

A Study on Effectiveness of HR Metrics

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Abstract: *Human resources (HR) Metrics have become a hot topic in organizations of all sizes. Interest is rising, and organizations are reaching out to learn more about metrics and how it can be used to improve organizational effectiveness. Although the use of HR Metrics is not new, various factors have driven increased interest during the previous decade. HR Metrics are used to gauge the effectiveness of various HR responsibilities and initiatives such as hiring, employee retention, training and labor costs. Human resources departments can use these metrics to improve their efficiency and demonstrate the value of their activities to upper management. The field of HR Metrics is currently in transition. During the past 30 years, most of the medium to large organizations did engage in HR assessment. But these efforts were not systematic. Due in part to the expense involved, they were conducted on only a sample of activities, and often for only a limited set of metrics. More recently, because of the development of strong computer-based communications infrastructures and greater access to data through the adoption of integrated human resource information systems, organizations are engaging in more consistent and systematic reporting of HR Metrics. HR Metrics are often overlooked or underrated in many organizations. This is a mistake, because HR Metrics are very important in assessing the efficiency of the HR policies, programs and endeavors. The idea of HR Metrics is that taken up for assessment or implementation has to be measurable. The main purpose of this paper is to study and analyze the available literature based on the HR Metrics, to understand how it has been studied and evaluated by different authors who are working in this area. Current literature focuses on the effectiveness of HR Metrics - Its importance and Concept. This paper focuses on the current situation of HR Metrics and its effectiveness. Data has been collected from multiple sources of evidence, in addition to books, journals, websites, and news papers. It explores the main issues in adoption of HR Metrics techniques and practices. "You cannot manage what you don't measure."-Peter Drucker, Business Strategist*

Keywords: Assessment, Effectiveness, Efficiency, Human Resources, Management and Metrics

1. Introduction

Human resources (HR) metrics have become a hot topic in organizations of all sizes. Interest is rising, and organizations are reaching out to learn more about metrics and how it can be used to improve organizational effectiveness. Although the use of HR metrics is not new, various factors have driven increased interest during the previous decade [1] [2]. The field of HR metrics is currently in transition. During the past 30 years, most of the medium to large organizations did engage in HR assessment. But these efforts were not systematic. Due in part to the expense involved, they were conducted on only a sample of activities, and often for only a limited set of metrics. More recently, because of the development of strong computer-based communications infrastructures and greater access to data through the adoption of integrated human resource information systems, organizations are engaging in more consistent and systematic reporting of HR metrics [3].

HR metrics are often overlooked or underrated in many organizations. This is a mistake, because HR metrics are very important in assessing the efficiency of the HR policies, programs and endeavors. The idea of HR metrics that is taken up for assessment or implementation has to be measurable [4].

The Value of M-E-T-R-I-C-S

- **M** Measure the contribution of employees and predict the quality of performance
- **E** Explore evidence-based relationships between employee engagement and learning and development
- **T** Tap into new sources of competitive intelligence and stay ahead of the pack

- **R** Retain and engage your organization's top talent by utilizing tools needed to anticipate future success
- **I** Implement process mapping across HR for hiring and inducting new employees
- **C** Communicate the most relevant and actionable data to top management.
- **S** Strategize optimal measurement methodologies and marshal resources that create value for customers, investors, executives, and employees.

2. Literature Review

- In the words of **Abrahamson (1991)** HR Metrics create value to the degree that they improve more decisions, which the decision improvements have significant value, and that the cost of the metrics [5].
- According to **Boudreau (1996)** noted that HR Metrics create value (or harm) according to their effects on key constituencies, suggesting that metrics research adopt a "choice" model of HR measurement, in which such systems are adopted based on communication goals and probable receiver responses [6].
- **Kaplan & Norton (1996)** propose that HR Metrics are not simply an evaluation tool, or a method of justifying HR investments. Rather, they represent the operational expression of the theory of how people contribute to organization success and the HR investments that lead to that success [7].
- **Treacy & Wiersema (1997)** noted the role of "strategic reference points" in framing how decision makers evaluate strategic options. Thus, the metric chosen may well influence the strategic response [8].

