Calculating human resource metrics

By Research Institute at Kronos, a TruPay affiliate

A variety of metrics focused on human resources (HR) and business can be analyzed or tracked. However, metrics should not be viewed in a vacuum and should be considered with other factors in mind.

Metrics have become a vital component of HR and HR service delivery, allowing companies to measure HR program performance while providing actionable insights and information on efficiency and effectiveness.

Similar to how an organization's HR programs and strategic choices are made in support of broader business objectives, HR metrics and measurement tools should focus on HR's contribution to overall business issues.

Defining HR metrics

So, what are HR metrics? HR metrics assign value to various aspects of employee performance. These metrics are useful for measuring an organization's performance overall and uncovering HR-related issues that can have a major impact on a company's bottom line – for example, revenue per employee, benefits costs and cost of employee turnover.

While data used to be used to understand what was happening, HR measures are now allowing organizations to better understand why it is happening and provide input into predicting what could happen.

If your organization is interested in using HR metrics, the first step is determining what to measure. Creating and sustaining high performance in organizations, metrics need to be simple, clear and connected to the organization's priorities and overall strategy. The Society for Human Resource Management (SHRM) advises organizations to select and define the data that align with their business strategy.

From there, they will need to define a formula for each metric. For example, the formula for the turnover rate metric is total separations divided by average number of employees.

When a practice has a problem, one of the first steps in addressing it is to evaluate the impact of the issues or progress toward the goal. Organizations that track and evaluate metrics such as these are more successful in achieving their strategic goals or vision.

Using metrics

What key data are useful for practices to evaluate?

■ **General HR** – This category may include revenue per employee, profitability, benefits costs and employee counts, which can be important in determining which federal regulations and requirements apply to a practice.

■ **Compensation** – These data may include metrics such as pay range and compa-ratio (an employee's salary divided by the market rate for their role), which can help a practice identify and mitigate potential turnover risks.

Examples of compensation metrics include:

- **Prorating merit increases** – This metric is calculated by totaling the number of months actually worked divided by the number of months under the current increase policy, then multiplied by the increase percentage the employee would otherwise be entitled to receive. This metric reveals an employee's pay increase appropriate to the period of time the employee worked.
- **Range penetration** – The salary (minus range minimum) is divided by (range maximum minus range minimum). This metric helps determine the degree to which an employee's pay rate has expanded in his or her current pay.

■ **Recruiting** – These metrics focus on the costs of obtaining a new employee and could include advertising, agency fees and travel. Tracking the recruiting metrics can assist in determining the costs of hiring new employees versus retaining existing employees.

Examples of recruiting metrics include:

- **Cost per hire** – Add advertising, agency fees, employee referral fees, travel costs from applicants and staff, relocation costs, recruiter pay and benefits divided by the number of hires. This metric provides the total cost of a new hire.
- **Yield ratio** – Identify the percentage of job applicants from a specific source who proceed to the next stage of the hiring process. The yield ratio compares the

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number of applicants among different stages of the hiring process.

- **Time to fill** – Add the total costs of separation, plus the cost per hire, plus training and the cost of the vacancy. Using the time-to-fill ratio calculates the efficiency, time period and productivity of the company's recruitment process.

■ **Turnover** – Turnover metrics deal with the flow of employees into and out of an organization over a specific period of time and the costs associated with the loss of employees through retirement, terminations and resignations.

■ **Employee engagement** – Employee engagement metrics focus on the degree to which employees care about their jobs and are committed to the organization's success. Such metrics are directly related to turnover, efficiency and a practice's overall financial health.

Guiding metrics

The following are some tips you can use that will help in taking a practical approach in developing, deploying and managing metrics:

1. Determine and be able to show how the metric is important. For example, it must be connected to a practice priority or strategy. A good rule is to align metrics within the balanced scorecard approach (i.e., financial, customer or business process). Some examples to help illustrate how the metric is important would be to ask these types of questions:
   - Do we have enough skilled employees for current and/or future projected workloads?
   - Do we have the right people?
   - Do we have an engaged workforce?
   - Have we identified high-potential employees, and are we at risk of losing any?
2. Keep it simple. The metric must be clear, and its meaning must be easily understood by all throughout the organization. This includes items such as:
   - Metric definition
   - How it is calculated
   - Where do data come from
   - Who owns the metric

   - What is the frequency for update and review
   - Involve key stakeholders up front to make sure there is buy-in and clarity surrounding the metric meaning and expectations.
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4. Once metrics have been established, promote and communicate them throughout the organization to ensure everyone is connected and sees their importance.

Reviewing metrics

Having HR metrics that align to the organizational strategy and are clearly understood are only the first steps. Now that you have meaningful metrics in place, you must ensure they are proactive and reviewed at a frequency that will allow for the proper adjustments to be made to move the practice forward and drive sustainable results.

The increase of human capital management solutions have expanded HR technological capabilities within organizations. HR technologies have traditionally been used to automate processes and drive operational efficiencies, which often resulted in a cumbersome user interface. Organizations are now using these new enabling technologies and improved graphic displays to enhance the overall customer experience and help achieve organizational goals and objectives.

The adoption of HR – and HR operational services – cloud technologies has continued to increase as organizations take advantage of an evolving marketplace and can identify a clear return on the value of investing in new solutions.

One of the reasons why organizations are implementing new HR systems is to increase their HR measurement capabilities. It is extremely important to leverage the metrics to drive action, challenge targets, recognize wins and see if there are opportunities to pull in other metrics over time based on the ever-changing needs of a practice. ■

This is number 167 in a series of articles on practice management and marketing for oral and maxillofacial surgeons developed under the auspices of the Committee on Practice Management and Professional Staff Development and AAOMS staff. Practice Management Notes from 2002 to present are available online at AAOMS.org.