



SRMTM

SOCIETY FOR HUMAN
RESOURCE MANAGEMENT

Human Capital Analytics and Metrics

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Human Capital Analytics Today

- Highest purpose for human capital analytics: Creating predictive business indicators that CEOs can use to help chart the course of their business
- Measurement is different from metrics, which differs from human capital analytics
- Measurement is data gathered regardless of reason
- Metrics involves measurements for specific reasons
- Human capital analytics are metrics that are analyzed to create value. Analytics is information that is not just nice to know, but can be used to make business decisions

Human Capital Analytics Today

- Momentum for analytics is building, but potential is unrealized
- While many HR Departments use metrics today, their use and application are:
 - Often inconsistent; different companies employ different kinds of metrics in different ways
 - Data is collected for its own sake or to justify some activity
 - Metrics are out there by themselves, and are not tied to business performance or adequately aligned with organizational strategies

Human Capital Analytics Today

- BOD's increasingly ask CEO's to measure people results
- Conversations taking place in the business community of quantifying intangible assets (AICPA, SHRM, and UK Regulatory Task Force)
- Recognition among HR executives that they require business acumen; HR courses that focus on analytical capabilities
- Growing body of research showing the linkage between human capital analytics and business performance

Human Capital Analytics Today

The reasons why analytics are not being more widely used are many including gaps in stakeholder perspectives. Barriers to fully realizing analytics are:

- Human capital analytics aren't on Wall Street's radar. Investors pressure companies to meet short-term earnings rather than long-term milestones. Human capital analytics and its predictive business value is not one of their traditional tools
- Many in the C-suite have not yet bought into the potential and value of human capital analytics

Human Capital Analytics Today

- HR has not yet reached the level where it can consistently and quantitatively demonstrate linkage to value creation, causing many CEOs and CFO's to view HR skeptically as a simply a necessary expense. This barrier is enhanced through differences between industry and organizational size
- The knowledge and experience is often lacking to turn metrics into analytics and analytics into strategies. Unlike many expertise areas in HR: employee relations, compensation, recruiting, etc, learning from others -OTJ usually does occur

Human Capital Analytics Today

- Organizational cultures that foster silos inhibit using human capital analytics. Often data related to human capital is disconnected from business operations, so the data are not integrated, and relationships between people and business measures are not connected. Silos create gaps because managers focus on their area of control. Manufacturing departments report production output; HR reports people data
- Lack of standardization of definitions, terminology, and formulaic elements make metrics different from one organization to the next, and makes it difficult to build on generalizable knowledge beyond one's organization

Human Capital Analytics Today

- Regulatory and Financial requirements for valuing human capital do not currently exist
- Whether standards should be pushed upon business and HR by regulators or pulled by demand is a key question. (FASB, etc) Many believe regulation would be a good thing for HR because if human capital investments such as training were treated as line-item investments, instead of costs, then investor communities would see HC as the value driver it is
- Metrics are often non-linear. Metrics are messy and sometimes composed of soft elements can be ambiguous and hard to quantify

Human Capital Analytics Today

- A confluence of factors influence human capital data, which makes connections very difficult.
 - Economic Environment
 - Management Behaviors
 - Organizational Culture
 - Industry
 - Organizational Size
 - No standard calculations
 - Plus more

Managing Analytics in its Current State

- While there are challenges to be met, and we will discuss later about what key points must occur to improve the future, much can be done to operationalize human capital data.
- HR Metrics aren't about HR. HR Metrics are about what people measures managers and HR believe are important drivers for organizational success. Several overarching guidelines are:

Managing Analytics in its Current State

- Conceptualize metrics in three ways:
 - Efficiency Metrics
 - Effectiveness Metrics
 - Predictive Metrics
- HR facilitates the process to involve managers about what metrics are relevant. These are metrics the organization and managers own; not HR.
- Fewer metrics are better than more metrics
- Simpler is better than complicated
- Usually better to pilot a project with a smaller, human capital supportive/friendly department in your organization

Managing Analytics in its Current State

- Efficiency Measures
 - Often we over-report efficiency measures because it's easy
 - Cost-per-hire, time-to-fill, number of training hours, HR Costs
- Effectiveness Measures
 - Demonstrates how HR practices/measures relate to firm performance
 - For example, increased productivity by \$X by lowering time-to-fill, lowered legal fees by \$X for sexual harassment complaints through mandatory harassment training

Managing Analytics in its Current State

- Effectiveness Measures (continued)
 - Increase productivity by lowering voluntary turnover through key HR initiatives:
 - Management training class
 - Team-building for areas where turnover was higher
 - Improved communication about how to utilize HR Services
- Predictive Measures
 - Reliably forecasts how HR practices/investments will improve organizational performance. If I invest \$X HR dollars for this initiative my ROI will \$X

Managing Analytics in its Current State

- Facilitate the Process; Don't Isolate HR
 - Build bridges with colleagues in other departments; seek to create consensus
 - Finance and Accounting are allies in this effort
 - Talk to department heads about business metrics for which they are accountable
 - Ask them how employees contribute to achieving those metrics
 - Eventually pick 3-4 effectiveness metrics that you will focus on to report out

Managing Analytics in its Current State

- Whenever you communicate HR metrics it is best to relate it to an existing business metric the organization understands and supports
 - **Examples:**
 - **Revenue per FTE**
 - **Net Income before taxes per FTE**
 - **Net Income before taxes**
- Productivity measures as indicated above link the time and effort associated with the firm's human capital to its financial output. Measures efficiency and productivity of output produced by FTEs (Revenue/FTE)

Managing Analytics in its Current State

Exercises Around Interpreting Metric Data

(please see handouts)

Envisioning the Future of Human Capital Analytics

- Increased standardization of metric terms and calculations
- Outside regulatory oversight to require ways to value human capital on an organization's balance sheet
- Education of key stakeholders around the value of human capital analytics in order to increase adoption
- Creation of a model of human capital analytics and the development of tools and technology to create scenarios around this model
- Creating new competencies about measurement in HR
- Appropriate public policy efforts to incentivize business to embrace human capital maximization strategies

Questions?