

<http://www.JobSpectrum.org/chemhr/Oct02/metrics.html>

HR Metrics: The Business Case

Carla Joinson

Though most companies would say that employees are their greatest assets, few would say they find these assets easy to measure. Are the company's most valuable assets productive? Are they regularly upgraded through targeted training? Does the company know how to acquire more quality assets cost-effectively? Do the assets stay with the company long enough to be worth the investment?

Without HR metrics, no one in management can really put a finger on what's working or not working with the people who make up the company. HR's success at measuring "people issues" directly contributes to informed decision-making by executives and board members. The challenge for HR is to measure and deliver meaningful data that is relevant to the bottom line.

Tricky Deliverables

Jeanne Hugg, director of HR for start-up [Avalon Pharmaceuticals](#) in Gaithersburg, Maryland, says that HR may have felt somewhat exempted from measurement in the past, but that could be one reason HR complains today about 'not being invited to the table'.

"If you're in sales or science, you're expected to show what your value-added is," says Hugg. "Similarly, in HR you can't just hire people and not worry about costs or how long it takes. HR has to be able to measure what it's bringing to the table."

The challenge lies in deciding what to measure and how to do it.

According to the *2002 Staffing Metrics Study* conducted by the [Society for Human Resource Management](#) (SHRM) and the [Employment Management Association](#) (EMA), even common metrics don't always use standard components. Different companies, for instance, used a range of expense categories to calculate a common metric like cost per hire. Seventy-six percent of respondents included advertising in their calculation, 63 percent included online/Internet services, while only 50 percent included reference/background checks and recruiter costs.

Though standards may evolve in the future, simple figures won't necessarily provide enough information. Many companies track retention, for example, but to solve a turnover problem HR needs to discover why people leave. HR adds value when it decides not only *what* to look at, but also *how* to tweak its methodology to get the kind of information the company can use.

Diana Kamyk, manager of Diversity & Work/Life at [Bayer Corporation](#), says that HR includes exit interviews to understand turnover, but also incorporates a unique feature. "We send a departure survey within ninety days of termination to employees who have an 'exceeds expectations' on appraisals." By refining HR's methodology, Kamyk obtains valuable information about the kind of employee her company would most like to keep.

Likewise, when Bayer started a mentoring program in 2000 in which high potential employees were matched with vice-presidents or higher, a challenge for Kamyk was how to measure the program's success.

She tackled the problem by developing an anonymous, confidential electronic survey that evaluates the experience for participants, who identify themselves as either mentor or mentored. "We also examine people who have been through the program and look at turnover or promotions for these people a year later," says Kamyk. She adds that the company can break down the data in various ways, such as by gender, to see where they may need to focus attention.

"Metrics are a form of continuous improvement," adds Kamyk. "They allow you to evaluate and make adjustments accordingly."

Deciding What To Measure

No company has the staff to measure and analyze an infinite amount of employee data, so many experts suggest concentrating on metrics that provide information the company really wants to know. Data requirements can come from managers, employees and stockholders, and can be as simple or sophisticated as the company needs it to be.

Hugg says, "Right now, I'm establishing a baseline on *everything*." At Avalon less than a year, she began developing her department by meeting with everyone in the company to find out what people wanted out of HR. She also had to decide what activities to focus on right away.

"I looked at standard systems first: was the budget working, could we recruit competitively, were we retaining employees?" says Hugg. "Those things tell me whether we're marketable and competitive."

She has already formalized the company's recruiting program, developed employee classifications, reviewed benefits and started an employee development program. Now she says she's ready to start measuring.

Hugg, whose career has centered on establishing HR at start-ups, says she'll benchmark 2 - 3 data points and use a few surveys to get the information she wants in a number of areas. "Next year, we'll be able to take a look at what we've done and how we've controlled things. I expect to see some improvement in areas like recruitment costs."

