HR METRICS:
Myths, Best Practices, and Practical Tips
A Metrus Group White Paper
By William A. Schiemann

There is much interest today in identifying the right metrics to help focus investments and strategy implementation. Metrus has been involved in the design, implementation and benchmarking of these metrics for nearly 20 years. During that time, we have discovered many myths as well as some key ingredients in the design and use of HR metrics that are the subject of this paper.

What are HR Metrics?

First metrics are often confused with measures. We find that it is best to refer to “measures” as the way in which we hope to quantify a particular concept, such as employee engagement or talent loss. It requires a clear operational definition, a method of calculating a quantitative number, and some related information (baseline, targets) that help frame the number.

In contrast, we prefer to use metric to refer to the actual reading on the measure at a given time. For example, your automobile has a speed measure (a speedometer with a precise way in which speed is calculated; it might even have hash marks at certain limits, such as national speed limits). However, the metric might be your current velocity in miles per hour.

Second, a measure is only a representation of reality. That is, a measure is a way of capturing a concept, like speed in the above example. There may be other ways to capture speed besides a speedometer used in your automobile. Airplanes and boats, for example, use different methods to capture the concept of speed (air speed, knots). There are also less formal measures, like my wife’s windblown hair measure while driving in our convertible.

In an organization, the same is true. What is leadership? If you have the patience of Job, you will find hundreds of definitions of leadership. Most measure different aspects of what we broadly think about as leadership. The key point is that it is the ‘concept’ that matters most—the measures are our best approach to capturing the essence of the concept.

For example, employee engagement is a concept that has been shown to be highly important in driving employee retention, productivity, and other business outcomes. There are many different measures of engagement in the literature and far more being used in practice every day. Some have been validated (e.g., proven to predict important outcomes), while others only look or feel like they are measuring engagement. One has to be careful about measures that “feel right” but

1A recent symposium of engagement experts, led by the author, entitled “The Promise and Peril of Employee Engagement” at the 2007 Society of Industrial and Organizational Psychology Annual Conference bore out this observation.
are not related to or predictive of important behaviors (e.g., decision to leave the organization) or business outcomes such as customer retention.

So it is important to keep in mind that as we discuss HR metrics or measures, they are really surrogates for actual concepts that have been identified as important in our organizations or in our daily lives.

**Tangibles Versus Intangibles**

Compared to products, which can often be measured in more observable ways (e.g., exact color, size, shape on universal standards), many of the concepts in the human capital space are intangibles (Schiemann, 2007). Concepts for example like turnover—the amount of talent that leaves the organization—can be counted; however, the definitions of turnover are many and the calculations can be complex. But we can obtain concurrence on fairly exact ways to observe and count the actual number of employees that leave an organization.

In contrast, “leadership” or “engagement” are not tangible things that we can easily count. They are concepts that represent some dimension of reality that is important. Engagement, for example, comes out of the original work done nearly a century ago on employee morale. Most people have an instinctive feel for when morale is high or low, but psychologists over the years have refined concepts like morale, employee satisfaction, employee commitment, and engagement so that they can more precisely measure how much of what you feel is actually present or not. That is, by agreeing on answers that employees give to particular questions on surveys, we now have reasonably accurate ways to compare morale or engagement from unit to unit or from company to company.

This precision also allows us to conduct statistical analyses to understand how different human capital concepts are related to either tangible (e.g., customer retention) or intangible (e.g., customer loyalty) business outcomes. For example, there is a very strong literature of scientific studies that have confirmed that there is a strong connection between employee engagement and turnover, so it enables organizational leaders to understand how many people they are likely to lose because engagement levels are not optimal—and, to decide how much to invest to bring engagement levels to more favorable levels.

**HR or People Measures?**

Another frequent confusion is between HR and People (or human capital) measures; they are not necessarily the same and by not separating them, the result can be poor resource investment decisions. People measures capture information about people drivers or outcomes in the organization that have a clear relationship to achieving organizational goals; they represent the primary human capital and talent factors required to execute the business strategy.

---

2 This is not unique to HR however. Functions like Security are dealing with concepts such as threat; R&D with innovation; IT with intellectual property; Finance with risk, Marketing with brand, and so forth.

