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## Employer Resource Networks: What Works in Forming a Successful ERN?

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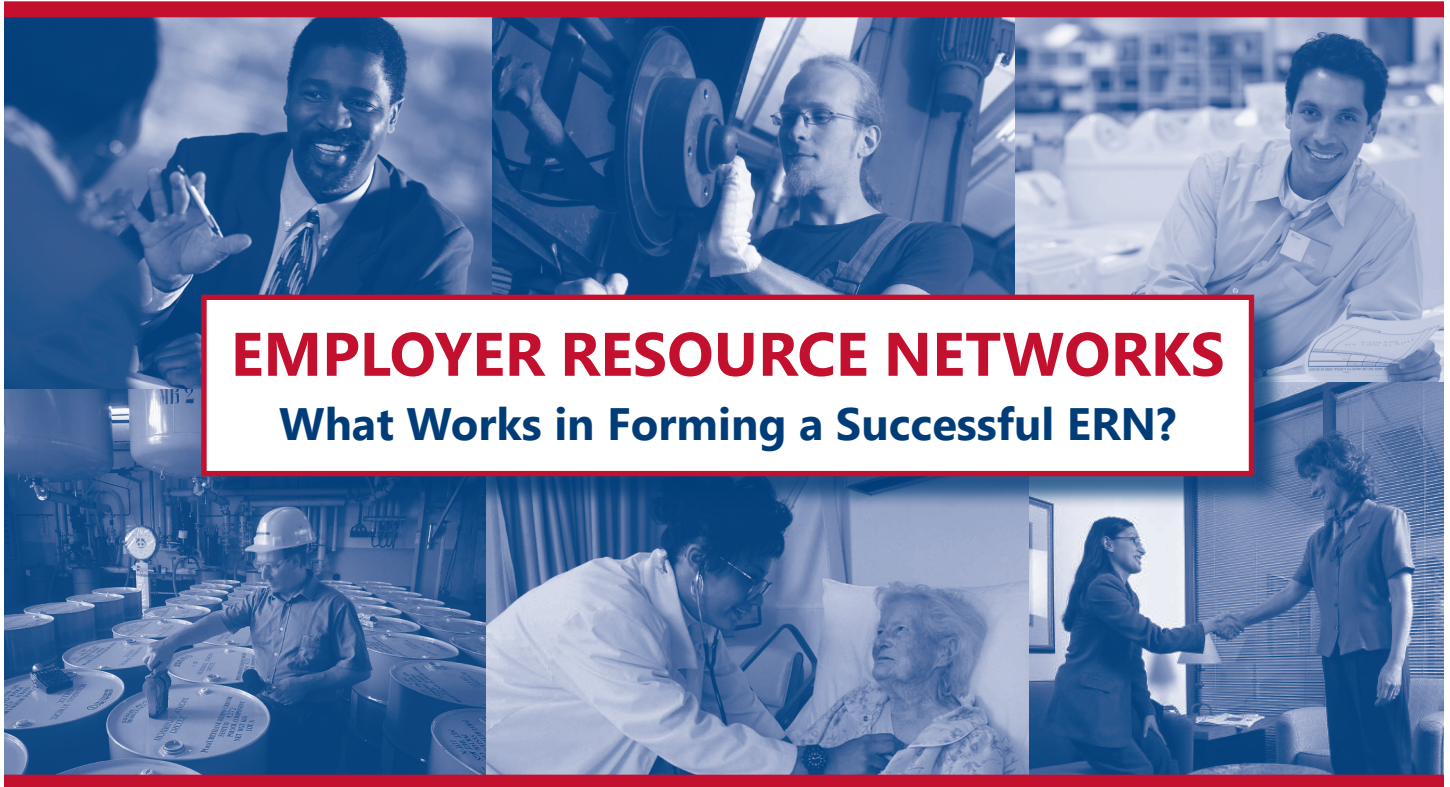
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# ISSUE BRIEF

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## EMPLOYER RESOURCE NETWORKS

### What Works in Forming a Successful ERN?

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## Introduction

Employer Resource Networks (ERNs) evolved in West Michigan over the last ten years in response to concerns of business owners about the retention and skill levels of their workforces. These business owners realized, of course, that recruitment of and retaining a qualified workforce were central ingredients for improving retention and skill levels. Out of these concerns arose consortia of businesses that leverage resources for the benefit of the member businesses, their employees, and for the communities where the businesses operate. The intent of these ERNs is to

***ERNs have been particularly successful with small and mid-sized firms that pool their resources.***

- provide sustainable employment throughout all segments of the workforce by efficiently utilizing community supports, and
- assist under and unemployed residents of the community in maintaining employment and moving into economic self-sufficiency.

