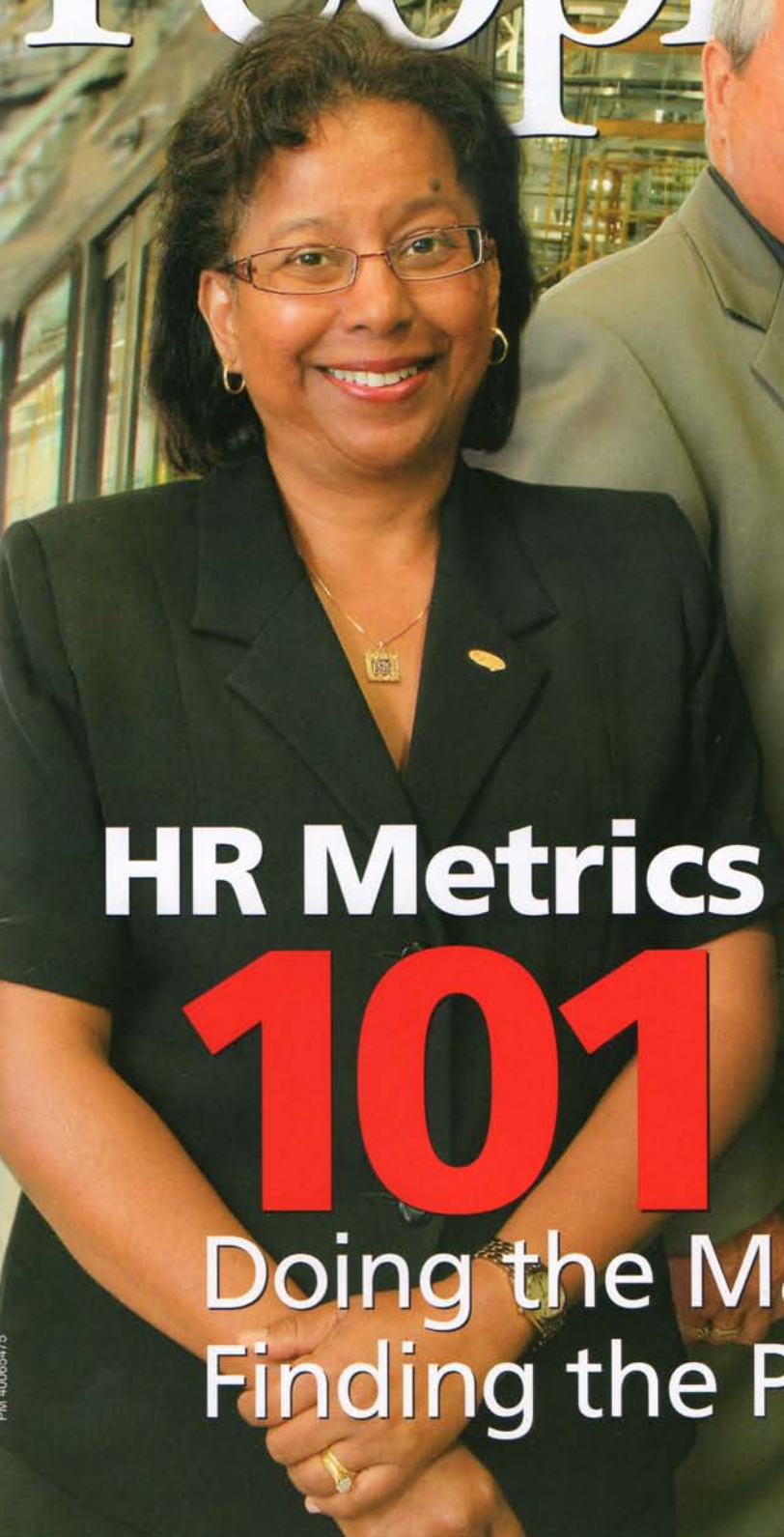




# PeopleTalk



## HR Metrics

# 101

### Doing the Math, Finding the Path

**ResearchVOICE:**  
Tracking Numbers,  
Charting Priorities

**The Business of  
Measurement**  
A Multi-faceted  
Approach

**Leadership  
Tune-Ups**  
Is Your Team Due  
For a Check-in?

By Heather Conn

# HR metrics

## Doing the math, finding the path

As the inherent value of strategically aligned HR becomes increasingly evident, greater numbers of professionals and organizations are seeking to both define and develop their human capital.

