The Numbers Game:
Nine Steps to Making the Most of your HR Metrics

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June 2004

If you've taken part in HR strategy meetings or attended any industry conferences in the last few years, chances are you will have noticed the amount of time devoted to the topic of metrics. The collection and analysis of data has evolved from the preserve of a small number of dedicated number crunchers into a tangible and highly visible tool, able to play a crucial role in strategic decision-making.

However, the collection of meaningful and valuable data can still seem daunting and shrouded in mystery. So, by way of an introduction, it's worth looking at why metrics are captured in the first place.

Why bother?

Perhaps the most crucial advantage of a sound HR metrics programme is that it enables HR to converse with senior management in the language of business [1]. Operational decisions taken by HR are then based on cold, hard facts rather than gut feeling, the figures being used to back up business cases and requests for resource. The HR function is transformed from a bastion of 'soft' intangibles into something more 'scientific', better able to punch it's weight in the organisation. In addition, the value added by HR becomes more visible. This will become increasingly important as more and more functions attempt to justify their status as strategic business partners rather than merely cost centres.

The capture of metrics also underpins the old adage of 'what you can't measure, you can't improve'. The five key practices of the Human Capital Index (recruiting excellence, clear rewards and accountability, prudent use of resources, communications integrity, collegial flexible workplace) require the capture of metrics for their very definition. A study conducted by the HR consulting firm Watson Wyatt has shown a strong correlation between these five practices and a 30% increase in shareholder value [2].

Furthermore, a survey of 200 Managing Directors and HR Directors showed that 82% believed Human Capital Management (HCM) to be critical to the fundamental success of a business, while 80% thought that effective measurement is crucial to deliver effective HCM [3]. Another study shows 82% of HR practitioners citing metrics as either 'very important' or at least 'important' to the ultimate success of internal redeployment initiatives [4]. An ever-present factor among companies with widely acclaimed HR procedures and practices – the likes of Microsoft, Intel and Cisco among others – seems to be their extensive use of metrics to drive strategic decisions [5].

So, given the benefits of establishing a new metrics initiative or overhauling an existing process of data collection, how do you actually go about it?

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[1] Sullivan, J., February 2003, 'Why Metrics Are Essential For Success in Recruiting', *erdaily*, retrieved April 2004

[2] 'Value at Work: The Risks and Opportunities of Human Capital Measurement and Reporting', *The Conference Board* (www.conference-board.org), 2002

[3] Finn, R., January / February 2004, 'Five steps to effective human capital measurement', *Strategic HR Review*

[4] 'Internal Mobility', *iLogos Research*, 2003

[5] Sullivan, J., February 2003, 'Why Metrics Are Essential For Success in Recruiting', *erdaily*, retrieved April 2004

Nine steps to metrics excellence

The steps outlined here are not intended to be fully comprehensive or applicable in every circumstance, but they should give you some idea as to where and how to start.

1. **Re-examine your business objectives**

   Before doing anything else, revisit your organisation's strategic business objectives. While there is some value in each function measuring it's own performance, the overriding priority should be the satisfaction of the end customer (either internal or external). As customer satisfaction is more 'process-oriented', your chosen metrics suite will likely straddle departmental boundaries.

   As overall business objectives take precedence over functional 'silos', processes tend to become more effective and focused, and the beginnings of a real team culture are fostered. This is particularly important as organisations become more geographically spread and the number of staff working remotely increases. The move towards a more 'process-oriented' culture also creates ideal conditions for the propagation of continuous improvement initiatives such as Six Sigma [6].

2. **Take the 'CUP' test**

   It is surprising how many organisations are busily accumulating reams of data from which no one seems to be able to extrapolate much useful information. If you already collect metrics, take this opportunity to rifle through the reporting archives. Give each set of data the 'CUP' test. Does it make a *contribution* to overall organisational business objectives? Does it provide an insight into whether organisational resources are being *utilized* at their optimum level? Does it make any assessment of *productivity* which could lead to efficiency gains and therefore a better customer experience? If each set of data does not address at least one of these three criteria, then question the usefulness of continuing to collect it [7].

3. **Keep it simple**

   For all the potential of HR Information Systems (HRIS) to 'slice and dice' data in a myriad of ways, it has been suggested that 'information overload' is a greater threat to the effectiveness of HR than a complete lack of measurement [8]. Measuring everything that moves also results in lengthy reports which may be off-putting to others. One Chief Executive complained in a recent interview that he 'didn't look at the report anymore; it's too long'. The report in question weighed in at three pages [9]. Research has suggested that in order to focus on the priority areas around five key metrics is a good place to start [10], although the exact number will vary depending on strategic business objectives.

