HR & Organizational Development Metrics

*Driving Sustainable Excellence*

Developed & Facilitated By:

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[www.hopsintl.com](http://www.hopsintl.com)  [www.icole.org](http://www.icole.org)
Three Levels of HR Metrics

- **Impact**
- **Effectiveness**
- **Efficiency**

**Efficiency**

- What range of resources (financial and non-financial) should be considered?
- What is the appropriate level of investments?
- How should investable resources be allocated to maximize results?
Three Levels of HR Metrics

Effectiveness

- What unique combination of policies and practices would best build the necessary human capital?

Impact

- What factors link policies and practices to human capital enhancement?

Efficiency

- What attributes distinguish effective from ineffective policies and practices?
Three Levels of HR Metrics

- **Impact**
  - What is the link between sustainable strategic success and human resource management?
  - Which talent pools are most critical for competitive advantage?
  - How could improving human capital increase value?

- **Effectiveness**

- **Efficiency**
A New Metrics Model

**Efficiency**
- Time to Hire
- Cost per Hire
- Headcount Ratio

**Effectiveness**
- Customer Survey
- “At the Table”
- Practice/Process Impact (Value)

**Efficiency**
- Direct Labor Costs
- Indirect Labor Costs
- Positions Unfilled

**Effectiveness**
- Employee Satisfaction
- Leadership Capability
- Talent Retention
- Competency Depth
- Employer Brand

**Efficiency**
- Cost per Employee
- Value Impact by Role
- Cultural Fit

**Effectiveness**
- Customer Satisfaction
- Revenue Growth
- Market Share
Business Environment

Organization

HR/OD Department

Internal Feedback:
- Efficiency
- Effectiveness
- Policy, Programs
- Practices

External Feedback:
- Impact

Inputs

Outputs
Scope of HR Measurements

*Evolutionary for Future Impact*

**Value**

- Ad hoc HR Measures
- Benchmarks
- Data Systems and Portals
- Scorecards and Drill Downs

**Time**

- Strategic Impact
- Organizational Effectiveness
- Validity and Rigor
- Causation
- Leading Indicators

Source: *Center for Effective Organizations, USC*
Fully 78% of firms routinely track and report people measures (i.e., turnover, absenteeism, compensation, etc.).

Only 31% of HR departments have anyone on the HR staff who understands the company’s strategic Key Performance Indicators (KPIs).

Only 25% of HR departments have anyone on staff who can both understand the company’s KPIs and link them to people measures.

Only 19% of HR departments deliver people measurement reports to all levels of the management team (business partners).

Only 12% of firms use human capital measures to help the company meet its strategic targets of Key Performance Indicators (KPIs).

Today....You need key HR measurements for:

- Every major Human Resources policy, program, practices, and goal... and for every needed improvement area;
- Every financial, market, product, service, operational, cultural or management funding decision – **Measure it**!

**Every Human Capital decision that has the potential to impact value!**
Top 10 Considerations

1. Low Initial Investment
2. High ROI
3. High Success / Low Risk
4. Immediate Start Up
5. Short Payback
6. Competitive Advantage
7. Increased Productivity (Profit per people dollar)
8. Accurate Results
9. No New Headcount-
10. Consequences of Failure Built In (Individual Accountability)

Do YOU give consideration to these in the design and implementation of your HR& OD policies, programs, practices, and goals?
Key Thoughts on Metrics:

• Avoid “So What” or “That’s Interesting” Metrics;

• Use “Action” Metrics – Drives Positive Change on 2 Levels;
**Tactical Level:**

- Efficiency/ diagnostic metrics (Cost metrics)
- Recruiting results metrics (Number of hires)
- "Cause" identification metrics (Why they accepted)
- Satisfaction level metrics (Manager /applicant satisfaction)

**Strategic Level:**

1. Predictive Metrics – Goals/Targets/Opportunities /Problems
2. “Connectivity” Metrics – (unintended “linked” consequences)
3. Value Proven Metrics:
4. Revenue/ Profit/Market Share Impact Metrics:
What are the most impactful metrics to effectively measure the right things?
**Strategic Impact Metrics:**