Examining measurement data can often pinpoint problems for HR. Hugg says that her company's performance appraisal system currently has a [halo effect](#). "We recently put in a bonus plan and got a bell curve; I want a bell curve in our appraisal system as well next year."

Paula Caya, manager of the Organizational Effectiveness Center of Excellence at global chemical company [Celanese](#), says that the company's vision drives their metrics. "Our vision on the people side is to have top performers delivering top results. So, we measure how well we're doing at this--are we getting top performers, and are we delivering the services they need?"

Metrics naturally include recruiting and staffing. "We measure college recruiting, for instance," says Caya. "We look at where we're getting our recruits and how well they're doing two years down the road."

Caya explains that her company discovered a couple of universities where they didn't get candidates, or if they did, couldn't keep them. "We changed some of our focus as a result," she says. "But we never would have discovered the situation if we weren't measuring this way."

When communications skills became a competency this year at Celanese, HR needed to do more than determine how many people attended key training programs. "We're looking for observable behavior like better presentation skills," says Caya. "Managers and HR can determine the impact of the training by monitoring employees who go through it."

Shareholder Value Is An HR Product

Theresa M. Welbourne, PhD, Associate Professor of Organization Behavior and Human Resource Management at the [University of Michigan Business School](#) and CEO of survey firm [eePulse Inc.](#), believes that HR can--and should--deliver data well beyond the basics. In Welbourne's view, data on cost per hire or how fast benefits are processed doesn't make HR a strategic partner.

"HR is similar to marketing," Welbourne explains. "Marketing knows what the customer needs: they do surveys, use focus groups, and analyze data. In turn, HR should know everything about the employee population."

"For instance, if HR does a survey and 80 percent of the employees mention a certain factor as interfering with getting their work done, they can see it's a systemic problem. This is valuable information for the company."

She understands that traditional metrics are important as a baseline of information. "But HR doesn't need to use these metrics to justify its existence," she says. "If HR is going to provide data, it should provide data that helps business decisions or helps productivity.

"Measure something about people that you know relates to company performance," Welbourne advises. "For example, research shows that the degree to which people are energized by their job predicts performance. If today, a department is low in this area, three weeks from now customer sales and satisfaction will be affected." Welbourne says that this is the kind of HR data managers can use to make decisions.

Welbourne's suggestions require sophisticated analysis that might not be within some companies' budgets or capabilities. However, a number of recent studies show a growing interest in measuring human capital. [The Conference Board](#) released a [study](#) in July 2002 that emphasizes the value of this data. For instance, tracking absenteeism can help increase productivity, or measuring diversity can help save a company from costly discrimination awards. The report also suggests that HR collaborate with finance professionals to use human capital measurements to calculate return on investment.

In 1999 [Watson Wyatt](#) wanted to explore whether the way a company managed its human capital significantly affected its financial performance. Their [Human Capital Index \(HCI\)](#) study verified that it could: where there were superior HR practices, there was higher shareholder value. A [European study](#) in 2000 and another [U.S. study](#) in 2001 confirmed their findings. According to Watson Wyatt, the latest study shows that "the better an organization does in managing its human capital, the better its return for shareholders."

The 2001 HCI study found 49 specific HR practices that play the greatest role in creating shareholder value. These practices are divided into six dimensions:

1. Total rewards and accountability
2. Collegial, flexible workplace
3. Recruiting and retention excellence
4. Communications integrity
5. Focused HR service technologies
6. Prudent use of resources

Many HR departments already measure certain elements within these categories--now the focus may turn to which programs are most beneficial to the company's financial health.

HR has always known its value; the problem has been quantifying it for senior management. Emerging research should finally allow HR to make dollars and cents business cases for its programs and give credence to its role as a strategic partner.

Carla Joinson is a Stafford, Va.-based writer specializing in human resources and management topics.

Questions or Comments?
Email us at
jobmaster@JobSpectrum.org
JobSpectrum.org © 2002
American Chemical Society.
All rights reserved.