DULLES SHRM SEMINAR

HR   METRICS

Key Topics Addressed

➢ How do we operationalize alignment of HR Metrics to firm performance in an organization?

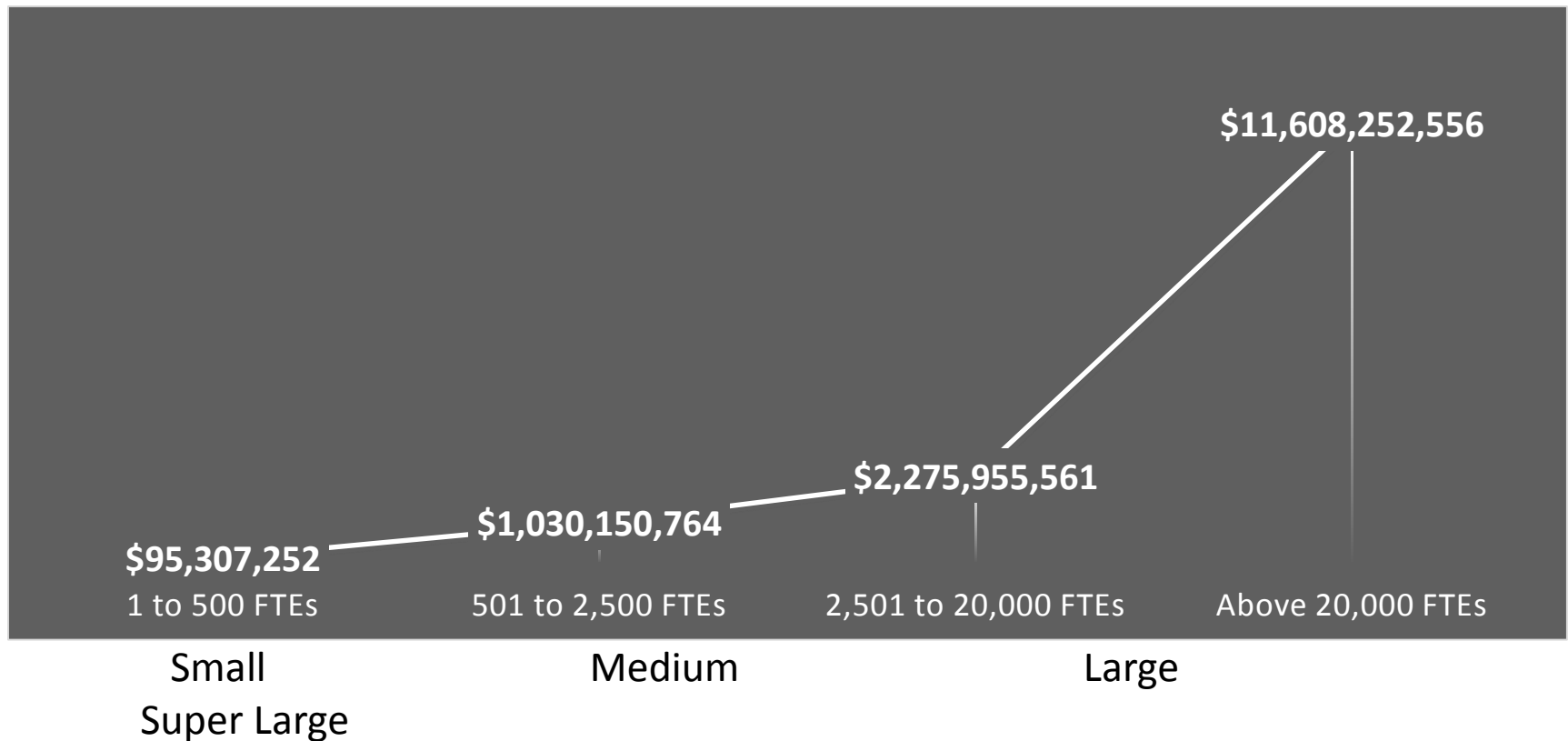➢ On-going study about the relationship between HR Investments and Firm Performance

HR Metrics/Workforce Methodology ---
SHRM Customized Benchmarking Database

Metric	Finance	High-Tech	Manufacturing	Government
Revenue per FTE	$159,489	$295,486	$244,493	$192,968
Net income per FTE	$25,538	$157,376	$69,678	$16,524
Cost-per-hire	$2,585	$3,343	$1,576	$1,205
Time-to-fill	29 days	32 days	22 days	31 days
Annual turnover rate	13%	10%	15%	10%
HR-to-employee ratios	2.22	1.62	1.70	1.78
HR expenses	$719,979	$341,633	$450,469	$824,958
HR expense per FTE	$4,328	$2,128	$1,853	$1,239
Salaries as a percentage of operating expense	46 %	39%	26%	42%
Annual salary increase	2.7%	2.0%	1.9%	1.5%

