How to select and align human capital metrics to support your entire organization

A **Rosslyn Data Technologies**
User Guide

Why read this paper

This paper has been written to help you determine the appropriate metrics to use when assessing and monitoring the business value of an organization's biggest financial investment, its employees.

Unlike traditional "whitepapers," we have created a reference document that will provide a guide to answering the most pressing and challenging human capital questions facing organizations both today and in the future.

Uniquely, this overview of major questions should support both your business and human capital objectives - whether you're a chief people officer, an HR business partner, a people analyst or a board member.

For ease of reference, we have structured these questions to align with the employee lifecycle, whilst recognizing that combining metrics from different stages of an employee's tenure, within the context of the business, will drive supplementary value-added insight.

Not only have we provided sample questions, but also the supporting metrics and the associated formulae - so you can quickly and correctly source appropriate data sets.
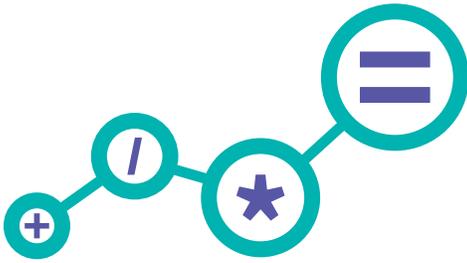
Introduction to metrics

A well-defined catalogue of metrics with guidance on application and a standard for calculation is a key resource for those executing and consuming people analytics.

To obtain full leverage, the analyst will complement such a resource with a deep understanding of a metric's variations and limitations. They will also be mindful of associated metrics that, when clustered together, will enhance the level of value-add insight – for example, the potential relationship between employee engagement, casual absence and unplanned, unwanted separations.

It is this type of insight that separates reporting, which typically focuses on workforce composition and the production of passive trends, and analytics that attempts to determine root cause and future direction.

But how do we define insight? One description is telling your audience something they didn't already know (or appreciate the significance of) about something that matters.

In the context of people analytics, this can be summarized as helping an organization understand the workforce contribution to business success – and helping them maximize this contribution through metric-driven people insights that impact on business decision-making.

Metrics represent the levers that can be manipulated to drive positive change, and when promoted to KPI status, to measure the success of associated interventions.

For maximum impact we should not limit ourselves to traditional HR metrics (those associated with HR processes or functions), we must also identify and craft metrics that draw on data held outside of the typical HR Information System.

We may look to finance ledgers for overtime payments (a proxy for human resource) and we may even look outside the organization for demographic, educational or attitudinal information in respect of future employees.

Metrics represent the levers that can be manipulated to drive positive change

The risk of not using metrics

We now inhabit a data-driven-decision-making world, one where there is no place for the traditional HR 'gut feel'. While this statement could of course be challenged; an experienced HR professional who understands the workforce and the environment in which they operate will often have a plausible view on why, for example, a troublesome workforce issue is developing – the important point is that this opinion should be treated as a hypothesis, not a conclusion.

To prove or disprove such a hypothesis, it's crucial that metrics are used to structure investigations and to develop a quantitative audit trail to measure the effectiveness of interventions.

Informed opinion is important because it allows you to ask the right questions. Metrics allow you to bring evidence to the table and to talk the language of the business - and that brings credibility.

The problem facing HR and business leaders when they seek to use people metrics

While the use of people related metrics to drive and monitor our efforts to maximize the workforce contribution to business success is easy to acknowledge, understanding which metrics to use, and in which combination is a challenge.

A typical mistake is to offer an excessive quantity of loosely organized metrics without a coherent framework. Little value will be added to the consumer without clarity around the story that is being told.

Another error is to blindly adopt those metrics most commonly used in other organizations; this approach is misguided because:

a.   A metric may not be aligned to the context to your organization, i.e., start-up has different human capital objectives than an established professional services company;

b.   The most commonly used or popular metrics may be based on the ease of gathering metrics (and data) than the usefulness of the outputs, e.g. absentees.

These approaches offer a security blanket but they are fundamentally flawed

So, how can you find the appropriate focus that will help you select and develop the appropriate set of metrics?

Some organizations choose to map their proposition to the employee life-cycle, others develop a holistic people analytics strategy. These approaches are outlined below.

The Employee Lifecycle

Because of its very nature, alignment with the employee lifecycle allows an organization to evaluate investments in the attraction, recruitment, performance and development of employees – and, ultimately, the value this resource brings to a business.

