

Returning to return...

Just to recap – ROI, or return on investment, means the benefit your organisation receives in return for the investment in its employees. Investment is most simply measured by your remuneration bill; return typically reflects productivity.

Most businesses overtly or otherwise measure the contribution of their employees in terms of productivity – this catchall, as we're defining it for our purposes, includes skill, effectiveness and outputs. So what is productivity?

Is the most productive employee in your organisation

- one who turns up for work 200 days per year?
- one who brings in the most revenue?
- one who looks after new employees, delegates the most work and has the fastest subordinate promotion rate?
- one whose team has the least absenteeism and turnover?
- one who sells the most high-margin products?
- one who retains the best clients?
- one who provides the best advice?
- one who, with the same machinery and infrastructure, produces the most volume?

A word or two on productivity – you may hear comments about New Zealand workers having the lowest productivity in the OECD. This does not mean individual workers are lazy and unproductive. Productivity in industries that are not knowledge-based tends to reflect the level of investment in capital equipment.

If a whole heavily automated plant can be run by one worker, that individual's productivity will be high. If a plant making the same products is less automated, 10 workers may be needed to produce this. However, other expenses, such as finance costs, electricity and depreciation, will be lower.

A good illustration comes from the dairy industry, where productivity in total litres (return) divided by total labour (investment) doubled between 1979 and 1997.¹ While some of this increase is attributable to the cows, technology, capital and management practices also paid a part.¹ The dairy industry also illustrates the usefulness of benchmarking, as different farms produce different productivity results.

The key to assessing productivity in your organisation is to have some measures in place that can be objectively applied.

You will notice that we constantly suggest you measure return as outputs. That's because we think HR's performance should be measured in the same way as the performance of other areas – by what results. What is the impact on the business and how has this changed after an HR intervention? The proof of the pudding is in the eating - if the process is effective, this will show up in business outcomes.

The value of processes, such as additional training to fill competency gaps, should still be measurable. However, this can be quite difficult, particularly in fast-changing organisations. And the link with financial value to the business may also be obscure.

There are exceptions, such as disciplines where competencies have been developed and externally measured for decades, and are accepted as industry standards of effectiveness. An example is the achievement of technical or professional qualifications that are a minimum job requirement, in jobs that are core to the business. This change in inputs is easily measurable and may have a direct financial impact.

Ultimately though, businesses measure their performance in terms of results. The more you do the same, the greater HR's credibility as a genuine business partner.

Labour productivity, innovation and technology: economic, social and technical viewpoints and their relevance to dairy farming. A brief overview of some relevant literature - By Ruth Nettle.

www.maf.govt.nz/sff/media/human-resources-in-agriculture