Revenue

Average Revenue by Company Size ---

$95,307,252

$1,030,150,764

$2,275,955,561

$11,608,252,556

1 to 500 FTEs

501 to 2,500 FTEs

2,501 to 20,000 FTEs

Above 20,000 FTEs

Small

Medium

Large

Super Large

Revenue Per FTEs

Average Revenue Per Full Time Employee by Company Size

	$1,094,575		
$952,066			
		$298,769	
			$205,651
1 to 500 FTEs	501 to 2,500 FTEs	2,501 to 20,000 FTEs	Above 20,000 FTEs
Small	Medium		Large
Super Large			
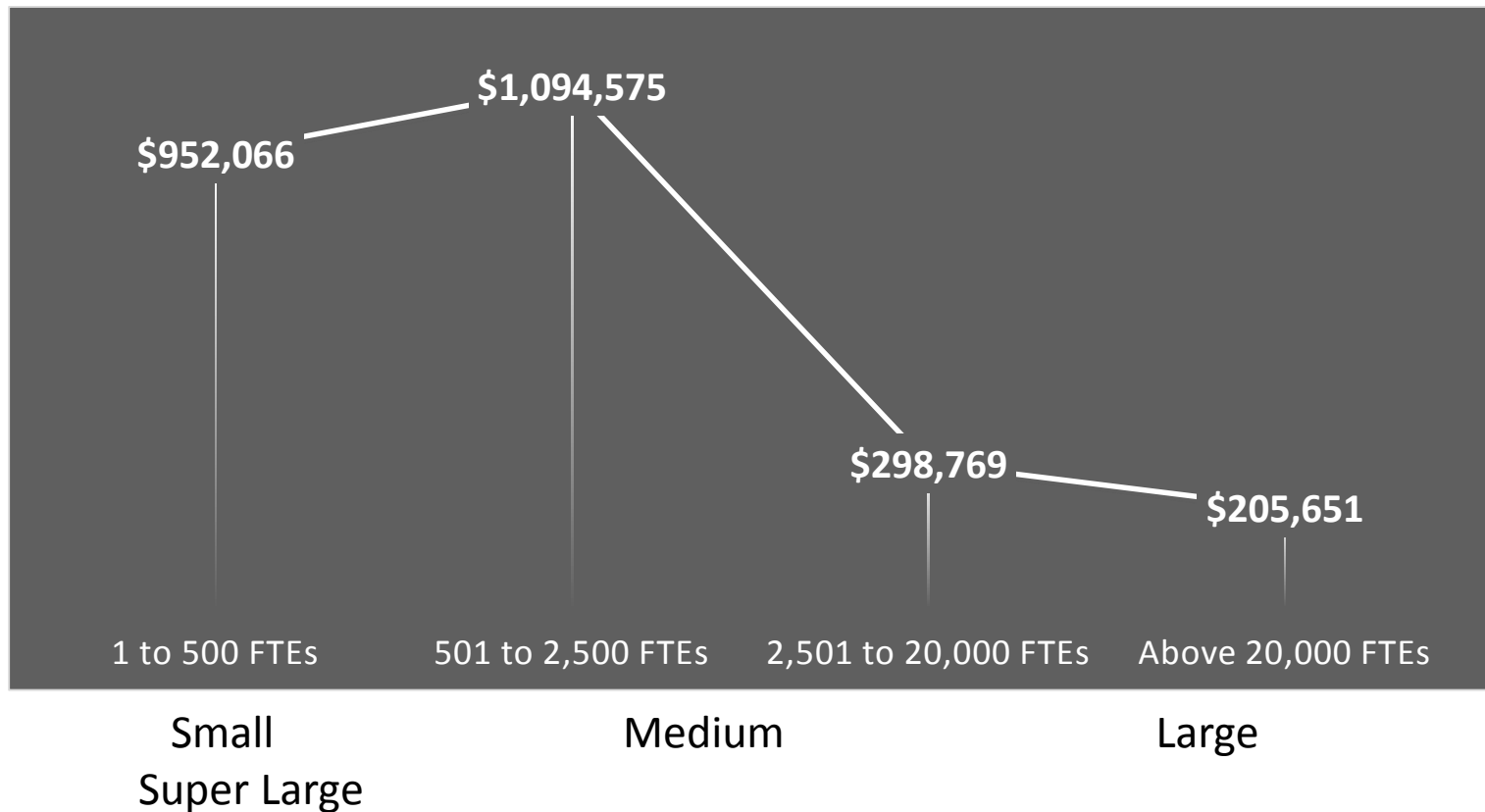
Voluntary and Involuntary Turnover
SHRM Benchmarking Database

Turnover

- Annual Voluntary Turnover Rate
- Annual Involuntary Turnover Rate

The Red Line represents the resession
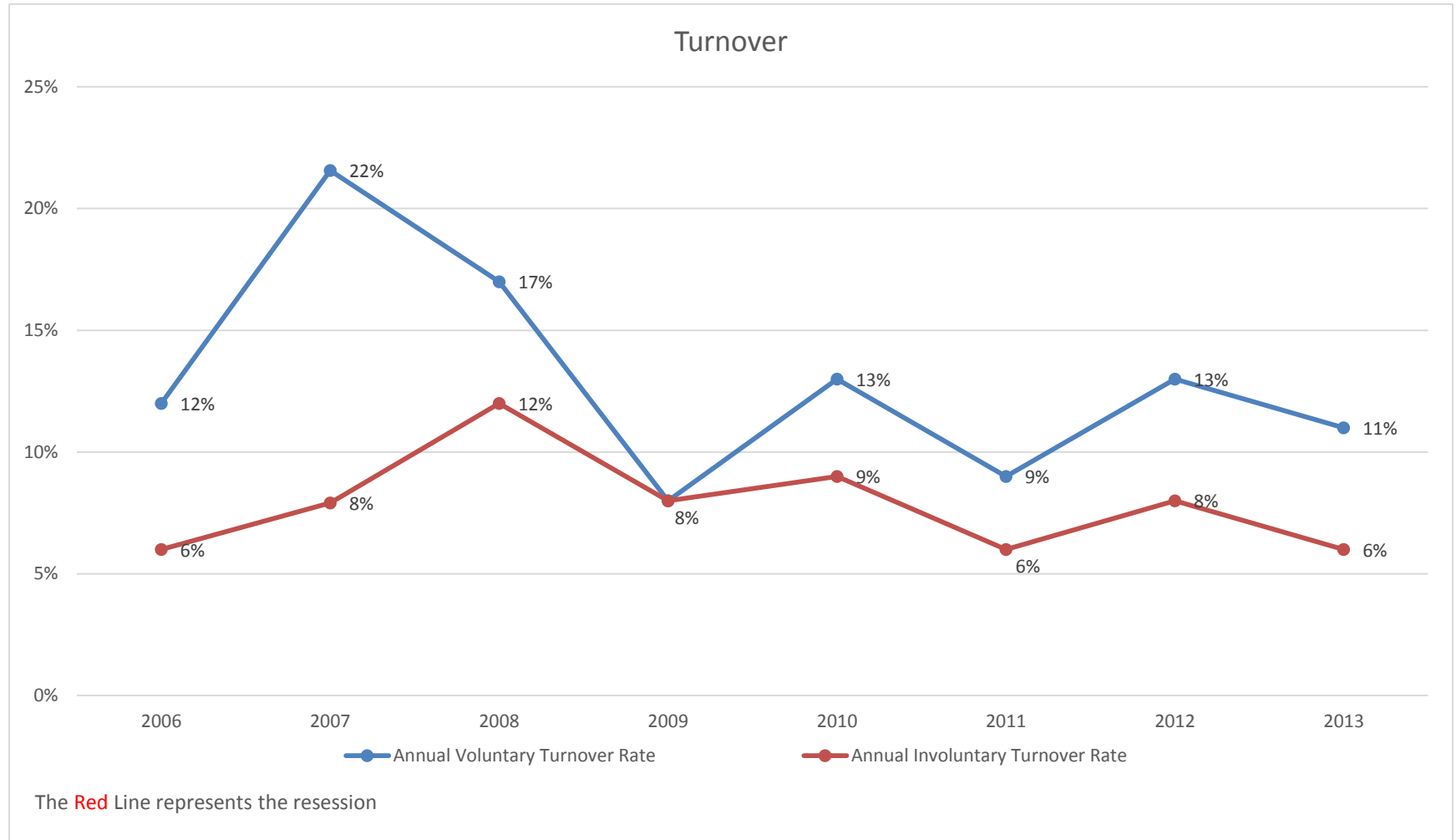
HR Metrics/Workforce Methodology

