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HR metrics help HR to prove its worth

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In today's tough economic climate, it's vital for HR to prove its value to an organisation. Alex Blyth explains how.

With job cuts and redundancies becoming increasingly common, it's more important than ever for HR to prove its worth and value to an organisation. But this is something that HR functions are historically bad at doing, according to Dave Millner, consulting director at [Kenexa](#), a global recruitment and retention specialist.

As Millner puts it: "HR metrics give HR professionals a chance to prove their value to senior management, but they notoriously fail to grasp this opportunity. They focus instead on tactical measures, which give useful information and work fine in isolation, but don't tell the full story. They only prove the existence of HR they don't prove its value."

HR software provider [Computers In Personnel](#) recently researched what HR functions usually measure. It found that 90% report on the number of vacancies and 82% of organisations assess the time it takes to recruit. But only 23% report on the direct cost of recruitment, such as adverts or agency fees, 6% report on indirect costs, and just 5% measure the retention rate of new hires. Managing director Chris Berry says: "The evidence suggests that while there are some notable exceptions, most HR managers still have some catching up to do when it comes to measuring their performance and demonstrating their effectiveness.

"This is partly because HR has no real tradition of measuring anything more than the most basic factors. But it's also down to practical difficulties. It's often hard to get your hands on meaningful data, and until recently, HR hasn't had affordable tools to help it analyse data."

This, however, is changing as advanced software that enables HR to assess results on everything from employee engagement to training becomes available.

Software

Mark Barlow, managing director at [Qikker Solutions](#) HR software and consultancy, believes that technology is the answer to better measurement of HR effectiveness.

"Many organisations still have paper-based performance systems," he says. "This makes it difficult to gather HR metrics around people performance and engagement. Automated employee performance management systems allow an organisation to quickly and easily access these types of performance metrics from across the whole organisation. Real-time 'dashboards' can provide critical performance metrics at a glance in visually intuitive graphical formats."

But is this enough to prove HR's value?

Objectives

[Weightmans](#) is a national law firm, employing 800 staff with an HR team of 12. HR director Sam Airey says her team produces monthly and quarterly reports on all the standard HR metrics: recruitment, retention, absence, training and development. These show what HR has been doing and provide a measure of how well the department has performed compared to historical data.

While Airey is certain that measuring HR is vital, she's not convinced that what the firm measures genuinely reveals the impact her department has made. "It's not as clear cut as something like finance," she explains. "It's easy to gather all this data, but I'm not sure it gets to the heart of the

matter. I'm sure we could do more to demonstrate the impact of people performance on the business."

Airey is not alone in feeling that traditional HR metrics are inadequate. Dilys Robinson, principal research fellow at the Institute for Employment Studies, and author of the [What Customers Want From HR](#) report, says: "HR spends a lot of time beating itself up about metrics like time to hire, retention, absence and so on, when it would be much better off finding out what its internal customers need it to achieve, and then just doing that."

Fiona D'Arcy, a consultant at management consultancy [Berkshire](#), agrees. "You can measure recruitment, development, promotion, benefits and retention. You can run staff attitude surveys, 360-degree feedback, measurement of recruitment rates, even negative indices such as legal actions, and disciplinary action. However, the most important metrics are those that match the business objectives. The key is for HR to work closely with senior management to understand those objectives, devise strategies for HR to help deliver them, and then measure how well it achieves that."

Some companies already do this successfully. [Enterprise Rent-a-Car](#) has 3,500 UK staff and an HR team of 60. It measures staff retention, gender and ethnic equality, the timing and quality of appraisals, and recruitment. European HR director Donna Miller says: "The process begins with me discussing business objectives with the managing director. If how I measure the effectiveness of my team doesn't link in to those objectives, it's a waste of time."

"Once we know what we're trying to achieve we can measure it, then give each HR executive a monthly review to review and set objectives. This means that HR executives are accountable for their individual performance and are contributing to the company's overall performance."

Focus

As Miller says, the focus needs to be on outcomes, rather than input. David Cumberbatch, director at business psychologist Xancam, says: "When it comes to evaluating the spend on HR initiatives, too many organisations focus on internal, HR-focused measures rather than on business outcomes. HR can be obsessed with costs and focus more on cost than return."

He believes that by demonstrating how investment in HR contributes to the bottom line and desired business outcomes, HR professionals are more likely to get support from managers across the organisation.

Regardless of the sector, metrics must be linked to the organisation's objectives, says Andreas Ghosh, lead officer of workplace strategy at the [Public Sector People Manager's Association](#). "Many introduce measurement and it remains static, but to be successful these measures need to adapt over time to reflect the changing business objectives," he says.

By doing all this, HR can use metrics to show senior management how it adds value, which will become increasingly important as the recession bites. Millner believes identifying the top five issues senior managers are concerned about and finding ways to measure their success is fundamental. "It can be tricky, as HR departments might find out that their initiatives failed. But at the same time, it's the best way for HR to prove its value to senior management," he concludes.

Top tips for getting HR metrics right

For HR to demonstrate its value to an organisation, it must measure its performance against targets. While in the past measuring performance against targets was time-consuming, it's now possible to invest in software that will automate the collection and analysis of this data.

Key metrics to consider include: time to recruit, cost of recruitment, retention rates, promotion rates, training and development provision and take-up, gender and racial equality, absence and productivity per employee.

The metrics that are most suitable for your organisation are those that link in to your business objectives. HR should always aim to set its metrics in isolation the process must always begin in consultation with senior management.

Business objectives change over time, and so must HR metrics.