

How employers can assess their HR effectiveness



If someone were to burst into your office one day and demand to know how effective your organization handled its HR obligations, what would you say? At the very least, you'd probably shrug and say, "Pretty well," and "Could you close the door on your way out?" But, seriously, taking a step back once in a while and objectively assessing overall HR effectiveness is a good idea. You may be doing some things better than others, and the sum total may or may not add up to a positive. Here are a few of the major areas to look at.

Recruitment and talent

When evaluating the success of your recruitment and talent efforts, look first at items such as first- and second-year unwanted turnover, terminations for cause, promotions, and employees who plateau at the level at which they were hired. You might also calculate cost per hire. Included are the direct and indirect costs associated with hiring. The most common elements are recruiter and other interviewer time. But also try to quantify support staff's time spent on the telephone or conducting email communications related to hiring.

In addition, track dollars spent on staffing-related advertising, recruitment materials, placement agency fees and employee referral bonuses. And don't forget medical exams, background checks and other processing costs for adding new employees to the payroll system. Once you've accumulated all of this data, you may be able to benchmark it against other, similar organizations if such industry data is available from a trade association or publication. Or you can at least compare your current staffing costs to those you've incurred historically.

Pay and benefits

Balancing the need to control payroll and benefits costs with the need to stay competitive isn't easy. Many measures have been developed over the years, including benefits as a percentage of payroll, payroll as a percentage of manufacturing costs and number of employees per million dollars of revenue. Two fundamental ratios that can dramatically show your organization's performance relative to competitors or similar organizations are:

1. Payroll as a percentage of operating expense, and
2. Benefits costs as a percentage of operating expense.

A simple XY chart of these two figures showing the changes over time between your organization and industry averages provides important strategic information.

Training and development

Measuring training and development can be complex. Of course, you can pinpoint direct costs — such as participant materials and program supplies, travel expenses, and food and beverages. And you can likely identify indirect costs, such as the salaries and benefits for trainers and trainees, and the purchase and maintenance of durable supplies. But cost is only one side of the equation. You must also measure the impact of training and development initiatives. To do so, first develop methods of tracking on-the-job changes in behavior, knowledge, skill and performance following training and development efforts. Then link these changes to organizational productivity, efficiency and effectiveness measures.

The big picture

Successful organizations depend on the efficacy of their HR functions to make good hires, to compensate employees fairly and to develop those employees into better and better workers. Be sure to keep an eye on the big picture, and let us know how we might be of assistance.

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