HR Measurement and Metrics
Gaining HR a Seat at the Strategy Table

BIRKMAN
Reaching Further
Executive Summary

HR executives long for a seat at the strategy table, but they are not yet consistently delivering the bottom-line data on human capital management necessary to support an enterprise-level strategic role.

Over the last few years, HR technology, specifically HRMS (human resource management systems), has been widely promoted to increase the efficiency and effectiveness of HR departments. However, despite the availability of a “container” capable of holding meaningful measurements and metrics, the actual development and utilization of measurement and reporting practices appears to be lagging. This is in contrast to other measurement and data-capture processes that appear to be increasingly driving business performance management in other segments of the enterprise, such as sales, finance and logistics. Lacking data, HR professionals appear to be out of alignment with senior management and enterprise leaders. Hence, having a seat at the strategy table is not yet a widespread reality for HR professionals.

Even when enterprises—whether for-profit or non-profit, large or small—are using an HRMS, it is likely that they have not implemented all of the robust features and functions of these systems and thus are also dependent on non-integrated, stand-alone record-keeping and reporting systems such as manual reports or Excel™ spreadsheets. This reduces the visibility and accessibility of the information to senior management and keeps the data bottled up in the HR silo. Our survey indicates that the lack of an HR-specific enterprise data-collection and reporting tool correlates with a low level of measurement and metric development and utilization.

Based on our survey, the most commonly recorded and reported measurements are largely tactical and transactional in nature. These include performance appraisals, health care costs per FTE and turnover rate. To a lesser degree, absence rate, cost per hire, employee productivity and workers’ compensation costs are recorded and reported, but by a minority of the survey sample (see Figure 1 on page 4).
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HR Metrics: A Much-touted and Underutilized Initiative

One of the most discussed topics in the HR industry today is metrics and measurement. From professional organizations like the Society for Human Resource Management (SHRM) and the Human Capital Institute (HCI) to HR gurus and white papers from management consulting firms like Deloitte Consulting, the topic of metrics is covered extensively. This report explores the functions, endeavors and initiatives currently measured by HR professionals and senior management, the diverse methods used to capture and record those metrics, the audience for those metrics and the influence those metrics have on enterprise strategies.

The trends in metrics discussed herein are supported by the “Birkman Metrics Survey” conducted by Equation Research during the fourth quarter of 2007 and first quarter of 2008.

HR Functions and Initiatives

Figure 1: Measurements routinely taken in respondents’ organizations

Currently Measured

While few organizations have transitioned to a more robust portfolio of HR measurements and reporting, more than 85 percent of organizations surveyed do track HR data and use that data to measure their organization’s performance and profitability as it relates to HR. The HR measurements most routinely performed and recorded on an individual FTE basis are performance appraisals and exit reports (see Figure 2). Personality assessments, although not a metric per se, are also routinely performed and recorded (see Figure 2). The methods to keep such data, however, vary greatly by organization size and by which part of the enterprise to which HR ultimately reports (see Figures 10 and 11 on page 12).

The distinction between performance appraisal and performance management

While performance appraisal is a universal...
function of HR and commonly recorded and stored manually, performance management is a far more complex practice that can yield increases in employee performance and ability. However, performance management is occasionally utilized and rarely standardized within an organization without an HRMS in place. Appraisals are usually performed one-on-one and have a relatively universal set of metrics across an enterprise, even across an industry type. Appraisals, as fair and objective as professionals might design them to be, also have a subjective quality of human judgment attached to them because an employee’s immediate supervisor usually grades the employee. Performance management, in contrast, is the process of assessing progress toward predetermined goals and then building on that process, adding the relevant communication and action on the progress achieved. In organizational development (OD), performance can be thought of as actual results versus desired results. Any discrepancy where actual is less than desired, could constitute the performance improvement zone. Performance management and improvement can be thought of as an ongoing management process with regular and periodic feedback.

Although the current study did not ask specifically about performance management, it is a conventional standard that some form of enterprise-wide management information system (an enterprise resource planning system or HRMS) is a requisite for linking performance appraisals into strategic planning. As demonstrated in the graph below, a recent study performed by The Conference Board showed that most HR professionals link people measures to key performance indicators moderately well, and only 25 percent said they could link the two with a degree of success.