3. Objective of the Study

The objective of the present study is to review the following:

- The importance, history and role of HR Metrics.
- Factors considered in developing & deploying metrics.
- Imperative and Benefits of HR Metrics.
- Selecting HR Metrics That Matter in Today's Business Environment.
- Ten best practice principles, critical success factors and common errors of HR Metrics.

4. Research Methodology

The study has been done mainly on the basis of secondary data and information available from books and published works and reports.

5. Importance of HR Metrics [9] [10]

HR Metrics are often overlooked or underrated in many organizations. This is a mistake, because HR Metrics are very important in assessing the efficiency of the HR policies, programs and endeavors. The idea of HR Metrics is that taken up for assessment or implementation has to be measurable.

The ability for being quantified or measured is something that gives an indication of how effective HR Metrics are, because subjective or personal assessment or evaluation is of little use. Different HR managers could have different perspectives about an HR initiative.

The basis of HR Metrics is to first understand the organization and its business thoroughly. HR Metrics have to be framed after completely taking factors such as the business objectives, its strategies, and its imperatives into consideration. While creating HR Metrics, factors like the risk and the opportunity the business faces is to be considered.

The important learning is that HR Metrics are not created in isolation. They are a result of understanding of the various departments. They need to be comprehensive and a product of proper interaction & comprehension of all the aspects of the business. Thus HR Metrics is to be created solidly and well-rounded.

The inputs of all the stakeholders have to be taken into consideration, thus helps HR Metrics serve the purpose of fostering decision-making. Another important element of HR Metrics is just not about spelling out of intentions. If no actions come out of pronouncements and intentions, will remain only on paper and be of no effective use.

Yet another point is that HR need not frame a huge number of HR Metrics. HR Metrics have to be action oriented, leading to fulfillment of goals. So, it is important for HR to be conceptual and create HR Metrics that is practical and achievable. Just by creating a huge number of HR Metrics with little accountability or ability for accomplishment will be futile.

The important purpose of HR Metric is to help understand how human capital in the organization can be channelized and utilized to help the organization reach its goals in relation to the business and hiring practices the organization employs. The way it identifies and prioritizes its HR Metrics is an indication of what the organization considers as its most important objectives. HR Metrics should be designed in such a way that leads the organization towards attainment of their objectives. Hence true testing of the effectiveness of HR Metrics can be achieved. Also it should lead to inputs or pointers that help the organization achieve all that is set out.

6. History of HR Metrics

Measuring performance of HR is not new; it has a brief past

- Humans and their performance were measured first, in late 1890's and early 1900's with the advent of scientific management (Taylor, 2016).
- Computing effectiveness of an organization's employees can be located back to the era of Scientific Management (Taylor, 1911).
- In World War II US army psychologists used SJT (Situational Judgment Tests) to measure judgment of soldier in specific situations (Fetzer & Tuzinski, 2013).
- Methods of quantitative analysis and its procedure in decision making were established during the foster up of both men and material motivated by World War II (1940).
- Additional progression in calculating transpired during the post world war industrial development in the United States that continued during 1970's.
- Peter Drucker coining the term 'Knowledge Worker' in 1957 and mentioning that humans are most important aspects of organizations led to many new and innovative ways in which organizations could find out how people create value for organizations (Despres, 2011)
- Invention of the balanced scorecard which challenged the traditional notion that all businesses need to succeed was profits. Instead the concept mentioned that for achieving overall vision and mission of organization apart from financial perspective organizations need to focus on optimizing internal business processes, improving customer satisfaction level and lastly enhancing the learning and knowledge of their workforce. Once all the four perspectives are synergized organizations are able to achieve its overall vision and mission (Kaplan & Norton, 2013).
- With more and more organizations focusing on innovation in the current era of heavy competition, it becomes essential for organizations to develop metrics which clearly indicate how workforce creates value for organizations. Companies like Google have come up with metrics that have highlighted difference in performance between two employees upto 300 times (Sullivan, 2015).

7. Role of HR Metrics [11]

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 an outcome based metrics where HR is the driving force and ensuring 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 skill sets
- **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

8. Factors Considered in Developing & Deploying Metrics [11]

A practical approach in developing, deploying and managing metrics:

- a) 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, and Business Process). Some examples to help illustrate how the metric 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?
- b) 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 and what's the frequency for update & review.
- c) Involve key stakeholders up front to make sure there is buy in and clarity surrounding the metric meaning and expectations.
- d) Once metrics is established, promote and communicate it throughout the organization to ensure that everyone is connected with their importance.
- e) Ask questions more frequently – It's not about the quantity of the metrics, but the quality of the metrics that is to be determined is very important.

