



**CONSULTING CONNOISSEURS**



## The **1-2-3** of Human Resource

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THE QUALITY OF BEING PREDICTABLE WITH GREAT CONFIDENCE

## Introduction

Human Resource Management, as a faculty, had its genesis from the complex elements of Productivity Dynamics. Even today, the focus of HRM continues to be improving business gains and practices from the perspective of the 4th factor of production viz. Labour or Man. Do you often see that you recruit superlative 'talent' from a salary perspective, only to realize later that there is a need for economic adjustment? Do you see a floating population that swings from super achievers to separation candidates? If yes, its time to look into your HR practices.

Today, the lack of the knowledge element (as shown in the figure below) to enable a reasonable integration of concepts for an objective decision at the strategic level has made most HR professionals shy away from this focus. In other words, they seem to be distant from this principal focus and haven't quite understood how this works. Fortunately, systems thinking through modeling and simulation provides an answer to these situations today. Let us understand it in greater detail.



Fig: Typical Decision Framework from Consulting Connoisseurs

## The Cardinal Question

Ever since its origin, HRM has had a very cardinal question that has driven most research. In today's business environment, the question can be translated as what I call **THE 1-2-3 OF HR rather than the A-B-C of HRI**! In other words, the cardinal question is: **Should one recruit 1 high performer or 2 mediocre performers or 3 low performers for a job?** The question, though simple, has profound implications on how an organization is designed, how it works and how profitable it would be. Different companies use different strategies when it comes to leveraging productivity dynamics. And while the answer to many HR professionals would appear simple, it is fairly complex to derive at. What we often hear from them is a best guess rather than a rigorously defined strategy. Let us try to understand some of the factors that drive the answers to the 1-2-3 of HR in a typical organization.

## Factor 1: The Individual Productivity or Performance

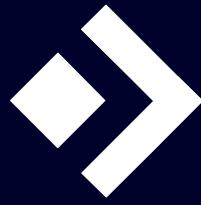
Since we are speaking of productivity dynamics, the first fundamental factor is that of the Individual Productivity. It is important to understand the performance of the individual objectively. Most HR practices / employers have individual productivities or performances defined on the job. However, for recruitment practices, it is often difficult to rigorously evaluate the performance of the individual BEFORE the recruitment process. Nevertheless, this is one of the crucial factors in the 1-2-3 model of HR. Most times HR managers use implicit approaches like recruiting from top colleges, top employers / competitors, high academic scores, a possible aptitude test score, etc. In any case, there are multiple methods to correlate these indicators to the expected productivity. While we are not debating on which is better, the actual individual productivity is a known unknown to many. In fact, one might even assume that it leans towards a reasonable known more than an unknown. Is the individual productivity of your employee reasonably known to you? If not, contact us for a confidential discussion.

While individual productivities are important considerations, the productivity dynamics from the 1-2-3 model requires to understand the variance in the individual productivities that are being talked of. This is most times significantly large (non-trivial) and drives the outcome considerably.

## Factor 2: The Group Productivity or Performance

Excellent individual performance doesn't always translate to excellent team performance. In fact, this varies greatly with the organization. For the perfect organization, this actually creates a synergy (ie, as an example, 2 members doing a job of 2.5 members). In most organizations, however, this is not adequately leveraged and results in a coordination loss (ie, 2 members doing a job of 1.5 members). The strategic implications could be complex. For instance, when individual productivity is high and coordination losses are also high, an organization might prefer using the intrapreneurial approach of management rather than a close-knit culture to minimize the coordination exposure. Do you often see managers spending more time with certain employees than others? Do you also often find 'confused' employees in your company? Some of these symptoms are indicative and critical aspects for group performance. Do you know the extent of the synergy or the coordination loss component in your team performance? Again this is team specific and the HR department needs to actually understand (to say the least), if not evaluate, the extent of this parameter. While team building training has become exceedingly popular, objective measurement of team productivity at the operational level is seldom seen in any business. Global parameters often blur the picture as there are many different 'compensatory actions' by specific individuals that come into play. The supervision effort is also a function of the group productivity and it can safely be assumed that the high performer works with lesser supervision. However, the extent is important to understand and measure.

In addition, what is also important in the framework of productivity dynamics, is to understand the group productivity function in both stable and transient conditions (when some employee leaves).



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### Factor 3: CTC as a Function of Performance

The economic reality translates into a management decision factor when one gets a handle of the premium to be paid for higher performance. The more the premium, the more sensitive is the market condition. And in such cases, the HR is really at the cross roads: trying to balance the budgets, the availability of candidates and the perceived performance potential! However, the problem is that this often ends up being a 'localized' decision rather than a strategic one. To make the best of it, one needs to have a strong handle of the CTC ranges as functions of performance.