The Good News … Momentum Is Growing

- Growing body of research

- Interest from Boards of Directors

- Regulatory community

- Awareness of "BIG DATA"

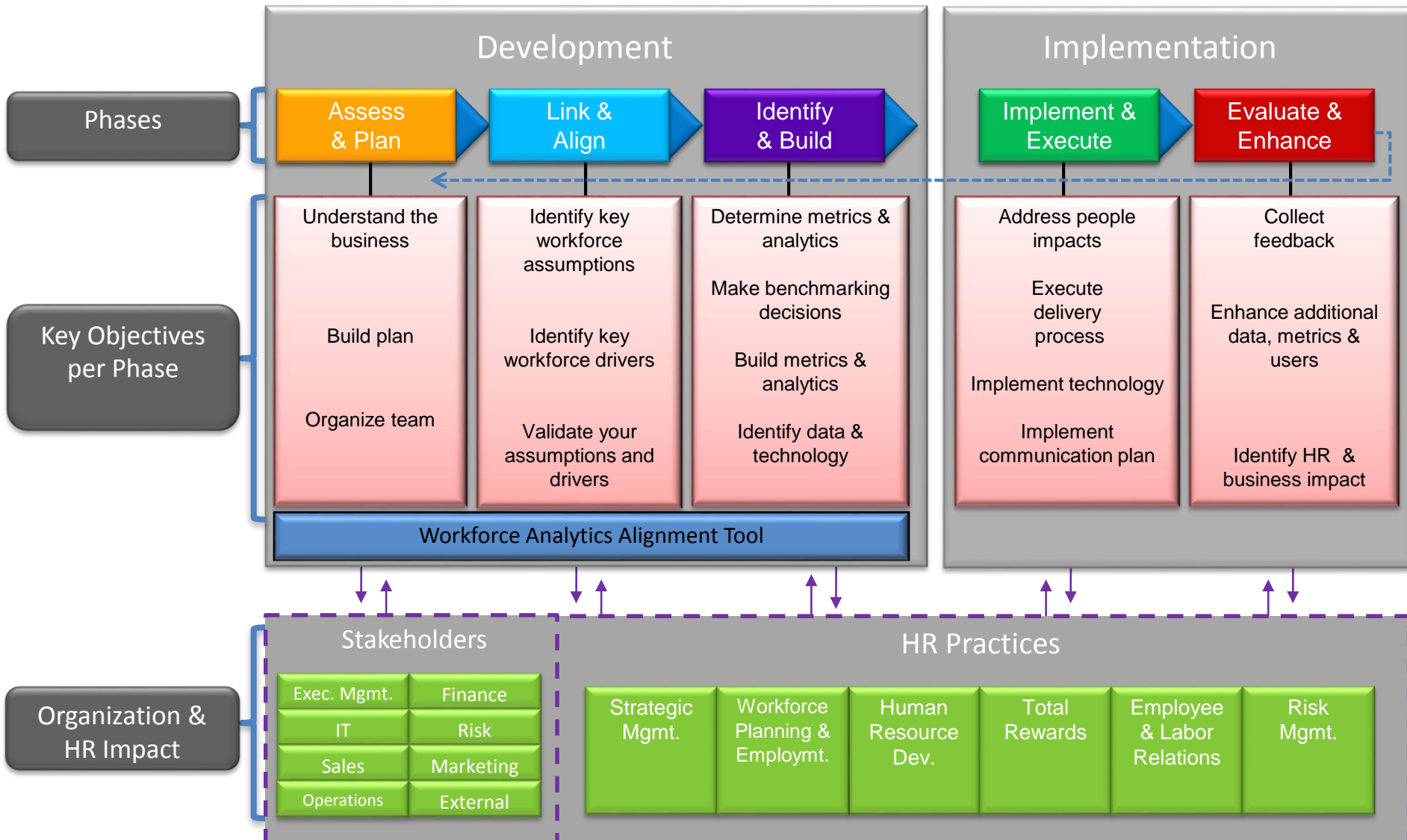- Increasing recognition of competency issues

HR Metrics/Workforce Methodology

Workforce Analytics Alignment Tool – Southwest Airlines

Strategy, Objectives, & Goals	Assumptions & Drivers	Metrics & Analytics	Targets
Revolutionize the airline business model 1. Lowest prices 2. Best customer experience • Lower costs • Fast ground turnaround • High OTA rating • High OTD rating • High customer satisfaction	• Ground crew performance results aligned with company goals – Ground crew engagement with the strategy and objectives • Ground crew able to achieve company goals – Ground crew has skills and knowledge necessary to achieve related goals	• % Ground crew shareholders • % Ground crew certified	- Year 1: 70% - Year 2: 90% - Year 3: 100% - Year 1: 70% - Year 2: 90% - Year 3: 100%

SHRM Human Capital Analytics Module

Phases	Development			Implementation	
	Assess & Plan	Link & Align	Identify & Build	Implement & Execute	Evaluate & Enhance
Key Objectives per Phase	Understand the business Build plan Organize team	Identify key workforce assumptions Identify key workforce drivers Validate your assumptions and drivers	Determine metrics & analytics Make benchmarking decisions Build metrics & analytics Identify data & technology	Address people impacts Execute delivery process Implement technology Implement communication plan	Collect feedback Enhance additional data, metrics & users Identify HR & business impact

Workforce Analytics Alignment Tool

Organization & HR Impact

Stakeholders

Exec. Mgmt.	Finance
IT	Risk
Sales	Marketing
Operations	External

HR Practices

Strategic Mgmt.	Workforce Planning & Employmt.	Human Resource Dev.	Total Rewards	Employee & Labor Relations	Risk Mgmt.

