from 6.5 per cent in 2000 to 8.95 per cent in 2001). The increase in external recruitment contributed to a decrease in the recruitment source ratio—permanent, which is down to 1.22 internal recruits per external recruit in 2001.

- The continuing decline in career path ratio (down to 0.96 promotions per transfer in 2001) suggests an ongoing trend to more lateral career moves.

OHS

- 2001 saw positive outcomes on the health and safety front, with decreases in OHS cost factor, incident rate and average time lost rate.

HR staffing and resources

- HR staffing levels remained fairly stable in 2001 (51.24 organisational staff per HR staff member) but HR expense per employee continued to increase (\$1,995). The increased expense is mainly due to increased HR remuneration costs. However, the higher HR salaries were not associated with a rise in the level of HR professionalism, as HR staffing mix actually increased from 0.75 to 0.84 HR clerical/operative staff per HR manager/professional.
- The increase in HR expenses is consistent with US trends.
- HR revenue per HR employee decreased (13 per cent) in 2001, and is now at its lowest level since we began reporting this measure in 1998. This result could be interpreted in a number of ways, for example, a decline in the 'user pays' principle for provision of HR services; and/or a decline in the value of HR services purchased by users.

Source: HRM Consulting

INDUSTRIAL PSYCHOLOGY CONSULTANTS AD