



MEASURING HRM EFFECTIVENESS AND EFFICIENCY

Chapter 17





WHO BRINGS IN THE PEOPLE ANYWAY?

- Human capital acquired by HR is the business driver who pushes the company toward future advancement
- Effective's utilization and management of the firm's human resources is the key to ensuring the firm's profitability and future viability

HR's role is to help create value to the organization



BUSINESS IS A NUMBER GAME

- Numbers drive the business and is the basis of management actions and decisions
- Doing the right thing means conducting the right activities and applying the best strategies for competitive advantage
- Efficiency is doing the things right – it defines whether processes are completed using the least resource and in the shortest time possible.



MAJOR ACTIVITIES OF HR

- Staffing
- Planning
- Employee relations
- Compensation and benefits
- Training and development





DEVELOPING A MEASURING SYSTEM FOR HR ACTIVITIES

1. **Processing Cost per Applicant**
(These are taken from Fitz-enz' sample equations.¹²⁹)

$$PC/A = \frac{AC + AF + RF}{H}$$

Where:

PC/A = Processing Cost per Applicant

AC = Advertising Cost, total monthly advertising expenditures (₱25,000)

AF = Agency Fees, if done through outsourced recruitment agency, total monthly fee (₱30,000)

RF = Referral Fee, total monthly paid (₱3,000)

H = Total Hires (20)

Therefore,

$$\begin{aligned} PC/A &= \frac{₱25,000 + ₱30,000 + ₱3,000}{20} \\ &= \frac{₱58,000}{20} \\ &= ₱2,900 \end{aligned}$$



Interviewing Cost

$$C/I = \frac{ST + MT}{I}$$

Where:

C/I = Cost per Interview

ST = Staff Time, total staff time spent interviewing (e.g., ₱114 per hour salary of interviewer, at half hour per interview times number interviewed)

MT = Management Time, total management time spent interviewing (e.g. management time is based on a ₱455 per hour salary of interviewer times 1 hour per interview times number Interviewed)

I = Total number of applicants Interviewed (e.g. 20)

Thus,

$$\begin{aligned} C/I &= \frac{₱114 + ₱455}{20} \\ &= \frac{₱569}{20} \\ &= ₱28.45 \end{aligned}$$

3. Cost per Hire (per Interview)

$$C/H = \frac{IC + AC + AF + RB}{H}$$

Where:

C/H = Cost per Hire

IC = Total monthly Interviewing Costs, by using the formula

of cost per interview to calculate total interviewing costs (e.g., ₱569)

AC = Advertising Costs, total monthly advertising expenditures (e.g., ₱25,000)

AF = Agency Fees, total monthly agency fees paid (e.g., ₱30,000)

RB = Referral Bonuses, total monthly paid (e.g., ₱3,000)

H = Total Hires

Thus,

$$\begin{aligned} C/H (P/I) &= \frac{₱569 + ₱25,000 + ₱30,000 + ₱3,000}{10} \\ &= \frac{₱58,569}{10} \\ &= ₱5,857 \end{aligned}$$



COSTS AS BENCHMARK FOR IMPROVEMENT

- The elucidated formulas give you an idea of your processing cost per applicant, interviewing cost, and cost per hire
- This can now provide some benchmarks for improvement on your staffing cost



IMPORTANCE ON LOGGING ALL HR ACTIVITIES

- One must have a tracking system to record all important activities of HR on monthly basis
- Collection of date is critical element of measurement system



TRACKING HR EFFICIENCY ON PERSONNEL REQUISITIONS

- Through your tracking system, you can compute the following:
 - How long it takes to fill open requisitions
 - How long it has taken the operating people to interview the referred candidates
 - How long did they make a decision to hire



Response Time

Response Time

$$RT = RD - RR$$

Where:

RT = Response Time

RD = Date of first qualified candidate Referred for Interview (e.g., Jan. 21)

