

## The next evolution of strategic HR: Measuring program value through business results

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July 2016



# Table of contents

1	Business needs people
2	Strategic HRM
4	Integrated Performance Management: The new wave of strategic HRM
8	Another dimension: Measuring intangible assets
10	IPM three-step model
12	Conclusion



## Business needs people

Simply hiring people to fill jobs, however, is not enough. It is critical to manage and influence human capital effectively so that staff achieve optimal performance and are able to contribute to the goals of the organization. Doing so means equipping employees with necessary tools, both physical (computer, phone, hammer, etc.), as well as intangible – the support systems and programs that enable them to perform their job functions to the full extent of their abilities.

Human Resource Management (HRM) is a field of study that was developed and is committed to supporting the management of human capital. Traditionally, HRM focused only on hiring, paying, and facilitating employee benefits, as well as administrating the organization's people policies and procedures around codes of conduct and terms of employment. This type of HRM is often referred to as "transactional." Senior leaders who view HRM in this context see it as a back office function with low strategic value.

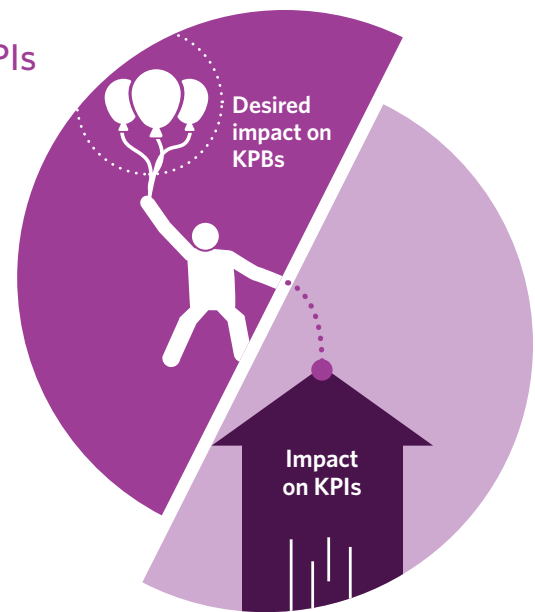
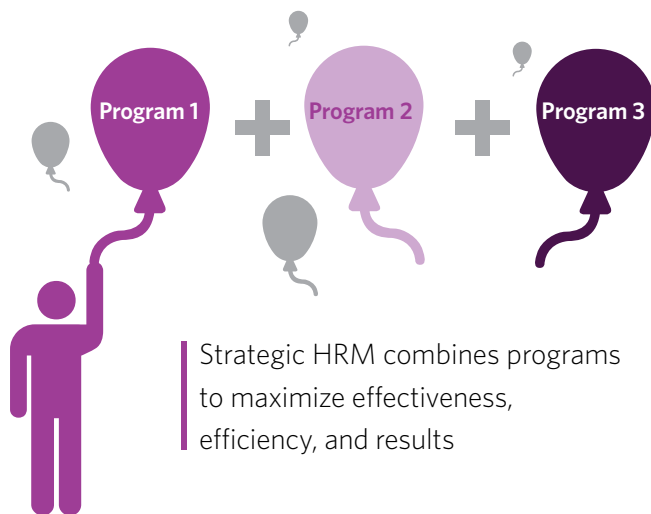
This mindset represents a lost opportunity when one considers that an organization's people are its most important drivers for success. Strategic initiatives that encourage employee behaviours such as using discretionary effort – behaviours that directly influence organizational results – could well have a significant impact on business success.

Those senior leaders who understand that HRM can add value are aiding in its evolution from transactional to strategic. This paper examines how that progression can be further advanced, specifically through the concept of integrated performance management (IPM), in order to maximize business results through people.

# Strategic HRM

At its core, strategic HRM is about influencing human behaviour so that staff members demonstrate key performance behaviours (KPBs). To perform a KPB, an employee needs a set of skills and knowledge. The primary objective of programs such as training and development, performance management, and wellness is to assist employees to develop the kinds of skills they require to be successful in their assigned roles. When employees in similar functions implement KPBs at the required level, they can positively impact the key performance indicators (KPIs) that demonstrate how effectively an organization is achieving its targeted objectives.