This is consistent with the findings of this study. The overall percentage of enterprises surveyed in this study, in which 46 percent of respondents store performance appraisal in such a system (see Figure 6).

Performance management is an area where OD has a direct counterpart in and, in fact, is a part of business performance management (BPM).
Human capital is defined in broad terms as the time, talent, skills, knowledge and enthusiasm that people invest in their work.

HR’s Tie to Business Performance Management

BPM is a set of processes that help businesses discover efficient use of their business units, financial, material and human resources. Simply put, performance management helps organizations achieve their strategic goals. In the world of talent management, this would be organizational focus on the truly critical roles—identifying high performers and fostering methods to produce them. By identifying current high performers, HR can begin to design learning programs that will help improve the performance of the entire business.

Less frequently employed metrics are human capital value add (7 percent), vacancy costs (11 percent) and yield ratio (13 percent). Unfortunately, it is the latter metrics (human capital value add, vacancy costs and yield ratio) that have just as strategic a relevance to BPM as the more commonly captured and reported measures in Figure 1.

Just less than a third of respondents measure employee productivity (29 percent). This is an area of necessary improvement because the best measure of overall HR success is, in fact, workforce productivity. According to Deloitte Research, organizations today face an acute shortage of critical talent with the necessary skills to drive above-average business performance. In a 2004 Accenture High-Performance Workforce study, 70 percent of executives rated improving worker productivity as a top HR priority, but only 6 percent said they were satisfied with progress at their organizations. As a result, companies face a new imperative to improve employee productivity by taking a business-operations-centric approach to workforce performance and talent management.

In the current study, those HR professionals reporting to the CFO or the COO are 20 percent more likely to have adopted a full-scale HRMS to capture and report the necessary metrics tied to executive initiatives than those who maintain their own departmental data. Once again, having HRMS functionality available is a positive indicator that HR is being tasked to measure performance according to a fixed standard and to report it higher up the management chain.

Operations and finance departments are typically relied upon in any organization for key measures of organizational performance. However, many professionals in these areas fail to completely take advantage of the opportunity to measure the impact of talent or human capital on organizational performance. Operations and finance professionals may sometimes struggle with exactly how to measure intangible assets.

HR guru John Sullivan opines there are two common errors in designing HR metrics methods:

1. Developing and implementing HR metrics in a vacuum
2. Developing more metrics than it is feasible to maintain and utilize

The most common error is that of HR managers trying to create and implement metrics in a vacuum. Instead, he recommends a collaborative approach, in which the HR professional takes a list of strategic HR metrics that HR believes in and can live with to the CFO and let him or her select the specific ones that are most likely to measure business impact and be easily understood and considered strategic by top management.

Record-keeping Best Practices vs. Common Practices

While many solutions have been introduced in the past five to 10 years to capture human capital data on an enterprise-wide basis and use it to generate metrics relevant to both HR and the executive team, the continued underutilization of such systems is evident in both the HR marketplace at large and among the survey respondents. Most talent management solution providers have a standard set of metrics or outputs that they offer with the implementation of their systems. The organizations most likely to purchase such systems are those with the largest and most distributed workforces and thus have the greatest need for automation in the HR process. As expected, a higher number of employee metrics and HR metrics are measured in larger enterprises than smaller ones (determined by number of employees). The following three graphs show the measurement and reporting methods for storing health care costs, HR department spending and workers’ compensation costs (see Figures 3, 4 and 5). Microsoft Excel™ is the most common method for recording and reporting. This means that the most commonly measured and recorded HR metrics are only available within the HR department and are not part of a comprehensive

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Figure 3: How respondents store information about health care cost per employee

Figure 4: How respondents store information about HR department spending per FTE
reporting tool that can generate the human capital information executives desire. Thus, through the lack of technology utilization, HR professionals may be barring themselves from a strategic position and a seat at the executive table. It is also arguable that using non-enterprise technology like spreadsheets encourages silo behavior, providing information only when requested, a lack of transparency and even a gatekeeper mentality, which is often contrary to best practices at senior levels of organizations. In our study, HR department spending per FTE (45 percent), prorated merit increases (37 percent), vacancy rates (42 percent) and cost of labor by geographical location (44 percent) are the metrics more commonly reported by large enterprises (those with more than 10,000 employees) than smaller organizations. With the exception of vacancy rate, a lower number of non-profit organizations reported capturing and reporting these activities or data (10 percent).