9. Characteristics of 'Good' Metrics

A metric is a quantifiable measure (not the measurement itself) made over time, which communicates vital information about the quality of a process, activity, or resource. It is important to note that a metric can be subjective, relative and/or absolute.

A few characteristics of 'good' metrics include, but are not limited to:

- Actionable and Predictive
- Consistent
- Simple, understandable, logical and repeatable
- Unambiguously defined
- Capable of tracked over time
- Capable of comparison (external benchmarks)
- Most Importantly – It should drive appropriate action.

10. HR Metrics Approach

HR Metrics approach is based on the basis of three levels of Metrics. There is an endless array of HR Metrics, we can find on research and available to use – around staffing, compensation, training, retention, etc. – all of which can provide valuable insights when designed with an end in mind.

Impact	Effectiveness	Efficiency
<ul style="list-style-type: none"> • Link to business strategy • Factors for creating competitive advantage • Increased value 	<ul style="list-style-type: none"> • Policies and practices • Factors link to enhancement • Differentiation between effective and non-effective practice and policies 	<ul style="list-style-type: none"> • Range of resources • Level of investment • Resource allocation

Through HR metrics, we should consider the following three levels to reach the bottom line of results:

Impact: Refers to the influence or mark left behind as a result of any work. The impact of what we do is highly correlated with our ability to do what is needed to actually achieve the outcome. Therefore, it should come as no surprise that measures of impact are often most sought out by senior decision-makers, and impact measures need to focus on the value and worth of our organizational interventions.

Effectiveness: Related to 'impact,' yet markedly different, in that it refers to the degree to which something is successful in producing a desired result. Measuring effectiveness is equally important in HR terms; these measures tend to reflect the outcomes of any activities throughout the organization capability-building exercise.

Efficiency: Refers to the state of achieving maximum productivity with minimum wasted effort and/or expense. Although measures of effectiveness and impact will have most relevance for leadership groups and the organization as a whole, a small number of headline efficiency indicators are needed to measure cost-effectiveness.

The design and development of relevant HR metrics requires reflection and alignment to business objectives in order to determine what it takes for the organization to reach its goals. Any investments in HR processes and initiatives need to culminate into business results. Thus having a distinct need and role to measure HR effectiveness.

Measuring effectiveness demonstrates:

- Understanding demands for external context

- Need to drive bottom line
- Sharing impact and external accountability
- Need to establish clear, relevant, sustainable mission and goals
- Strong sense of internal accountability and drive

11. Imperative of HR Metrics

- There is a low degree of awareness of the impact of HRM programs whether, positive or negative, because HR leaders have not been delivering metrics that show the value of their programs or investments.
- Quantification issue - metrics enable leaders and decision makers in organizations towards more efficient and better delivery of HR services
- “Based on corporate culture, organizational values and strategic business goals and objectives, human capital measures indicate the health of the organization.” (Lockwood, 2006)
- If HR professionals don't measure their function's effectiveness and providing decision-making leaders the data they need, HR will continue to be undermined and eventually side-lined when it comes to having a seat at the table – strategic business partner.

12. Benefits of HR Metrics

- Metrics help you ensure that you are meeting your goals and customer needs
- Metrics help you focus
- Metrics tell you where to spend your money, what/ when to stop doing and what to reward.
- Metrics eliminate confusion – “What you measure and reward takes away all doubt about what is important”
- They help push continuous improvement
- Metrics allow you to come across as an expert
- Distributing metrics can change individual behaviour
- Metrics are superior to culture in changing the behaviour of your managers
- Metrics helps to improve your relationship with the Chief Financial Officer (CFO) and Chief Information Officer (CIO).
- Metrics builds coordination/cooperation
- Metrics helps to build self-confidence
- Metrics allows HR to provide evidence of its strategic impact
- Metrics demonstrates the real impact of HR programs
- Create a HRM business value chain

13. Selecting HR Metrics That Matter in Today's Business Environment [12]

The most impactful HR metrics for employers today, that certain metrics should be considered is based on the current business environment; there are others that need to be based on the factors that are most important to the business -not on what others would have adopted or on the trends of the day. Ultimately, impactful metrics are a combination of both (How it is adopted and its trends).

