FIVE FOUNDATIONAL METRICS FOR MEANINGFUL WORKFORCE MEASUREMENT INSIGHTS

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Report Highlights

The key to building an HCM measurement capability is a fundamental understanding of the difference between data and analytics, metrics and measures. This report will discuss those differences and how to use each effectively. It will also highlight five HR metrics every organization should be using that serve as the foundation for the production of more meaningful HR insights that move beyond the "what" and into the "why."

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Five Foundational Metrics For Meaningful Workforce Measurement Insights

How to Know the Difference Between Metrics, Measures, Data, and Analytics

In today's knowledge economy, studies have shown that the majority of an organization's value is in intangible assets. Included in the list of intangible assets in every organization are its people (human capital). Human capital represents the collective sum of the attributes of an organization's people, their experiences, knowledge, skills and capabilities.

Good managers know that measurement and management go hand in hand. In today's economic environment, however, a company's value depends less on tangible assets and more on intangible ones. Making matters worse are the staggering statistics demonstrating a shortage in critical talent within many organizations.

For example, in Aberdeen's 2013 manufacturing report, The Engineering Workforce Problem: Doing More with No More, research revealed that 62.2% (n=526) of organizations surveyed are concerned about a lack of qualified engineers available in the marketplace. In another Aberdeen report (2014), Move Beyond Just Scheduling to Drive Field Service Excellence, research showed that 60% of organizations are understaffed in "technical and high-skilled" positions. And most recently, research from Aberdeen's Human Capital Trends (2015) - The Age of Transparency is Upon Us revealed that 62.2% of organizations cite a scarcity of critical talent available in the external marketplace as the top pressure driving their organization's HCM strategy in 2015.

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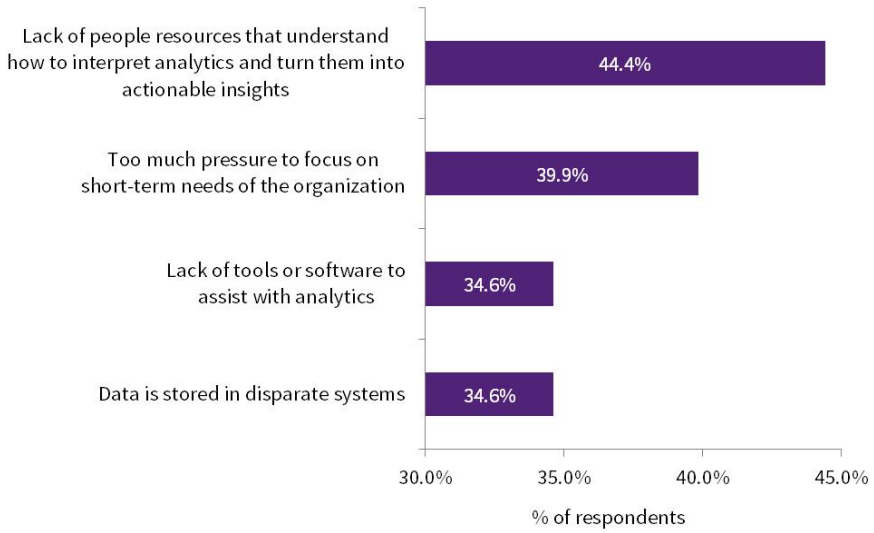
Additionally, the asset base with the greatest potential for adding value to the organization is also the most difficult to define, account for, and manage with precision. This is where human capital measurement becomes so important.

Recent Aberdeen research on talent analytics found that 44.4% of organizations (n=174) cite a lack of people resources that understand how to interpret analytics and turn them into actionable insights as the number one reason their HR function struggles with systematically using analytics (see Figure 1).

➔ Related Research "Three Pillars of Big Data Strategy: Trust, Availability and Speed"

Figure 1: Most Significant Barriers to Producing Workforce Analytics



n=174
Source: Aberdeen Group, April 2015

However, in the case of many organizations, especially those who are just getting started on their workforce or HR analytics journey, what is really holding them back is that they simply don't know where to start (see Figure 2 for Aberdeen's HR/Workforce Data and Analytics Maturity Model).