ERNs have been particularly successful with small and mid-sized firms that pool resources to accomplish together what they cannot accomplish individually. The distinguishing feature of each ERN is that participating businesses pay membership fees that are used to fund a case manager, referred to by ERN members as a success coach, from the public human services system to locate on-site at each business or in a central location. Participating employers expect to experience lower turnover rates and



lower subsequent hiring costs, reduced costs and hassles associated with worker tardiness and absenteeism, and improved productivity. These benefits are expected as workers, facilitated in many cases by the success coach, are better able to focus on their work activity and stay on the job longer. Employers also expect some cost savings related to training and worker skill development through this consortium approach to human resource support and services.

This brief summarizes the results from a survey that was conducted to determine what components are necessary to form a successful ERN. Thirteen representatives from six West Michigan ERNs were interviewed. The purpose of these interviews was to gather evidence reflecting on seven questions that emerged from a study contrasting the launch and operations of two of the six ERNs during the fall of 2010. (See Hollenbeck, Erickcek, and Timmeney, 2011). One of these locations had been successful in its launch and subsequent growth while the other location dissolved after two years of operation. The survey respondents were purposively chosen, and for the most part, they were ERN “champions” at participating firms. Of those interviewed two were company owners and the remaining were all VPs of human resources within the participating firms. The length of time that the ERNs had existed ranged from the conceptual stage in two sites to nearly 10 years at one of the sites. These particular respondents allow us to address the questions through the wisdom of the champions who have diligently built meaningful networks.

**Question 1:**  
**Is the Size of the ERN Important for Success?**

The ERNs represented by the interviewees ranged in membership size from 5 to 17 employers. Respondents confirmed our hypothesis that fewer than five employers may not be a viable number of firms for an ERN. They responded, on average, that the minimum number of employers needed

**An ERN’s optimal size depends on employer size and usage amongst each of the firms.**

to create group synergy and cost effectiveness was 5–6. Although one respondent from a newly forming ERN responded that 3 firms were

needed to form an ERN, this same respondent represents a larger firm with a significant number of employees. She clarified her response that the minimum ERN size largely depends on the number of employees at each participating firm. Other respondents also echoed this notion of the importance of the number of employees at participant firms by indicating that an ERN’s optimal size depends on employer size and usage amongst each of the firms.

The number of firms is important because it determines the individual firm’s financial contribution to the consortium, and because governance and operation of the initiative requires the employers’ investment of time and energy. One respondent had an interesting perspective about the size of the consortium. This individual indicated that she would like to increase the number of participating firms in order to decrease the cost to each firm and so that the consortium would place a greater focus on training and employee development. However, the success coach of this individual’s ERN has reached a maximum caseload, so expansion would require hiring an additional person to accommodate increased employee needs. Another respondent spoke of the downfalls of the membership

becoming too large. They found the HR networking decreased as the number of members grew past 10 firms and that the smaller firms had less voice over the needs of the larger participating firms.

In contrast, respondents from another ERN expressed concern that their program may be operating inefficiently because it is well below capacity in terms of utilizing the services of the success coach. These respondents noted that member firms were discussing whether their investment is paying off and whether additional program marketing with firms' managers and supervisors might generate greater employee awareness and usage. This growing pain can sometimes occur in the first year or two of a start up. By increasing the number of clients, the program will discover more community referral resources and will more easily and inexpensively be able to make referrals, resolve problems, and diminish issues interfering with the work setting.