Assess and Plan

1. Acquire knowledge of your organization's strategy, plans, goals, business model and metrics

Prepare

- Examine relevant documents
- Plan your meetings
  - Consider the people you will meet with and the questions you will ask

Collaborate

- Engage business leaders
- Probe and challenge
- Get different perspectives
- Build understanding and anticipation

Determine

- Business risks or threats
- Accountabilities
- Strategic and operational metrics
- Project risks and recommendations
- Analytics team

Assess and Plan

2. Build your plan

Guidelines

- Use the Human Capital Analytics Model as a roadmap

- Align plan actions with the roles and responsibilities of expected team members

- Include change management
  - > People
  - > Process
  - > Technology

- Include communication plan

- Set reasonable timetable
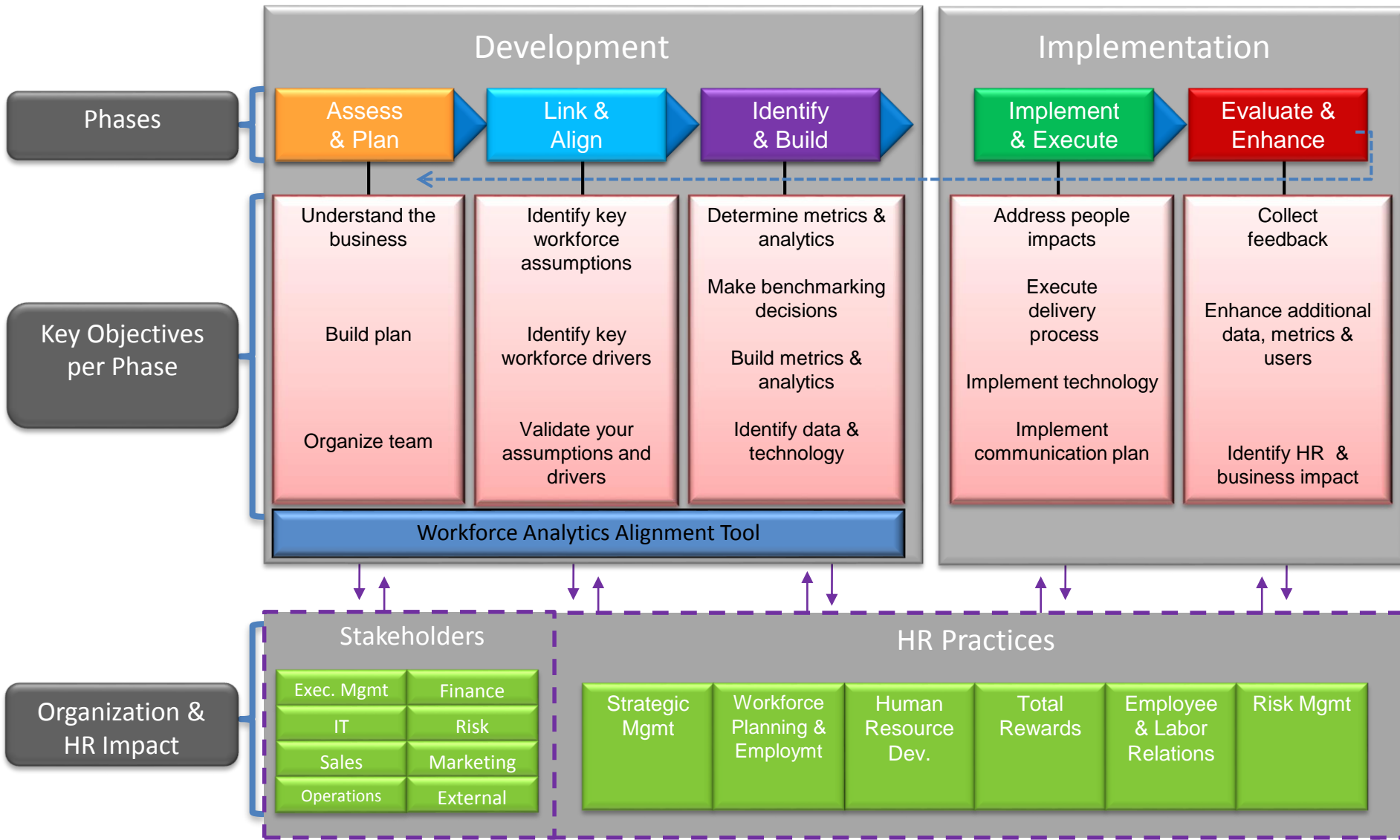
- Establish priorities
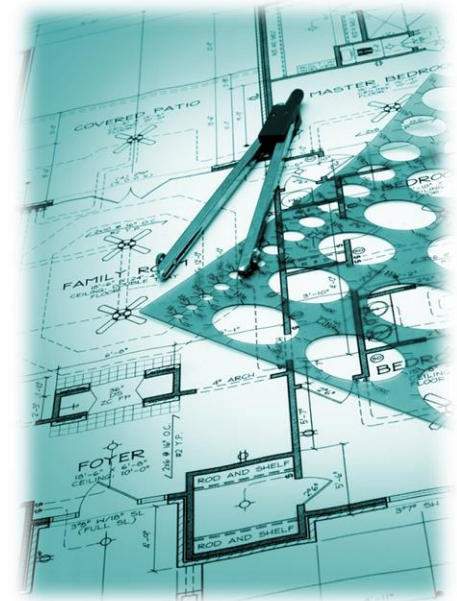
Assess and Plan