Moreover, as the old school might argue, the sum total of the CTCs (Total Manpower Cost) as a percentage of the total costs also plays a decisive role in shaping the HR strategy. While this is true for many organizations, it doesn't really hold for high performing companies or companies that are in high / innovative IP offerings.

### Factor 4: Attrition Rates

The rates of attrition are critical factors in any HR plan. The attrition rates could change with business cycles, productivity of employees, productivity of teams and several other factors. The variances in the attrition rates are important to understand. An important statistic that is used to 'justify' many HR policies, attrition is rarely used in tandem with other factors to see the cumulative effects in the context of productivity dynamics. The critical point, therefore, is to look at inter-relationships of the various factors rather than treat them in isolation. And this is provided for by the systems thinking approach.

### Factor 5: Cost of Replacing

Critical to the economic perspective is the cost of replacing a resource. In the current business environment, this is a shared cost for most companies with a network of placement consultants along with in-house efforts.

The in-house component of the costs are, in most cases, hard to track. And they are significantly high. One, therefore, needs to have a good handle of this cost. This is important for every HR to clearly define.

### Factor 6: Time to Replace and the Time to Restore

Any case of separation / attrition is followed by a period of instability (transient behavior). To characterize any transient, two parameters are fundamental viz. the time taken to replace and the time taken to restore. The time taken to replace is the time taken to get a successor for any task or role. The time to restore, on the other hand, is the total time taken to restore the operations to the previously stable state. In other words, it includes the time to replace, the time to train the replacement and the time to establish practices as in a reasonably stable environment. While the time to replace is characterized by a phase of 'lower' manpower costs, the time to restore actually helps understand the increased supervision effort as well as the potential loss of performance due to the interim transient state.

### Factor 7: Cost of Under Performing

While all the first 6 factors are aimed towards understanding the explicit costs and the hidden costs associated with the factors of under-performance, the actual cost of under-performing assets to a business is primal to understanding the criticality of this factor. The question "What happens if one isn't able to achieve what he is supposed to?" holds the key to this situation. And the effects, in monetary terms, at the local as well as the global (business) level need to be carefully understood and interpreted.

While it is relatively easy to understand this cost at a business level, the same becomes complex to translate at the function / team level. This is another situation where a model and a simulation can assist the HR to evaluate and do a reality check of their own assumptions. This is, however, the most critical parameter to define from both a business as well as a HR perspective.

### The Integration Model

While it is intrinsically trivial to know the direction for each of the factors, the important aspect includes the sensitivity and the interplay of the associated parameters. As the HR strategist, it is essential to know the integrative aspects of these factors. Fortunately, modeling and simulation provides for a good answer. A reasonably simple integration model can then be used to define and simulate the results. A simplified example model is shown below to demonstrate some of the concepts indicated. Of course, a real life model will be a little more complex as it needs to reflect the current scenarios in the organization to enable providing a basis for decisions involved in the HR strategy.

Time Bucket	1	2	3
Job Allocation per Unit Time	2.5	2.5	2.5
Cumulative Work-Load	2.5	5	7.5
Coordination Loss in Stable Condition	0	0	0
Coordination Loss in Unstable Condition	0.1	0.1	0.1
Productivity of Person	1.6	1.6	1.6
Salary per Person	2	2	2
Number of Persons	2	2	1
Stable Month 1 Unstable 0	1	1	0
Work Performed	3.2	3.2	1.44
Cumulative Work Performed	3.2	6.4	7.84
Cost of Recruitment			
Salary for Time Bucket	4	4	2
Work Performed less than Work Planned	0.7	1.4	0.34
Cost of Delay (where negative)			
<b>Cumulative Cost</b>	<b>4</b>	<b>4</b>	<b>2</b>

### Conclusion

The beauty of modeling and simulation is that it provides one with a very concise interpretation of management requirements and enables the factoring in of complex concepts at the ground / operational level making it a practical tool today.

The 1-2-3 of HR is among the most popular as well as complex problems in the HR fraternity and there has been little effort done to understand, evaluate and answer the question. Yet, it holds the key to the success of high performing teams and organizations. For a confidential discussion on HR strategies and assistance with modeling and simulation based tools to enable real impact, contact us today.

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## About the Author



*Rotarian Nikhil S. Gurjar is the President of Consulting Connoisseurs, a new generation management consulting company based out of Navi Mumbai. The company specializes in providing solutions based on both conventional methods in management consulting as well as the state of the art tools using modeling and simulation. With several years of experience in Europe and the US, Nikhil Gurjar is one of the few experts in the country who understands and uses these tools for business applications and policy research. He is also associated with agencies like CII, PPMAL, MSME for different types of services. Before the launch of the company, Nikhil was the Head of Planning at a very large Greenfield steel project in the US. For more details, visit [www.consultingconnoisseurs.com](http://www.consultingconnoisseurs.com).*