Current Data-Capture and Reporting Methods

The attention to cost reduction in every department, but especially on an organizational level, has caused organizations to look at ways in which existing HR processes could be streamlined through technology improvements or outsourcing. Deloitte Consulting has termed this as the “first generation” of a human resources transformation. In general, a number of different data-capture methods are used. The most common are manual reports, Excel™ spreadsheets and HRMS. Less common, but still reported by some, are proprietary management information systems (MIS), enterprise resource management systems (ERP) and simple databases such as Microsoft Access™.

Where HR data resides

The larger the organization, the more likely they are to store reporting in an HRMS or an MIS. The smaller the organization, the more likely they are to depend on manual reports and Excel™ spreadsheets. However, organizations of all sizes have some dependence on Excel™ and manual reports for record keeping. (See Figures 6 and 7 on next page.)

Who evaluates the data

The largest faction of respondents indicated that HR is answerable to the CEO of their organization (40 percent), and more than a third...
Figure 6: How respondents store information about performance appraisals (segmented by company size)

Figure 7: How respondents store information about exit reports (segmented by company size)
said HR answers to the president of the company (36 percent). More than half of all respondents do not store enterprise data in a functional area other than HR that helps or enhances the interpretation of HR data or connects the data directly to BPM. The larger the organization, the more likely enterprise data is stored in such a functional area or database. (See chart below for more information.) Of those respondents who store enterprise data outside of the HR department’s internal systems, almost two-thirds reported that the data resides in the finance department (61 percent), and 22 percent say it is located in operations (see Figure 8 below).

Criteria for metrics relevant to enterprise strategy

Without a standard or benchmark, no matter what is measured, the metrics do not mean anything. Jeanne Hugg, director of HR for Avalon Pharmaceuticals in Gaithersburg, Md., 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-add is,” said 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.”

Though standards are evolving, simple figures will not 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 professionals decide not only what to measure, but also how to interpret the data when compared to benchmarks and how to improve its methodology to get the kind of information the organization can use to achieve its overall goals (see Figure 9 on next page).

Of those companies that use industry benchmarks or standards, the most common sources to access them are SHRM (58 percent), market intelligence/competitive intelligence (55 percent) and industry publications (50 percent).

Market intelligence or competitive intelligence (that is, the organization compares its performance against world-class performers) is generally accepted as a best practice in benchmarking. This can take the form of cross-company comparisons in which the organization compares its performances against others in their particular market.

HR management consulting firm ProOrbis recommends that organizations look at four broad areas: effectiveness, efficiency, cycle time and integration. Some common human capital metrics that are used across industries include: revenue per employee, profit per employee, number of employees per HR staff, cost of compensation compared to total operating expenses and cost of the

Figure 8: Does your company have enterprise data stored in a functional area or database other than HR (such as finance or operations) that enhances or helps in the interpretation of HR data?
HR department compared to total operating expenses. In all cases it is extremely important that whatever is measured can be linked back to the organization’s overall strategy and objectives. Sound metrics are the key to getting finance and operations to recognize the value in human capital.

Three-hundred-and-sixty degree reviews are an established method for team building and OD. Figure 10 on the next page shows how these kinds of reports are stored within the enterprise. One of the most powerful tools available to managers for enhancing communication and minimizing misunderstanding among types is personality assessment. Personality assessments are seemingly bottled up in HR and not widely available to managers who might use the information they hold and are not finding their way into the enterprise-wide data warehouse, as shown in Figure 11 on the next page.