## Picking programs to shape KPBs that predict KPIs



Strategic HRM

Enhanced organizational results

The HRM toolkit has expanded with the growth of human capital research and thought leadership in areas such as:

- Industrial psychology
- Leadership theory
- Employee engagement strategy
- Mental health strategy
- Respectful workplace strategy
- Occupational health and safety
- Diversity strategy
- Wellness programs
- Technology advancements in human resource information systems

This growth has resulted in an increase in programs that claim to support the strategic HRM mandate and drive financial results. One challenge has been that many programs have been brought on with good intentions but little to no accountability for results. For many organizations, the idea-of-the-month concept results in new initiatives and programs that often tax HRM resources in the hope of achieving some cost saving (e.g., lower sick time) versus driving revenue or maximizing productivity.

HRM does, however, have metrics that it can draw upon to help link the human capital factor to financial outputs, as shown in the table below:

<b>Metric</b>	<b>Definition</b>
<b>HR metric definition human capital ROI</b>	Ratio of income to employment costs
<b>Revenue factor</b>	Revenue per employee
<b>Income factor</b>	Income per employee
<b>Expense Factor</b>	Operating expenses per employee
<b>Human Added Value</b>	Income net of employment costs per head
<b>HR Expense Percentage</b>	HR expense as a percentage of total operating expenses
<b>HR Headcount Ratio</b>	Ratio of employees served to HR employees
<b>HR Investment Factor</b>	HR operating expenses per employee
<b>HR Structure Breakdown</b>	Percentage of HR resources applied to each key HR area
<b>Voluntary Separations</b>	HR expense as a percentage of total operating expenses (Turnover)
<b>Training Investment Value</b>	Cost per person that is spent on training
<b>Internal Mobility Rate</b>	Percentage of employees who move internally within a year
<b>Time to Fill Vacancies</b>	Average number of days to fill a vacant position

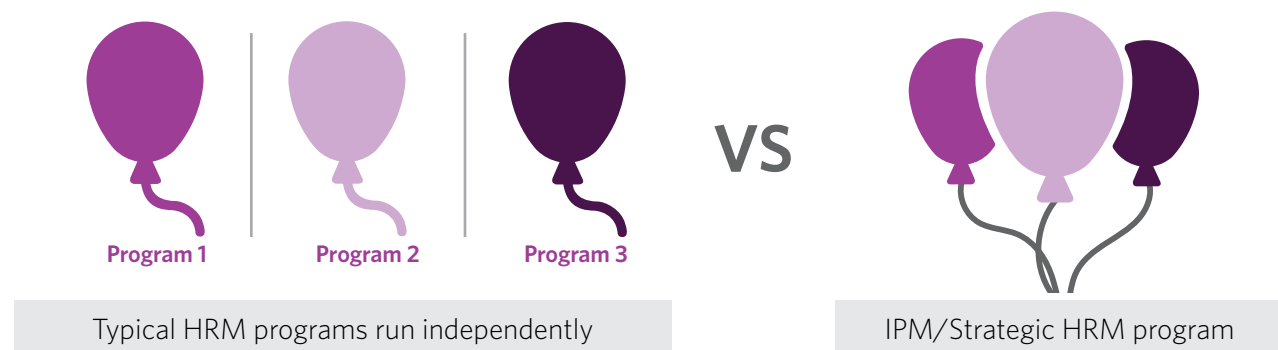
## Strategic HRM

Strategic HRM has a more positive impact when it can link program evaluation with financial metrics. It is advisable when designing a program to determine how it will be evaluated in order to measure its return on investment (ROI) and impact on the organization's results.

When a defensible methodology to evaluate programs' impact and ROI is introduced, the door opens for discussion on investing in strategic HRM for the purpose of impacting human capital performance and results. As a result, strategic HRM is no longer seen as a cost centre "nice to have," but a "need to have." Nevertheless, while the value of strategic HRM has evolved and is slowly becoming well established, there is still work to be done.

## Integrated Performance Management: The new wave of strategic HRM

This objective of Integrated Performance Management (IPM) is to integrate and align programs' key objectives, operations, and strategies to reduce the risk of duplication and the ineffective use of dollars. The rationale is that this approach will allow for the maximization of HRM resources, improve communications with employees, facilitate transparency and accountability for program dollars, and improve the opportunity to achieve measurable results, ROI, and VOI — or "value of investment" — a measure of the impact of the aggregated programs. This approach puts all programs under one umbrella with a common purpose: to have a positive impact on employees' key performance behaviours.