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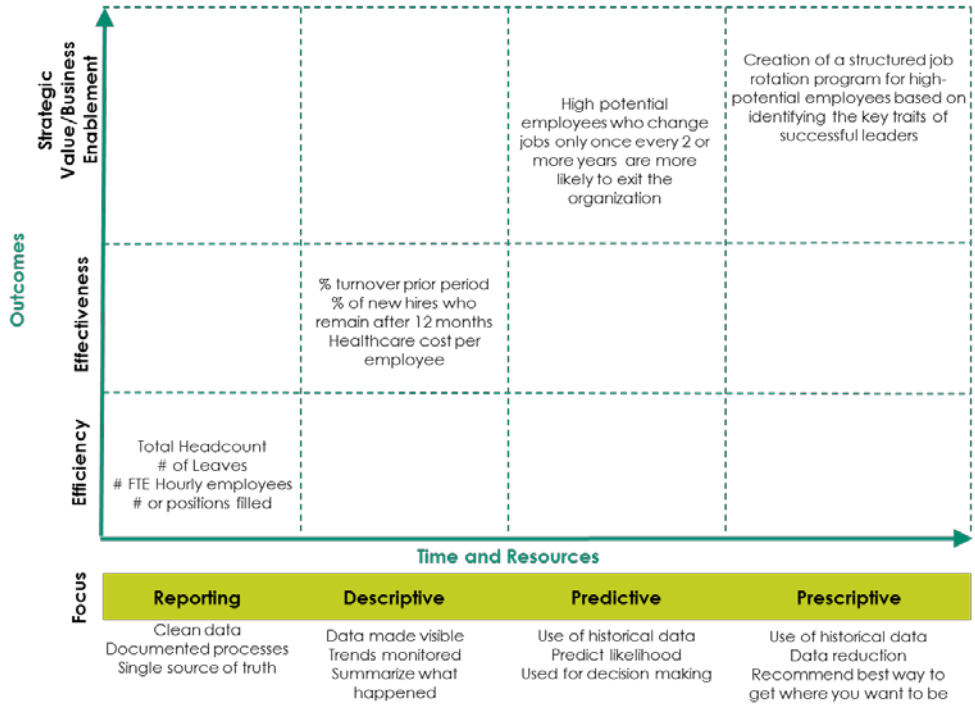
Compounding this problem is the continual reference to "Big Data." For many people, HR professionals included, the word "Big" is scary. Words like "veracity" and "velocity" don't help much either (see this Forbes article for more about these terms).

Figure 2 depicts the various levels of maturity in the use of HR data with specific examples of applications at each level, based on two dimensions:

1) X-axis - the amount of time and resources needed to produce HR data or analytics and the purpose for their use (Focus)

2) Y-axis - the primary high-level outcomes expected from the use of HR or Workforce Analytics (Outcomes)

Figure 2: Aberdeen's HR/Workforce Data and Analytics Maturity Model



However, before you can move to big data, you have to understand "little" data, which includes understanding the fundamental difference between data and analytics, metrics and measures, and knowing that none of these are statistics.

The remainder of this report will focus on highlighting the differences between them, and concludes with a list of the five foundational HR metrics every organization should be using.

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Metrics, Measures, Data and Analytics – Definitions and Examples

Metrics

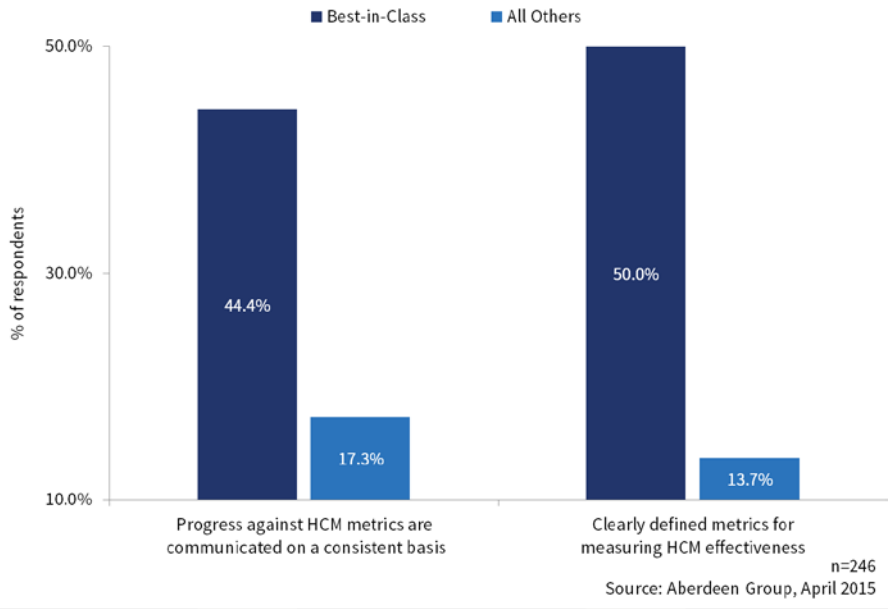
Metrics are defined as a system or standard of measurement. A metric refers to the actual reading on a measure at a given time. While there is an overlap between measures and metrics, what distinguishes them is important. Metrics describe a *quality* and require a measurement baseline (e.g., we have five more salespeople than we did yesterday), whereas measures are concrete, usually measure one thing, and are typically quantitative in nature (e.g. we have five salespeople today). Metrics provide a number of factors that can be measured to show how HR contributes to the business.