3. Organize your team

Guidelines

- Represent key stakeholders
  - > Individuals from Finance and HR, as well as leaders from Business Units and/or Operations
  - > Determine the role of IT – team representation, stakeholder, resource
- Seek people who:
  - > Understand people dynamics
  - > Have strong quantitative and analytic skills
  - > Have skills that align to roles and responsibilities
- Be sure you have strong supporters, as well as resistors, represented
- Build unofficial team if needed
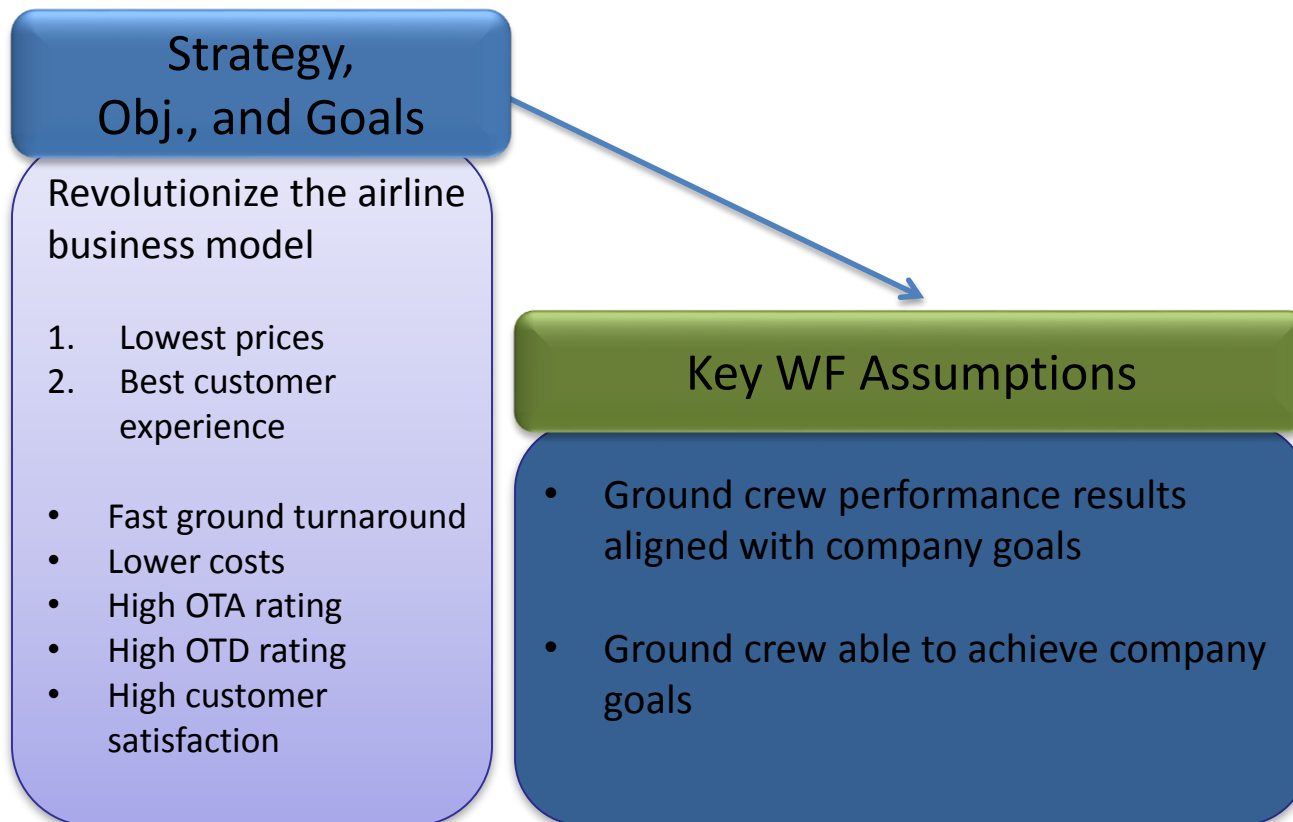
SHRM Human Capital Analytics Module
Phase 2: Link & Align

Phases

Development			Implementation	
Assess & Plan	Link & Align	Identify & Build	Implement & Execute	Evaluate & Enhance

Key Objectives per Phase

Understand the business	Identify key workforce assumptions	Determine metrics & analytics	Address people impacts	Collect feedback
Build plan	Identify key workforce drivers	Make benchmarking decisions	Execute delivery process	Enhance additional data, metrics & users
Organize team	Validate your assumptions and drivers	Build metrics & analytics	Implement technology	
		Identify data & technology	Implement communication plan	Identify HR & business impact

Workforce Analytics Alignment Tool

Organization & HR Impact

Stakeholders

Exec. Mgmt	Finance
IT	Risk
Sales	Marketing
Operations	External

HR Practices

Strategic Mgmt	Workforce Planning & Employmt	Human Resource Dev.	Total Rewards	Employee & Labor Relations	Risk Mgmt