4. **Decide what types of metrics to capture**

   Metrics fall into three principal categories: historical, real-time and forward-looking [11]. Historical metrics give a good general indication of an organisation's health, but reliance on them has been compared to trying to drive a car while looking only in the rear-view mirror [12]. Real-time metrics are the 'snapshots' which can act as warning signs that a process may be about to go horribly wrong (for example a sudden drop in incoming applicants), while forward-looking metrics extend current and historical trends into the future to enable contingency planning.

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[6] Ibid

[7] Bedore, K., March 2003, 'Analysis Paralysis', *erdaily*, retrieved May 2004

[8] Boudreau, J. W. & Ramstad, P. M., January / February 2004, 'Talentship: a decision science for HR', *Strategic HR Review*

[9] Sullivan, J., November 2003, 'The Status of Metrics: A Look at Top Issues Facing Retail Organizations', *erdaily*, retrieved April 2004

[10] Ibid

[11] Adler, L., June 2003, 'Using Metrics to Create a Six Sigma Hiring Process', *erdaily*, retrieved April 2004

[12] Adler, L., November 2003, 'Why Forward-Looking Metrics are Needed in a Changing Economy', *erdaily*, retrieved April 2004

In order to present a comprehensive picture, your chosen metrics suite should ideally contain all three types of figures, though the exact proportions will depend on your industry type and strategic business objectives.

5. Establish a benchmark

The current state of affairs should be measured so that the future impact of any changes can be assessed. You may have some idea where you're heading, but if you don't know your starting point on the map you're still very likely to get lost. You could also look at benchmarking your organisation against other similarly sized organisations or industry 'best of breeds'. For more information on industry benchmarking, try the Saratoga Institute (www.saratogainstitute.com) or, for a more UK-centric perspective, The Benchmarking Centre (www.benchmarking.co.uk).

6. Integrate data collection into existing workflows

Avoid burdening staff with extra workloads. Data should be collected automatically without the need for manual maintenance of parallel systems, otherwise you will decrease the chances of collecting a comprehensive set of data [13]. This is the arena in which Enterprise Resource Planning (ERP) and Applicant Tracking Systems (ATS) have a key role to play, especially when the organisation has departments scattered across the globe. The latest HRIS make it possible to data mine in a way that would have been inconceivable as little as 15 years ago.

7. Allocate resource for analysis

Only by undertaking rigorous analysis will HR be able to transform data into meaningful and valuable strategic information. However, avoid 'paralysis by analysis': make the results too complex and they may be dismissed out of hand as being too scientific or too academic [14]. Graphical representations with short textual summaries make for greater accessibility and readability.

8. Have the power to act

The gathering of metrics is a futile exercise in administration if HR lacks the teeth to act promptly on the findings. For example, if the metrics indicate that retention rates would be dramatically improved by increasing performance-related bonuses but HR has no means of prompting this remedial action, then a potentially valuable tool has been wasted.

9. Close the loop

Good business practice stipulates that all business processes and procedures should be subject to periodical review. The gathering of metrics should be no exception. When initially defining the metrics suite, ensure that a review date is built in. For seasonal cycles (for example, graduate recruitment), it would be advisable to build up statistics over a number of years. If a metric is enhanced following a review, make this clear in all future reports so that readers analysing historical trends are under no illusion as to what they are comparing.

So, you've followed the nine steps outlined above and, let's face it, none of the suggestions needs a degree in Statistics to implement. Surely every organisation worth its salt will have been rushing to implement metrics initiatives based on such sound common sense, right?

Wrong.

While a number of organisations have come to concede that metrics have a role to play in the basic operational arena, many are missing the strategic potential. A recent survey of

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[13] Lermusiaux, Y., November 2003, 'Metrics in Centralized and Decentralized Staffing Functions', *erdaily*, retrieved May 2004
[14] Szary, D., June 2003, 'Metrics for Dummies', *erdaily*, retrieved April 2004

HR practitioners found that while 76% of respondents stated the goal of improving retention rates, only 39% actually tracked turnover. 56% had a strategic business objective of lowering staffing costs, yet only 29% actually tracked the cost of each hire [15].

The prospect of taking real competitive advantage is very much alive and should be extremely enticing. Once you've seen the effect on your bottom line and you've had other organisations approaching you in order to benchmark against your HR practices and procedures, then you can then feel justifiably satisfied that you've used metrics to take the strategic initiative.

Sources

The following sources are suggested for further reading:

Deploy Solutions White Papers
Electronic Recruiting Exchange (www.erexchange.com)
HR.com (www.hr.com)
iLogos Research (www.ilogosresearch.com)
Saratoga Institute (www.saratogainstitute.com)
Strategic HR Review (www.researchandmarkets.com)
The Benchmarking Centre (www.benchmarking.co.uk)
The Conference Board (www.conference-board.org)

About the author

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[15] 'Internal Mobility', *iLogos Research*, 2003