**I**N INDIAN LEGEND, A MAN BRINGS AN ELEPHANT TO SIX BLIND MEN and presents a different part of the massive creature to each one. One feels only the elephant's head, another only its ears, another its tusk, and so on with the beast's trunk, foot and tail. When questioned about what sort of creature an elephant is, each man, understandably, has a different answer.

"It's scratchy like a brush," says one.

"No, it's long and strong like a tough hose," declares another.

"Absolutely not. It's as tall as a giant banyan tree and has rough bark," insists still another. Each man is sure that only his description of the elephant wholly describes this huge, mysterious animal.

Sound familiar? A cynic could argue that this process parallels the use of HR metrics; the attraction and retention piece looks one way, the training and development piece another, the absenteeism portion different yet. Human resources can miss the big picture by focusing too much on only a few metrics, never seeing the relevant connections between the whole and its parts. Facing this challenge, how should HR professionals track and analyze individual parts to help an organization understand its overall



Sandra J. Hentzen,  
CHRP vice president,  
human resources and  
privacy officer

financial performance? How can they make their quantitative data and assessment as valuable and strategic as possible for an executive team?

Here's the simple answer – learn to talk numbers. Use data to show how HR initiatives and results impact the bottom line. Know the whole elephant and its parts and how they interconnect, regardless of what metrics system you use.

Denis Clements, president and CEO of Coast Mountain Bus Company, offers

progresses, they will make presentations to the executive showing any outcomes they discovered. "Once we can incorporate some of the HR metrics with the business metrics, we expect to be able to show financial implications," says Hentzen.

She anticipates that they will need to expand metrics around their workforce composition and training. Currently, Coast Mountain can verify its progress in hiring positions, turnover rates, headcount statistics, average tenure, retirement projections, employee accommodation and training. It tracks a range of data on a monthly, quarterly, and annual basis for its workforce of just over 5,100 employees. "We are aware of the need to compile more data to measure and prove our HR successes," Hentzen admits.

## The company's strongest employee-related metrics relate to absenteeism, health and wellness, and training and development

this advice to those in human resources: "Ensure that all of the right people are at the table and they are all in agreement regarding what the metrics mean in business language." He adds, "It is critical that HR and other supporting departments have a thorough understanding of the overall business to be meaningful business partners."

### Workforce analytics project to identify gaps

Yet, even at a leading employer like Coast Mountain Bus Company (it ranks number eight in the current Top 40 Employers of

### Attendance management shows savings

The company's strongest employee-related metrics relate to absenteeism, health and wellness, and training and development, says Clements. Back in 1997, Coast Mountain began an initiative, now called the attendance management program, to combat one of the highest absentee rates among peer companies in the transportation industry. After analyzing root causes, types of work involved, and other criteria, the organization applied consistent procedures and processes across the company to reduce employee absences.

The result brought considerable financial savings in short-term disability (STD) benefits, says Hentzen. In both 1995 and 1996, Coast Mountain's insurer paid out about \$8.5 million in STD benefits to employees, members of two Canadian Auto Workers union locals. Twelve years later, in 2007, even with growth exceeding 35 per cent in both wages and total employee complement, STD costs were less than \$8.3 million.

### Measuring engagement reaps rewards

In general, one area of HR metrics that has strong correlations to financial benefits and other positive results is employee engagement, says Neil Crawford, CHRP, principal of Hewitt Associates and leader of Hewitt's *50 Best Employers in Canada* annual study. Hewitt's global research reveals that a highly engaged workforce has less turnover, attracts more high-quality job applicants, and creates less "shrinkage" (inventory loss) in the retail sector, for example. "If you work on engagement, a lot of other good things happen," Crawford says. "The data seems to show that."