Link and Align

1. Identify Your Workforce Assumptions

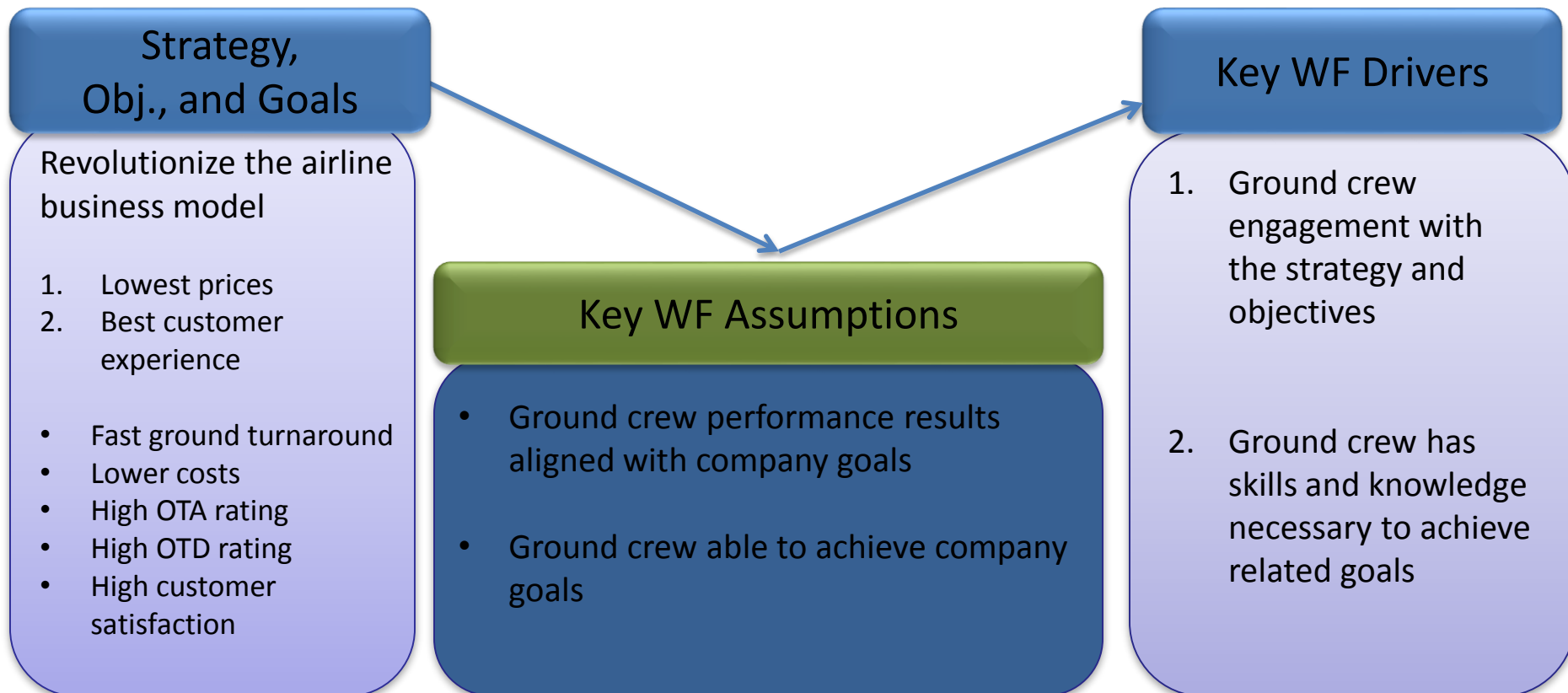What are the key workforce "assumptions" related to the Business Strategy, Key Objectives, and Goals? *Southwest example…*

Strategy, Obj., and Goals

Revolutionize the airline business model

1. Lowest prices
2. Best customer experience

- Fast ground turnaround
- Lower costs
- High OTA rating
- High OTD rating
- High customer satisfaction

Key WF Assumptions

- Ground crew performance results aligned with company goals

- Ground crew able to achieve company goals

Link and Align

2. Identify Your Workforce Drivers

What are the <u>workforce related imperatives</u> or "<u>drivers</u>" necessary to ensure the assumptions? *Southwest example…*

Strategy, Obj., and Goals

Revolutionize the airline business model

1. Lowest prices
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- Fast ground turnaround
- Lower costs
- High OTA rating
- High OTD rating
- High customer satisfaction

Key WF Assumptions

- Ground crew performance results aligned with company goals

- Ground crew able to achieve company goals

Key WF Drivers

1. Ground crew engagement with the strategy and objectives

2. Ground crew has skills and knowledge necessary to achieve related goals

Link and Align

3. Validate Your Workforce Assumptions and Drivers

Did your analysis identify the correct assumptions and drivers?

- Actions
    - > Circle back to your key interviewees
    - > Outline your rationale
    - > Get feedback
    - > Make changes as needed
    - > Confirm final

