Measurement and management of work profitability

A new paradigm in organizational management

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What's important to a company is the effects of employees' work, not their competences or willingness to work. It is difficult for HR specialists to agree with this statement, for a very simple reason: they have no tools to measure and manage work profitability. Unfortunately, work efficiency is beyond their field of knowledge. It is difficult to measure and discuss these effects; therefore we manage employees' potential, and that potential is what we pay for. HR specialists lack the arguments and language which could be used to start a discussion with business on an equal basis. The same problems exist when we talk about managers who believe in the importance of personnel management in business, but are not able to make any economic arguments. Trying to convince management to invest in employees and an organization without any financial accounting proving the profitability of these actions can marginalize the position of HR specialists in the process of organizational management. It doesn't have to be like this!

In order to become partners in business, HR specialists need to use economic language and implement work value and profitability tools. I have prepared this text to give an example of the measurement of profitability techniques and convince you to practice them.

What kind of doubts do we have?

Employee evaluations are designed to check whether the employee possesses competences and is performing assigned tasks properly. Does the company need his work and competences? Employee evaluations have no answer to this question.

An assessment of working positions measures the market value of this work and places a position in comparison to others in the organization. This process enables us to propose an equitable salary for the employee. Does the company need this position? Working positions assessments have no answer to this question.

We have similar doubts when organizing training courses and recruitment. It seems reasonable to increase competences and build organizational potential. However, there are some limits. We are all aware that in some situations excess potential and unnecessary training courses only generate costs and do not guarantee increased profits. Where is the limit of the profitability of training courses and how can we measure this profitability?

I could list more doubts: planning for labor requirements, projecting salaries, etc. The problem is always the same – PROFITABILITY. To express it more descriptively: what is the business significance of our actions for the organization?

Until HR specialists start using the language of profitability, they cannot be partners in business, since profitability is the key criterion of actions for business.

What do we want to achieve?

We would like to bring the economic aspect into every organizational action in relation to employees and raise awareness that this should be treated like any other investment. Even if we are consciously doing something solely for employees, we need to know how much it costs the company. We will measure the profitability of tasks performed by the employees, the profitability of organizational units and the profitability of particular investments in the organization.

If we do this, every employee will know the profitability of the individual tasks he performs, eliminate non-profitable tasks and develop those actions which have a greater influence on the company's profit. Assessment of the tasks performed by employees will look like this:

Task performed in the position	**Usefulness of task**	**Sufficiency for its beneficiaries**	**Profitability of task**
Timeliness report	high	insufficient	**+24%**
Sorting and categorization of orders	low	sufficient	**+13%**
AddValue project schedule	very high	optimal	**+1%**
Special offer costs analysis	high	optimal	**–41%**
Department mailing service	very low	excessive	**–92%**

Managers will know the profitability of tasks performed within their organizational units. They will be able to increase their profitability by eliminating non-profitable tasks and moving resources to more efficient tasks. Department profitability assessment will look like this:

Task	Profitability	Recommendation
Report on special offers	+54%	Invest strongly
Coordination of the order process	+15%	Invest carefully
AddValue project	+0%	Optimize carefully
Coordination of purchase plan	–1%	Optimize carefully
Report on cost of special offers	–12%	Invest carefully
Ongoing service on special offers	–52%	Optimize strongly

The Management Board will periodically receive a unit profitability analysis. The results of this analysis can be used by the managers to allocate the budget; more profitable units will receive more financial support. The profitability chart will also enable the Management Board to assess which parts of the company to invest in and which departments should be reorganized. Profitability results will help to evaluate the efficiency of unit management, since developing the organization while simultaneously generating disproportionately high costs is not recommended. The profitability assessment performed by managers will be more objective. Evaluators’ intuition often fails, since it focuses on generated value and underestimates profitability. This is why we support intuition with analysis.

An analysis of the profitability of working positions will look like this:

Position	Costs	Value	Profitability	Recommendation
sales director	242,000	+123,050	+85%	Invest strongly
logistics director	121,034	+44,000	+35%	Invest carefully
HR manager	64,000	+22,040	+27%	Optimize carefully
accountant	24,000	+8,000	+14%	Optimize carefully
sales rep	68,000	–12,000	–12%	Invest carefully
market analyst	32,000	–8,000	–14%	Optimize strongly

* the above tables derives from the evaluation *AddValue360™*

Work profitability can be measured

Profitability, as I have written above, can be measured with simple information technology tools. Without attempting to directly promote specific solutions, I will only mention that these methods and tools are available in Poland.