Engagement is a strong metrics piece for one of Canada's top employers, Envision Financial, based in Langley, B.C. (This credit union, the province's third largest, is rated number eight on Hewitt's current best employers list.) With close to 825 employees and about \$3.8 billion in assets, it uses three measures of engagement to move its strategic plan forward, says Barry Delaney, senior vice-president of planning and corporate secretary:

- "Say": What does staff say about us to their friends and family?

B.C. list), the correlation between HR measurements and business success has not always been clear.

Clements admits, "We have recently begun to understand that the data collected in HR can have a direct impact to our bottom line. Unfortunately, our past priorities have not allowed us enough time to analyze this information and develop true metrics."

To remedy that, Coast Mountain has created a workforce analytics project. It also made an important strategic move; it added a vice-president of human resources to its executive team, Sandra Hentzen, CHRP, the winner of BC HRMA's 2008 Award of Excellence.

"The goals of the project are to be able to confirm that we were measuring the right things, identify any gaps from where we are to where we want to be, and to focus on HR initiatives to address those gaps," says Hentzen. "We wanted to be better able to predict where to focus our efforts for the future through better analytics and scenario planning."

Their analytics project involves key stakeholders from each of the company's divisions, including groups responsible for measuring divisional key performance indicators. As their work

- “Stay”: What are our retention rates and internal career opportunities?
- “Strive”: When staff is on the job, are they doing their absolute best and striving to contribute?

This language comes from Hewitt's *Best Employers in Canada* survey, which puts staff engagement measurement at its heart, says Delaney. Envision Financial's own HR team researched and positioned a crucial part of the credit union's four-point vision statement: to be the best place their employees have ever worked.

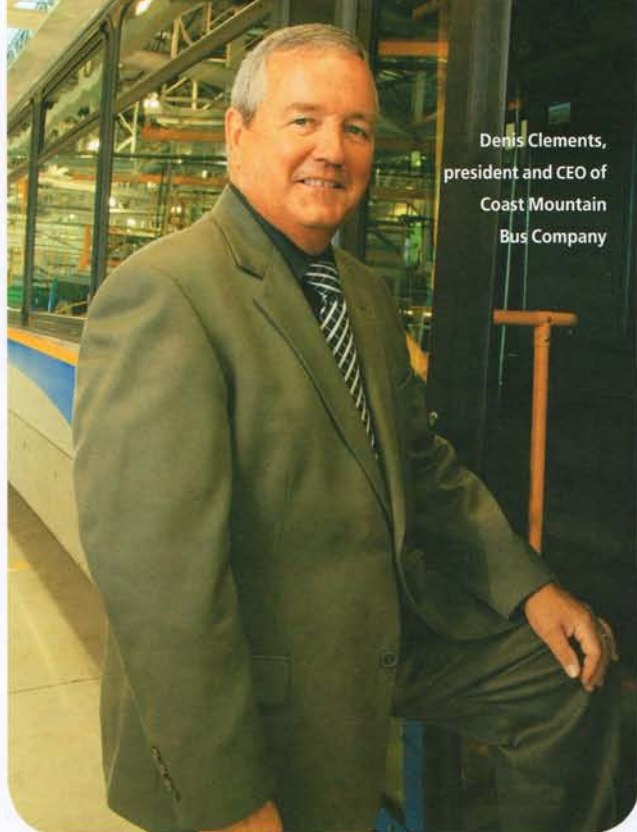
“They (the HR team) showed the executive and the board the links between satisfied and engaged staff and loyal and profitable membership,” says Delaney. “As a result, focusing on staff engagement became a key element of our vision.”

In Coast Mountain's case, this year marks the first time they have conducted an official engagement survey with their exempt employee group. The results? They received a response rate of 86 per cent and an engagement score of 78 per cent. Hentzen says: “We are hoping to tie the results with our current metrics to identify gaps and recognize the positive correlations.”

### Metrics correlations a work-in-progress

Besides engagement, Envision Financial's strategic plan identifies three make-or-break factors in their business success: member advocacy, leadership and learning, and operational effectiveness. Under the second category, they developed metrics within four areas: leadership, learning, employee advocacy and retention. “We must have metrics in place to ensure that we are stewarding and leading the workforce in the right direction,” says Delaney.

