



An Examination of the Efficacy of Human Resource Metrics

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ABSTRACT

Human resources (HR) Metrics have become increasingly significant across organizations of all sizes, sparking growing interest. Organizations are actively seeking insights into these metrics and their potential to improve organizational effectiveness. While the use of HR Metrics is not new, several factors have contributed to increased interest in the past decade. These metrics serve as tools to assess the effectiveness of various HR responsibilities and initiatives, such as recruitment, employee retention, training, and labor costs. The primary objective of this paper is to review existing literature on HR Metrics, analyzing how different authors in the field have studied and evaluated them. The focus is on the current state of HR Metrics and their effectiveness, drawing data from various sources, including books, journals, websites, and newspapers

Keywords: Human Resources Metrics, HR Analytics, Key Performance Indicators (KPIs), Workforce Metrics, Talent Management Metrics

1. Introduction

Human resources (HR) metrics have emerged as a significant focus in organizations of all sizes, with growing interest prompting entities to delve deeper into metrics and their potential to improve organizational effectiveness. Although the use of HR metrics is not new, several factors have led to increased interest over the past decade. The field of HR metrics is currently undergoing a transition. Historically, over the past 30 years, most medium to large organizations conducted HR assessments, but these efforts lacked systematicity. Due in part to associated expenses, assessments were limited to a sample of activities and often concentrated on a limited set of metrics. However, recent developments such as robust computer-based communication infrastructures and increased access to data through integrated human resource information systems have prompted organizations to adopt more consistent and systematic reporting of HR metrics.

HR metrics are often underestimated or overlooked in many organizations, which is a mistake, as these metrics play a crucial role in evaluating the efficiency of HR policies, programs, and initiatives. The fundamental principle of HR metrics is that any aspect taken up for assessment or implementation must be measurable.

The value of metrics:

- Measure employee contributions and predict performance quality
- Explore evidence-based relationships between employee engagement and learning and development
- Retain and engage top talent by employing tools to anticipate future success
- Implement process mapping across HR for effective hiring and onboarding
- Communicate relevant and actionable data to top management
- Strategize optimal measurement methodologies and allocate resources to create value for stakeholders such as customers, investors, executives, and employees.

2. Literature Review:

Kaplan and Norton's (1996) proposition challenges the traditional notion of HR Metrics as mere assessment tools, positioning them instead as operational manifestations of theories elucidating how human contributions propel organizational success and how corresponding HR investments facilitate that success. This perspective significantly enhances the evolving understanding of the multifaceted role of HR Metrics.

Abrahamson's (1991) perspective underscores the significance of HR Metrics in generating value through enhanced decision-making. The focus on decision enhancements carrying substantial value and the necessity to justify the costs associated with metrics resonates with the broader discourse on optimizing organizational processes.

Treacy and Wiersema's (1997) exploration introduces the concept of "strategic reference points" in evaluating strategic options. Their observation that the selected metric can influence the strategic response underscores the intricate interaction between HR Metrics and strategic decision-making, providing valuable insights for organizations navigating complex strategic landscapes.

Boudreau's (1996) examination of HR Metrics delves into their potential to either create value or cause harm based on their effects on key stakeholders. His advocacy for adopting a "choice" model in HR measurement, where systems are chosen with communication goals and anticipated receiver responses in mind, enriches discussions on the strategic utilization of metrics.

Collectively, these diverse viewpoints contribute to a nuanced understanding of HR Metrics, emphasizing their role in decision-making, strategic alignment, and value creation within organizations. As organizations increasingly acknowledge the importance of HR Metrics, these scholarly perspectives offer a sturdy foundation for further exploration and practical implementation in the dynamic realm of human resources management.

3. OBJECTIVES:

The present research seeks to investigate the following areas:

1. The importance and benefits of utilizing HR Metrics.

Factors considered in developing and executing metrics.

The importance, historical background, and function of HR Metrics.

Selecting HR Metrics pertinent to today's business landscape.

Five key principles of best practices, essential success factors, and common mistakes linked with HR Metrics.

4. RESEARCH METHODOLOGY

The study predominantly depends on secondary sources, including books, published materials, and reports, for data collection.