Although there is no agreed standard (we offer a generic version below, based on typical HR processes), every HR professional understands the logic of an employee lifecycle. Unfortunately, few organizations have developed an integrated end-to-end visibility that generates timely insight and genuinely supports decision-making.

Employee Lifecycle

- RECRUITMENT
- PERFORMANCE
- DEVELOPMENT
- PROGRESSION AND MOVEMENT
- TRANSITION
- ATTRACTION
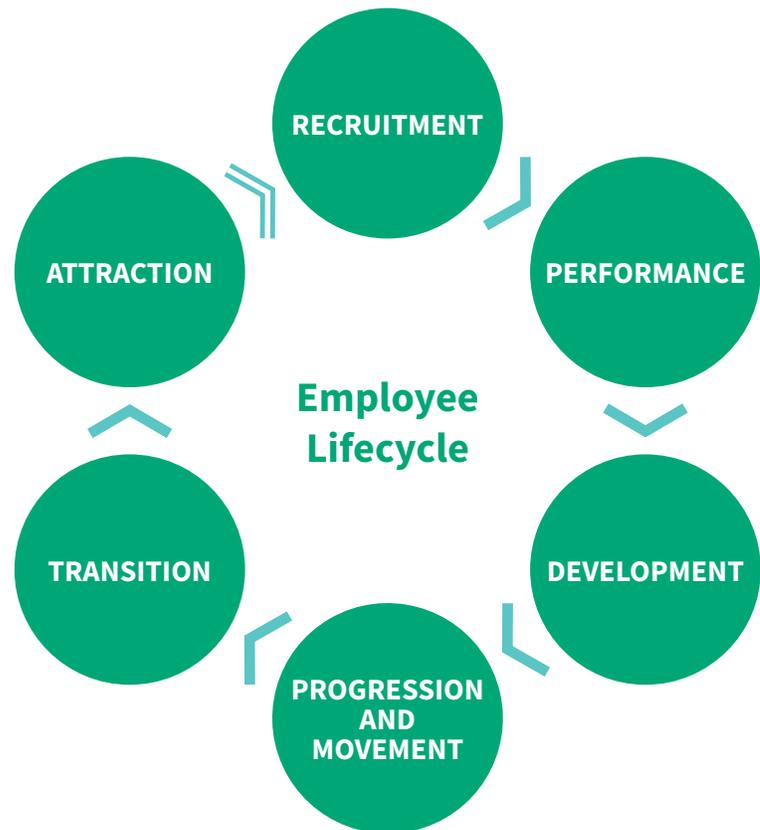
In this respect, it's crucial that you deploy metrics that measure both cost and benefit, and efficiency and effectiveness.

For example, a comparison of the costs of recruiting from alternate talent pools with each cohort's engagement, performance, progression and tenure in the organization would be of value to both the HR function and the operational management community, particularly when assessing the effectiveness and future direction of resourcing strategy.

Another example is with learning and development. We shouldn't just quantify the cost but also look at the business benefit such as generating revenue, improved customer feedback or another measure of additional business outcomes.

Essentially, it is this holistic mindset that will allow us to answer the questions that the business should be asking about its human resource.

Reporting versus Analysis

And this is where it's difficult to offer a definitive answer to those who ask which metrics should be used to support reporting and which should be utilized to enable analysis. In truth, the answer depends on how the metrics are used.

As a rule of thumb, metrics used in isolation are passive and support reporting; those used in clusters tend to be more analytical in nature. If we seek to articulate a story that takes the audience on a journey that allows them to, for example:

1. Gain awareness and quantify the risk associated with a workforce issue
2. Understand the root cause of the issue and appreciate the potential opportunity for improvement through benchmarking
3. Determine the workforce and business levers that can be manipulated to effect positive change – and the associated cost and level of effort
4. And finally allows them to measure the impact of improvement initiatives

Then, without oversimplifying, metrics that are promoted to the status of a Key Performance Indicator (KPI) and used to quantify the issue initially, and to ultimately measure progress towards a target, could be described as supporting reporting – those that lie between these points and are used in a dynamic way tend to be analytical.

Audience Differentiation

Often the transition for a metric from reporting to analysis status is driven by the characteristics of each respective audience segment and the questions they ask.

For example, line managers may typically be interested in absence rates or their diversity profile – passive reporting - while HR and business executives may be interested in the Return on Investment (ROI) from a particular initiative, and for opportunities to maximize this investment – analysis.

