



David Madison

# Helping HR to Have an Impact on the Bottom Line:

## The Role of Metrics

by David Madison, Ph.D.,  
Director, The National Guild of Five O'Clock Club Career Coaches

*The following article is based on a panel presentation at the May 6, 2005 meeting of the HR Network at the American Management Association in Manhattan. The network is co-sponsored by The Five O'Clock Club and the AMA, and is a venue for HR professionals to meet informally and hear discussions of important issues of the day. The panelists on May 6th were:*

- ♦ *Jim Murray, head of Human Resources Decision Support at Merck*
- ♦ *Tony Politano, author of "Chief Performance Officer" and a consultant on performance measurement with Niteo, an NEC Company*
- ♦ *Jordan Vargas, Vice President of Human Resources for Publishers Clearing House*

**A** wise boss once said, "The thing I worry about the most is my elevator assets." What he meant by this was his employees: "When they leave at night, they get in the elevator and go home. What if they don't come back?" Hence, one of his major preoccupations was keeping people happy—so that they would *want* to come back.

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### Measuring and reporting is now often a substantial part of the HR role.

Traditionally HR has been viewed as an ally in the effort to care for and nurture employees. Hence, insurance and benefits, training, performance reviews, and promotions have all been considered part of the human resources function. This function has become increasingly complex over the years as the laws relating to employment, benefits, discrimination, and employer liability have become more complex. But there has been a growing realization in recent years that human resources ought not to be as narrowly construed as it has been. The wise boss who looked upon his employees as assets was anticipating the trend these days to speak of the workforce as the *human capital* of an organization.

This understanding actually points



Beth Ranney, Sponsorship and Partnership Director for the American Management Association, welcoming a packed room.

HR in at least a couple of directions:

- toward a broader understanding of its role—namely, that of business partner, with a chance to have impact on the bottom line of an organization.
- toward a broader understanding of what a career in HR can mean; savvy HR professionals realize that, if they are fully aware and involved—beyond the mechanics of benefits and salary reviews—they can earn a place at the table and the power, income and prestige that go along with that status.

### Providing metrics to senior management can earn HR a place at the table and help to make HR a business partner in the organization.

#### HR: Positioned Well for the Future

Indeed, HR is in an ideal position to move forward on these fronts precisely because its focus for decades has been on human capital, although with an emphasis on managing the treatment



Human resources professionals picked up key ideas to take back to their employers.



Jim Murray, Head of Human Resources Decision Support at Merck, explains the role of HR metrics at Merck.

and care of employees. The key element to incorporate in going forward is performance measurement at a breadth and depth not previously considered or attempted. HR already knows a lot about the people on staff; thorough analysis of what they do every day—measuring that and reporting in the most meaningful way possible—can now be a substantial part of the HR role. This added dimension is what generally is meant by HR metrics. Tony Politano, as a chief performance officer, stated the case succinctly: “You need to have information to get visibility at the board and CEO levels—and with that you can be recognized as having a significant impact on the long-term performance of the company.”

The need for information will call for a deeper understanding of IT. “Like it or not,” Tony pointed out, “information technology is going to be a major enabler to gain visibility at the board and CEO level. You will need to understand what is happening from a technical perspective, how to interact with your IT department—and what the technical boundaries are within your organization.” Building on this kind of understanding, collaboration with IT can include integrated performance reviews and the automation of work flow, which will allow finance to move beyond its traditional concept of budgeting as numbers. “The finance people are now understanding that they need

to integrate the budgeting of human capital into the strategic plan,” Tony observed. Hence, collaborating with IT and finance can improve “understanding of the impact of head count, human capital and training on the long-term growth of the company.”

**To get visibility at the board and CEO levels, you need to give them *information*.**

The strong emergence of technology as one of the key players in organizations today can enhance the role of HR in unexpected ways. One of the primary concerns about technology is the collection and amassing of *too much* information. One major hospitality company had collected vast amounts of data about customers—based, for example, on the use of credit cards. Sensitive to the potential dangers that this fund of information can represent, the company created the position of Chief Privacy Officer, who reports to the VP of Human Resources. Much more so than IT or the CFO, HR was regarded as a department that could be entrusted to keep confidences; HR in general is supposed to have protocols in place to keep information private.

