

HR Best Practices –

Utilization of HR Metrics to Gain Leadership Team Respect

Much has been written about how today's CHRO has earned respect on the Executive Team over the last decade. Nothing has contributed to this more than today's top HR leader acting as a business person first and an HR "Professional" second. Further step one in this process has been for him/her to demonstrate the quantitative impact their function has on current business strategies and operating plans through creative, objective HR Metrics. Here are some of the ones employed by PRI on a daily basis:

- **Absence Rate** – Measures absenteeism

$$\Rightarrow \frac{\# \text{ of Days Absent in a Month}}{(\text{Ave. \# of EE's during mo.}) \times (\# \text{ of work days})} \times 100$$

⇒ Why used?

- If the Company has an absenteeism problem; and/or
- To analyze the effectiveness of the Company attendance policy and the effectiveness of management in applying the policy.

- **Cost Per Hire** – Identify the total costs involved with a new hire

$$\Rightarrow \frac{\text{Advertising costs} + \text{Agency Fees} + \text{Employee Referrals' Fees} + \text{Travel cost} + \text{of applicants \& staff} + \text{Relocation costs} + \text{Recruiter pay \& benefits}}{\text{Number of Hires}}$$

⇒ Why used?

- Determine what your recruiting function can do to increase savings and/or reduce costs, etc.

- **Health Care Costs per Employee** – Per capita costs of employee benefits

$$\Rightarrow \frac{\text{Total cost of health care}}{\text{Total \# of Employees}}$$

⇒ Why used?

- Indicates cost of health care per employee.

- **HR expense factor** – HR expenses in relation to the total operating expenses of the Company

$$\Rightarrow \frac{\text{HR expense}}{\text{Total operating expenses}}$$

⇒ Why used?

- Determine if expenditures exceeded, met or fell below budget; and/or
- Analyze HR practices that contribute to savings.

- **Human Capital ROI** – Return on investment ratio for employees
 - ⇒
$$\frac{\text{Revenue} - (\text{Operating Expense} - [\text{Compensation cost} + \text{Benefit cost}])}{(\text{Compensation} - \text{Benefit cost})}$$
 - ⇒ Why used?
 - Analyze causes of positive or negative ROI metric;
 - Use analysis as an opportunity to optimize investment with HR practices such as recruitment, motivation, training, and development.

- **Human Capital Value Added** – How employees add value to the Company
 - ⇒
$$\frac{\text{Revenue} - (\text{Operating Expense} - [\text{Compensation cost} + \text{Benefit cost}])}{\text{Total Number of FTE's}}$$

- **Revenue Factor** – Human Capital can be viewed as an investment
 - ⇒
$$\frac{\text{Revenue}}{\text{Total Number of FTE's}}$$
 - ⇒ Why used?
 - Indicate the effectiveness of the Company;
 - Showing employees as Capital can be viewed as an investment.

- **Time to fill** – # of days from which job requisition was approved to new hire start date
 - ⇒
$$\frac{\text{Total days elapsed to fill requisition}}{\text{Number hired}}$$
 - ⇒ Why used?
 - Determine efficiency of recruiting function; thus,
 - Process measurement.

- **Training Investment Factor** – Training cost per employee
 - ⇒
$$\frac{\text{Total training cost}}{\text{Headcount}}$$
 - ⇒ Why used?
 - First, training cost per employee;
 - Then, effectiveness of training (What is the Company getting for these training dollars spent?);
 - What has changed? ...productivity increased? ...accidents decreased? ...evaluate causes.

- **Turnover Costs** – Identify costs incurred whenever an employee leaves the Company
 - ⇒ Cost to terminate + Cost per hire + Vacancy cost + Learning curve loss
 - ⇒ Why used?

- Understand the impact of turnover;
- Use exit interviews to identify turnover trends; and
- Evaluate if HR practices are having a causal relationship in a positive way of changing costs of turnover.

- **Turnover Rate** – Measures the rate employees leave the Company

⇒
$$\frac{(\# \text{ of separations during the month})}{(\text{Ave. } \# \text{ of employees during the month})} \times 100$$

⇒ Why used?

- Calculate the rate employees leave;
- Compare the rate to national and industry-specific trends (using the Bureau of National Affairs [BNA] Report);
- Is there a trend? (increased/decreased?);
- Analyze what caused trends (via exit interviews, etc.); and
- Evaluate if HR practices have a causal relationship in positive changes.

- **Workers' Compensation Cost per Employee** – Use as a measure to show the cost of job related injuries

⇒
$$\frac{\text{Total Workers' Compensation for Year (or month)}}{\text{Average } \# \text{ of Employees}}$$

⇒ Why used?

- Use metric as benchmark to show casual relationship between HR practices (such as safety training, disability management, and incentives) and reduced workers' compensation accidents/costs.