EMPLOYING METRICS IN HUMAN RESOURCE MANAGEMENT

A BRIEF REVIEW OF THE CURRENT STATE OF AFFAIRS

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Human resources are considered vital to organisational strategy and a leading determinant of business success. However, finding organisations that measure and directly link their human resource investments to strategic goals is challenging. To overcome this challenge, talent management executives must speak the same language as other executives: numbers.

Similar to sales, finance and operational investments, human resources (HR) are considered vital to organizational strategy and a leading determinant of business success. However, finding organizations that measure and directly link their human resource investments to strategic goals is challenging. As an illustration of the magnitude of the challenge, consider the results from Aon Hewitt's *Human Resources Reporting and Analytics Priories Survey, Survey Highlights 2011*[1], which summarised the results of their survey of 117 employers in various industries, sizes and geographies. This survey investigated trends in the field of HR reporting and analytics and reported that only 10% of employers used metrics to measure the effectiveness of workforce management practices, and only 7% continually used metrics to bring into line human capital investments with business outcomes.

Here in the Caribbean, we may even be further behind. In September 2014, 159 participants from twelve Caribbean countries participated in *An Inquiry into the State of HR in the Caribbean*[2] completed by Queen's University Industrial Relations Centre in Ontario Canada. The survey sought to gain greater clarity on the HR trends in the Caribbean. A significant proportion noted the increase in workload (76.5%) and responsibility (74.8%) of the HR profession, while a smaller percentage reported more involvement in organizational strategy (58.3%) over the last five years. Despite these positive trends, participants noted that the most critical challenge faced in the Caribbean was the lack of integration of HR into the broader organizational strategy. They also believed that the lack of input from HR

[1] AON Hewitt, 2011, *Human Resources Reporting and Analytics Priorities Survey, Survey Highlights 2011*

[2] Juniper, P., Sweeney, B. and Hill, Alison, 2014, *An Inquiry into the State of HR in the Caribbean* , Queen's University IRC

practitioners regarding organizational strategy hindered business success. From the qualitative responses, HR professionals continued to believe that senior leaders were not willing to fully integrate HR strategy into overall strategic decision-making due to a perceived lack of respect and/or understanding of the role of HR department. These results suggest that while HR professionals may be willing to play a greater role in driving organizational strategy, there may be a reluctance on the part of other executives to recognize the pivotal role talent management plays in enabling business success.

One of the ways that human resource practitioners could overcome this reluctance may be to communicate with other senior management officials using the same language: numbers. Historically, finance, sales, production and inventory are tracked closely, as their computer software programmes are able to generate useful metrics that provide insights into the operations of the respective departments. Although the use of dedicated software is increasing, it is still very common to find HR departments without software that allows them to produce strategic metrics. And, today, when corporate performance dashboards are more popular, the absence of HR metrics in strategic planning meetings provides an even greater hindrance to aligning talent strategy with overall business strategy.

In an attempt to gain equal representation at the executive level and on the corporate dashboard as other departments, it has become increasingly recognized that HR must make stronger investments in critical measurement that drives actions or changes behaviour. Deloitte's *Global Human Capital Trends 2015*[3] reported that "HR organizations and HR skills are not keeping up with business needs." It appears as if people management professionals seem to be retaining old-fashion administrative efficiency and disconnected functional measurements that are out of focus from leading human performance. However, by utilizing HR metrics in a proper manner, professionals can achieve two goals: rebranding and justifying the worth of HR as a strategic partner; and, validating the significant impact of talent data on business outcomes. In the Aon Hewitt's Worldwide report mentioned earlier, it was noted that sixty-five percent (65%) of respondents found it difficult to produce an executive-ready report. Out of 108 participants who responded on challenges faced in HR reporting, almost half (49%) noted that they do not understand the data. Unfortunately, the people profession seems to be mainly focused on its core

[3] Deloitte, 2015, *Global Human Capital Trends 2015, Leading in the New World of Work,* Deloitte University Press

area of performance, recruitment, talent and training, with analytical capabilities falling much lower on the list of skills to actively develop. Additionally, while HR tries to play catch up, companies continue to invest in more advanced business management software that the HR profession seems unprepared for in their reports.

HR metrics can improve efficiency in areas of talent management by providing useful information on areas such as hiring and productivity. With thorough HR analytics, certain decisions become effortless, allowing HR professionals to share important information with the rest of the executive team, which will facilitate strategic decision-making. For example, implementation of a succession plan, a recognition programme or leadership competence development training can be initiated based on insights uncovered from HR talent metrics.

One area that has received much attention is using HR metrics to help executives build accurate employee retention investments. To reduce turnover risk, workforce retention analytics have proven to be beneficial. By tracking data on workforce dynamics, analytics can improve understanding of retention challenges, identify who is at risk of attrition and determine the main reason for attrition. Talent management professionals can then share these insights with their fellow executives.

Talent shortages and mismatches can impact profitability since they hinder the organisation's ability to implement initiatives, drive innovation and take advantage of market opportunities. Coupled with the added pressure on margins and return on training and development investment, it becomes imperative to capitalize on HR metrics that link both people and business strategy. From a HR analytics perspective, for example, tracking competency development spend has the ability to identify key competencies required to support a company's strategy, while establishing a framework for employee learning in technical, functional or managerial areas. It further identifies the extent of the skills gap, budget plans, timelines and outcome for a specified period.

HR metrics could also prove valuable in day-to-day operations, not just strategic planning. For example, in the recruitment arm of HR, metrics such as time per hire, cost per vacancy and recruitment volume can be considered, and when considering compensating staff, useful metrics could include benefits as percentage of operating expense, health care cost per employee or the average cost of benefits per employee. Since training takes up a significant cost in HR budget, metrics such as training as a percentage of HR expense or training cost as a percentage of revenue can provide the insights needed to continue to ensure that HR activities remain relevant.

What Next

To establish a commitment to utilizing HR metrics within the organization, the HR professional along with other top executives and managers should establish priority areas for competitive advantage based on factors such as how the business generates revenue, main risk factors, available opportunities, tactical projects, and synchronization with measures provided by other departments. Once the business outcome becomes clear, establish a strategic map that outlines how the organization plans to achieve it.

About the Author:

Anna Kay Seaton

annakay.seaton@gmail.com

is the Lead Consultant, Coach and Trainer at People Engagement and Research Solutions. Ms. Seaton commands seventeen years of experience in directing workforce management, mentorship and career development training projects. Her work makes use of business, coaching and psychotherapy philosophies in advancing human resource management within the Caribbean.