Like a number of leading employers contacted for this article, Envision Financial is re-examining and reworking its HR metrics system. When asked for examples of templates or assessment tools, few at different companies seemed eager to provide specifics;



Denis Clements,  
president and CEO of  
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a number said they were dissatisfied with their existing methods. It's heartening to know that human resources professionals are regularly tinkering with or upgrading their measurement methods. Ongoing tweaks or overhauls can ensure that their metrics stay relevant and responsive, rather than rigid and misdirected.

After all, the one-size-fits-all approach doesn't work in human resources measurement; hence, there's no quick answer to the question: How do you track and prove HR successes? Even at some of the province's highest-rated companies, such correlations are still

a work-in-progress. Whether you're using return on investment analysis, program evaluation, a human resources audit or benchmarking, there is no guaranteed success formula. Regardless of the metrics chosen, HR professionals must ensure that data is reliable and analyzed with the strategic goals of the organization in mind. Number-crunching for its own sake is not enough. “Organizations aren't always clear what the important measurements are,” says Crawford. “They don't necessarily put the right ones in place or don't collect data accurately.”

### Balanced scorecard use produces breakthrough results

One well-known and popular measurement system is the balanced HR scorecard, which follows the premise that “what gets measured is what gets done.” (Fifty per cent of Fortune 1,000 companies use the balanced scorecard, according to global business consulting firm Bain & Company.) This metrics system applies key performance indicators to quantify corporate goals in

## Getting Your Metrics On Track

What trackable areas of HR have a financial impact on an organization? One could probably argue: all of them. When aligned with business strategy and analyzed with accurate data and relevant metrics, the following human resources areas present a strong business picture of an organization. (Bear in mind that these are some of the more common, broad HR areas. Each business and industry has its own customized metrics.)

### Efficiency

HR FTE Ratio  
HR Costs per FTE  
Labour Cost Revenue Percent  
Learning & Development FTE Ratio  
Vacancy Rate

External Cost per Hire  
External Time-to-Fill  
Labour Cost per FTE  
Learning & Development Hours per FTE  
Learning & Development Investment per FTE

### Effectiveness

Turnover (voluntary, involuntary)  
90 Day Turnover Rate  
1st Year Turnover Rate  
Resignation Rate  
Cost of Voluntary Turnover  
Churnover Rate  
Promotion Rate  
Career Path Ratio

Diversity or Female Hire Ratio  
Revenue per FTE  
Profit per FTE  
Human Capital Return on Investment  
Absenteeism Rate  
External Offer Acceptance Rate  
Average Length of Service  
Management Span of Control  
Succession Planning Rate

line with the strategic performance of every person and department in the workforce.

Use of the balanced scorecard framework to produce outstanding business results has brought global recognition to a national company. Ottawa-based Canadian Blood Services, a non-profit that manages blood and blood products, received an award and membership in the international 2007 Balanced Scorecard Hall of Fame for Executing Strategy, offered by the U.S.-based Palladium Group. "In an era where taxpayers expect greater accountability from publicly funded organizations, it is imperative that we focus on delivering results," Canadian Blood Services' CEO Graham Sher told last fall's Global Public Sector Summit in Washington, D.C. "Our strategic themes are safety, operational excellence

and preparing for tomorrow, and the balanced scorecard is our roadmap for that journey."

The national organization adopted the balanced scorecard in 2004 after enduring declining blood donations

and public perceptions of mismanagement following tainted blood scandals in previous decades. According to Rod Brandvold, the company's vice-president of talent management, this metrics system enabled the company not only to focus on strategy, but on what initiatives it needed to close performance gaps. "It is also a way of communicating priorities," he added. "In communicating and reporting on what is important to the organization, behaviours begin to change."

Through the scorecard, the company achieved breakthrough performance in its plasma protein and products area, reaching the goal of diversifying its base of blood suppliers in a cost-effective way. The process also enabled Canadian Blood Services to see the importance of focusing on talent within the organization. As a result, the company moved the more transactional items to corporate services. "By doing this, we have developed better metrics and have more of a focus on talent management initiatives that will help achieve the strategy," says Brandvold.