5. IMPORTANCE OF HR METRICS

HR Metrics often go unnoticed or are undervalued in many organizations, which is a mistake, considering their crucial role in evaluating the efficiency of HR policies, programs, and initiatives. The fundamental concept behind HR Metrics is that any aspect taken up for assessment or implementation must be measurable. Quantifiability or measurability is essential for gauging the effectiveness of HR Metrics, as subjective or personal assessments lack utility. Different HR managers may have varying perspectives on an HR initiative. The foundation of HR Metrics lies in a comprehensive understanding of the organization and its business. Framing HR Metrics requires a thorough consideration of factors such as business objectives, strategies, and imperatives. When creating HR Metrics, factors like the risks and opportunities the business faces must be taken into account.

A key insight is that HR Metrics are not developed in isolation; they result from an understanding of various departments. They need to be comprehensive, a product of proper interaction, and an understanding of all aspects of the business. Thus, HR Metrics must be solidly created and well-rounded. Input from all stakeholders is crucial to serving the purpose of fostering decision-making. Another vital aspect of HR Metrics is not just about stating intentions. If no actions follow pronouncements and intentions, they remain only on paper and are of no effective use.

Furthermore, HR does not need to create an excessive number of HR Metrics. These metrics must be action-oriented, leading to the fulfillment of goals. It is essential for HR to be conceptual and create practical and achievable HR Metrics. Creating numerous HR Metrics with little accountability or ability for accomplishment is futile. The primary purpose of HR Metrics is to help understand how human capital in the organization can be directed and utilized to help the organization reach its goals in relation to business and hiring practices. The way an organization identifies and prioritizes its HR Metrics indicates its most important objectives. HR Metrics should be designed to lead the organization towards the attainment of objectives, allowing for true testing of their effectiveness and providing insights or pointers to help achieve set goals.

6. HISTORY OF HR METRICS

HR Metrics are often overlooked or underestimated within many organizations, yet they play a vital role in assessing the effectiveness of HR policies, programs, and initiatives. The core principle underlying HR Metrics is the necessity for measurability in any aspect targeted for assessment or implementation. Quantifiability is crucial for evaluating HR Metrics' effectiveness, as subjective assessments lack practicality. It's important to recognize that different HR managers may hold varying perspectives on an HR initiative. The foundation of HR Metrics lies in a deep understanding of the

organization and its business context. Developing HR Metrics requires careful consideration of factors such as business objectives, strategies, and imperatives, while also taking into account the risks and opportunities faced by the business.

A significant insight is that HR Metrics should not be developed in isolation but should result from a comprehensive understanding of various departments. They need to be comprehensive, resulting from thorough interaction and understanding of all business aspects. Therefore, HR Metrics must be well-rounded and solidly constructed, with input from all stakeholders essential for facilitating decision-making.

Moreover, it's crucial for HR Metrics to go beyond mere statements of intent. Without subsequent actions, these intentions remain theoretical and lack practical utility. Additionally, HR should avoid creating an excessive number of metrics. Instead, HR Metrics should be action-oriented, leading to goal attainment. They should be conceptualized to be practical and achievable, as creating numerous metrics without accountability or feasibility is counterproductive. The primary objective of HR Metrics is to understand how human capital within the organization can be leveraged to help achieve business goals. The identification and prioritization of HR Metrics reflect the organization's most critical objectives. Therefore, HR Metrics should be designed to guide the organization towards goal achievement, enabling true assessments of their effectiveness and offering insights to aid in reaching set objectives.

7. FACTORS CONSIDERED IN DEVELOPING & DEPLOYING METRICS

In crafting, implementing, and managing metrics, a pragmatic approach involves several steps:

a. Simplify:

Ensure clarity and comprehensibility of the metric throughout the organization, including defining the metric, explaining calculation methods, identifying data sources, specifying ownership, and establishing update and review frequency.

b. Establish Significance:

Connect the metric to a business priority or strategy to demonstrate its importance. Aligning with the Balanced Scorecard approach (Financial, Customer, and Business Process) is beneficial.

Illustrate the metric's significance by asking questions such as:

Do we have sufficient skilled employees for current and future workloads?

Do we possess the right workforce?

Do we maintain an engaged workforce?