*Thinking Teasers*

*Adding Value to Recruitment through Key Metrics*

1. New Hire Performance Index
2. New Hire Failure Rate
3. Volume Turnover of New Hires
4. High Level Diversity Hires
5. Need/ Start Dates Met
6. New Hire “Time to Productivity”
7. Give Away/ Take Away Ratio
8. Manager & New Hire Satisfaction
9. Referral Rate
10. Quality Sources Measurement
11. Non-Hire Quality Index
12. Total $$ Impact of Recruitment
HR EFFECTIVENESS INDEX:

The Human Resources Effectiveness Index (HREI) is a composite of seven (7) measures developed with revenue/employees, assets/employee costs, operating income/employee costs, and operating income/stockholder’s equity (ROE). This index is appealing because it is simple to compute and easy to understand. These indices have been useful for comparing one organization to another and can be used for internal control and goal setting.

Seven Measures of HR Effectiveness:

1. HR expenses/total operating expenses
2. Total compensation/total operating expenses
3. Total cost of benefits/total operating expenses
4. Training and development expenses/total employees
5. Absence rate
6. Turnover rate (controllable & non-controllable)
7. Level of Employee Engagement
**Revenue Factor:**

Is a basic measure of human capital effectiveness and is the aggregate result of all of the drivers of human capital management that influence employee behavior.

It conceptually links the time and effort associated with the firm’s human capital to its revenue output by indicating employee productivity. It simply measures the revenue generated for each employee.

The formula for this metric is:

\[ \text{Revenue} / \text{Headcount} \]
Expense Factor:

It conceptually links the time and effort associated with the firm’s human capital to its operating expense output.

The formula is:

*Operating Expense / Headcount*
**Income Factor:**

Is calculated by taking the operating income and dividing it by the total headcount of the organization.

It conceptually links the time and effort associated with the firm’s human capital to its operating income output.

The formula is:

\[ \text{Operating Income} \div \text{Headcount} \]
**EBITDA Factor:**

Is calculated by taking the EBITDA and dividing it by the total headcount of the organization.

It conceptually links the time and effort associated with the firm’s human capital to its operations’ profitability without the potentially distorting effects of changes in depreciation, amortization, interest and tax.

The formula is:

\[
\frac{EBITDA}{Headcount}
\]

*Earnings Before Interest, Taxes, Depreciation, and Amortization*
• Human Capital Value Added (HCVA):

This is an adjusted operating profitability figure calculated by subtracting all expenses except for labor expenses from Revenue and dividing the adjusted profit figure by the total headcount.

The formula for HCVA is:

\[
\text{Revenue} - \frac{\text{(Operating Expense} - (\text{Compensation + Benefits Cost}))}{\text{Headcount}}
\]
Human Capital Return on Investment (HCROI):

This calculates the return on investment on a company's employees. This is equivalent to calculating the value added of investing in the organization's human assets.

HCROI looks at the ROI in terms of profit for investments made on total labor cost by using the same adjusted profit figure of HCVA. HCROI is calculated by dividing the adjusted profit figure to human capital costs (except for training). It directly shows the amount of profit derived for every dollar invested in labor cost – in effect the leverage on labor cost.

The formula is:

\[
\frac{(Revenue - (Operating Expense - (Compensation + Benefits Cost))}{(Compensation + Benefits Cost)}
\]
Human Economic Value Added (HEVA):

This shows wealth created per average headcount in an organization. It shows how much EVA can be ascribed to the average amount of employee contracted for.