**Root-Cause Analysis**

Solid understanding of IT and collaboration should result in what Tony



Tony Politano, author of *Chief Performance Officer*, told the audience to collaborate with IT in measuring and managing performance.

**What Human Resources Executives Say About Five O’Clock Club Outplacement!**

“**This thing works.** I saw a structured, yet nurturing, environment where individuals searching for jobs positioned themselves for success. I saw ‘accountability’ in a non-intimidating environment. I was struck by the support and willingness to encourage those who had just started the process by the group members who had been there for a while.”

— Employee Relations Officer, financial services organization

“**Wow! I was immediately struck by the electric atmosphere** and people’s commitment to following the program. Job hunters reported on where they were in their searches and what they had accomplished the previous week.

The overall environment fosters sharing and mutual learning.”

— Head of Human Resources, major law firm

“The Five O’Clock Club program is **far more effective than conventional outplacement.** Excellent materials, effective coaching and nanosecond responsiveness combine to get people focused on the central tasks of the job search. Selecting the Five O’Clock Outplacement Program was one of my best decisions this year.”

—Sr. Vice President, Human Resources, manufacturing company

“**You have made me look like a real genius** in recommending The Five O’Clock Club [to our divisions around the country]!”

—SVP HR, major publishing firm

“**Selecting Five O’Clock outplacement was one of my best decisions this year.**”

—SVP, HR, consumer products firm



Jordan Vargas, VP, Human Resources, Publishers Clearing House, providing insight on working with boards and CEOs.

calls performance management. “This is about understanding metrics and gaining metric visibility at the board level.” He cited an example of root-cause analysis done at a Department of Corrections. When the governor and state budgeters look at any government department, they want to see the numbers, and if there are budget overruns, they want to know why. “The numbers are what they care about. Are they making budget or not? We drilled down to look for the root cause of what was going on.” Several factors came into play—including having more prisoners than had been anticipated—but the key factor was the guards’ overtime. And overtime will almost always wreck the budget.

“Your projections there will always be wrong. You can’t get that right, especially if you are in a highly structured environment with unions.”

**Determining—and measuring—the root cause of a problem can result in savings.**

Overtime is hard to project, for example, because of understaffing, absenteeism and (in the prison environment) emergencies, or “incidents.” “How does metrics tie into this? And at a level that a governor can understand?” It turns out that emergencies

drive up overtime mainly because of the paperwork required to document the events. “We found that we needed to change the business process to reduce the paperwork from two hours to fifteen minutes.” In this way, careful measurement and root-cause analysis played a role in impacting the bottom line.

**HR must show the value of intangible assets (people) on the bottom line.**

**Working Toward Strategic Partner**

This kind of experience underscores Merck’s Jim Murray’s under-



Kate Wendleton, as moderator, fielding questions from the audience.

standing of the role of HR in delivering metrics: “It is a matter of getting the right information to the right people at the right time in the right way to make the best decision.” The challenge for human resources is that “the evaluation of intangible assets would include all of your people—who are in there somewhere, and we don’t know how to value that.” But the degree to which this can be done will largely determine how well HR can move into more a powerful role. “I think that the Holy Grail today,” he said, “is for HR to achieve the whole concept of a strategic partner. This concept has been in vogue—and it has been realized to a degree. But it’s up to HR to bring the evidence to the table to

**The Job-Search Buddy System**

Do you wish you had someone to talk to—fairly often and informally—about the little things?



“Here’s what I’m planning to do today in my search? What are you planning to do? Let’s talk tomorrow to make sure we’ve done it.” You and your job-search buddy could keep each other positive and on track, and encourage each other to do what you told the small group you were going to do: Make that call, send out those letters, write that follow-up proposal, focus on the most important things that should be done—rather than (for example) spending endless hours responding to job postings on the Web.

With your buddy, practice your Two-Minute Pitch, get ready for interviews, bounce ideas off each other. Some job-search buddies talk every day. Some talk a few times a week. Most of the conversation is by phone and e-mail.

Sometimes, people match themselves up as buddies. Just pick someone you get along with in your small group. Sometimes, your coach can match you up. However you do it, stay away from negative people who talk about how bad it is out there. They will drag you down.

The small group changes over time: people get jobs; new people come in. If you lose one buddy who got a job, get another buddy.