An issue closely related to scale is the fee structure of the ERN. Should fees be based on employment levels, on utilization, or a flat fee for all members? Utilization level is used by only one of the ERNs as the method for calculating fee structure. Representatives from other ERNs feel strongly that a flat fee is a more useful method. Utilization can vary significantly from year to year, and the varying fee means the HR champion must revisit and then justify this cost yearly with the CEO or upper level management. Equal funding or a flat fee applied across all firms is easier to budget for and lessens the yearly advocacy for participation. Some respondents also felt that under a utilization fee structure, firms with higher utilization, by right of paying higher fees, have more say in programming or design discussions whereas a flat fee levels the playing field for the smaller or mid-sized firms.

## **Question 2: How Do ERNs Fare During Recessions?**

During the recent recession, firms were laying off substantial shares of their workforces, which begs the question of the value of consortia that focus on retention and recruitment. Respondents from ERNs that had existed for several years and respondents from start-up ERNs had varied opinions about the value of ERNs during recessionary times. Respondents from ERNs that were firmly established spoke of the invaluable resources of the ERN during the recession. During this time of economic decline, ERN staff

***In one instance within a sector-specific ERN, the HR managers were able to hire laid off workers from another participating firm.***

assisted with downsizing and the altered needs of the remaining workforce. A demand for services extended clearly beyond the low-wage or entry level worker. As spouses lost jobs at other firms, the demand for success coach services increased. Managers and supervisors were in greater need of community services and referrals. In one instance within a sector-specific ERN, the HR managers from participating firms had developed a strong working relationship and were able to hire laid off workers from another participating firm.

In contrast, one ERN delayed the start of its consortium's efforts because the firms could not make the financial commitment to participate. In two other instances of ERNs in the early formation stage, momentum for the effort stalled as the concept was viewed as not financially viable in the start





up phase during the economic downturn. One final factor related to the recession was whether the mix of participating firms included temporary staffing agencies. If such a firm represents a large number of employees being served, the ERN is greatly impacted by recessionary times. The first employees to be let go are the temporary workers and this can greatly diminish participation levels during an economic downturn.

**Question 3:**

**Is It Important to Have Sectoral Diversity?**

Of the six ERNs represented in the interviews, only one was sector-specific and the other five were diverse in their participating firm mix. Respondents were consistent in their view that an industry-specific ERN was only likely to survive in a larger urban area. They felt that sectoral diversity was needed in other settings.

In the one sector-specific case, the ERN was located in Kent County (Grand Rapids) (over 318,000 individuals employed and over 53,000 firms at the county level). This ERN represented the health care industry,

*Those interviewed indicated that they found the perspectives of human resource representatives from other sectors to be mutually beneficial.*

which is expanding and seems to be immune to the business cycle. Another ERN in this urban area had member firms that were almost all manufacturers from

a mix of industries plus one partner that was in a service sector. The representation of a broad range of manufacturing had enabled this latter ERN to thrive through several business and economic downturns due to its diversity within its own sector.

Interestingly, at the time of these interviews, the sector-specific ERN mentioned above had recently formally merged with the other ERN creating a 21 member ERN with more cross sector diversity. This merger occurred in an effort to add stability to the leadership and coordination functions of the health industry ERN. The group had experienced turnover in these functions, and members felt the merger could offer continuity to their staffing and service plan.

The remaining four ERNs included a mix of healthcare, manufacturing, and hospitality within their memberships. They all are located in less populated geographic areas with two of the ERNs straddling a two county area. Those interviewed indicated that they found the perspectives of human resource representatives from other sectors besides their own to be mutually beneficial. In addition, this diversity may be advantageous over a business cycle because the manufacturing firms may expand (and thus need retention, training, and recruitment help) during an expansionary part of the business cycle, whereas the health care firms will be more stable during the remainder of the cycle.

**Question 4:**

**Can ERNs Succeed If Member Firms Are Not Located Near Each Other?**

The first ERN that was established only included firms within close proximity of each other—essentially a neighborhood model. The remaining

five ERNs from which representatives were interviewed for this study have a much wider geographic footprint. One of them intended to follow the neighborhood model when it was originally formed, but it has since expanded the scope of its membership.