The rate is calculated by subtracting the 10% of shareholder’s equity from the net profit/loss and dividing the difference by the average headcount of the organization which can be formulated as:

\[
\text{(Net Profit - 10\% shareholder's equity)} / \text{Headcount}
\]
3 Key Turnover Metrics Combined:

- Separation
- Recruitment (Replacement)
- Training

TOTAL TURNOVER = S + R + T = STC

SEPARATE HANDOUT
Human Capital ROI: This measures the return on capital invested in pay and benefits. The formula is:

\[
\text{Revenue - Nonhuman Expenses} \\
\text{Pay and Benefits}
\]

Human Capital Value Added: This uses a similar formula to Human Capital ROI but divides by the number of full-time equivalent employees (FTEs). The formula is:

\[
\text{Revenue - Nonhuman Expenses} \\
\text{Full-Time Equivalents}
\]

Human Capital Cost: This is simply the average pay per regular employee. The formula is:

\[
\text{Pay + Benefits + Contingent Labor Cost} \\
\text{Full-Time Equivalents}
\]
Human Economic Value Added: This is net operating profit after tax, minus the cost of capital divided by FTEs, including contingent labor. The formula is:

\[
\text{Net operating profit after tax} - \frac{\text{Cost of capital}}{\text{FTEs}}
\]

Human Market Value Added: This divides market capitalization by FTEs, including contingents. The formula is:

\[
\frac{\text{Market Capitalization}}{\text{FTEs}}
\]
Impact

• What is the link between sustainable strategic success and human resource management?

• Which talent pools are most critical for competitive advantage?

• How could improving human capital increase value?
### Strategic Component Impact Analysis

<table>
<thead>
<tr>
<th>Strategic Impact Component</th>
<th>Importance (Value Creation)</th>
<th>Effectiveness/Impact (Performance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Capacity:</td>
<td></td>
<td></td>
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<tr>
<td>• Identifies leadership opportunities at all levels</td>
<td>6 5 4 3 2 1</td>
<td>6 5 4 3 2 1</td>
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<tr>
<td>• Behaviors &amp; competencies developed in a consistent and progressive manner</td>
<td>6 5 4 3 2 1</td>
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<td>• Encourages managerial coaching as the means to individual and team performance improvement</td>
<td>6 5 4 3 2 1</td>
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<tr>
<td>• Trust in leadership based on reliability and candor</td>
<td>6 5 4 3 2 1</td>
<td>6 5 4 3 2 1</td>
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<tr>
<td>• Leadership builds credibility through courageous decisiveness</td>
<td>6 5 4 3 2 1</td>
<td>6 5 4 3 2 1</td>
</tr>
<tr>
<td>• Leaders motivate and inspire based on employee need and other employee factors</td>
<td>6 5 4 3 2 1</td>
<td>6 5 4 3 2 1</td>
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<tr>
<td>• Leaders actively inquire, listen, and engage with employees</td>
<td>6 5 4 3 2 1</td>
<td>6 5 4 3 2 1</td>
</tr>
<tr>
<td>Strategic Impact Component</td>
<td>Importance (Value Creation) 6 = Important to 1 = Not Important</td>
<td>Effectiveness/Impact (Performance) 6 = Important to 1 = Not Important</td>
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<tr>
<td>Leadership Capacity:</td>
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<td>Strategic Focus:</td>
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<td>Structure &amp; Reporting Relationships:</td>
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<td>Work Processes:</td>
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<td>Focus on People:</td>
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<td>Management Capacity:</td>
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<td>Support Systems:</td>
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<td>Key Performance Indicators:</td>
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SEPARATE HANDOUT
**Strategic Impact Target Scorecard**

**“Wiggle Room”**

**Action:** Consider costs, risks, and potential tradeoffs during intervention

**“Added Value”**

**Action:** Maintain alignment through all change initiatives and interventions

**“Wasted Motion”**

**Action:** Eliminate/reduce and/or shift resources during OD efforts

**“Performance Gap”**

**Action:** Close gap through high-priority OD intervention

<table>
<thead>
<tr>
<th>Importance/Value Creation</th>
<th>Performance Effectiveness/Impact</th>
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<td>Low</td>
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<td>6</td>
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<tr>
<td>High</td>
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To Execute Business Strategy YOU MUST ALIGN HR Strategy & Metrics !!

YOUR METRICS MUST INDICATE VALUE & IMPACT!!