



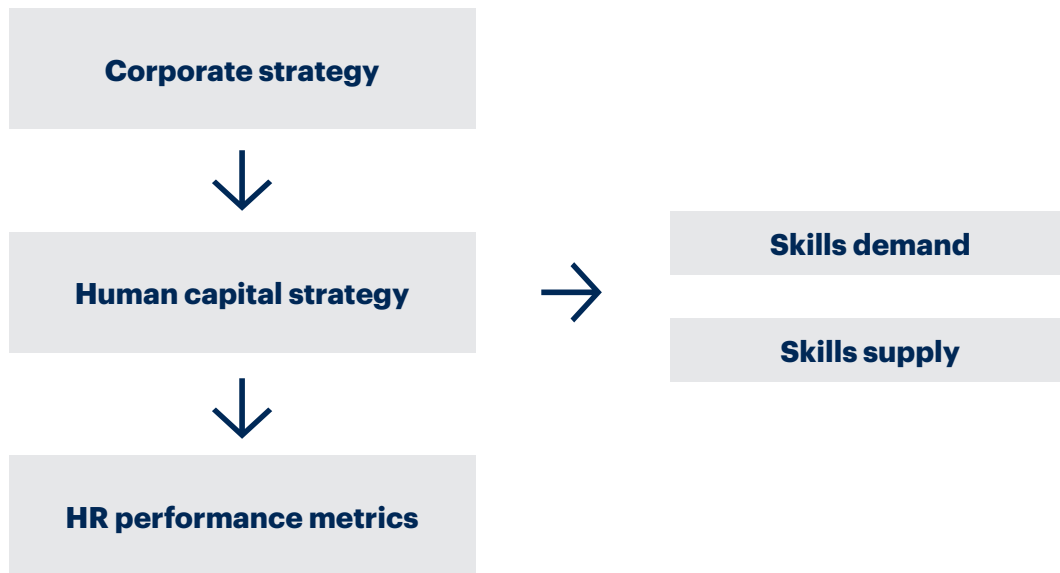
Gartner for HR

Selecting HR Metrics

Gartner®

Key Findings

With increased responsibility as a business partner, HR is being called upon to quantify performance in key HR functions to demonstrate organizational impact. HR leaders can accomplish this by tracking HR metrics that align with corporate strategy and inform business decisions. When appropriate HR metrics are selected and used consistently by an organization, HR can distinguish opportunities to improve workforce performance and productivity as well as identify HR areas that require cost control and increased efficiency.



Key Findings (continued)

HR metrics best diagnose and reveal organizational performance when aligned with the human capital strategy and, ultimately, the corporate strategy. The integrated case profiles from a large telecommunications company and a large automotive company detailed on the following pages offer structured processes for identifying HR performance measures or metrics through alignment with corporate and HR strategy, as summarized below:

Step 1: Assess business requirements for HR



Evaluate external information, interview line managers and executives, survey HR customers and collect HR leadership feedback to determine HR's responsibilities to the organization. These identified HR priorities and responsibilities inform the creation of HR's strategy.

Step 2: Identify measurement areas



Use a cascading process to align overall business goals with HR metrics. The cascading process allows for the categorization of broad business strategy into successive layers of HR objectives and actions until it is possible to identify detailed and specific measurement items.

Step 3: Translate raw data



Reveal volume, cost, time, satisfaction and quality information by expressing raw data in formulas, such as rates and ratios. Organizations can achieve greater insight into the business by segmenting measurements by dimensions such as organization structure, demographics, employment levels, functions and employee experience.

Step 4: Evaluate identified metrics



Develop a means to evaluate and prioritize metrics based on alignment with strategy, usability and ease of collection. Evaluating potential measures against this criterion helps HR select those metrics that will provide the greatest insight into the achievement of business objectives.

Step 1: Assess business requirements for HR

To evaluate its responsibilities and requirements, HR should examine competitors and the external market, soliciting input from HR leadership and line executives and reviewing corporate and business unit objectives and strategy. Identified people requirements can then be categorized (i.e., workforce development, labor relations, customer service, compensation and benefits) to form an HR strategy. The example below demonstrates how a large telecommunications company organizes identified HR responsibilities and requirements to support business strategy:

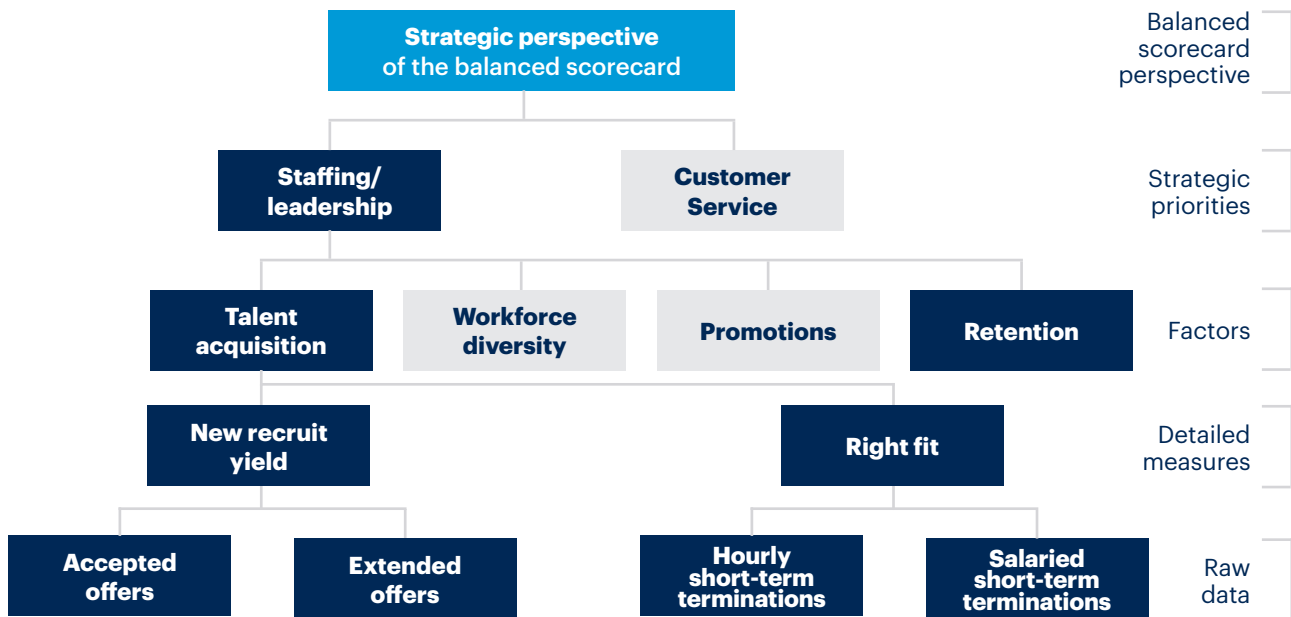
Figure 1: Sample HR priorities



Step 2: Identify measurement areas

Identification of strategically aligned metrics involves translating strategic priorities into HR goals and actions that are measurable and meaningful. At this large telecommunications company, an HR team evaluates priorities against four perspectives — strategic, operations, customer and financial — through a cascading process. The team uses an inverse “tree” to structure the dissection of high-level measurement items (i.e., HR priorities) into smaller pieces that, at the lowest level, yield raw data. This exercise links “real numbers” to more abstract measurement goals. Below, an illustrative tree examines goals through the strategic perspective:

Figure 2: Sample metrics identification tree



Staffing/leadership

The first level of the tree populates the strategic perspective with HR’s strategic priorities. This “layer” is identical across all four perspectives.

Talent acquisition

The next level down looks at the factors that affect each strategic priority.

New recruit yield

Factors are then broken down into their constituent parts, yielding detailed measures.

Accepted offers

At the bottom of the tree are the real numbers, those items of raw data that form the basis of the detailed measures.

Step 3: Translate raw data

Raw data identified through the cascading process described in Step 2 can be expressed “as is,” but can yield greater meaning and insight when expressed in relation to other measures or data such as time, employee population and expense. Developing these correlations through formulas can reveal volume, cost, time, satisfaction and quality information. For example, companies often express the number of terminations in relation to overall headcount to understand the rate at which employees leave the organization. Raw data can be organized by the following formula types:

Table 1: Formulas to express raw data

Formula type	Definition	Example
Rate	Proportion of one or more parts to a whole of 100%	<ul style="list-style-type: none"> • Turnover rate: Terminations/average headcount x 100 • Applicant interview rate: Applicants interviewed/total applicants x 100
Ratio	One number relative to another, often expressed as a reduced fraction	<ul style="list-style-type: none"> • Applicant ratio: Applicants/offers accepted • Average time to fill: Total days to fill a position/offers accepted
Composition	Breakdown of a whole into its parts, showing the number or percentage allocated to each	<ul style="list-style-type: none"> • Direct compensation breakdown: Compensation type (i.e., variable pay, overtime, base pay)/direct compensation expense x 100 • HR expense breakdown: HR function expense (i.e., benefits administration, payroll, staffing)/total HR expense x 100
Index	Weighted combination of disparate data into one number relative to a scale or anchor	<ul style="list-style-type: none"> • New hire performance satisfaction: An indication of how well recent hires are performing within their position based on survey results. • Manager Quality Index: A relative measure of employees’ perceptions of manager quality determined by survey results.