Once the organizations focus on the metrics that work for their businesses; the next step is the acknowledgment that the value of metrics, increases exponentially when measured over a period of time. Unless certain metrics it immediately point to a major issue, it is perhaps shortsighted to take significant action based on one or even two years' data. That does not mean we cannot execute on some aspects in the short term, but it is usually better to formulate a plan that achieves short and long term goals through incremental steps, if possible. Most significant changes take time to plan and implement, so use that time to validate the need with more data over a longer time period.

In today's competitive talent market, many of the metrics that matter most are the ones that immediately impact talent acquisition, retention and engagement. Today, competitors are fishing for talent in the same pond as other does, so a keen awareness of how to measure success here can make a world of difference. Today that qualified, desirable candidates as well as most valued current employees are looking around more frequently to understand and test the job market. There are many tools available today to probe a company. Here are some HR metrics examples that Matter in Today's Business Environment, with some taking on far more importance depending on the organization:

- 1) **Turnover Rates:** The number of employees, who left the company within a given timeframe, quarterly or yearly, divided by the total number of employees. Replacing employees - especially top performers - is very costly, so it's crucial to know which departments or managers experience the most turnover, and which departments/managers have the highest retention rates.
- 2) **Early Turnover Rates:** The percentage of employees who left the company or were terminated within their first 6-12 months. Early turnover usually indicates a failure within the recruiting and hiring process. Replacing a new employee sets back an already expensive process; lost productivity during new hire training costs over the employee's first year.
- 3) **Time to Hire:** The time that it takes the HR team to fill a position from the date an employee leaves the company to the date that a new employee starts. It's important to track and compare the time-to-hire across different positions to determine why a specific role was harder or easier to fill.
- 4) **Revenue Lost Due to Position Vacancy:** The total revenue that's lost within that time-to-hire window. This is one component of the total cost of replacing an employee and another indicator of the HR team's efficiency in filling open positions.
- 5) **Cost Per Hire:** The total cost of hiring a new employee, factoring in recruitment, lost revenue, training, and onboarding. Knowing this HR metric can help you to set a recruiting budget, identify inefficiencies, and project costs moving forward.
- 6) **Number of Applications per Position:** How many qualified candidates applied for each open position? This metric illustrates the strength, or weakness, of the company's brand and its desirability to potential hires, as well as the outreach efforts of recruiters.
- 7) **New Employee Performance:** Performance metrics will give you a picture of how a new hire is progressing

throughout the on boarding process, while helping you to identify top talent and assess how the new hire’s performance compares to the rest of their department.

- 8) **Revenue Per Employee:** The Company’s total annual revenue divided by the number of full-time employees. Revenue-per-employee is a great metric for assessing the overall health of your company YoY; quality new hires should generate higher revenue than their predecessors.

This HR Metrics is a good tool to compare against other organizations - even if there are size or revenue differences. These select HR Metrics can form the core for many well-performing organizations today and to measure trends specific to an organization’s individual circumstances (e.g., location, business sector) and goals. HR metrics is the key that the Chief Executive Officer (CEO) and Chief Human Resources Officer (CHRO) work together to select the measures, understand them and plan for ways to improve them and to achieve the goals of his or her organization [13].

Table 1: Human Resource Metrics & Its Impact

Metric	Formula	Description	Impact on the Organization
Turnover Rate	Total Turnover / Regular Headcount	Percent of employees that voluntarily and involuntarily left the organization during the survey period.	Cost of Hiring
Early Turnover Rate	Total Turnover / Regular Headcount	Percent of employees who left the company or were terminated within their first 6-12 months.	Cost of Hiring
Time to Hire	Day a New Employee Start – Day an Employee leaves the company.	It’s important to track and compare the time-to-hire across different positions to determine why a specific role was harder or easier to fill.	Cost of Hiring
Revenue Lost Due to Position Vacancy	Total cost of replacing an employee- HR team’s efficiency in filling open positions	The total revenue that’s lost within that time-to-hire window.	Cost of Hiring
Cost per Hire (Excluding Relocation)	Total Hiring Costs (Excluding Relocation) / Total Hires	Average amount spent on hiring new employees excluding the cost of relocation.	Productivity
Number of Applications Per Position	Number of Applications / Total Positions	Illustrates the strength, or weakness, of the company’s brand and its desirability to potential hires, as well as the outreach efforts of recruiters.	Cost of Hiring
New Employee Performance	New hire’s performance/ Rest of their department	Performance metrics will give you a picture of how a new hire is progressing throughout the on boarding process, while helping you to identify top talent	Cost of Hiring
Revenue per employee	Annual revenue ÷ Full time employee (FTE) headcount	Can be used to measure ratio between revenues and either total or just HR department employees	Productivity