Have we identified High Potential Employees and are there risks of losing any?

c. Promote and Communicate:

Actively promote and communicate the metric throughout the organization to ensure widespread understanding of its importance.

d. Involve Key Stakeholders:

Engage key stakeholders from the outset to secure buy-in and clarify the metric's meaning and expectations.

e. Emphasize Quality over Quantity:

Prioritize the quality of metrics over quantity. Continuously assess the relevance and significance of chosen metrics through pertinent questions.

8. BENEFITS OF HR METRICS

- Metrics drive continuous improvement initiatives.
- Metrics provide focus to key areas.
- Metrics guide financial allocation, aid in deciding which activities to cease, and determine areas worthy of recognition.
- Metrics eliminate ambiguity, clarifying the importance of what is measured and rewarded.
- Metrics contribute to improved relationships with the Chief Financial Officer (CFO) and Chief Information Officer (CIO).
- Metrics foster coordination and cooperation.
- Metrics boost self-confidence.
- Metrics enable HR to present evidence of its strategic impact.
- Metrics showcase the tangible impact of HR programs.

- Establish a HRM business value chain.
- Metrics ensure alignment of actions with goals and customer needs.
- Metrics enhance perceived expertise.

9. SELECTING HR METRICS THAT MATTER IN TODAY'S BUSINESS ENVIRONMENT

The most impactful HR metrics for employers today are contingent on the current business environment. While some metrics should align with industry trends, others should be based on factors specifically significant to business objectives rather than solely on prevailing trends. Ultimately, impactful metrics arise from a combination of adoption and reflective trends.

Once tailored metrics are identified, recognizing that their value increases significantly when measured over time is essential. Short-term actions may be plausible, but formulating plans encompassing both short and long-term goals through incremental steps is often more effective. Significant changes usually require careful planning and implementation, allowing validation with more data over an extended period.

In today's competitive talent market, metrics revolving around talent acquisition, retention, and engagement are crucial. Awareness of measuring success in these areas is paramount as competitors vie for talent. Various HR metrics examples are relevant today, with some gaining greater significance depending on the organization:

- a) Turnover Rates
- b) Early Turnover Rates
- c) Time to Hire
- d) Revenue Lost Due to Position Vacancy
- e) Cost Per Hire
- f) Number of Applications per Position
- g) New Employee Performance
- h) Revenue per Employee

These HR metrics serve as crucial tools for well-performing organizations, offering a basis for comparison with others, regardless of size or revenue differences. Chief Executive Officers (CEOs) and Chief Human Resources Officers (CHROs) collaborate to select, understand, and improve these metrics, aligning them with the organization's goals. The strategic use of HR metrics is instrumental in achieving organizational objectives.

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 onboarding 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

10. CRITICAL SUCCESS FACTORS FOR HR METRICS

- Demonstrates HR's tangible value.
- Possesses the ability to interpret human capital status results meaningfully.
- Emphasizes that measurement, assessment, and evaluation contribute to sustainable organizational performance, focusing on the entire HR system, not just individual HR practices.
- Highlights the importance of HR capability.
- Advocates against relying solely on point-in-time measurements.

11. SUCCESS OF HR METRICS

A point-in-time measurement often lacks significance unless compared to a set standard, benchmark, or viewed within an emerging trend. Placing it in the appropriate context, asking pertinent questions, framing results, and striving for improvement ensures a comprehensive story.

12. COMMON ERRORS WITH HR METRICS

- Developing an excessive number of metrics that are challenging to maintain and utilize.
- HR teams often lack analytical thinking, hindering more data-driven decision-making.
- Developing and implementing HR metrics in isolation

13.CONCLUSION

- The selection of impactful HR metrics should consider both the current business environment and critical factors specific to the business.
- HR metrics and measures serve as a strategic tool for organizations of all sizes to improve their people management practices.
- HR metrics play a significant role in demonstrating their impact to key decision-makers.
- Designing relevant HR metrics requires careful consideration and alignment with business objectives to ensure that investments in HR processes yield tangible business outcomes.
- While measures of effectiveness and impact are crucial for leadership groups and the organization as a whole, a few key efficiency indicators are necessary for evaluating cost-effectiveness.
- Leading companies dive into metrics at a deeper level, effectively conveying insights to decision-makers.

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