SHRM Human Capital Analytics Module
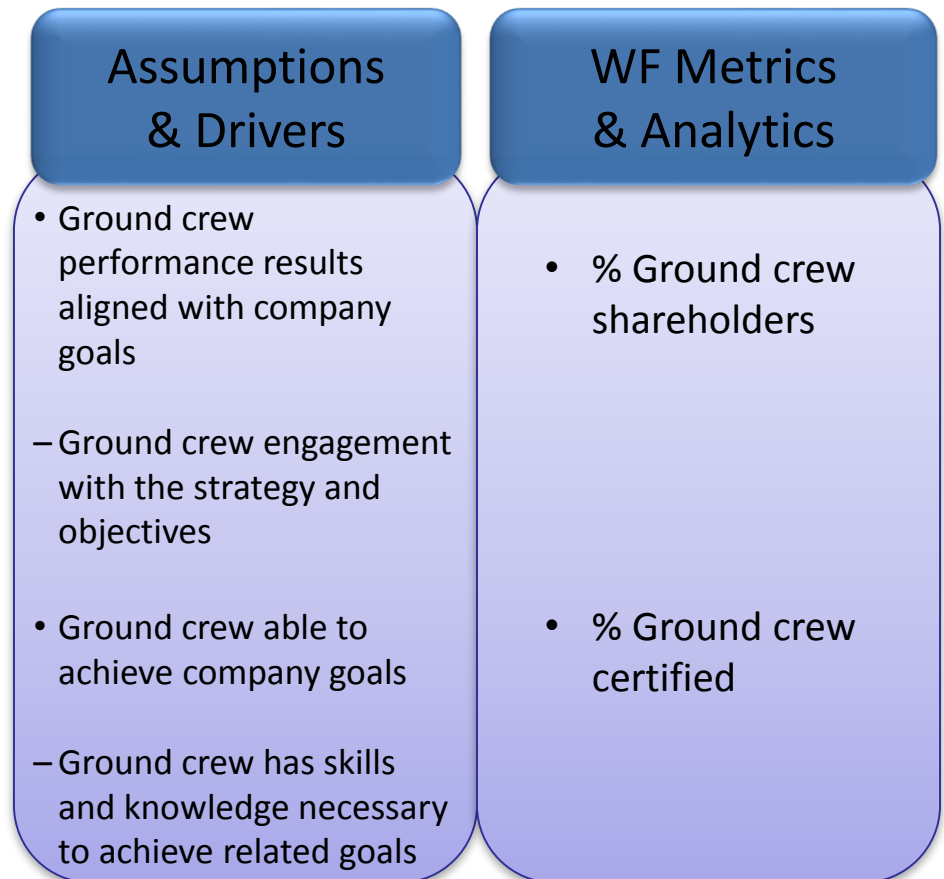# Phase 3: Identify & Build
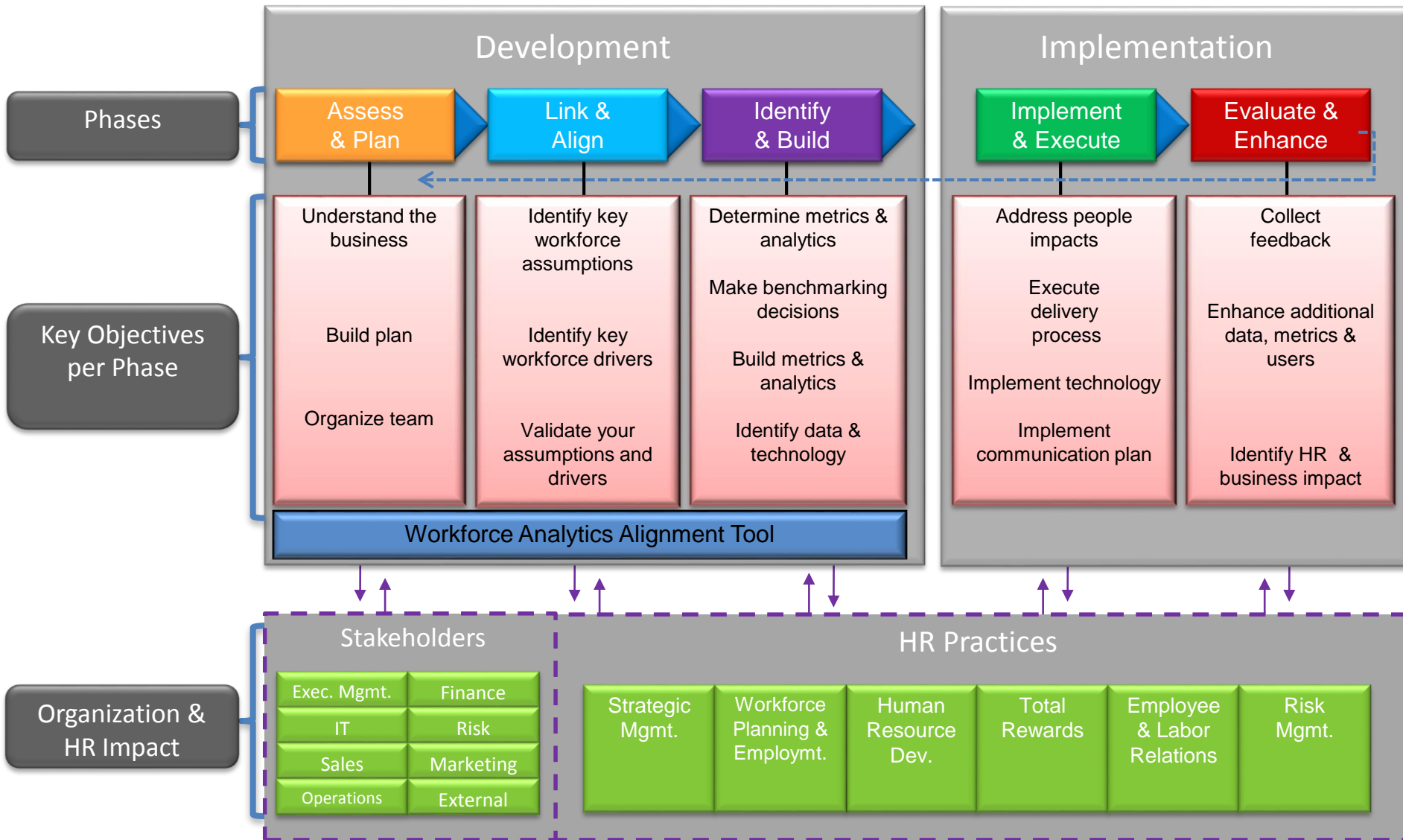
Identify and Build

1. Determine HR Metrics, *continued…*

Priorities, Objectives, & Goals	Assumptions & Drivers	Metrics & Analytics

Reduce workforce related enterprise risks
 	
1. Reduce risks related to executive turnover
    • Have a pipeline of ready internal candidates for executive positions
    • Reduce recruiting time for key executive positions
    • Reduce external executive recruiting fees
    • Retain high potentials
	<u>Assumptions</u>
	Robust succession management program
	
	Robust high potential development program
	
	<u>Drivers</u>
	1. Depth and strength of bench
	2. Fit of bench to needs
	3. Fit of development programs to needed competencies
		• Succession depth
		• Succession strength
		• % of Positions filled with Successors
		• Successor Retention
		• High Potential Retention
		• Time to start for executive positions
		• Cost per hire for executive positions

Identify and Build

2. Determine <u>Workforce</u> Metrics and Analytics

- Metrics and analytics that best reflect each workforce driver
  > 1 to 4 per driver

- Effectiveness, business impact, and predictive

Assumptions & Drivers

- Ground crew performance results aligned with company goals

- Ground crew engagement with the strategy and objectives

- Ground crew able to achieve company goals

- Ground crew has skills and knowledge necessary to achieve related goals

WF Metrics & Analytics

- % Ground crew shareholders

- % Ground crew certified

Identify and Build

3. Make Benchmarking Decisions

Important considerations:

- Benchmark or not?

- Which metrics?