3 While recognizing that different experts have not agreed on a common definition or questions, many have validated their measurement instrument against different important criteria. For example, one measure might be slightly better at predicting turnover while another is better at predicting productivity.
Human Resources measures, on the other hand, address processes, competencies, and other factors relating to the HR function. The HR measures are typically focused on processes and competencies under their control that support the key people factors.

Another way to think about People versus HR measures is to think about their relationship to business outcomes such as profitability and customer retention. Workforce measures of productivity, retention, engagement are typically in the direct line of sight in delivering those valuable organizational outcomes. And while the HR function is often the architect and evaluator of certain processes (e.g., reward and recognition, training, performance management, talent acquisition) that help the organization to achieve important people and business outcomes, line leaders and other support functions are often key players in the execution of those processes. In contrast, hiring fill rates or recruiting effectiveness are more directly under the control of HR, and may well support talent attraction—perhaps a key people factor for certain organizations.

The HR Scorecard

Another area of confusion is often around scorecards and dashboards. A balanced or strategic scorecard (Kaplan and Norton, 2004; Schiemann and Lingle 1999) is a small collection of measures that capture the most strategic elements needed to execute the unique business strategy and achieve its short and long term goals. Usually, a scorecard will include financial, customer, operational, people and perhaps other measures.4

Because the HR function is often the steward of the people elements of the strategy, the HR function is often charged with overseeing and guiding the key people measures5. In essence, they are the overseers of the return on investment in people for the organization. As such, their measures should be ones that help the HR function in its stewardship role of maximizing the people equity of the business.

So, the first thing on the radar of the HR team should be the key people measures from the organization’s scorecard. If the organization does not have a formal scorecard, then HR can help the organization develop the equivalent People measures that are crucial to guiding the business.

The second class of measures should be the HR measures—the key drivers that HR guides or controls that directly influence the key people measures described above. These might include key processes that HR designs and/or delivers (e.g., rewards and recognition, recruiting and selection, performance management); key areas of competency development (e.g, leadership development, people skills training); or other organizational roles (e.g, organizational development or change management; ethics and diversity; stress and health issues).

4 Schiemann and Lingle (1999) found that often these four dimensions are not the best or only categories that should appear on a scorecard. Organizations often include other important categories—environment, community, regulatory, adaptability—that are essential to their business strategy.

5 The two types of measures may overlap in some circumstances since the HR function is often charged with the task of leading, challenging, or recommending actions in the people space. For example, Engagement is an important strategic measure of the commitment of the workforce and the HR function may have accountabilities (oversight of the People measure and delivery of Engagement training) that cause it to place Engagement as a measure on its scorecard.
These latter measures may be more transformational or tactical in nature compared to the more strategic people measures of the business, but are nevertheless important in their functional (or sub-functional) role in providing the support needed to drive those overall people measures. These tactical measures should be valuable in helping HR to assess their capabilities, allocate their resources, evaluate the effectiveness of their processes, and provide feedback on their value as a function.

**Overeating at the Metrics Buffet**

One of the biggest mistakes that we have seen in our practice over the years is TOO MANY MEASURES. As one of our prior clients told the audience at a Conference Board program national presentation, “Metrus cautioned us not to overeat at the metrics buffet, but we wanted to consume more, and more, and more. Bloated and fatigued after trying to digest and implement all of those metrics, we understood the advice only too well.”

Why does this happen? A short story might illustrate.

We were called into a large IT organization6 a few years ago because of measurement metastasis—the uncontrollable growth of measures that were choking off the vital decision processes of the organization. We were shocked to hear that they had 157—yes, you read it correctly—scorecard measures and counting. Measures were spreading fast. The “metric busters” arrived barely in time to save the function before it was excised in radical organizational surgery.

