The Bottom Line: The Metric "System"

Numbers reveal HR business value only through meaningful analytics

By Bruce Shutan

Pitney Bowes is restructuring its human resources-related activities. In doing so, the world's largest producer of postage meters has adopted the shared services model, which makes centers of expertise available across all of its business units. Each operational area uses a scorecard to conduct cost analyses and gauge results, with consultant Towers Perrin offering guidance through the HR-metrics process.

The transformation began in 1999 with an effort to improve customer satisfaction numbers for Pitney Bowes Management Services (PBMS), a 33,000-employee unit that provides outsourced mailroom services to the parent company. This led management to conclude that it needed to reduce employee turnover.

As part of the metrics project, Pitney Bowes measured average compensation for hourly employees, then tracked the return on investment that pay increases delivered based on their connection to turnover and customer service and national unemployment figures.

The company also explored the relationship between turnover and benefit package improvements, changes in employee contribution rates, and training program attendance.

"We looked at these trends to see if there was common movement and what was impacting the other," says Cathy Pica, Pitney Bowes' vice president of human resources accelerated growth, a title that reflects the company's renewed emphasis on growth strategies as part of a recent acquisitions spree. Company officials decline to say how much lower turnover fell, but believe a correlation to the better benefits package exists. In addition, they found that lower turnover in PBMS helped improve not only customer satisfaction but also profitability.

Pitney Bowes is one of a growing number of companies that are applying metrics to tease out the workforce-related variables that lead to better performance and, in the process, find ways to make HR behave more like a strategic corporate function. "We're seeing a lot more customer research to understand what it is about their people, programs, and functions that drives business value," reports Roselyn Feinsod, a consultant with Towers Perrin in Stamford, Connecticut.

However, HR departments trying to satisfy the expectation that they learn the language of business run the risk of stumbling along the way. Some attempt to benchmark everything under the sun without developing a concrete plan that homes in on the metrics that matter most.

What HR executives like Pica have learned is that it is better to track a handful of significant measures, select metrics that are easy to obtain, and customize benchmarks to reflect internal objectives such as determining employee and manager satisfaction with the HR function.

Keeping Employees Engaged

David Hom, vice president, employment brand-total rewards for Pitney Bowes, says his HR department is only concerned with numbers that articulate the overall level of employee engagement. Employees are seen as “brand ambassadors” whose job it is to show the company stands for dependability, stability, flaw-less execution, and the highest ethical standards.

A companywide survey conducted every two years asks a dozen core questions about employee needs, career development issues, and whether or not employees feel they have the necessary tools to accomplish their work and support the corporate mission. Sometimes, the results show significant differences between employee and employer perceptions. For example, Hom says employees define their retirement coverage solely through 401(k)s, whereas management includes in the mix a traditional defined benefit pension.

“When we talk to them about [the defined benefit plan],” he explains, “their eyes glaze over. So, you have to align the programs around their particular needs.”

Pitney Bowes closely examines participation rates in its 401(k) plan, employee stock purchase plans, 529 plans, and the after-tax savings component of the company’s life insurance plan. Key measures include the employee’s age, income level, years of service, and geography. “What we try to do is assess the income replacement that people will need in the future and educate them on the use of appropriate investment vehicles,” Hom says.

If participation is poor, the thinking goes, employees who struggle to afford retirement later in their careers may not be as productive, leading more to lose their jobs. Feinsod counsels plan sponsors to monitor participation and saving rates carefully as well as to offer modeling tools and improve communication about the need to save for the future.

Making Self-Service Work

Knowing how metrics are colored by the increased use of technology for information- and transaction-based activity in retirement planning is also imperative. Participants often are frustrated at not being able to reach call-center reps, receive personalized information, or glean meaningful information from an endless stream of communication materials, Feinsod notes.

Plan sponsors’ goal should be to determine the most appropriate mix of online and offline approaches and how these can reinforce one another. Consider, for example, how the connection between high call-center volume and Web-site hits may reveal an inability to complete online transactions. Moreover, short hold times or low call-abandonment rates may look good on paper, but not if employees are receiving inaccurate answers to their inquiries or poor customer service.

Matt DeLuca, a seasoned HR exec, consultant, and author, recommends that HR execs develop close working relationships with their colleagues in finance and accounting to brainstorm on the finance and accounting aspects of HR-related issues and better identify metric nuances that will yield meaningful insights. That means HR professionals need to bone up on their understanding of finance and use of quantitative tools. One obvious application is head count: If staff are increasing, for example, HR will need to determine both the direct and indirect costs—the increase in pay and benefit expense as well as recruitment, advertising, and training. “Most importantly,” asks DeLuca, who runs Management Resource Group in New York, “on what basis were the additions to head count determined?”

Use of so-called HR scorecards has enabled practitioners to base critical decisions on hard numbers and not just qualitative or anecdotal information. The approach tethers HR results to the kind of profitability and shareholder-value measures that line managers and senior executives understand and respect.

“The metrics are all financially driven, and that’s where I think HR organizations are moving,” Feinsod says.

How credible is HR benchmarking data? That depends on the research source. In the absence of a viable one-stop shopping approach for all HR metrics, Feinsod tells clients to tap multiple researchers known for their respective areas of specialty.

Another area ripe for critical examination is the commonly used cost-to-hire metric, which measures the efficiency of the staffing process. Often, however, the data do not reveal the quality of job applicants, available positions, seemingly hidden relocation costs or turnover rates, and other intangibles such as the amount of time that line managers devote to the recruiting process.

The intangible value of a departing employee leaving with prized organizational knowledge should be factored into the mix, not just training and development costs, DeLuca says. “When an employee leaves an organization, it represents lost revenue until the position is filled, but the basic metrics would only show it’s a reduction in payroll.”

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