Clearly Defined and Well-Communicated HCM Metrics

Before organizations can evaluate the business value of their HCM initiatives, they need to define key metrics. Surprisingly few organizations, with the exception of high-performing companies, have clearly defined metrics in place. In fact, research from Aberdeen's most recent Human Capital Trends study reveals a substantial increase in the number of Best-in-Class with HCM metrics in place (see **Figure 3**). Currently, 50.0% of Best-in-Class organizations have defined metrics in place compared to 38.1% in 2014, while 13.7% of All Others (Industry Average and Laggards) have metrics in place compared to 28.9% of All Others in 2014. When defining metrics, organizations need to partner with the business to ensure that metrics reflect organizational objectives rather than HR objectives. These metrics may include customer satisfaction, customer retention, employee engagement, and retention.

In addition to clearly defining HCM metrics, Best-in-Class organizations are also 2.5 times more likely than All Others to communicate progress against HCM metrics on a consistent basis (44.4% vs. 17.3%). Frequent monitoring against progress is essential to ensuring the right things are being measured and are being communicated to the appropriate stakeholders so that they can make timely decisions.

Figure 3: Best-in-Class Use of HCM Metrics: Clearly Defined and Continually Monitored



Measure

Measures are the "standard units used to express the size, amount, or degree of something." Think of "measures" as the way in which we hope to quantify a particular **concept**, such as employee engagement or turnover. Measures require a clear operational definition, a method of calculating a quantitative number, and some related information (baseline, targets) that help frame the number. Measures also require a logical and analytical framework to support the assumptions being made.

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These analytics shed light on potential variables that lead to certain outcomes. Examples of HR measures include absence rate, health cost per employee, and employee engagement levels.

It is also important to note that HR and Talent (or human capital) measures are not the same. Talent measures capture information about the people drivers or outcomes in an organization that have a clear relationship to achieving organizational goals; they represent the primary human capital and talent factors required to execute the business strategy. HR measures are used to measure the success (or failure) of HR initiatives and to determine which of those initiatives create greater levels of HR effectiveness and efficiency. An example of an HR measure might be the number of employees who were able to take the knowledge they acquired during a training class and apply it to their jobs.

Data

Data are facts or pieces of information used to calculate, analyze, or plan something. Data can be analyzed and interpreted using statistical procedures to answer "why" or "how." Data are different than statistics in that data does not have to be numerical, whereas a statistic can only be numerical.

A statistic has a distinct descriptive value that has been acquired by some method (e.g., measured or counted). It is a number that represents a piece of information such as how often something is done (e.g. 40% of the time a new hire is onboarded, they receive a physical orientation packet).

As previously mentioned, data do not need to be numerical. They can be both quantitative and qualitative. Examples of

Application of Measures and Metrics

Program: ACA Compliance

- Measures are useful for tracking things like hours of service and total household income
- Metrics are useful for evaluating compliance (e.g. number of variable hour employees who are at risk of becoming full-time), process effectiveness, and measuring success against established objectives.

qualitative HR data might include such things as insights gleaned from employee focus groups or open response feedback shared on an engagement survey.

Analytics

Analytics (also Statistics; see sidebar) is the systematic analysis of data that leads to the discovery of meaningful patterns within data. The insights generated are critical to optimizing HR operational quality & efficiency, workforce effectiveness, and most importantly, in enabling HR to link human capital activity to business outcomes.