Sample questions and associated metrics

In an effort to support the analyst in this aim, we put forward a sample set of questions that could be asked at each stage of the employee lifecycle, and the associated metrics that will help provide insightful answers.

In no way is this intended to be exhaustive. The aim is simply to illustrate where the analyst *may* seek to balance the measurement of efficiency and effectiveness and to look across HR processes to understand the interrelationships between cross functional metrics.

Employee Lifecycle Stage   **Attraction**

	Question	Metric	Calculation
Reporting	What percentage of our candidate offers are accepted?	Job Offer Acceptance Rate	(Offers Accepted / Offers) *100
Reporting	Which of our recruiting channels provide the most candidates considered worthy of interview?	Recruitment Channel Effectiveness Rate	(Candidates worthy of interview by Recruitment Channel)/ Candidates worthy of Interview) *100
Reporting	What proportion of business critical roles are currently vacant?	Critical Role Vacancy Rate	(Critical Roles Vacant / Critical Roles) *100
Reporting and Analysis	What is the quantified business benefit of having more of our business critical role populated?	Critical Role Vacancy Rate *compared* to Business Benefit Measure (Organizationally Specific)	
Analysis	Would an increased investment in developing our primary recruitment channels, and an investigation to determine why candidates reject our employment offers allow us to ultimately improve our business performance by having more of our critical roles populated?		

Employee Lifecycle Stage   **Recruitment**

	Question	Metric	Calculation
Reporting	How quickly are we filling our vacancies?	Average Time to Fill	Total Days between Requisition Date and Offer Acceptance Date / Offers Accepted * 100
Reporting	What is the ratio between the number of applicants we interview and the number of hires we make?	Hire Efficiency Ratio	Applicants Interviews / Hires Made
Reporting	To what extent are we changing the profile of our workforce through the recruitment system?	New Position Hire Ratio	Hires into new positions / Hires into existing positions
Reporting	What proportion of Hires leave the business within 6 months?	New Hire Separation Rate < 6 Months	New Hires Separating < 6 Months / New Hires * 100
Reporting	How satisfied are our managers with their new hires?	New Hire Satisfaction Rate at 6 months tenure	New Hires assessed as satisfactory by managers at 6 months tenure / New Hires
Analysis	If we took longer to recruit, and interviewed more candidates, would we get better recruits?		

Employee Lifecycle Stage **Performance**

	Question	Metric	Calculation
Reporting	Are we seeing an increase or decrease in performance levels?	Performance Level Change Ratio	Performance Ratings better than last year / Performance Ratings worse than last year
Reporting	To what extent are we using the full range of our performance rating system?	Performance Distribution Rate	(Performance by Rating / All Performance Ratings) *100
Reporting	Are we rewarding our high performers appropriately i.e. in comparison to lower performers?	Pay Differential Ratio	Average Base Pay High Performers / Average Base Pay Low Performers
Analysis	If we promoted a more differentiated reward strategy, would be retain more of our high performers and increase the overall performance level of our workforce?		

Employee Lifecycle Stage **Development**

	Question	Metric	Calculation
Reporting	What proportion of those subject to mandatory training have completed this training?	Mandatory Training Completion Rate	(Those completing training / those subject to this training) *100
Reporting	Has employee performance improved after successful completion of a development program?	Employee Performance Uplift Rate	(Employees with improved performance after the program / Employees who attended the program) *100
Reporting and Analysis	Has a development program delivered a positive Return on Investment?	Development Program ROI	(Financial Return – Cost) / Cost) *100
Analysis	If we were to segment those attending a development program by certain characteristics, could we establish which groups have improved performance by the greatest degree, and ultimately add greater business benefit by concentrating our investment on these groups?		

Employee Lifecycle Stage · **Progression and movement**

	Question	Metric	Calculation
Reporting	To what extent are our high performers progressing through promotion?	High Performer Promotion Rate	(High Performers Promoted / High Performers) * 100
Reporting	Are managers being exposed to multiple aspects of our business?	Manager Mobility Rate	(Managers changing Departments / All Managers) * 100
Reporting	Are managers developing our talent for the benefit of the business?	Talent Development Rate	Staff Promoted out of a Business Unit / All Staff in the Business Unit) * 100
Analysis	**If we were to reward managers not just for the success of their teams but also for developing and exporting talent to the wider organization, would the overall performance of the workforce improve?**		