RR = Date of receipt of job Requisition (e.g., Jan. 10)

$$\begin{aligned} RT &= 21 - 10 \\ &= 11 \text{ days} \end{aligned}$$



Time to Fill

Time to Fill

$$TF = RR - SD$$

Where:

- TF = Time to Fill the job
- RR = Date the Requisition is Received (e.g., January 5)
- SD = Date the new hire Starts Work (e.g., March 4)

$$\begin{aligned} TF &= \text{January 5} - \text{March 5} \\ &= 59 \text{ days} \end{aligned}$$



Quality of Hire

$$QH = \frac{PR + HP + HR}{N}$$

Where:

- QH = Quality of the People Hired
- PR = Average job Performance Ratings of new hires (e.g., 4 on a 5 point scale)
- HP = Percent of new Hires Promoted within one year (e.g., 45%)
- HR = Percent of new Hires Retained after 1 year (e.g., 90%)
- N = Number of indicators used (e.g. 3)

Thus,

$$80 + 45 + 90$$

$$= \frac{215}{3}$$

$$= 71.7\%$$



COMPENSATION AND BENEFITS

Supervisor Cost:

$$SC = \frac{TSS}{TP}$$

Where:

SC = Supervisor Cost

TSS = Total Salaries paid to Supervisors (e.g., ₱900,000)

TP = Total Payroll cost (e.g., ₱2,800,000)

Thus,

$$\begin{aligned} SC &= \frac{₱900,000}{₱2,800,000} \\ &= 32\% \text{ (cost of supervision)} \end{aligned}$$



MEASURING TRAINING AND DEVELOPMENT EFFECTIVENESS

- Education is hard to measure while training which improves proficiency or skills is measurable in terms of ROI.
- The three basic measures of training are:
 - Cost – expense per unit of training delivered
 - Change – gain (hopefully) in skill or knowledge or positive change in attitude by the trainee
 - Impact – results or outcomes from the trainee's use of new skills, knowledge, or attitudes



Cost

Expense variables will differ depending on the number of direct and indirect costs included.

- Samples of direct costs are:
 - Consultant fees
 - Training room rental (if offsite)
 - Supplies
 - Refreshments
 - Travel and lodging



- Samples of indirect costs are:
 - Trainer's salaries and benefits
 - Trainee's salaries and benefits
 - Department overhead



Cost Per Trainee

$$C/T = \frac{CC + TR + S + RC + T\&L + TS + PS + OH}{PT}$$

Where:

- C/T = Cost per Trainee
- CC = Consultant Costs (e.g., ₱15,000)
- TR = Training facility Rental (e.g., ₱10,000)
- S = Supplies, workbooks, paper, and pencils (e.g., ₱1,500)
- RC = Refreshments (e.g., ₱2,000)
- T&L = Travel and Lodging for trainees and trainers (e.g., ₱15,000)
- TS = Trainer's Salary and benefits (e.g., 25,000)
- PS = Participants' Salary and benefits (e.g., ₱60,000)
- OH = Training department OverHead (e. g., ₱4,000)
- PT = Number of People Trained (e.g., 40)

Thus,

$$\begin{aligned}
 C/T &= \frac{₱15,000 + ₱10,000 + ₱1,500 + ₱2,000 + ₱15,000 + ₱25,000 + ₱60,000 + ₱4,000}{40} \\
 &= \frac{₱132,500}{40} \\
 &= ₱3,313 \text{ (Cost per Trainee)}
 \end{aligned}$$



Change and Impact

- Training is not the end; it is a means – a means to change the knowledge, skills, attitude and performance of the trainees.
- It is absolutely important to collect a baseline data of all trainees before and after every training program and compare this with the post-training data.



OTHER MEASURABLE ACTIVITIES

- Other HR activities are also measurable such as:
 - Planning
 - Employee relations
 - Compensations
 - Benefits
- The important is for you to choose the variables that affect the cost and develop a formula patterned after Jac Fitz-enz system.