

Start as You Mean to Go on, Part II

The real benchmark is the total cost of business outcomes, but HR leaders are at a loss to explain in bottom-line terms why they want to improve payroll accuracy or shorten time to hire.

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In last month's column we summarily disposed of total cost of ownership (TCO) as the key measure for HR leaders when striving to align HRM and the HRM delivery system (HRMDS) with the business outcomes of the organization. Then we allowed that total cost of service delivery (TCSD)—a terrific metric for BPO and shared-services operators as well as being quite useful in contracts for HRM BPO—was not very useful in getting at the true business outcomes of the HRM delivery system. This brings us to the total cost of delivering agreed process outcomes (TCPO).

TCPO is a much more useful measure when we're trying to focus our HRM and HRMDS efforts on achieving business outcomes because it measures not just the cost of service delivery for specific services but also the true costs of achieving specific HRM process outcomes. Thus, if the process is "Develop The Workforce" (see my Jan/Feb 2004 column for an overview of my HRM domain model, www.hrotoday.com/Magazine.asp?artID=718), then what we really care about aren't the mechanics of training administration or the services of specific content delivery but rather relevant, planned competency growth of individuals and groups.

TCPO is reported against the agreed-upon (including contractual SLAs) process outcome measures, e.g., cost of hire and elapsed time to fill positions or percentage of performance reviews completed by their due date that pass managerial review. With TCPO measures, which get much more difficult to define and report, we begin to get at what value the customer is receiving at some level of investment. Since some version of these outcomes is often the basis upon which BPO revenues are accrued, this measure also helps us understand what we're actually spending to achieve those revenues when everything is considered.

TCBO: HARDEST TO MEASURE BUT MOST IMPORTANT

The metric that we really want to start with—thereby starting a BPO (or shared services) relationship as we mean to go on—is total cost of delivering business outcomes (TCBO). This is by far the most useful metric, but it is also the most difficult to define and report. TCBO connects total cost of service delivery and of achieving

required process outcomes with specific business outcomes, e.g., the total cost of delivering one highly qualified, good-fit new hire within the agreed elapsed time or the total cost of delivering, per salesman, target growth in sales revenues via a new incentive compensation plan and related sales training.

The new idea here is that to the business owner, what matters are the business outcomes rather than the process activities (services) or even process outcomes. When you work toward this view of HRM and the HRM delivery system to include the use of comprehensive HRM BPO to provide a good chunk of it, many of the investments needed to achieve truly world-class HRM practices as well as a world-class delivery system can be justified on the basis of the expected improvement in needed business outcomes. If some agreed-upon version of revenue or profitability per some agreed-upon version of FTEs is our most basic goal for investments in HRM/HRMDS, then improvements in revenue per FTE are the business case.

All well and good you say, but how on earth are we to prove the linkage between specific HRM programs/policies/practices and their impacts—positive or negative—on the business outcomes of our organizations? Just listen to ourselves. Can you imagine a sales executive who wants to reorganize territories not being able to explain why she's doing that in terms of improved revenues and cost of sales? Or a retail unit manager (or regional exec) who wants to change the layout of a store not being able to justify the costs to do so on the basis of improved sales and profitability per square foot? Or the head of manufacturing who wants to retool several factories not being able to explain how this retooling is going to improve product quality, reduce waste, and get to improved profits?

Until we are able to explain how the specifics of our HRM programs/policies/practices move the needle on revenue and/or profits, we're at a real disadvantage in a business world that values business outcomes much more highly than our speeded-up payroll cycles, reductions in missed calls, or even elapsed time to hire. Hiring the wrong people faster because we never got those competency models right will show up as a problem much more quickly if we focus on TCBO, as will all of the other things we focus on which do or don't help achieve those business outcomes. **HRO**