Canadian Blood Services primarily uses internal benchmarks for its metrics and will

only look outside the company to help set targets when no internal data is available. The organization tracks and reports results quarterly, using the balanced scorecard; if it doesn't meet a target, discussions will follow, identifying initiative(s) needed to reach a goal. Currently, the company is integrating the balanced scorecard with operational planning and risk management. "The senior management is more focused than they ever were before on achieving the strategy of the organization," says Brandvold.

Although the company does a good job

of tracking its retention and turnover rate, absenteeism, and productivity, the HR team is not yet satisfied with its level of quantitative assessment, says Brandvold. After implementing the SAP HR/payroll module, they baseline data and have focused on certain areas, but this needs more work and analysis, he adds. "The HR metrics and ROI analysis have improved tremendously in the last few years but there is always room for improvement," he admits.

The non-profit is striving to correlate its HR and organizational successes



through tabulation. While designing a new management development program, for example, Brandvold says that they are asking themselves:

- What business results do we want this program to impact?
- Once we have achieved these results, how will we know what portion is attributable to the new program?

### Scorecard success requires goal alignment

There are proven correlations between the balanced scorecard and business benefits, according to the Balanced Scorecard Collaborative, a Palladium consulting firm. In the United States, for example, 80 per cent of organizations using a balanced scorecard reported improvements in operating performance. Sixty-six per cent of those reported a profit increase. Even so, about 60 per cent of employers in the U.S. do not link strategy to budgeting, according to the Collaborative.

In Canada, between 65 and 70 per cent of organizations use a balanced scorecard, according to a May 2005 article in *CAMagazine.com*. However, the article's writers, Robert Angel and Hubert Rampersad of TPS International Inc., point out that scorecard performance depends on how well an organization has aligned its goals with the personal aims of employees. Although both men, CEO and president respectively, support the philosophy of balanced scorecards, they conclude that these methods "rarely achieve sustained financial improvement breakthrough." They outline 10 possible weaknesses related to scorecard use, including too many defined objectives; measures that don't connect to the business drivers; poor data on actual performance; a poorly understood business strategy; a climate of mistrust; and employees hostile to management messages.

Not surprisingly then, the success of any HR measurement tool still comes down to people, not numbers, in Crawford's view. It's far more important that a human resources team truly listens to its employees and commits to using whatever measurement system it has, even a fairly simplistic one, than adopt the most sophisticated version, he says. "It's a commitment to behaviour rather than a great measurement system."

### Intuition, not numbers, says Next Level Games

One cutting-edge B.C. company that has

taken the people-over-numbers approach to heart is Next Level Games, a video game developer that employs 100 people in Vancouver and 13 in Beijing. To build creative products like *Spider-Man: Friend or Foe*, the company relies on the innovative flair, talent, and satisfaction of its employees, predominantly technologists, programmers and visual, audio and design artists. It has no formal metrics process; instead, it demands accountable leadership from its managers and fosters strong coaching and open communication channels to maintain success. In an industry where technical creative types are traditionally isolated and burnt out after 14- to 16-hour days, Next Level Games offers a five-day work week rather than the usual seven, combined with competitive pay and artistic challenges for continuous learners who will speak their mind, unafraid to engage in "creative conflict."

"We are a values-based company, where people are part of the bottom line," says studio general manager Edoardo de Martin, who performs some HR tasks in addition to his role as a human resources manager. "We make decisions based on a combination of the needs of our people and the needs of our business, not ROIs." For instance, he cites times when the company had opportunities to go with big projects but declined, saying: "it would have killed our culture."

With a 95-per-cent retention rate, Next Level Games has won numerous accolades, including an innovation award for work-life balance. Last year, it ranked number one on *BCBusiness'* annual *Best Companies to Work for in B.C.* list in the over-100-employees category. This year, it's number 20 on B.C.'s top 40 employers list and ranks as one of *Maclean's* top 100 employers in Canada.

"Being named to B.C.'s top employer list was a great honour that we feel comes from our commitment to fostering a healthy, positive and creative environment where life comes before work," says de Martin. As for relying on metrics for direction, he adds: "We don't spend time putting numbers next to what's intuitive." 



Edoardo de Martin

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