Your buddy does not have to be in your field or industry. In fact, being in the same field or industry could keep you focused on the industry rather than on the process. But you do have to get along! The relationship may last only a month or two, or go on for years. Some buddies become friends.

Of course, you should see your Five O’Clock Club career coach privately for résumé review, target development, salary negotiation, and job interview follow-up. It’s usually best to get professional coaching advice for these areas. ●



Attendee Jan Evans, Sourcing Director for Professional Services at Reuters, enjoys the panelists' give and take.

show the impact of intangible assets on the bottom line.”

Murray's background illustrates the need for HR professionals to work hard to achieve business understanding. He is now in the HR decision support role because he came out of a research group devoted to analyzing the costs of the drugs that Merck develops and manufactures. He was able to move his career in the right direction, because the application of HR metrics means being very knowledgeable about the business. “You really have to take HR expertise and business expertise and bring them together—and deliver the result to people in a way that is intuitive and makes sense to them. This encompasses issues like data quality and HR security—all of those things that are absolutely necessary for this to be of any value. Then you are able to show that you are actually able to impact business outcomes that people really care about.”

**Be clear: “I’m going to call your mom and dad and see if you can explain it to them.”**

### Being Understood as Well as Heard

As has always been the case in the communication of data analysis, translation can be a major concern. Yes, you want to have a role at the CEO and board levels; of course, this is not simply

a matter of showing up. Being invited is a major part of the endeavor—as Jim puts it, “This is a power battle.” But being *heard* at the highest levels is actually a matter of being *understood* at those levels. Hence, Jim recommends using the same standards of clarity and transparency that he applied to papers he was required to write in college—where academic obtuseness could have been favored, but was avoided. “It was the smart teacher who said, ‘I am going to call your mom and dad and see if you can explain it to them.’ Because there has to be a balance: yes, you can get very technical, but can you explain it in terms that people will be able to get it and then be able to do something about it?”

**Much of the data you need are already within your organization: in compensation, finance, marketing, organization development.**

Any HR professional who wants to develop expertise on metrics in his or her organization is likely to find that plenty of data already exist. There are, moreover, colleagues in various departments who have a strong command of the data. “They understand how to push through these data and the statistics,” Jim noted. “You have organizational development, I am sure you have compensation, you have finance folks, you have marketing people. These are the people who understand the data. The really good ones are going to be super students of whatever topics you are trying to solve.”

This doesn't mean, however, that valuable measurements will be complete at the outset. That will come with time, experience and knowing what to look for. “Don't let ‘perfect’ get in the way of the ‘good enough’,” Jim cautions. “I am talking about finding the rocks in the brook, where you can get across if you know where to step and are very cautious about it.” Thus, building the kind

of metrics that will be convincing for the CEO and the board can take years to come by completely, but many of the components needed to begin the journey are probably already available.

**From the CEO: “Tell me how I’m going to make money. Then I’ll talk to you.”**

### The Impatience of the CEO

A major part of the power battle for HR to gain its place at the table, via the use of metrics, ironically may have nothing to do with data or mastery of its interpretation for bottom-line purposes. Chances are the HR professional also needs to master the games imposed by personalities and politics. Companies vary enormously—in terms of mission, size and structure, and much depends on the personality and temperament of the CEO. Many CEOs will welcome a conversation (*i.e.*, listening and dialoguing on an ongoing basis) with HR executives, if the HR officer's business acumen has become clear.

Jordan Vargas reports on the impatience that can be encountered at the highest levels. “One CEO that I worked with wanted to know up front if I had something useful to say. If I sat down with him and said, ‘Listen, I want to talk to you about how we can improve the value of human capital,’ he would take off his glasses, put them down and say, ‘Jordan, I want to make money. Tell me how.’ He did not have time for anything that he considered theoretical: ‘What does this mean, and how is this going to help us achieve 30 percent growth this year? Tell me that first—then I’ll talk to you.’” If it's any consolation, Jordan notes everyone is in the same boat. “The technology and marketing groups have to make their cases as well.”

Fundamentally, however, the conversation with the CEO cannot really become established unless you understand what language he or she speaks; it is worth the

effort because the stakes are high—and because the conversation needs to build and mature with time. “When I say conversation,” Jordan notes, “it is not just about one meeting, it is about the relationship that might be destined to last for a period of years—and unless you speak the language, you can’t have the conversation.”