**The Symptoms.** Measures were everywhere—on walls, in printouts, in reports, even on the shirts of some of the bedraggled players in the room. As good “metric doctors,” we asked the following set of diagnostic questions, which are followed here with their answers:

- How many customer or key stakeholder measures do you have? “None”
- How many people measures do you have? “None”
- How many financial measures do you have? “A couple relating to cost”
- Then what do you measure? “Let me show you a printout…” [To save you the time, almost every measure was operational]
- How do you use the measures? “We are measured on the worst 10 each month and ‘beat up’ when they are off target.”
  - “How often are they off target?” “Always”
  - Then what happens?” “We work very hard on those metrics and improve the scores.”
  - What happens at the end of the next month?” “We then have 10 additional metrics that are off-target and we are ‘beat up’ again”

We observed a very exhausted and cynical audience of managers. Do you think they found measures helpful?

---

6 If you are not an IT organization, don’t feel that you have escaped; we have observed this in almost every internal function.
The Cause. How might they have gotten to over 150 measures? Not easily, you might surmise, but their plight is a common one across organizations today. They started with a manageable number of measures (although not strategic ones), but they began to add a measure here and there to “fill holes” in operating gaps. Every time there was a quality problem, or a software deliverable was late, or a glitch in some system, a new measure was created to make sure it didn’t happen again. Now, over one-fifth of their staff were tracking measures rather than fixing or improving processes, or creating products.

Furthermore, the original set of scorecard measures was not balanced. They were mostly operational, so customer feedback was not available, employee measures non-existent, and no ability to link any of this to financial impact. Therefore, their original 30 or so measures had no check and balance to keep them under control—insidious growth was inevitable.

Lastly, technology was a culprit, especially for an IT organization. When we asked why they did not start with a “critical few” 12-15 measures, they said “When everyone had submitted his or her measures, it easily surpassed 30 measures and because they were reasonably easy to capture and report, why not keep them all?”

The Cure. Our plan to help them achieve a meaningful and manageable set of metrics led us to bringing them back from the edge by refocusing on their strategy to:

- Identify their value proposition in the business
- Identify the key results and drivers of their success
- Identify the measures that would best capture the above
- Ensure that they had a good check and balance system in place that provided input from multiple stakeholders (their customers, employees, suppliers, funders, industry benchmarks)

Balancing the Hierarchy of Measures

When we are called in to help an organization that has been to the measurement buffet too many times, we often find that they have almost all transaction (or tactical) measures and very few impact (or strategic) measures.

Figure 1 provides some help in understanding the hierarchy of measures.

- The top triangle represents the strategic impact measures that should provide key indicators of strategy execution or market success.
- The next band of the triangle represents effectiveness, or transformational measures—often linked to process effectiveness (process drivers or results) or change issues (is our culture moving in the right direction? Did we complete a transformation effectively?)

7 Today we are seeing the same in Finance, HR, R&D and Marketing and other functions with the advent of enterprise resource systems like SAP. Because it “can” be captured does not necessarily mean it “should” be captured or reported.
The bottom of the triangle represents efficiency or transactional measures. These are most often associated with supporting processes or diagnostic information that may be useful in understanding why a key Impact or Effectiveness measure is not doing well. These measures are often the day-to-day measures of short term performance and areas where benchmarking is often done. Why? Because processes at this level are often interchangeable across organizations and can more easily be compared. In contrast, strategic impact measures are rarely comparable across organizations because they represent the unique differentiators of a business, and unless the organization wishes to copy someone else exactly, they would not typically lead an organization to unique value.

An example of the hierarchy in the area of talent acquisition might prove helpful. An HR organization might measure speed of hire at the efficiency or transactional level; line leaders want approved roles filled as soon as possible. However, we might be hiring far too many people who simply head out the back door—poor fits. So judging recruiting and selection effectiveness by speed alone may fall short. But even if the retention rates are high, we may be retaining employees that are making our customers miserable, or damaging our culture. These latter areas of impact—customer satisfaction or cultural values—are far more strategic in judging whether our hires are adding value to the organization.