14. Ten Best Practice Principles of HR Metrics

- #1: Top performing companies drill down metrics to a deeper level and communicate to decision-makers more effectively.
- #2: Data becomes part of a “holistic solution” The data is more accessible and used by more people than with lower-performing companies.
- #3: Given that it’s an integrated solution, it has fewer inconsistencies and offers greater reliability of data.
- #4: Top performers have a dashboard of Key Performance Indicators (KPIs).
- #5: They have a centralized, standardized, cloud-based depository that is distributable and searchable by standard key words and search strings.
- #6: Top performers will have records that include hyperlinks - such as a link to someone’s LinkedIn profile - for real time updating.
- #7: They have established a dashboard that summarizes the data into meaningful segments along with overall statistics.
- #8: Metrics are most commonly reported on a monthly basis or quarterly basis, and then rolled up into a year-end report.
- #9: Top performers had a specific approach to metrics: What separated the top performers from everyone else was not only what the metrics are, but how well the data was segmented or drilled down.

- #10: A similar best practice is to deliver metrics that roll up to specific business units and divisions.

15. Critical Success Factors for HR Metrics

- Shows HR's real value
- Knows how to interpret the results about the status of human capital in a meaningful manner.
- Measurement, Assessment and Evaluation are to play a part in achieving sustainable organization performance. They should be impact-oriented, forward-looking and focused on the entire HR system, not just on individual HR practices.
- The importance of HR capability
- Guarding against point-in-time measurements only

16. Success of HR Metrics

A point-in-time measurement very often appears to be meaningless, unless you can compare it to a set standard or benchmark, and/or view its position in a trend that may be emerging are put it in the right context, asking the right questions, framing the results, reports the complete story and always strive for improvement [14].

17. Strategic for Effective HR Metrics [15]

- Understand the Role Metrics Play in Talent Analytics
- Understand the Question First, Then Look at the Metrics

- Always Build a Business Case
- Recognize that HR Metrics Alone Offer Limited Value
- Identify the Workforce - Driven Components of Business - Driven Metrics
- Learn to Ask the Right Questions
- Work across the Organization
- Embrace Measurement
- Don't Compromise on Data Quality

18. Common Errors with HR Metrics

- One of the biggest mistakes that are so often reported is too many measures - Developing more metrics than it is feasible to maintain and utilize
- Developing and implementing HR metrics in a vacuum
- HR Metric Approaches
- "HR teams are not very analytical in their thinking yet. That is holding them back from doing more data-driven decision making."
- Over-reliance on Spreadsheets

19. Conclusion

- HR Metrics and measures can be a wonderful strategic tool for any organization, any size to improve its working with people and their management.
- The most impactful HR metrics for employers today, that certain metrics should be considered based on the current business environment, there are others that need to be based on the factors most important to the business — not on what others may have adopted or on some trend of the day. Ultimately, impactful metrics are a combination of both.
- The design and development of relevant HR metrics requires reflection and alignment to business objectives in order to determine what it takes for the organization to reach its goals. Any investments in HR processes and initiatives need to culminate into business results. Therefore, having a distinct need and role to measure HR effectiveness.
- HR metrics plays a magnificent role that reflects the impact of HR metrics on key decision makers.
- Measuring Effectiveness is equally important in HR terms; these measures tend to reflect the outcomes of any activities throughout the organization capability-building exercise.
- Measures of effectiveness and impact will have most relevance for leadership groups and the organization as a whole, a small number of headline efficiency indicators are needed to measure cost-effectiveness.
- Top performing companies drill down metrics to a deeper level and communicate to decision-makers more effectively.

"You cannot manage what you don't measure." - Peter Drucker, Business Strategist

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