The relevance and usefulness of measurement results can be greatly improved if analyzed by particular employee populations or business unit groupings. Understanding how results differ across different populations or areas of the organization can help to isolate high-impact targets for intervention and can reveal behavior patterns across the workforce. Common analysis dimensions include the following:

Table 2: Segmentation categories for measurement analysis

Dimension	Definition	Example	
Organization structure	Hierarchies for reporting on or organizing departments and business units	<ul style="list-style-type: none"> Financial reporting Supervisory reporting 	<ul style="list-style-type: none"> HR responsibility Geographic location
Demographics	Analysis options that segment the workforce according to individual characteristics	<ul style="list-style-type: none"> Age Gender 	<ul style="list-style-type: none"> Ethnicity Education level
Employment levels	Analysis options that segment the workforce according to seniority	<ul style="list-style-type: none"> Employment level (exempt/nonexempt; hourly/salaried) EEO job category 	<ul style="list-style-type: none"> Manager level Compensation band Annual salary
Function	Analysis options that segment the workforce according to types of jobs performed	<ul style="list-style-type: none"> Job family Job title 	<ul style="list-style-type: none"> Employment type (regular/temporary)
Employment experience	Analysis options that provide details about an individual's experiences at the organization	<ul style="list-style-type: none"> Organization tenure Performance ratings 	<ul style="list-style-type: none"> Benefits participation Position tenure

Step 4: Evaluate identified metrics

Metrics that align with corporate and HR strategy must be easy to collect and report and should inform business decisions. To identify appropriate metrics, a large automotive company's HR group created a prioritization tool that evaluates potential metrics for their strategic alignment, quality (i.e., usability) and feasibility. First, metrics are divided into objective or contributory metrics that indicate contribution to achievement of business objectives. Next, metrics receive ratings related to five quality categories and three feasibility categories, as detailed below.

Figure 3: Definitions of usability ratings

Criteria	Quality category	Definition of category	Rating
Quality	Subjective metric	Metric cannot be communicated as a number. Subjective terms are used to indicate performance (e.g., employee morale).	0
	Quantifiable metric	Metric can be communicated as a number. A numeric goal can be established or trend goal visually apparent (e.g., hours of training).	1
	Results metric	Positive performance will directly affect company financial performance (e.g., gap between current and required workforce skills).	1
	Qualitative metric	Metric reflects the quality of performance (e.g., utilization of training).	3
	Predictive metric	Metric will "raise the red flag" when performance begins to deteriorate, allowing management an opportunity to put in place immediate countermeasures designed to reverse poor performance. Metric is conducive to problem solving and process improvement. Best-practice performance can be isolated, globalization practice implemented, and financial impact forecasted (e.g., strength of employment brand).	6
Feasibility	Easy to measure	Metric exists already or data to support metric is currently available.	1
	Moderately difficult to measure	Metric does not currently exist. Data must currently exist but is not readily available.	-1
	Difficult to measure	Metric does not currently exist. Data may not currently exist.	-2

Rating

One member of the HR planning team was tasked with developing metrics categories and assigning the ratings. These ratings are weighted based on the relative value and importance of the metric type for the company. Members of the metrics planning team may provide feedback on the categories and ratings.

HR considers predictive metrics considerably more valuable than other metrics because they allow management the opportunity to proactively identify business challenges or opportunities.

For ease of review and comparison, the company organizes ratings into a metrics decision matrix. As demonstrated below, HR totals the quality and implementation ratings for each metric to calculate an overall “comparative rating” for the metric. In addition, HR captures alignment of metrics with objectives by coding metrics as direct measures (X) or contributory measures (C).

Figure 4: Sample metrics decision matrix

Metrics rating categories		HR: FTE Ratio	New hire turnover	Turnover by employee segment	Employee productivity	Skills gap	
Objective 1			C	X		X	Step 1
Objective 2		X	C	X		C	
Quality/usability	Subjective						Step 2
	Quantitative	1	1	1	1	1	
	Results	1	1	1			
	Qualitative	3	3	3		3	
	Predictive					6	
Feasibility rating		1	1	-1	1	-1	
Comparative rating (quality total + feasibility)		6	6	4	2	9	Step 3

Step 1:

Each potential metric is compared against business objectives. Contributory metrics are designated with a “C” and direct measures are designated with an “X.”

Step 2:

Potential metrics are rated against quality and feasibility categories, as defined above.

Step 3:

A comparative metric rating is calculated by adding the quality ratings and the feasibility rating. This final number provides a simple means to compare the usability of all potential metrics.

About Gartner

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