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Productivity measurement lacking, finds survey

Greater alignment needed between HR, finance

BY SARAH DOBSON

WHILE almost three-quarters (72 per cent) of senior financial executives say measuring productivity is a key performance indicator, only 10 per cent feel the measurement tools they have in place fully meet their organization's needs (though 45 per cent said the tools "somewhat meet" their needs).

And more than one-quarter of the executives are not using productivity data to improve performance at all, according to a survey and roundtable by the Canadian Financial Executives Research Foundation (CFERF), the research arm of FEI (Financial Executives International) Canada.

"Productivity is tricky in that, at the end of the day, what you're trying to do is increase output per employee or worker, but how do you measure that? That will vary by industry, by company, and the more complex the company, the harder it is to measure. But just because it's hard doesn't mean you shouldn't be doing it," said Laura Pacheco, vice-president of research at FEI Canada in Toronto.

From a logistical and budget standpoint, it doesn't make sense to do all this work if you're not going to use the results, according to Lisa Irish, director of HR Metrics Service in Niagara, Ont.

"It can be time-consuming, it can use a lot of resources, especially in HR, so you need to have a plan about how you're going to use the data, how it's going to be presented, and then how you're comparing that data to goals and targets that you've set. And if you're not reaching those goals and targets, then (it's about) deciding what action's going to be taken, whether it's new initiatives or whatever it might be."

And finance is keen to have the data: 36 per cent of respondents said they measure key performance indicators (KPIs) and will continue to do so; 23 per cent said they are in the process of developing KPIs; 27 per cent they hope to measure productivity in the future; and only 14 per cent said they have no such plans.

Productivity, engagement

When it comes to defining employee or workforce productivity, most respondents look through the lens of financial numbers, relying on sales and the cost of generating sales, found CFERF.

The top three financial metrics used are: sales generated per full-time employee (46 per cent), percentage of revenue allocated to compensation (23 per cent), operating expenses per full-time employee and industry-specific metrics, such as units produced per employee for manufacturing companies (22 per cent).

When it came to workforce turnover metrics, voluntary (57 per cent) and involuntary turnover (46 per cent) are most popular.

There is no one magic bullet for productivity measurement, but some are fairly common given that cost structures are similar among employers, said Russ Wong, Toronto-based CFO of ADP, which sponsored the research.

"If the workforce is a very large part of an organization, then those organizations tend to focus on workforce productivity metrics such as revenue per fte (full-time equivalent), or margin per fte, or whatever their particular cost drivers, (such as) client per fte. So you can group them in clusters… and as an organization matures in its measuring of productivity, I think that's where some of the challenges lie, getting away from the financial metrics and integrating them into the true HR metrics."

Looking at turnover rates within the first 90 days, promotion rates or offer acceptance rates, for example, can help form a picture of employee engagement, said Irish.

"Just looking at bottom-line profit is probably not enough detail anymore for a CFO to be able to really have an understanding of what's happening and why results are what they are."

When asked what would most foster productivity in the next three years, 38 per cent of respondents cited upgrading employee training and skills, 21 per cent cited increased employee engagement, and 16 per cent cited both improved workflow design and expanding or recalibrating the workforce.

Organizations are very aware of the need for productivity and they want to move into different metrics in terms of looking at employee training or employee engagement, said Wong.

"People are good at managing those traditional financial metrics, and where we're heading is moving into a little bit of what I call non-traditional productivity metrics, and linking that back to the bottom line."

Sixty-one per cent of the CFOs said employee engagement is a meaningful metric, yet 29 per cent said it's the one area of HR reporting they would hope to improve, followed by competitive comparisons and succession planning for key roles (both 22 per cent), and labour costs (16 per cent).

Finance and HR

The first step is for finance and HR to work together to define what successful engagement looks like for their organization — so viewing the end goal, said Irish.

"It might look different for everyone — maybe it's a healthy bottom line with low absenteeism, full vacation usage and low first-year turnover, as an example — but whatever it looks like for their organization, they'll need to not only measure internally — so look at their performance over time — but also benchmark externally to see what others in the industry are doing."

Finance and HR should play equal roles when it comes to any kind of measurement of HR, she said.

"(It's about) finance bringing their history of data and financial experience, and HR bringing their history of performance and incentive knowledge together, and working together to be able to make sure that, first of all, they're talking the same language when it comes to data or the source of the data."

It's about creating a partnership, said Pacheco.

"I don't think finance should be dictating, nor should HR. It really is a relationship that needs to be forged, with operations as well, always ultimately looking at what is the goal of the organization, what is the vision, and how do our metrics align to that goal?"

This link between finance and HR is gaining in importance, said Wong. "It's not just about the reporting, it's really about the strategic partnership value-add."

Finance may be reporting all the metrics, he said, but is there an owner responsible for taking action who may be in the HR space?

"We know we have a productivity challenge here in Canada, it's (important) that organizations are aware of that, and I think that we are starting to recognize that HR and finance together can help move this in the right direction and make a positive contribution to make organizations more productive."