

HUMAN RESOURCE ASSOCIATES

HR Consultants to Management

# PERSONNEL NOTEBOOK

*For Your Most Important Resource*

## MEASURING HR PERFORMANCE IT'S ALL ABOUT METRICS

Most companies know how to evaluate the performance of their employees. They look at the functions or goals spelled out in the individual's position description and measure the performance on, or progress toward them. For hourly paid employees the *functions* assigned to each job are well understood and can be easily measured. For salaried employees the *end results expected* are clearly spelled out, so whether or not they have been achieved, and to what degree, should be easy to identify and measure.

But some salaried jobs are more focused on *process* with little focus on the end results expected. One example might be school teachers or college professors. We usually understand the value of the processes involved but can't always identify the end results we expect in such a way that we can measure the performance.

Although few of us are managing school teachers, most of us, in one way or another, do deal with the people who provide the company's human resources (HR). And as we see that HR is also greatly about processes we also find that most of us don't know how to measure HR performance. But let's not forget the old maxim "If you don't measure it, you don't manage it."

So shouldn't we be measuring the performance of the most important resource we have?

How do we measure the performance of HR? We measure it the same way most companies measure the performance of their sales, operations and financial departments, metrics!

Metrics is the science or practice of applying solid measurable numbers to the most important accountabilities in any given job. For example in sales it might be the number of successful sales, the total sales volume or the average percentage of profit per sale. Deciding what to measure is the same for every position. The metrics must be directly tied to the business issues facing the company. This might include cutting costs because of price competition, developing new technology or improving productivity.

The metrics used for HR should not just report results, but also show a cause-and-effect relationship (because we did that, this resulted). In addition, the HR professional should use the same language commonly used by the organization's other business leaders. For example, ROI (return on investment) is universally understood in the business world. If you established a training program or invested in the certification of your most important skill sets, will you then be able to prove that this was

a good investment? Were you able to do a better quality of work, obtain new customers, reduce call backs or complete more jobs on time? Then measure those results to show the ROI of training and certification.

HR metrics can be used to measure such things as:

- **Increased job performance**-e.g., A new recruiting program resulted in new employees with first year job performance ratings that are 30 percent higher than under the old program.
- **ROI**-e.g., The new commission plan resulted in \$100 of increased sales for each additional commission dollar paid.
- **The impact** of a specific program on revenue
- **Decreased costs**

A recent report from Business and Legal reports (BLR) suggests the following criteria when choosing what metrics to measure:

- Use data that are readily available and can be gathered at regular intervals
- Use ratios, formulas, key performance measures and language used by business leaders
- Include measurements of results and quality. Don't limit the measurements just to costs
- Use only metrics that can be used to make decisions not to justify activities
- Keep it simple. Metrics don't have to be complicated
- Identify and compare results to key competitors whenever possible
- Measure ROI, cost/benefit ratios and impact on problems identified by business leaders
- Avoid soft metrics on feelings or intuition about a program. Use hard metrics or data to drive clear, fact-based decision making

## Metrics for HR

The four most often used metrics measurements for HR are recruiting, employee relations, compensation and training and certification. There are different data to measure for each.

### Recruiting

The recruiting or employment area is focused on hiring the employees that the organization needs to meet its goals. Measurements include:

- Time to fill a vacancy
- Quantity and quality of applications based on recruiting source
- HR cost per hire
- Voluntary turnover rates of new hires during first year of employment
- Involuntary turnover rates of new hires during first year of employment
- Percent of new hires performing above expectations by the end of the first year
- Percent of new hires performing below expectations by the end of the first year
- Satisfaction of managers with the hiring process based on survey of hiring managers
- Quality and retention rates of new hires by recruiting source

### Employee Relations

Employee relations can also be quantified. Certainly if the job is being done right the company should see fewer lawsuits and complaints filed with state agencies. There should be lower settlements costs when complaints are filed and better outcomes when there are performance issues and or conflicts in the workplace. Good measurements include:

- Measured results from annual employee surveys
- Employee participation in company events
- Number of suggestions and contributions from employees