Employee Lifecycle Stage · **Transition**

	Question	Metric	Calculation
Reporting	At what rate are we losing our employees through resignation?	Resignation Rate	(Resignations / Average Headcount) *100
Reporting	What proportion of resignations are regretted?	Regretted Resignation Ratio	Regretted Resignations / All Resignations
Reporting	What is the replacement cost of backfilling a vacancy created by a resignation?	Employee Replacement Cost	Direct Cost of Hire + Indirect Cost Hire + Cost of Onboarding* *Salary Increase may also be a consideration*
Analysis	**Should we develop and invest in a strategy to retain a higher proportion of our best performing / or most critical talent? How much would this cost, and how would this compare against the costs associated with replacement?**		

A wider people analytics strategy

While mapping metrics to the employee lifecycle is an excellent way to start building a coherent people reporting and analysis proposition, organizations as they mature, often take it one step further and develop a formal people analytics strategy.
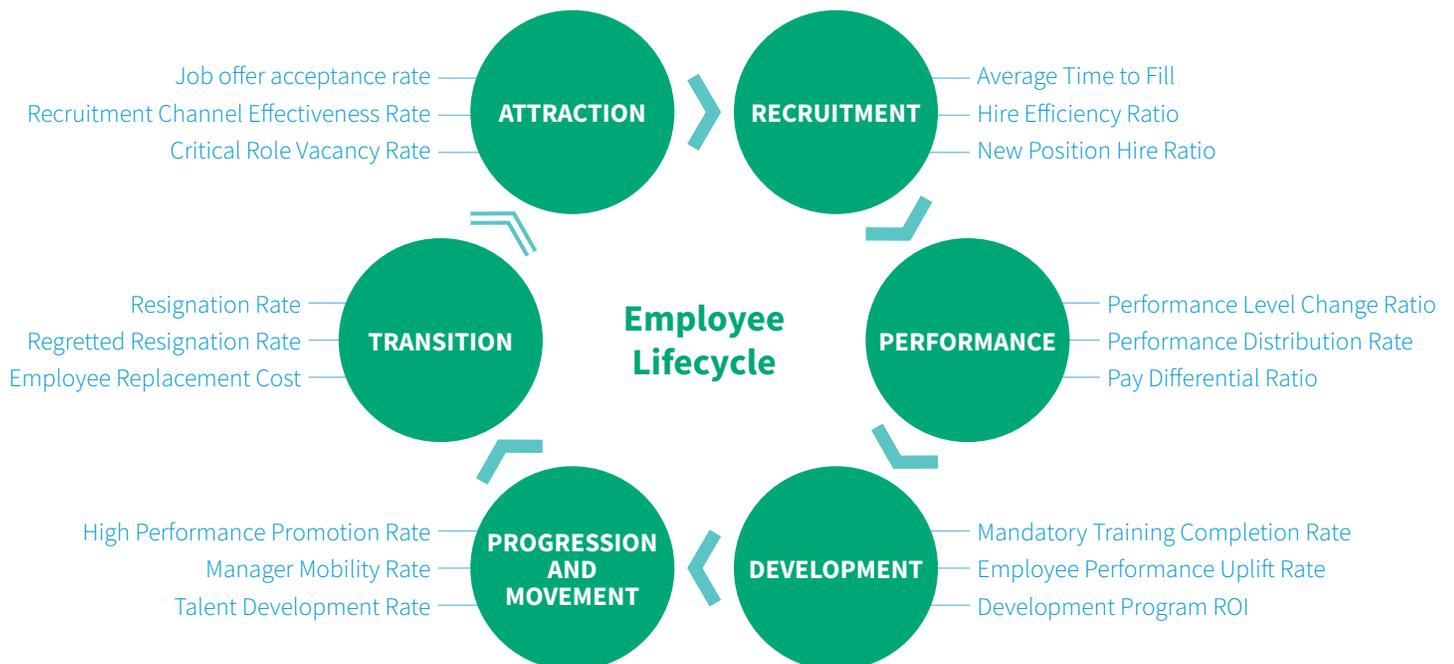
A well thought out strategy will help an organization focus on what really matters to the business in respect of workforce actions, behaviors and configuration.

To have relevance, a people analytics strategy must be driven primarily, directly or indirectly (via an aligned people plan), by the business strategy. In this respect we must make an attempt, in partnership with the business we support, to develop metrics that connect the workforce contribution to business success.