Before the introduction of the IPM concept, all HRM programs typically ran independently. For example, the return-to-work program team may not have worked directly with the engagement team, which may not have worked with the mental health team, which may not have worked with the respectful workplace team to align best practices.

In an IPM framework, there is opportunity to maximize program effectiveness, efficiency, and results. All HRM programs are aligned and operate under one strategy, one scorecard, one learning plan, and one budget, with each program having clear lines of spending and measurement-reporting related to its impact on human capital.

The consequences of operating programs in silos is a lack of cross-program accountability, lack of horizontal integration, poor communication amongst programs, competition for limited financial resources, and no clear business case as to how all programs work together as cogs in the wheel to have a positive impact on employees' KPBs. Senior leaders cannot clearly see the direct causal relationships between programs' impacts and financial results.

## The road to integrated performance management

Aligning all programs that impact key performance behaviours under one IPM umbrella demonstrates how the programs work together to influence employees' KPBs. One ROI/VOI study can be created to evaluate and isolate the effectiveness of every program, using one standard methodology to determine how it is impacting KPBs. The diagram below shows how IPM can be aligned and support the employee's life cycle, links to key performance indicators, and desired financial results.



## IPM Framework

This IPM program function map shows how all the pieces work together:

- KPBs are linked to KPIs
- the IPM key performance behaviours scorecard and reporting are defined
- program implementation guidelines are set
- staffing needs are identified
- the program's purpose and values are aligned
- the program evaluation process is defined
- a structure for an employee communication strategy is created
- a feedback loop between behaviours and performance outcomes is facilitated
- An integrated programming reporting impact and VOI impact is established



## Every HRM program would be held accountable using the same standard three constructs:

### 1. Impact on Key Performance Behaviours

- For each program, define the observable, measurable, and definable KPBs determined as the key drivers for employee success in assigned job functions
- Define each program's objectives using the same criteria and format to establish its success definition, why it exists, its target population and how it can have a positive impact on an employee's ability to perform his or her assigned functions to full potential
- Define the organization's cost and risk in not implementing the program (i.e., each program's business case and value)
- Assess the financial value of the expected impacts of the program. For example, if the organization has a workforce with a large proportion of smokers, what will the financial return to the organization be if a smoking cessation program is implemented? Increased work attendance, reduction in healthcare costs and improved productivity provide a basis for the return generated from an investment in this type of employee program

### 2. Aligning Key Performance Behaviours with Key Performance Indicators

- Determine what KPIs will be positively impacted when employees' KPBs are performed at, below, or above standard expectations. This requires defining what KPBs drive results.
- Examine each program to define the desired outcomes and the kinds of behaviours expected. Performance appraisal will define the specific KPBs for each core competency.

### 3. Financial Impact

- Examines each program's financial contribution using program evaluation and ROI/VOI methodology, i.e., define how a KPB's success predicts a KPI's success, and how that predicts financial impact.
- Financial impact can be identified in both a positive revenue growth and/or a reduction in expenditures. If a program is implemented to reduce absenteeism and the result is a reduction in absenteeism of two days/employee for an organization with 130 employees, this is the equivalent to adding one employee or, conversely, allowing the organization to reduce its workforce by one employee for the same level of output. Determining the level of investment the organization is prepared to make to achieve this level of "return" is relatively straightforward.

Each program requires a consistent evaluation and walk-through as to how it would operate in the above three constructs. It may be difficult to prove that a program is adding meaningful value if its impact cannot be observed, defined, and measured.



Another factor is that, in an IPM model, programs do not exist in silos. An overall wellness program may define a specific objective and desired outcome, but adding a smoking cessation program complements the wellness program and the benefit is incremental. Measuring the incremental benefit is also necessary to assess the true ROI/VOI of the second program.