- Number of employees recognized for outstanding achievements
- Number of complaints filed by employees
- Percent of complaints that proceed to state agency, court or other external dispute resolution
- Amount of time taken to resolve an internal complaint
- Percent of cases resolved with no money payout by the company
- Percent of cases where large financial settlements or awards were made
- Breakdown of the type of complaints made by employees by department
- Costs associated with employee relations as a percent of operating costs
- Percent of cases where documentation was inadequate
- Number of sexual harassment cases
- Number of complaints of unfair treatment
- Number of hours spent on training managers on employment relations issues
- Data from employee meetings on various employee relations issues such as recognizing sexual harassment and understanding the company's employee handbook
- Dollars spent on attorney's fees
- Dollars spent on attorney's fees as a percentage of total employee relations costs

### **Compensation**

Compensation programs are all about the numbers and as a result, metrics are relatively easy to apply. Measurements may include

- Compensation costs per dollar of profit
- Compensation costs per dollar of revenue

- Analysis of performance and production levels of employees paid in the top 30 percent of their salary range
- Total compensation costs as a percentage of total operating costs
- Analysis of compensation levels to the market place, compensation surveys and key competitors
- Forecast of compensation needs based on future plans
- Compensation mix, e.g. fixed salaries versus performance driven compensation (compensation directly tied to current results as in commissioned sales)

### **Training and Certification**

Training may take longer to quantify than other measurements, but it can certainly be measured. Training and certification metrics can include:

- Cost of sales training as a percent of sales
- Increases in hours of sales training compared to increases in sales
- Changes in performance levels of employees who received training
- Percentage of employees that cite lack of training as a reason for leaving
- Identification of key employees and the percent that have received training
- Percent of performance appraisals that include training goals for employees
- Positive versus negative comments from customers/clients before and after certification
- Increase in new type of business as a result of certification
- Increase in measurable productivity of those taking training

Workforce Management magazine recently offered five actual formulas using metrics to measure the value and performance of HR in such a way that financial results can be identified.

### **Metric formulas linking HR performance to the company's financial results**

#### **1. Human Capital ROI-**

$$\frac{\text{Revenue} - \text{Nonhuman Expenses}}{\text{Pay and Benefits}}$$

This formula (total company revenue minus all nonhuman expenses divided by all pay and benefits costs = HR ROI) measures the return on capital invested in pay and benefits

#### **2 Human Capital Value Added**

$$\frac{\text{Revenue} - \text{Nonhuman Expenses}}{\text{Full Time Equivalents}}$$

This is similar to HR ROI except that it divides by the number of full time employees. The result shows the profit per full time employee. These two measures are direct views of the profitability of human effort. (Note: Full-time equivalents are the result of adding up the total work hours for the year and dividing by 2080 hours. This equals the equivalent number of employees based on the number of hours worked)

#### **3 Human Capital Cost**

$$\frac{\text{Pay} + \text{Benefits} + \text{Contingent Labor Cost}}{\text{Full-time Equivalents}}$$

This is simply the average pay per regular employee. You can add contingent labor for a more complete picture. But if you do be sure you have added all the costs of both full-time as well as contingent benefits and labor costs and then add the number of contingent employees to the number of full-time equivalents before making the calculation.

#### **4 Human Economic Value Added**

$$\frac{\text{Net Operating Profit After Tax} - \text{Cost of Capital}}{\text{Full-Time Equivalents}}$$

This is the net operating profit after taxes, minus the cost of capital divided by the full-time equivalents *including* the contingent labor.

#### **5 Human Market Value Added**

$$\frac{\text{Market Capitalization}}{\text{Full-Time Equivalents}}$$

This divides the market capitalization by the full-time equivalents *including* the contingents.

Comparing each year, quarter or month to previous periods will show improvement, or the lack of it as well as success, direction and trends. That's the measurement required for management. Not all companies will want to use the same measurement or metrics, identify which are of importance to the issues in your company for the decisions that need to be made.

The role of HR has been changing rapidly. Even as complex federal and state laws, new technology and changes in the work ethic are contributing to this, the greater impact may be the new responsibilities that are becoming part of the HR professional's contribution. In some companies HR is being seen as more than process. It is being looked upon as the party responsible for the product. And the product is the value, performance and quality of human capital.

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