**Political Referendums**

Another frequent problem is every function, department, or team feeling that it needs to have a measure on the overall organization or HR scorecard. This type of political referendum rarely leads to strategic impact; more often, it leads instead to confusion and lack of focus. At a major regional bank, we met with an HR organization that was stymied in creating an overall value proposition for HR. What they had instead, was a collection of HR silos—leadership training, benefits, compensation, organizational development, and others—with each suboptimizing its piece of the puzzle. The problem was there was no puzzle—just a lot of puzzle pieces that when assembled failed to add holistic value. The annual plan and budget was simply all of the silo plans with a big staple through it.
A more effective approach is to first have the HR leadership team focus on the big picture business issues, the role of people, and finally the way in which HR will add value. That value proposition can then be translated into top level strategic measures (people and HR scorecard), and refined with input from other key stakeholders (funders, peers, and sub-functions in HR). Once the core measures are agreed to, then it is highly desirable to cascade the concepts to the various units that support the strategy so that each can identify the concepts and measures on which they must focus in order to support the overall strategic measures.

For example, if retention of top performers is a critical people outcome, then the recruiting unit must think carefully about how its processes and deliverables (and the measures of those processes and deliverables) are most effectively supporting that overall measure. If they focus on speed of filling requisitions, but lose many of the top performers within a short time, then their measures of requisition speed is not aligned with the higher goal of top talent retention.

A parallel example might be in training. Today, we frequently receive requests from Training Directors to help them determine the ROI of their training programs. Often they are surprised that there is not a common formula for determining the ROI. Why? Because the training goals should be uniquely defined by the business and its strategy. If we were to contrast Wal-Mart, known for a high efficiency, low cost model to Nordstrom’s, a paragon of customer intimacy, then the training directors of these two organizations will have different success criteria to use in comparing training impact. If the Nordstrom’s Training Director were to build a very cost effective training program that leads to on-the-job efficiency over service, it might help Nordstrom work out costs, leading to higher short term profitability; however, if that is done at the expense of customer service, and the organization begins losing its loyal customers, then the training would have low ROI against this important strategic goal.

The above training example also highlights another serious problem with benchmarking when used inappropriately. The Wal-Mart training director might be proud to show her leaders that Wal-Mart is in the top quartile of training cost per retail employee; if the Nordstrom’s manager were touting the same performance, it might be totally inappropriate, given their different brands and therefore different training needs.

**Unique vs. Generic People Measures?**

Figure 2 shows a general model of how people support the overall business strategy. As we have already argued, converting your unique strategy into unique people requirements is essential. However, there are frameworks for thinking about the overall people measures that help sort out this puzzle.

For example, we introduced the concept of People Equity a number of years ago to help sort out the major determinants of people value to a business. Employees need to be:

- **Aligned** with the business strategy, brand and its customers
- **Have the Capabilities** needed to meet customer requirements
- **Engaged** with the organization—serving as ambassadors or advocates.
This ACE\textsuperscript{8} model provides a sound scientifically based framework for thinking about the three components that create value in the workforce, along with a set of drivers that enable the organization to achieve high ACE. These include HR systems, the organizational structure, leadership and supervision, strategy, values, innovation, technology, and unique strategy features (Schiemann, 2006). All organizations need to consider these factors in thinking about optimizing their human capital. However, in building key people and HR metrics, it is important to identify the select application that is most important to your organization at that time. For example, while Alignment is critical, employees of Wal-Mart and Nordstrom’s would be measured on very different alignment dimensions, The same would be true for Capabilities and Engagement.

**Building the Right Measures**

From our many research studies, best practice cases, and over 25 years of experience in this area, we have learned and honed an approach that works well for many organizations.

1. **Start with the Strategy.** When in doubt it almost always helps to begin thinking about the unique business strategy that differentiates each organization from many others. A quick look at Figure 3 shows three different strategies (Tracey and Wiersema, 1993)\textsuperscript{9} that each require different talent to succeed. In our workshops, we often use a retail example as most participants can quickly see the differences in familiar shopping experiences.
   a. Wal-mart or Costco are frequently mentioned as examples of the Operational Excellence leaders. These firms have created a distinctive brand around low price and require extremely efficient processes, lean operations and overhead, and employees who can perform effectively in high volume operations.

