Human Resources Metrics
– Where Next? A Discussion

Bob Hassell
Hassell Blampied Associates
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Objectives

- Look at the concept of organisational strategic objectives and competitive advantage of HR using these as guides
- Understand the competencies HR needs to be viewed as a profit driver
- Understand how to align the HR mission and strategic objectives with the organisation’s mission and strategic objectives
- Discuss HR measurements that are strategically aligned with the organisation’s objectives
- Examine current HR practice in the provision of metrics for their strategic relevance
- Understand the importance of communicating the measures that will engage the executives
What is HR’s Role?

- Help build and maintain the organisation’s competitive advantage
- Help the organisation achieve its mission and strategic goals and objectives
- Add value to the organisation
Corporate Strategic Objectives

- Tie to the organisation’s values
- Provide a sense of direction and a focus for the organisation’s activities
- Establish operating goals and objectives for the entire organisation
- Used to measure the organisation’s performance
Corporate Performance Metrics

- Market Outcomes
- Financial Outcomes
- Organisational Outcomes
- People Outcomes
Corporate Performance Measures

- **Efficiency**
  - Measures the rates of resource usage in achieving objectives

- **Effectiveness**
  - Measures how well objectives were achieved

- **Examples:**
  - Sales (revenue)
  - Net profits
  - Costs
  - Return on investment
  - Market/shareholder value
Aligning Corporate and HR Metrics

Achievement of the organisation’s mission and strategic objectives is dependent upon employee behaviour and performance

- HR fulfils its purpose by aligning strategic HR practices and systems with corporate goals
  - E.g.

<table>
<thead>
<tr>
<th>Organisation Strategic Objective</th>
<th>HR Objective</th>
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<tbody>
<tr>
<td>To provide a high quality web-based marketing software solution within the next three years</td>
<td>Understand the market for web-based software developers so that the company can identify and hire top talent web-based software developers within next 18 to 24 months</td>
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HR’s Contribution to the Strategic Model?

- HR has always been better at measuring inputs than measuring outputs.
  - For example, absence, turnover, error rates, etc, have always been easier to measure than customer satisfaction, number of widgets produced, sales, etc.

- This is partly due to the absence of an explanatory model that links the way people contribute to organisational performance and partly because input data is easier to collect.
How Does HR Do in Terms of Strategic Effectiveness

Taken from:

- HR’s Strategic Effectiveness 2013 Annual Report from HR Insights (IES)
“Too many HR functions are insular; they see the world from their functional perspective, applying 'best practice' to performance management, remuneration, resourcing etc. Instead HR should be business aware – solving real business problems by the application of evidence-based approaches. Measurement then follows and so the sequence is to first define the problem, measure its characteristics and then to test a solution and measure its effectiveness.”

Extract from “HR’s Strategic Effectiveness 2013 Annual Report from HR Insights (IES)
Main Findings

- 90% of respondents agree that quantifying HR's contribution to the business is essential to HR's credibility.
- 85% of respondents experienced difficulties in quantifying HR’s business impact.
- Only around 10% of HR functions have reached the point where they believe measurement is a useful management tool.
- 57% were unable to forecast future workforce needs.
- About a quarter do not measure HR performance in relation to how long vacancies remain open, training ROI, revenue per employee, employee engagement or employee satisfaction.
- 43% of all respondents lacked adequate HR data handling and analytical skills.
- Almost half said that their HR information systems were inadequate.
- Only 50% say that their HR and corporate strategies were fully aligned.
Most organisations are unable to forecast future workforce needs

- Most commonly tracked workforce metric was Headcount
- Least commonly measured metrics were Employee Qualifications, Skills and High Potential staff

Business leaders scored the highest rated HR metrics–driven business benefits as:

- Anticipating Skills Needs
- People Development Opportunities
- Demographic Trends
- Recruitment
- Supporting Strategic Workforce Planning
Most HR teams track up to 5 KPI’s – the rest track between 6 and 20 KPI’s

- Top three KPI’s were:
  - Staff turnover
  - Absenteeism
  - Staff satisfaction

- The three least commonly tracked KPI’s were:
  - 360-degree feedback
  - Human capital value-added
  - Staff advocacy (advising administration on issues of importance to staff)

- About a quarter do not measure HR performance in relation to:
  - How long vacancies remain open
  - Training ROI
  - Revenue per employee
  - Employee engagement
  - Employee satisfaction
Business Outcomes and People Performance

- Up to a third did not measure business outcomes from people performance initiatives
- The top firms were up to 10 times more likely to demonstrate HR’s contribution in areas such as organisational effectiveness, strategy delivery and work satisfaction
- 85% of firms had difficulty in quantifying HR’s business impact
HR Performance Monitoring

Benchmarking:

- 25% subscribed to external benchmarking
- 33% did not benchmark in any way

Of HR measurement capability:

- Less than half lacked adequate data handling and analytical skills
- Around half said their HRIS were inadequate
HR and Corporate Strategy

Half believe their HR and corporate strategy align

Top three HR priorities for 2013:

- Leadership development
- Performance management
- Talent management
So What Can HR Do......?
Effective Measurement Checklist
(The “So what and then what?” Test)

- Core capabilities
  - develop or employ data management, analytical and reporting skills

- Measurement Enablers
  - put in place systems/software for sourcing data, analysis and reporting (HRIS and other systems)

- KPI’s
  - identify critical few indicators to manage strategically important aspects of people performance and dynamics
  - Integrate KPI reporting into HR performance management as part of a regular reporting system

- Provide Feedback
  - Communicate results of information gathering and measurement exercises and let people know what follow up there will be

- Create a Collaborative Performance Culture
  - Involve Finance and operational managers to share solutions, contribute expertise and offer different perspectives
Making HR Metrics Strategic

- Present goals in business terms and connect to improving business results or productivity
- The impact of HR metrics are felt outside of HR
- They are discussed in meetings with non-HR management
- Non-HR management want updates/more analysis
- Linked to competitive advantage
- Future focussed
Strategic HR Metrics

- Tie to financial metrics
- Help to identify priorities
- Assess risk
- Identify missed opportunity
- Include predictive analysis
Advanced HR Measures – Examples

- Economic contribution per average employee
- Variability of the impact of employee performance on the organisation’s financial performance
- Impact of employees in particular roles on the organisation’s success
- ROI of a targeted training programme
Benefits of Using Business and Financial Metrics

- Allows HR to focus on what is important not what is urgent
- Work more effectively with business partners towards common strategic goals
- Help “sell” HR initiatives that will pay off for the organisation
- Improve HR’s image
- Demonstrate HR’s value to the business today and in the future
- Can use measures to test over time and to benchmark against other businesses/competitors
The Future of HR Metrics

- Higher levels of analysis
- Predict what is likely to happen in the future
- Uses the concept of correlation and causation
- Minimises risk for management
- Uses leading indicators
Questions?