- What vendor(s) will you use?
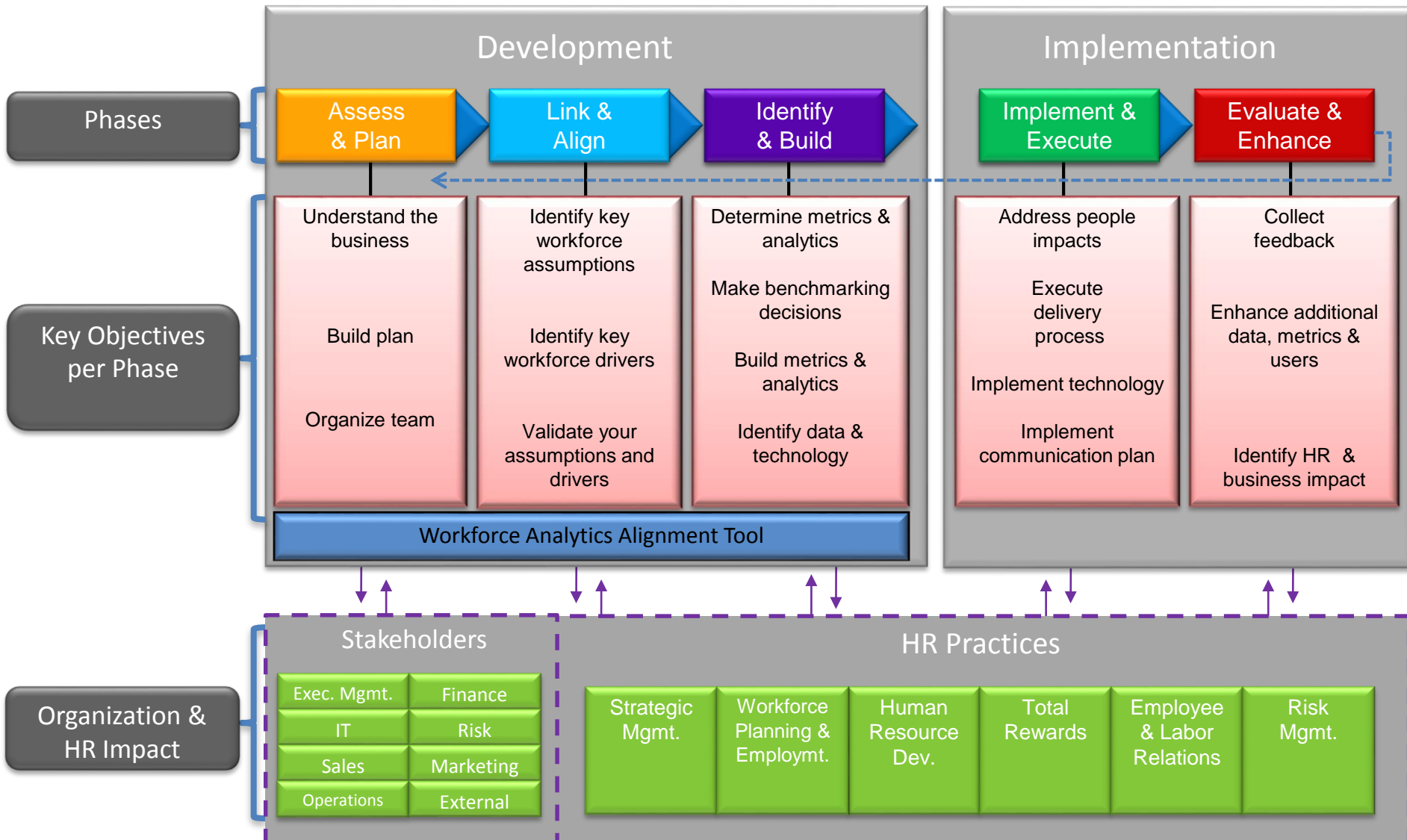
- How will benchmarking be used?

Identify and Build

4. Build the Metric Definitions, Formulas, Dimensions, Comparators and Targets

- Definitions

- Formulas

- Dimensional Analysis

- Targets

- Comparator Analysis
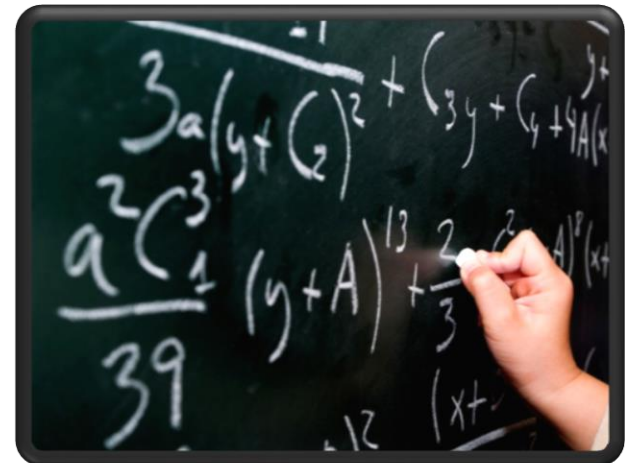
SHRM Human Capital Analytics Module

Quick tips for Phases 1,2,3

- Metrics are not about the number but the conversation around the number
- Don't do this alone – Get a team with different perspectives and skills
- As long as they focus on the metric, it gets better
- Be a facilitator, not a controller.
- Pilot this with an HR friendly department.

Predictive Analytics

Difficulties with Predictive Analytics

- No standard algorithm exists to link specific HR activities, etc. to firm performance.

- Lack of shared research (competitive issues)

- Company cultures cause results to vary

- Lack of longitudinal research using data from the same company over time

Predictive Analytics

So where do we go from here?

Most firms who have predictive analytics start out mining their data to see what relationships that exist. Overtime they capture data they believe will give additional insight.

How can you get assistance?

Contact professors in HR and related disciplines to see if they would review your dataset, perform analysis, etc., in return for possible publications. The data are confidential so the results aren't linked back to your organization.

HR Investment Study

- ➤ Positive diminishing returns effect of HR exp./FTE on productivity
- ➤ Max point is $7807. Approximately 95% of all cases in the sample fall below this number

HR Investment Study

➢ Negative Relationship between HRM systems & Vol. Turnover <u>strengthened</u> by HR functional investments

THANK YOU!