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Potential beyond boundaries

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HR, the mathematician

'Return on investment (ROI)', an overused business jargon can be used today to transform and revolutionise the human resource function in order to bring more value throughout the organisation. Viren Naidu tells you how spending on HR today is not just a 'cost' but a profitable, intelligent 'investment'

HR in few organisations has successfully introduced and implemented processes that are directly tied to the objectives of the company. And measuring and assessing HR performance in terms of ROI ensures that their actions are connected to the stated goals of the company and drives business growth. Therefore, companies today are seeking a well-calculated ROI to validate their investments on HR.

HR, THE PARTNER

Experts at the recently held HR exhibition, 'Personal Swiss' in Zurich, Switzerland confirmed that in order to sustain competitive advantage, it's vital to evaluate HR activities and take a long term perspective into HR development. For a number of HR initiatives introduced in organisations, companies make substantial investments and it's vital to measure the outcome against the investment. HR experts present at Personal Swiss

said that HR activities should be measured through a set of easy-to-understand and top-management accepted steps. "ROI allows defining or calculating of a pay back period. For the investor, it is important to know within what time period she/he will get the investment back. When HR can prove to the top management what overdue fluctuation in one department costs in comparison of the replacement of a manager causing the fluctuation, I could imagine much better acceptance," says Andreas Kuhn, CEO, know.ch AG, a consulting firm that specialises in HR key figures benchmarking and employee satisfaction surveys, based in St. Gallen.

The strategy adopted to define HR ROI has to be unique. Kuhn explains, "First, use a differentiated accounting model for your HR cost. If all costs appear in the annual financial accounting sheet only under 'personnel cost', you will not be able to show anything, but the generic total cost. Secondly, you

need detailed statistics of all the HR activities that were carried out and it's imperative that you should be able to break down each HR activity into sub categories and segregate them well (for e.g.: the entire recruiting cost on a single recruitment should be categorised into internal and external costs, training cost, overhead costs and other recruitment related costs involved at various levels of hiring of a candidate). Thirdly, you have to measure the success of HR by evaluating the impact against the

investment."

HR, THE MANAGER

The traditional way of measuring the ROI is pretty simple. But how can we calculate the value generated by HR and maximise that value for future benefits of the business as a whole? The various activities a company embarks on should show an ROI and HR should be no different. "HR should always consider a long term perspective; understand where an organisation needs to be in a particular time period, therefore define what type of people will it need and how many, and work around it. ROI is important to ensure that organisations recognise the true value of HR. From a talent management perspective, HR ROI is dependent on aspects such as cost of external v/s internal appointments and its associated time to productivity, risk of failure (particularly with external senior positions), time to fill open positions (and therefore opportunity cost), retention and turnover etc.," says Simon Mitchell, Director, DDI Europe. Patrick Schoch, Partner and Senior Capability Developer (Project Manager), Sinodus AG, a human capability development firm says that there are many ways to measure the value of HR and in his opinion; 'Balanced Score Card (BSC)' is one such tool which tries to make HR actions more quantifiable. However he says that the BSC approach is not really implemented in the companies especially in Switzerland where my company is based," adds Schoch. But cost of re-deployment, employability patterns and effective use of training budgets are the main parameters against which HR ROI can be measured, adds Schoch.

Andreas Stocker, a consultant based in Switzerland says that some companies are extremely measurement driven while others are more performance driven. Similarly, while some HR executives try hard to make intangibles tangible (i.e. measurable), other don't. "Hence HR should insist on clear objectives attached to everything they do and only if their processes are objective-driven, results can clearly be measurable," adds Stocker. E Balaji, CEO, Ma Foi Management Consultants Ltd. gives his perspective by saying that if we assume HR initiatives to actually make a positive difference to the ROI, business leaders would then tend to

HR, THE NUMBER CRUNCHER

A white paper released by Development Dimensions International (DDI) on 'Methods for calculating ROI and bottom-line impact' through a simple case in point explains how ROI for a training programme can be calculated:

The training programme: A training programme was designed to reduce turnover by increasing leaders' effectiveness, which had been found (through exit interviews) to be a significant factor in determining employees' willingness to stay with the organisation.

Costs of training: The cost per leader was \$2,000, which included materials, facilities, salaries, etc. Fifty leaders were trained. Total training costs were \$100,000 (50 x \$2,000).

Dollar Value of Training: The training reduced turnover from 20 per cent to 15 per cent in the unit where leaders were trained. No improvements were observed in an untrained control group. One percentage point of turnover was estimated to cost the company approximately \$70,000 (lost productivity, hiring costs, etc). Therefore, the training might have helped the company save approximately \$350,000 (5 x \$70,000)- a return on investment of 250%.
 (Benefit - Cost) / Cost = ROI
 Therefore:
 \$350,000 - \$100,000 / \$100,000 = 250 %

AND THE WINNERS ARE...

By a Correspondent

Much has been said about good people practices being a competitive advantage and a key focus area for most organisations in India today. So, it was time finally to honour companies that truly believe that their people are their most valuable asset and go beyond 'what is expected' to create a caring and an empowering workplace. To capture that spirit, The Economic Times and Great Places to Work Institute, India, recently presented the 'Best Workplaces 2008' awards in Mumbai.

The common sentiment at the event was encapsulated by executive president, Times Group, Bhaskar Das, "India has moved from an economy that had a cost advantage to one that has become the talent hunting ground for Fortune 500 companies. Therefore, in our times, it is not a luxury to have robust people management practices, it is key." Prasenjit Bhattacharya, CEO, The Great Place to Work Institute, India, added that some of the learnings that have emerged from the survey and the findings are that great places to work institutionalise some very basic aspects of work life that give immense value to their employees. These are - they inspire success, approachable management, pride in corporate image, transparency, ethical practices, focus on employee development, a caring environment, sharing power and empowering employees.

Just before he announced and gave away trophies to the top 10 employers of the year, Tarun Das, chief mentor, CII, emphasised on the need to ensure that the huge population of India becomes our strength and not our weakness and also added that we need to empower this generation and give women central leadership roles. This was followed by discussions on various aspects of organisational strategy such as leadership development, multi generation issues, the retention challenge and employer branding.

THE TOP 10 BEST WORKPLACES FOR 2008 ARE:

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|-----------------------------|----------------------------------|
| 1. RMSI Pvt Ltd. | India |
| 2. Marriott Hotel, India | 7. Cadbury India Ltd. |
| 3. Google India Pvt Ltd. | 8. NTPC Ltd. |
| 4. Agilent Technologies | 9. Godrej Consumer Products Ltd. |
| 5. Classic Stripes Pvt Ltd. | 10. HILTI India Pvt Ltd. |
| 6. American Express, | |

disagree saying that their superior strategies led to the superior performance. "Hence, it would be better for HR to calculate specific business impacts - measures that can be strongly correlated to HR initiatives without business leaders doubting the cause-effect relationship. For eg, if HR can engage a finishing school model to recruit freshers at less than half the salary of the usual hires from premier schools and achieve the same level of productivity, then such a contribution will be appreciated by the business leaders and top management," says Balaji.

Therefore, a proper assessment of HR's hard work through ROI will bring to the forefront the value this function can bring to an organisation.

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