Metrics for Future Growth

In both the vanguard HR leaders and the best practices recommended by industry experts,
Figure 10: How respondents store information about 360-degree reviews (segmented by company size)

Figure 11: How respondents store information about personality assessments (segmented by title)
there is a movement from HR metrics to human capital metrics. Well-known researchers and academics have posited that the essential difference between human capital and HR measures is this: that human capital measures are those that determine and predict future business results, according to Laurie Bassi of Accenture. HR measures tend to look inward toward what the HR department is doing, whereas human capital measures look outward toward the whole enterprise, according to Jac Fitz-enz of the Saratoga Institute. Since the 1990s, organizations have been attempting to restructure HR to drive cost reductions and performance improvements. As business needs continue to change at a rapid pace, business leaders have been exploring ways to maximize the impact of human capital and to align HR processes with the overall business strategy. According to The Conference Board’s study, “CEO Challenge 2006,” top business leaders are most concerned about sustained and steady top-line growth and profit growth (37.5 percent and 36.1 percent respectively—see chart below). However, improving productivity and stimulating innovation, those initiatives most clearly within the domain of HR, are also important to executives (20.3 percent and 23.9 percent respectively).

Some ways in which HR can address these concerns directly include: sourcing critical

<table>
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<tr>
<th>Percentage citing challenge as</th>
<th>Percentage of greatest concern</th>
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</thead>
<tbody>
<tr>
<td>1 Sustained and steady top-line growth</td>
<td>37.5%</td>
</tr>
<tr>
<td>2 Profit growth</td>
<td>36.1%</td>
</tr>
<tr>
<td>3 Consistent execution of strategy by top management</td>
<td>33.4%</td>
</tr>
<tr>
<td>4 Speed, flexibility, adaptability to change</td>
<td>33.1%</td>
</tr>
<tr>
<td>5 Customer loyalty / retention</td>
<td>29.4%</td>
</tr>
<tr>
<td>6 Stimulating innovation / creativity / enabling entrepreneurship</td>
<td>23.9%</td>
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<tr>
<td>7 Corporate reputation</td>
<td>22.9%</td>
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<tr>
<td>8 Speed to market</td>
<td>22.7%</td>
</tr>
<tr>
<td>9 Product innovation</td>
<td>20.3%</td>
</tr>
<tr>
<td>10 Improving productivity</td>
<td>20.3%</td>
</tr>
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</table>

Relative ranking of the concern

11 Ibid.
talent for growth, refocusing on supporting high-growth business units, helping business evaluate and implement outsourcing and offshoring, anticipating and addressing leadership talent gaps and aligning performance and rewards metrics with speed, flexibility and adaptability.

What HR Professionals See As Immediate Challenges

The second generation of measures (such as performance metrics, employee productivity, benefits awareness and training effectiveness) has become more established in the last five years, delivering HR business value as opposed to control and compliance, cost per hire, health care costs and workers’ compensation costs per employee. Third-generation metrics like training ROI, revenue factor and yield ratio will gain importance in the coming years. HR professionals can help their organizations remain competitive by aligning their processes and skills in such a way that all HR services and human capital metrics are working toward the overall business goals of the enterprise; this is, after all, the stated goal of CEOs.14

Five Years of Growth and HR Integration

The predicted trend in HR is to build upon what departmental managers are interested in to incorporate what interests top management—how human capital impacts the execution of strategy. The initial question focused on which human capital metrics to use; now the question is how metrics can help plan strategy. Frear wrote about it as a movement toward “transformative HR” wherein recognizable stages emerge, and the first stage in this transition is for the HR professionals to understand the business realities that the organization faces14 (see table below).

Initiatives like pay for performance, integrated development planning, performance-driven succession management, leadership development, workforce alignment and career development—those that are most closely aligned with corporate initiatives—are all difficult to execute without an integrated solution. Tremendous business improvements are possible with these new systems. Eighty-four percent of companies plan to increase human capital measurements in coming years.15

As we move into the future, HR professionals will be responsible for showing the value of human capital assets within the organization—both quantitatively and qualitatively—and for demonstrating ROI for human capital asset initiatives.16 Respondents to our study offered a variety of opinions when asked what HR metrics and which HR metric tools will be important in five years, but are not commonly in use today. Many responses reflected the talent management and thought-leader positions already outlined in this report. Perhaps among the most representative responses were:

“...”