Human resource leaders should not be satisfied with simply demonstrating the efficient use of human capital, and should begin to work on empirically demonstrating how talent drives the performance of their organization. This is where workforce analytics can be helpful.

Workforce (or human capital) analytics is the application and management of data for use in advanced analytics (e.g. predictive, prescriptive) to identify linkages between an organization's talent and financial outcomes. Workforce analytics takes into account all types (structured, unstructured, quantitative and qualitative) and sources (e.g., HR, financial, customer) of data. The job of those tasked with producing workforce analytics is to then identify patterns and relationships within the data to make better "people" decisions.

Key Workforce Metrics and the Importance of Segmentation

The five metrics that are foundational in the production of more meaningful measurement initiatives are: average headcount, total labor costs, total employment costs, total unscheduled absences, and staffing ratio (see Table 1 for a breakdown).

Table 1: The Five Foundational Workforce Metrics

Metric	Calculation	Purpose	Example of Use
Average headcount	Average of starting headcount and ending headcount for a specific period	Serves as the denominator for other measures such as average workweek (hours worked/number of weeks)/average headcount	To determine whether an employee is now approaching the threshold of becoming eligible for full-time benefits under the ACA
Total Labor Costs(Compensation) Costs	Total costs of wages (base + overtime + bonus)	Total labor cost scan be used as the denominator in other workforce ratios (see right)	The amount of unplanned/unbudgeted overtime as a percent of total labor costs. A high percentage indicates a potential problem.
Total Employment Costs	Base salary + bonus + equity/stock + cost of benefits + cost of training, uniforms, etc.	Total employment costs can be used in the calculation of the Human Capital Investment Ratio (HCI Ratio). This metric is a measure of productivity and compares the operating profit to the total employment costs required to produce those profits. HCI Ratio = (Operating profit + total employment costs*)/total employment costs.	Answers the question, "How many profit dollars are we earning for every dollar we have invested in the people who are actually doing the work?"
Total Unscheduled Absences (by type)	Unscheduled absence days (by type*) / total unscheduled absence days × 100 *family leave, sick leave, child care, workplace accident, etc.	Surfaces the composition of unscheduled absences that occurred during a specific period by absence type.	Helpful information for identifying root causes of different types of absences and possibly even link them to specific stores, shifts and even managers.
Staffing (Scheduling) Ratio	Required Staff / Actual Staff	Most applicable in industries with a large proportion of hourly, part-time or seasonal workers, and in industries such as retail, healthcare, and hospitality.	How closely does the work shift align with the schedule prepared in advance?

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"While it is possible to use a single framework to identify the most important human capital drivers of organizational performance, it is not possible to identify a single set of human capital metrics that are equally important drivers of performance across organizations (or even within a single organization at various points in its evolution)."

- Laurie Bassi and Daniel McMurrer, HBR, 2007

Segmentation is Critical to Uncovering Meaningful Insights

However, while each of these five metrics serves as the base for additional calculations and informs other business drivers, segmentation is essential in using them to produce meaningful and actionable insights. For example, simply knowing the percentage of employees who left the company in the prior month (termination rate) doesn't tell you the "why?" or "so what?" But if you segment the termination data into voluntary vs. involuntary, a completely different story is revealed.

Segmenting the data this way enables an organization to dig deeper and investigate the reasons these employees left. Knowing why people stay and why they leave through the use of quantitative measures can go a long way for organizations to be more proactive in the development of their HR programs and policies.

Key Takeaways

The latest developments in HR technology and the analytical capabilities within them are helping to change the way HR managers think and the questions they ask. It also is changing the way they gather, process, and most importantly, evaluate information. These developments hold the promise of helping HR move beyond chasing fads and relying on "gut feel" or "instinct" to the real work of helping their organizations improve business results through more effective management of people.

Finally, to be a successful catalyst for change, HR should not only be capable of analyzing and interpreting human capital metrics and analytics, but also recommending and implementing interventions to drive organizational effectiveness. Improved access and utilization of human capital data and analytics is not

a 'silver bullet' that will automatically transform HR into a trusted business partner, but if done right, they are an essential tool in HR's quest to achieve greater business impact and spark a transformation of HR as a function.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

Talent Analytics- Where Are We Now?; May 2015
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Managing your ACA Strategy: Maintaining Compliance through Automation and Integration; April 2015
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