



## HR Metrics that Matter

A White Paper by:

 **Competitive Solutions Inc.**

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Contact Information:

770-667-9071

800-246-8694

# HR Metrics that Matter

*What is the role of HR in the organization?*

*What factors do you consider when establishing metrics?*

*Some Metrics to consider!*

*What's next? What to do with the metrics you've established?*

## **Executive Summary**

This paper discusses the importance of HR metrics in the organization and the process to ensure you are establishing and measuring meaningful metrics. Whether a small, mid or large size organization, the role of HR must support the overall strategy of the organization.

Looking across many organizations, most HR metrics today are established in a vacuum, there are way too many and they are based on reactive measurements that

are comprised of complex and sophisticated calculations, understood by only a select few. They do not put the organization in a position to make timely and informed decisions on the true impact to the business.

Based on our experience with creating and sustaining high performance in organizations, metrics need to be simple, clear, and connected to the organization's priorities and overall strategy. Most important, they need to be able to address the question of "Are we winning or losing" and drive to action on a proactive basis.

## Know your role!

The first step for any unit or function in any organization is to know what their purpose is, why they exist and how they impact the overall strategy of the organization.

The traditional role of HR in many organizations is seen as being in place to solely serve management. Their work revolves around personnel and administration functions and is viewed simply as completing activities such as generating paperwork. Examples include hiring employees, paying employees, and dealing with benefits.

The role of HR is transforming to align with forward thinking practices and contributions to the success of the organizational strategy. This transformational approach is designed to drive to outcome based metrics where HR is seen as the driving force behind making sure the organization has the right talent that's creating value for the organization. Senior managers are looking for meaningful measures of "human capital" factors and their impact on business outcomes. HR functions are using metrics to track and manage their performance and to drive decisions.

Some examples of HR's connection to strategy include:

- Organization Development – Design of current & future state work positions
- Development/Utilization of Employees – Provide the right people with the right skillsets

- Leadership Development – Leaders accountable for workforce and their own behaviors
- Engaged Work Culture/Ownership – Goal Setting, Communication, Accountability
- Human Capital – Total Cost of Labor (compensation, benefits) and Value Creation
- Productivity – Measure the ability, efficiency and effectiveness of HR to do its tasks

## Factors to consider in developing and deploying Metrics?

Here are some tips that you can use that will help in taking a practical approach in developing, deploying and managing metrics:

1. Determine and be able to show how the metric is important. For example, it must be connected to a business priority or strategy. A good practice is to align within the Balanced Scorecard approach (i.e. Financial, Customer, Business Process). Some examples to help illustrate how the metric is important would be to ask yourself these types of questions:
  - Do we have enough skilled employees for current/future projected workload?
  - Do we have the right people?
  - Do we have an engaged workforce?
  - Have we identified High Potential Employees and are we at risk of losing any?

2. Keep it simple – the metric must be clear and its meaning must be easily understood by all throughout the organization. This includes items such as:
  - Metric definition
  - How it's calculated
  - Where does data come from
  - Who owns the metric
  - What's the frequency for update and review
3. Involve key stakeholders up front to make sure there is buy in and clarity surrounding the metric meaning and expectations.
4. Once metrics have been established, promote and communicate them throughout the organization to ensure that everyone is connected and see their importance.
5. Ask fewer questions more frequently – Remember, it's not about the quantity of the metrics you have but the quality of the metrics and keeping your finger on the pulse of what you've determined to be important.