On one hand, close proximity of consortium members has many advantages. It allows for more networking among employers and employees about the benefits of an ERN. Informal networking among employers also enables easier marketing of the initiative. The ERN firms are better known by other potential member firms, and thus employer-to-employer testimonials may be more likely to occur. Similarly, worker networking within a neighborhood or close geographic area can foster greater awareness of services. Respondents also reported that they benefit from better access to a central training location where employees can more easily attend training before, during or after their work day. Finally, based on respondent's views, a smaller area minimizes administrative expenses such as mileage and travel time of the success coach.

On the other hand, small or medium-sized businesses, especially in more rural areas, may wish to benefit from investing in an ERN, but may not be located in area that has other interested firms within close proximity. As noted above, an ERN needs to achieve a viable scale, but operational efficiencies may be difficult to achieve if the geographical expanse becomes too large. The main issue with geographical expanse is accessibility of the success coach. A unanimous opinion among the respondents was the preference for having the case worker/success coach regularly schedule time on-site in their firm. Employees were more likely to stop in to discuss an issue and seek out services because of this ease of access. Respondents also felt that the trust necessary for employees to seek out services is built more quickly when the success coach is on-site. Marketing program services became easier as the success coach had a regularly scheduled time and location in the firm and, therefore, efficiencies of human service delivery were created through the ERN. However, respondents realized that a large geographic footprint increased the cost and travel time for the success coach to provide services. Besides the potential limitations on success coach on-site time, interviewees discussed the potential drawbacks regarding the willingness or ability of partners to travel for governance meetings.

### **Question 5:** **Are ERNs More Successful if They Have Ties to Other ERNs?**

The growth and success of four of the ERNs was somewhat dependent on the spillover in awareness from the original two ERN's experience and successes. Conversely, the demise of the one ERN no longer in existence can be partially attributed to a "cold" start. In that case, none of the participating firms had had any experience with an ERN. Rather, the firms that joined the initiative committed to participate based on evidence presented to them about the success of other ERNs.

In contrast, many of the healthcare firms in other successful ERNs have an industry connection, and several of the manufacturers have employed VPs of Human Resources that were previously employed in HR at founding member companies of the original ERN. The five representatives interviewed from the ERNs in the start up phase all indicated that their knowledge and contacts with HR professionals at the operational ERNs





were instrumental in their explorations of the feasibility and subsequent commitment to participation in their local ERNs. These interactions depict yet another networking benefit of ERNs versus starting from scratch to form such an initiative.

**Question 6:**

**What Are the Roles of HR Managers and Other Upper Level Management/Owners in Successful ERNs?**

The interviews confirmed that ERNs are an example of the importance of having incentives aligned. The human resource representatives interviewed all indicated that their jobs were made easier with the availability of a success coach who improved employee retention and, in many cases, offered valuable training. The respondents reported that the benefits of participation clearly outweighed the fees paid by the firm for participation.

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Without an ERN, the firms would have had to rely on their own resources to address employee performance issues, usually without clear knowledge or time to address the underlying issues that may be contributing to employee poor performance or attendance issues. A success coach is specifically trained and can offer years of experience with this base of knowledge.

In all of the interviews where the ERN was fully operational, the respondents felt that there were individuals whose jobs had been saved because of ERN intervention. Respondents felt that their ERN participation had saved the firm the cost of terminating these employees, recruiting replacements, and training the new hires. Since employee participation and service provision are confidential, the HR staff members are not always aware of the identification of or number of employees served or the specific services they have been provided. However, the survey respondents indicated that transportation issues were the primary need addressed with auto repair, financial help/utilities, and food assistance also typical services that are provided.

Two HR managers interviewed independently commented that the ERN model offered a concrete way to engage in the workforce development system. They found the model to be mutually beneficial to their firms and their workers as well as a means to contribute to the local human services delivery systems. This aspect of the ERN concept was also a tool that these HR managers used to sell participation and the associated fee to upper management.