Of course, each organization has a unique strategy. Therefore, it is disingenuous to be too prescriptive. However, the development of metrics that relate to organizational measures of success such as revenue, profit, cost reduction and customer satisfaction have the potential to help HR gain credibility with their business colleagues.

Your employee lifecycle

So, by taking what we learned above, and applying metrics to each stage of the employee lifecycle, you will be able to create a complete view of your workforces, such as:

Job offer acceptance rate
Recruitment Channel Effectiveness Rate
Critical Role Vacancy Rate

ATTRACTION

RECRUITMENT
Average Time to Fill
Hire Efficiency Ratio
New Position Hire Ratio

Employee Lifecycle

Resignation Rate
Regretted Resignation Rate
Employee Replacement Cost

TRANSITION

PERFORMANCE
Performance Level Change Ratio
Performance Distribution Rate
Pay Differential Ratio

High Performance Promotion Rate
Manager Mobility Rate
Talent Development Rate

PROGRESSION AND MOVEMENT

DEVELOPMENT
Mandatory Training Completion Rate
Employee Performance Uplift Rate
Development Program ROI

You will also be able to look at ways to assess and improve HR processes.

Organizational efficiency and effectiveness

	Question	Metric	Calculation
Reporting	How much do we invest in employing our workforce?	Expense per FTE	Total Employee Compensation / FTE
Reporting	What is the average profit for each person that we employee?	Profit per FTE	Operating profit per FTE
Reporting	How much profit do we generate for each financial unit of investment we make in employing the workforce?	People Investment Ratio	Profit + Total Employee Compensation) / Total Employee Compensation
Analysis	**What is the optimal way to increase profit in the organization through people, and should we initiate cost saving initiative or invest more in our workforce to drive higher revenues?**		

Let's talk about data, briefly

You know what metrics to use and, most importantly, why and how you're going to use them. It's now time to talk about sourcing data.

One of the biggest challenges facing decision-makers is the difficulty in effectively collecting data. The reason is most organizations have between five and 15 sources that need to be brought together into a single database for reporting and analysis.

However, once the data has been aggregated, poor data is often a problem. According to a survey of HR leaders Rosslyn Data Technologies conducted in 2017, only 9% of senior executives have confidence in the quality of their HR data.

Compounding the challenge of creating value from data is the lack of a standardized HR processes and tools such as a taxonomy to make sense of data. Without a standardized HR taxonomy, it is difficult to consistency organize (define and calculate) data for reporting and analysis, particularly if you have multiple business units in different countries – and you want to conduct like-for-like analysis and benchmarks across countries and/or regions.

These and other data challenges are inhibiting the take-up of analytics, and, frankly, making your job harder than it should be to advise colleagues on all things related to your organization's most important asset – people.

So, what should you do? Start small with your analytics project by tackling an issue in one of the stages of the employee lifecycle, such as attrition. What is the question you want to ask in this stage? Is it what percentage of our candidate offers are accepted?

To answer this (and other) questions, you will need to source the relevant data from your source systems. This will likely require aggregating and improving the quality of data before it can be visualized and analyzed.

As you become familiar, and confident of, asking and answering questions by collecting and integrating data, you can then start to look at investing in an advanced analytics platform that will support your ever changing, and increasingly complex, data requirements such as obtaining a complete view of your employee lifecycle, establishing standardized analytics processes, applying predictive analytics to conduct "what if" analysis, and best practices, and much more.

Conclusion

A people analytics proposition underpinned by a robust and well developed and defined catalogue of usable people metrics will help transform the HR function from a service provider to a business enabler.

However, it is vital that business leaders also embrace, understand and utilize people metrics; if they fail to do so they will not fully understand, and be able to maximize, the returns from their investment in the workforce.

Authors

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Since January 2017, Lance has led a global initiative to develop much needed HR standards including the world's standardized taxonomy and suite of metrics and definitions to support the mass adoption of people analytics in organizations.

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Workforce Dimensions provides advisory, recruitment and educational services exclusively in the field of Strategic Workforce Planning and People Analytics.

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Rosslyn Data Technologies, with its global team of technologists, data scientists, business consultants and industry subject matter experts, has a successful track record of developing and applying cutting-edge software including AI-powered analytics to help HR professionals automatically collect, organize, make sense and create business from data – quickly and effectively. To contact us, please email us at info@rosslyndatatech.com, or visit www.rosslyndatatech.com.