“We have a tendency to focus on reporting measures as opposed to true analytics that answer the ‘so what’ questions related to strategy.”

“I believe that as HR metrics become standardized, business intelligence models currently applied primarily in marketing, customer service and finance will begin to find their way into the HR department and the HRMS data repository. That information will then be pushed out to line managers in the form of dashboards and scorecards, which will assist in the overall health and development of the organization through adequate resources and appropriate competencies.”

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organization.”

“Talent management of more senior workforce contributors to ensure organizations organically grow future workers with similar work ethics, values, morals, culture and passionate contribution. HR metrics tools must measure employee value and contribution towards the businesses success so future workers can be measured against such a standard of success.”

“I believe that HR needs to focus on metrics outside of HR to make the biggest impact on the corporation. HR (as a whole) needs to better understand each department and the organization as a whole before making strategic HR decisions. I believe HR will need to find creative ways to track the virtual workforce. It’s commonplace to support telecommuting and more metrics need to be in place when tracking those with flexible work schedules.”

“Training metrics—they are used but not to the level that they need to be to ensure readiness and productivity.”

“Varies by the company and its strategic direction. Is it growing, shrinking, adapting to changing demographics in clients and staff, etc.? The strategic HR executive will first understand the company objectives and link the HR objectives to them.”

Questions Worth Further Exploration

The findings in this study point toward issues and challenges in human capital management worthy of further study.

• What are the existing and potential hurdles to the alignment of HR with business objectives?
• Could it be that companies that have gone down the road of building sophisticated HRMS will wish they had spent more time on getting the logic of what to capture and report before they got bogged down in the collection of the data itself?
• What are the best practices to integrate leadership development initiatives into HRMS?
• What are additional and more detailed ideas about the application of HR metrics to CEOs’ most pressing concerns (as expressed in the cited study by The Conference Board)?
• Who are the next wave of adopters? Are they medium-sized enterprises?
• What is the current path toward full-fledged HRMS by the next wave of adopters?
• Do HR departments have a metric for performance appraisals and do they report this department or company wide?

HR needs to keep in mind that the goal is not human capital metrics, but rather information that will help us make better decisions. The use of manual reports and simple Excel™ spreadsheets as capturing and reporting tools may well be an expression of siloing processes and information. The adoption of HRMS will continue to migrate beyond the largest enterprises into a next adoption wave of medium-sized organizations; HRMS adoption in non-profits of medium size certainly heralds this.
Appendix

**Methodology**

Because of the large number of executives from small and medium-sized companies who participated in this survey and the proportional participation from large companies, we are 99 percent confident that the responses of the population to the survey questions would be +/- 6.6 percent from the figures stated herein.

The survey was sent via email to approximately 34,000 professionals during the fourth quarter of 2007 and the first quarter of 2008. The survey was live for 23 days, and a total of 385 respondents were considered to drive the results and conclusions of this report. Each respondent answered the questionnaire via an online survey tool and were assured of his or her confidentiality. Their responses have been used only in this aggregate analysis.

**Demographics**

More than 78 percent of respondents work in for-profit enterprises. Such enterprises are inclined to have trackable accountability as far as their processes are concerned. If the goal is profit, this is understandable. On the other hand, less than 22 percent of respondents work in non-profit enterprises such as foundations, government, academia or churches. This is a proportionally representative sample of HR professionals as a whole. Those enterprises have different goals, and tracking them may not be related to metrics such as ROI, yield ratio, revenue factor or training investment factor.
**Figure 17: Respondents’ title**

- Staff
- Supervisor
- Manager
- Senior manager
- Director
- Senior director
- Executive director
- Vice president
- Senior vice president
- Executive vice president
- President
- C-level officer

**Figure 18: Respondents’ role / specialty in HR**
About Birkman International

The Birkman Method® has been in use for more than 50 years and has been used by more than 2.5 million people and 5,000 organizations worldwide, including corporations, not-for-profit organizations, governmental agencies and individuals. The assessment accurately measures social behaviors, underlying expectations of interpersonal and task actions, potential stress reactions to unmet expectations, occupational preferences and organizational strengths.

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