The HR managers interviewed were overwhelmingly committed to the ERN concept and future growth. These managers became more valuable to their firms and productive in their jobs to the extent that ERNs were successful at improving retention and offering productive training. The interviews seemed to clearly identify that the driving force behind ERN success was the commitment of HR managers. However, these respondents readily acknowledged that upper level management/owners must be knowledgeable and supportive of the ERN, although they were not necessarily initiative champions. The designated HR champions that partner with the success coach and serve on the ERN governing board must have decision making authority in order to be effective in their role. In most

cases, when the ERN was formed, HR representatives made the case to their management of the bottom line return on investments, reductions in absenteeism/increases in productivity or quality, percentage of workforce receiving DHS benefits, and community/service efficiencies. Once the decision to participate was made, the CEO or upper level management then relinquished decision making authority to the HR representative who then serves as the initiative champion.

### **Question 7:**

### **What Are the Networking Advantages of ERNs?**

As with any business start up, ERNs have a business plan meant to guide their development. As the ERN moves from a group of interested firms convening around the concept to the stage of launching and implementation, these business plans are developed by the founding members of the ERN. Close relationships develop between the participants, especially when they share the common role of HR professional in their firms. It is through this process that the governing group becomes a resource for networking.

Each of the respondents commented that networking, regardless of industry representation or geographic proximity, serves as a valuable function of the ERN. The ERNs meet on at least a quarterly basis, but in between meetings, communication occurs frequently. In person, or more often by phone, representatives share practical experience on issues such as how to control costs, how to adjust to a new personnel policy, or mutual training needs.

***Interviewees felt that ERNs would be even more successful if the services were accessed by all employee levels.***

An issue that seemed to be a primary barrier in all firms was communicating to all

employees the services available from the success coach. In particular, respondents noted that they struggled with generating an understanding within their workforce that the services were not solely available for welfare recipients or the working poor. Interviewees felt that ERNs would be even more successful if the services were accessed by all employee levels. Through the networking, ERN champions shared how to successfully market the ERN within their organizations. Ultimately, it is these regular discussions where participating firms learn how they could potentially share services that facilitate the implementation of the business plan and enable the ERN to thrive.

### **SUMMARY OF FINDINGS**

What works in forming a successful ERN? Scale is an important consideration. In general terms, this study suggests that its scale must be at least 5–6 member firms. The average employment level per firm in this study was approximately 75 to 100 employees (some ERNs included firms with much larger employment levels). Using this average employment level per firm and the minimum number of firms per ERN, the scale of employment at member firms must be at least 375 to 600. However, further variables must be considered when determining ERN size. Optimal







scale must include a balance of considerations such as the number of employees receiving welfare assistance, firm size, utilization of services, geographic location and expanse of member firms, and industry mix.

Some firms may be hesitant to invest in an ERN because of concerns about business or economic downturns. Even though ERNs exist to improve worker retention and skill-building, in the recent significant recession, ERNs still provided value. Success coaches dealt with situations in which family members other than the worker were laid off. Furthermore, networking HR managers in the ERNs assisted each other, as possible, in placing workers who were laid off.

The existing ERNs are mainly not concentrated in a sector, but rather have members from across a spectrum of industries. Respondents indicated that this enhanced the sharing of experiences and policies. Furthermore, the diversification dampened the effect of the business cycle as some firms had stable employment levels over the cycle, and others fluctuated up and down with the cycle.

The neighborhood model of an ERN has many advantages, but most of the individuals interviewed in this study were in ERNs that covered fairly wide geography. The tradeoff for the latter is that these ERNs must achieve scale, but must also operate within an area that can be efficiently served by a success coach. The success and energy of an ERN seems to be enhanced if it has ties to another ERN. If the ERN champion relocates to other firms or other areas of the country, they will definitely have an advantage in attempting to start up an ERN.

Clearly an investment into an ERN requires CEO or upper management approval, and thus they are the targets of marketing efforts. That marketing may come from an internal source—usually the VP of Human Resources—or it may come from other CEOs/management. Once a decision to participate has been made, however, upper management is typically not the champion of or participant in the ERN.

Finally, well functioning ERNs facilitate productive networking among their members. Certainly formal governance meetings must be held to make decisions and monitor efforts. But in addition, informal networks arise that may be even more valuable.

## Reference

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