IPM aligns the various programs that are currently in place under the umbrella of performance management. The core benefits of the IPM are:

- Reduction and removal of risk for program duplication of activities/initiatives
- Lower risk for program competition for dollars
- Creation of cross-program transparency and accountability
- Alignment of programs' purposes and value propositions
- Sharing of culture best practices to facilitate behavioural change
- Facilitation of the opportunity for a consistent framework to evaluate all programs using the same criteria
- Creation of a multi-disciplinary approach that supports complex employee cases
- Maximization of staffing complements and budget

The IPM approach has the potential to facilitate transparency and accountability for all HRM program dollars. This creates an opportunity to identify the total IPM dollars spent per full-time equivalent employees and the impact on financial metrics. If, over a three-year trend, senior leaders see evidence of how increasing IPM dollars spent per full-time equivalent are creating an ROI/VOI that positively impacts the financial picture (increased revenue or output per employee), they are more likely to support HRM budgets.

# Another dimension: Measuring intangible assets

The term “ROI” is the measure of the value of tangible benefits. An important emerging trend is to express value propositions in terms of Value of Investment (VOI). VOI is a measure that attributes for not only tangible but intangible assets and/or benefits.

## In the HRM context, VOI could be used to measure the following results:

1. The management/reduction of disability claims
2. Improvement in employee job satisfaction
3. The impact on business performance metrics and profitability
4. Improvement in employee daily health decisions at work
5. Attraction and/or retention of talented employees
6. Reduction in the number of sick days
7. Reduction of presenteeism
8. Improvement in employee morale

In short, the goal of a VOI model is to measure how programs are impacting the HRM intangibles of health, engagement and productivity. In doing so, employers are able to determine the true value of their overall health, engagement and productivity strategy across all business outcomes.

**ROI + VOI = TOTAL RETURN**

As an example, consider an organization’s Employee and Family Assistance Program (EFAP). The HRM team suggests launching an initiative that creates awareness of the EFAP and encourages employees to use it. If senior leaders believe the EFAP is only for use when employees face family issues, they may not understand the HRM rationale. In this case, the challenge is to alert leadership to the preventative value of EFAP usage – how providing ongoing support may assist in preventing severe issues from building into significant crises that lead to a deterioration in workforce productivity.

If measuring ROI in the HRM context is difficult, however, developing a method to determine VOI is even more challenging. The Morneau Shepell Total Health Index (THI) is one such approach for measuring KPBs that provide the framework for evaluating program impact. It begins by obtaining a baseline measurement of an organization’s employee health, engagement and productivity. The output provides the employer with insights on where to target its programs. Programs have value when they impact KPI, which in turn impact financial results.

Value of investment (VOI) –Example scorecard		
THI factors	Key organizational metrics	Targeted objectives
Perceived stress	Attendance/STD/LTD	EBITDA/FTE
Discretionary effort	Total rewards	Human capital cost factor (Rev-operations/FTE)
Presenteeism	Productivity	Adjusted R squared measuring program impact on desired results. For example, stress load – Total rewards program impact on discretionary effort (DE) (Productivity)
Coping skills	Percentage of STD mental health claims	
Financial health	Participation in internal pension programs	
ROI analysis on program impact		
Program investment	Targeted impact	Economist ROI
Dollars invested in program	What program is suppose to impact exactly and why	ROI as benefits minus cost divided by costs

The benefits of implementing a given program can be expressed in monetary terms by determining the increase in total revenue as a result of the increase in the number of effective employees. For example, a \$200 million company with 1,000 employees each having a productivity of 85% has, in fact, 850 effective employees. Assuming that a program is implemented that will result in a productivity increase of 1%, the number of effective employees will increase to 860. Assuming that every effective employee generates \$235,294 in revenue (i.e., total revenue divided by number of effective employees) and that the cost of implementing this new program is \$300,000, the impact will be 684% (i.e., increased revenue due to 10 more effective employees is \$2,352,940 less new program cost of \$300,000, divided by new program cost of \$300,000).

Determining VOI, however, is likely secondary to introducing and implementing the IPM model and maximizing the ROI of HRM programs. Nevertheless, in order to develop truly strategic HRM initiatives, it is important to measure the relationship between program dollars spend on influencing KPBs that predict KPIs and how KPIs predict desired objectives.