## What are some Metrics examples that support the transformational role of HR/What's out there?

Here is a Balanced Scorecard approach containing some potential "Metrics that Matter" to your organization:

FINANCIAL		
Metric	Importance	Calculation
Revenue per Employee	Looks at the value of labor as a revenue generator to an organization. Provides the measure to determine human productivity as a per employee sum of revenue generated.	Revenue \$ / Total # of FTE's
HR Expense Factor	Demonstrates a cost of the HR function as a % of the total expense.	HR Expenses / Total Operating Expense
Benefit cost as a percentage of total compensation	Provides management with valuable information for use in managing the costs associated with benefits. This information can be useful when looking at hire versus lease or outsource decisions.	Benefit Cost / Total Compensation Costs
Cost per Hire	Measures the economic value of the effort taken to fill an open position in an organization.	Internal and External costs associated with sourcing, recruiting and staffing activities / Total # of hires in a specific period
Human Capital Cost	Measures the cost of HR for each employee based on FTE Headcount.	Pay & Benefits & Contingent Labor Costs / # of Full Time Equivalent

<b>PEOPLE</b>		
<b>Metric</b>	<b>Importance</b>	<b>Calculation</b>
Voluntary Turnover Rate	Determines movement out of an organization (Focus on “who” they are and who they report to).	# employees who terminated during the period / Total # of active employees during the period
Training and Development Hours (or Cost) per Employee	Shows how much we’re investing in people through training and development program.	# of Training Hours (or Cost) per employee for a specific period
% of Employees who feel their Leader exhibits expected behaviors	Provides feedback and accountability for how well the Leaders of the organization are demonstrating expected behaviors.	Feedback obtained via tailored survey at set intervals
Succession Planning Adherence	Identifying successors for key positions and plan for their development.	Actual plan completed vs. Target plan completed
Retention Rate of Employees	Are we retaining our employees (can bucket into groups such as New Hires and High Performers).	# of employees who left during a period / Total # of employees at the end of a period
<b>CUSTOMER</b>		
<b>Metric</b>	<b>Importance</b>	<b>Calculation</b>
Incidents of Complaints/Grievances	Creates a transparent approach to acknowledge and address complaints/grievances through action.	Total # of Incidents
Employee Engagement Satisfaction Survey	Survey can be sent out periodically to target groups to gauge an engaged work culture. When executing a satisfaction survey with employees, you must be committed to report the results back to them and be committed take action in order to address concerns and make required changes.	Score based on design of the survey. Survey can be sent out periodically to targeted groups
<b>INTERNAL BUSINESS PROCESS</b>		
<b>Metric</b>	<b>Importance</b>	<b>Calculation</b>
Time to Fill Jobs	A measurement of how long it takes an organization to fill a position once the opening has been approved. It is an indicator of hiring efficiency and can provide feedback to determine best sourcing methods.	Total # of Days of Open Jobs / Total # of Job
# of overall days key positions vacant (due to recruiting)	A measurement of how long it takes to fill key identified positions, looking specifically at recruiting.	Total # of Days of Open Jobs
Response time to complete task (in our control)	Provides the ability to track and improve the efficiency of defined tasks within your control. Examples could include response times pertaining to benefits or process transactions.	% of Tasks completed on time
Plan adherence for creation & design of work positions	Ensure that there is a proactive review regarding calibration of current open positions and identification of future positions.	Actual plan completed vs. Target plan completed

## What's Next?

Having HR metrics that align to the organizational strategy and are clearly understood is only the first step. Now that you have meaningful metrics in place you must ensure that they are proactive and reviewed at a frequency that will allow for

the proper adjustments to be made to move the business forward and drive to sustainable results. It is extremely important to leverage the metrics to drive action, challenge targets, recognize wins and look to see if there are opportunities to pull in other metrics over time based on the ever changing needs of the business.

## About Competitive Solutions, Inc.

Competitive Solutions, Inc. is a leading process consulting, leadership training and business scorecard software firm that specializes in helping organizations improve communication, develop meaningful business scorecards, create accountability at all levels and set behavioral expectations using Process Based Leadership® and PBL Scorecard®.

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Any comments relating to the material contained in this document may be submitted to:

Competitive Solutions, Inc.  
1140 Powers Place  
Alpharetta, GA 30009

770-667-9071  
[Info@csipbl.com](mailto:Info@csipbl.com)  
[www.csipbl.com](http://www.csipbl.com)