Measurement of profitability is based on the thesis that all organizational units and all tasks performed in the organization contribute to some extent to the company's results and profits. The problem concerns how this profit is generated in an organization, where it is generated and to what extent. In order to draw a conclusion on this subject, we can use value analysis from the beneficiaries' perspective. Since every employee and every task has its beneficiaries, the measurement of value created for them enables us to follow the whole process of generating a company's results and profits. All organizational units are engaged in this process: HR specialists, auditors, car fleet specialists and even the janitor. It is possible to measure it in a simple empirical way.

In the measurement of profitability process, it seems that the measurement of the quantity of work in an individual task (which I call "sufficiency") is more important than the beneficiaries' quality assessment. The measurement of sufficiency, i.e. excess or insufficiency of the specific service, points directly to the excess or insufficiency of resources and serves as an important profitability ratio.

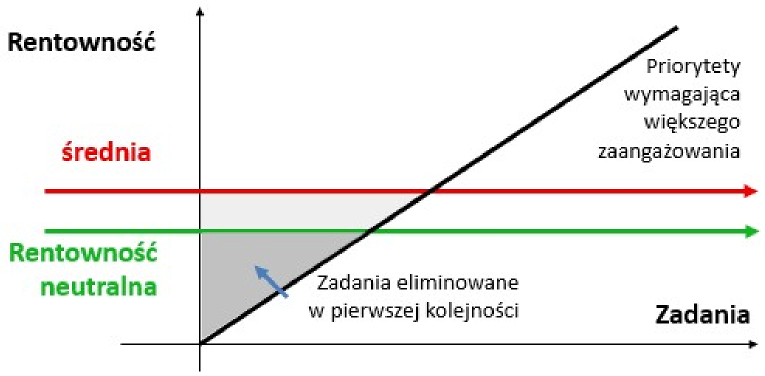
In organizational management, the most important thing is to match resources with needs, rather than simple increases in efficiency. This enables the company to save resources and lessen the organization's labor burden. Using "sufficiency" in profitability evaluation simultaneously enables us to specify the level at which the position is matched to the need. I call this level the Fit Index™. This kind of index should be one of the main efficiency ratios (KPI) for HR departments.

Measurement of profitability is the main managerial tool

A long time ago Peter Drucker wrote enthusiastically about the idea of self-management. Nothing has changed since that time. We have only more proof for the fact that motivation, as a management method, does not work. An employee, especially a manager, should motivate himself. Management's duty is to give employees an opportunity – to provide, in many ways, information on what they should do and what they should avoid. Profitability is probably the most important piece of information of all.

Imagine a manager who regularly receives a chart of the profitability of tasks performed by his team. Won't that motivate him to improve the result? Won't the chart of non-profitable and therefore unnecessary tasks put pressure on him to decrease labour consumption? Of course it will! It will be implemented, according to Drucker's predictions, without a bonus system, tormenting subordinates or affecting manager-employee relations. Anyone who doesn't believe in this theory can reward improvements in profitability. Of two evils, it is better to reward profitability than competence or results.

When employees are aware of the profitability of the individual tasks they perform, they will, even without supervisors, increase this profitability. No matter how good or bad the organization of the work may be, in every company 10% to 30% of tasks are performed below the profitability threshold (in effective organizations the profitability threshold is higher). This means that when you eliminate less profitable tasks, it is possible to save approximately 5% of labour consumption annually.



Key:

rentowność – profitability

zadania – tasks

średnia – average

rentowność neutralna – neutral profitability

priorytety wymagające większego zaangażowanie – issues demanding more engagement

zadania eliminowane w pierwszej kolejności – tasks to be eliminated first

In a company where labour costs are PLN 50 mln (approximately 500 employees), we can save PLN 2.5 mln annually at minimal cost. The cost of profitability analysis is 0.1 mln annually (0.2 mln the first time).

Let's stop evaluating employees' competences and using sophisticated "motivational" techniques. Let's add bonuses to their salaries and invite them to a collective increase in profitability. Give them information on what they should do better and which tasks they can stop performing. They'll do all of that by themselves, without bonuses, motivation and probably without training courses. The company does not need geniuses or overworked and tormented employees. The company needs results – results reached at the lowest reasonable cost. In this matter, exceptionally, the company's and the employees' aims agree.

Reaching good results with low costs is what we in business call **profitability.**

I invite those interested in the measurement of profitability, or having difficulty finding techniques and tools for measurement, to contact me at robert@reinfuss.pl