# IPM three-step model

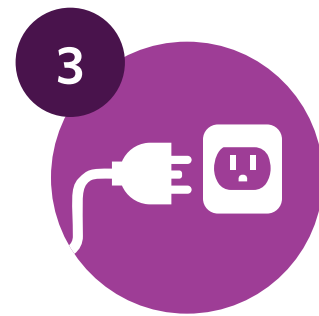
While the shift to an IPM approach is necessary in order to better unify HRM programs, align them with organizational goals and establish ROI and VOI, the issue is how to get started. The following three-step approach provides guidance on change management steps for those interested in implementing an IPM strategy:



**1**  
Program review



**2**  
Strategic design



**3**  
Implementation

1. **Program review.** Take inventory of what programs are in place or on track to be implemented. When reviewing each program, have the program leader answer each of the following questions and then evaluate the uniformity of responses.
  - a. Why are we doing this program?
  - b. When was the program launched?
  - c. How many full-time equivalents support the program?
  - d. What is the budget for this program?
  - e. What key performance indicator measures are being used to evaluate the program's outcomes?
    - i. What is the review methodology to evaluate the program's return on investment?
    - ii. What kind of employee feedback is obtained on the program's benefits?
  - f. What is the cost of the program?
  - g. What is the cost per full-time equivalent?
  - h. What evidence do we have that the program is having a positive impact?
  - i. Does senior leadership agree with the above conclusions?
  - j. How is participation measured and reported?
    - i. What is the program utilization (i.e. percentage of employees engaged)?
  - k. How is the program managed and adjusted over time based on the needs of the workforce?

Once all the program reviews are complete, it is critical to examine what, if any, duplication exists among them. Are multiple programs trying to assist with the same issues? Which are providing the best benefit for the investment?

The above types of questions can assist HRM managers to establish a frame of reference with respect to how a program’s effectiveness is measured and its output aligned to financial measures. Each program leader, if prepared, will be able to answer the questions in an hour or so; this exercise should be a rapid audit.

- 2. IPM strategic design.** Once the rapid audit is complete, areas that should be improved, stopped, and started immediately should be evident. Of course, impacts and change management should be considered. Streamlining multiple strategies into one may create disruption in staffing and show opportunities to reduce head count or change in HRM managers, as well as provide evidence for the need to hire more staff, or to simply redo the way a program has been implemented. Regardless, the move from one paradigm of program independence to a central model requires foresight, planning and clarity of purpose.

When developing an integrated approach, it is necessary to build a master template that can assist in defining problems, risks and opportunities to improve results for all the current programs that fall under the IPM strategic framework. In addition, standardizing the language used across programs will help ensure all programs are using the same methodology. The chart below provides an example of such a template. It is common for HRM managers to struggle with defining the impact of KPBs. This planning document can help uncover gaps and promote accountability and transparency.

**Sample IPM Strategic Master Program Planning Form**

IPM Strategic Master Program Planning Template									
Program	Program purpose	Program delivery capacity	Program staffing	Impact of KPBs	Program costs	Program metrics	KPB-KPI link predictors	% of workforce participating in the program	Total cost of program per FTE

- 3. IPM implementation.** Launching the IPM model requires a change management approach that maps out the implementation plan and centralizes the program into a central portal or location so that it is easy for employees to access. They need only go to one place to get information on any program or opportunity that impacts their health or success.

A critical element for long-term success for the IPM approach is to follow Deming’s four-step model of “Plan/Do/Check/Act.” Doing so promotes measurement and continuous improvement to monitor how programs are impacting KPBs, KPIs, and organizational results.

# Conclusion

The challenge for HRM managers whose programs are not aligned under one umbrella is that senior leaders do not have clear optics and insights as to how each dollar spent is impacting an organization's overall results. As a result, leadership may not see the value in HRM.

Ultimately, HRM managers need to evaluate where they are today on the "traditional to strategic HRM" continuum, evaluate how confident they are in their programs' current functioning, and determine what benefits could be obtained by implementing the IPM framework. Doing so may make a significant difference in not only the performance of an organization's employees, but its business results.

In the end, if you cannot measure program impact on KPBs and link this to KPIs and desired objectives, it's hard to define success. Rather than trying to define success intuitively, using an evidence-based financial model allows HRM managers to provide evidence to senior leaders on the collective value and benefits for the dollars spent on programs that positively impact human capital, workplace experience, and results.





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