### Forge relationships with peers in other areas of the company, learning the business aggressively.

#### Where Did the CEO Come from?

The best way to begin mastery of the CEO’s language, Jordan points out, “is to know what functional track he or she came up through. Was it marketing or sales, finance or operations, technology or HR? If the CEO came up through HR, you’re lucky.” Furthermore, with your eye on HR metrics—careful analysis of the company’s human capital and how “35” hours of labor per week times 500 employees impacts the bottom line—you know that leadership skills can clearly matter enormously. Ironically, Jordan observes, “Most CEOs are not really schooled in the art of leadership. Some are—I have a run across a few—and they are a pleasure to work with.”

With this need to communicate with the CEO in mind, HR professionals who are interested in gaining a place at the table should be forging lines of communication and relationships with peers in many different departments, learning aggressively about areas and functions outside of HR. “You have to learn the language of your business,” Jordan insists, “and business in general.” This kind of effort will help to position you well for conversations with the CEO.

#### Tuning into the Agenda

As well as speaking the same language, it is also important to read

the CEO as accurately as possible in terms of agenda and passions. You may have an agenda based on better metrics—perhaps acquisition of another company that could bring in vital human assets and expertise—but the CEO doesn’t want to rock the boat. “I worked with one CEO who was about 60,” Jordan recounts. “After working with him for two or three years I realized what his agenda was. I was talking about acquisitions and potential targets, and he was just playing games with me. He didn’t want to do that. He did not want to work. He didn’t want to jeopardize his payout in a couple of years.”

Even the mechanics of the conversation with the CEO have to be mastered. Does she prefer to communicate verbally, or through emails and memos? And with very full calendars—and perhaps varying levels of education and intellectual prowess—how do you launch discussion of complex topics that could be of vital importance? In one case Jordan decided not to ask the CEO to read an article from the *Harvard Business Review*, but instead prepared a one-page summary. This could be enough to provoke questions and move the conversation forward.

#### More Resources Available

The purpose of the HR Network panels is to spark curiosity and encourage HR professionals to dig further—and most attendees come for the insights to be gained from listening to experts in the field. Hence, a good place to learn more about metrics is panelist Tony Politano’s book, *Chief Performance Officer*, whose subtitle is *Measuring What Matters, Managing What Can Be Measured*. But the topic of metrics is commanding wide attention, and the literature is growing rapidly. You can begin harvesting information by keying in “hr metrics” or “hr metrics conferences” into Google. ●

## What Is the HR Network, and Why Does It Offer Breakfast Seminars?

The May 6th HR Network Breakfast was the 13th meeting of this organization founded in 2003 by The Five O’Clock Club. The purpose of the HR Network is to provide a learning forum for HR professionals—to help them do their jobs better and advance in their careers.

This is a way for The Five O’Clock Club to give back to our customers and to serve the HR community, which has shown increasing appreciation for our innovative outplacement services.

It is not our style to spend lavishly and pass costs on to either retail or corporate clients. Thus, we developed an outplacement model based on providing coaching—instead of expensive real estate. Neither do we court HR executives with boat rides around Manhattan, golf outings or expense-account dinners. Instead we work hard to present six substantive HR Network Breakfast Seminars every year, so that HR professionals can take away information to give them a competitive advantage.

And, by the way, *we never allow vendors to attend*, so that HR officers can focus as well on getting to know each other.

#### Past HR Network Breakfast Topics

- New Trends in Restrictive Covenants: Get Both Sides of the Story
- How to Manage Your Compensation in Difficult Times
- The Changing Role of Human Resources
- Sarbanes-Oxley and How It Impacts HR
- Generational Issues in the Workplace
- Trends That Affect HR: Offshore Jobs Outsourcing · Employee Power Diversity Issues · Skills Required by HR
- The Effect of 9/11 on the New York Market
- Worklife Balance: Helping Employees Manage the Details of Their Lives—or Not
- Helping Your Company with Its Bottom Line: Controlling Healthcare Costs
- Legal Issues that Affect HR and How to Handle Them
- New Thinking about Diversity and What Needs To Be Done
- The Current State of HR Outsourcing
- The Future of HR Technology ●