---

\textsuperscript{8} Short for Alignment, Capabilities, and Engagement
\textsuperscript{9} Based on Tracey and Wiersema’s taxonomy of alternative business strategies.
b. Nordstrom’s or local merchants are frequently mentioned as exemplary of high Customer Intimacy delivered through high touch relationships. Here the focus is on long term relationships built by familiar faces, outstanding service skills and processes, and customer knowledge.

c. Apple or boutiques are frequent examples of Innovative category killers. Here, in many of their key job roles, innovation and autonomy are important to deliver the brand image. Customers expect sales people to be knowledgeable about new technology, able to demonstrate the “latest,” and provide new experiences.

Each of the above models requires a different deployment of talent to be successful. Therefore, the people metrics that we apply should differ as well.

Fig 3: Strategy Driven Measurement

<table>
<thead>
<tr>
<th>POSSIBLE MEASURES</th>
<th>Cost Leadership</th>
<th>Innovation</th>
<th>Customer Intimacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial/Operational</td>
<td>ROA</td>
<td>ROI</td>
<td>ROS</td>
</tr>
<tr>
<td></td>
<td>Productivity</td>
<td>% revenue from new products</td>
<td>Account share</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Revenue dollars/customer</td>
</tr>
<tr>
<td>Customer</td>
<td>% of deals closed</td>
<td>Customer value</td>
<td>Customer value vs competitors</td>
</tr>
<tr>
<td></td>
<td>Market share</td>
<td>Acceptance of new products</td>
<td>Customer loyalty/retention</td>
</tr>
<tr>
<td></td>
<td>Price Orientation</td>
<td>Speed of migration</td>
<td></td>
</tr>
<tr>
<td>Product/Service Quality</td>
<td>Attributes like...</td>
<td>Attributes like...</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maintenance costs</td>
<td>Innovative</td>
<td>Reliability</td>
</tr>
<tr>
<td></td>
<td>Warranty costs</td>
<td>Serviceability</td>
<td>Responsiveness</td>
</tr>
<tr>
<td>People</td>
<td>Efficiency</td>
<td>Idea Generation</td>
<td>Empowerment</td>
</tr>
<tr>
<td></td>
<td>Revenue per Employee</td>
<td>Autonomy</td>
<td>Service Skills</td>
</tr>
</tbody>
</table>

2. Draw A Picture. Most managers find it helpful to develop a value map to capture the relationship among the important people concepts as they relate to the important operational, customer, and financial outcomes needed to be successful. Which people factors help the business differentiate from its competitors? Which people factors help the leadership team understand the return on people investments? What are the leading people indicators for your business?

We find it most helpful to think of a value chain in which human capital combines with technology, materials and financial resources to create highly valuable products/services for the customer (see Figure 4). When the key financial, customer, operational, and people concepts\(^{10}\) are displayed in a model such as Figure 4, then it becomes much easier to understand how the people concepts (and therefore their measures) influence, or are influenced, by other important concepts. The key business outcomes are on the right and as we move to the left, column by column, we have factors that are expected to be next most important drivers of performance on those outcomes.

\(^{10}\) Other concepts may be of relevance as well such as community, environmental, regulatory that could also be depicted in such a model.
This Exhibit follows the strategy of an efficient, low-cost airline. Key outcomes such as Net Income and Market Share are displayed on the right and immediately to their left are key drivers of those outcomes, such as Customer Perceived Value and On-Time Arrivals. As we move further to the right we can see that employee drivers, such as Engagement and Talent Match are shown to be of high importance in employee outcomes such as retention and productivity, which in turn affect cost and on-time arrivals, which are major drivers of market share and financial success.

**Fig 4: Strategy Value Map**

For HR, such models help determine which people concepts (and therefore measures) are most important as either outcomes (e.g., retention of top performers) or drivers (management excellence) of important outcomes. Typically, eight to twelve concepts (and measures) are sufficient to capture the important people factors at the most strategic level. In Figure 4, these are the concepts with a border. That is not to say that other concepts or measures may not be important in day-to-day people management, but those additional measures are typically either diagnostic or tactical in nature.

3. **Developing the HR Measures and Metrics.** Once the important People concepts and measures are understood, it is then possible to identify important concepts and measures for the HR function (see Figure 5). In Figure 5, the far left column represents three key HR metrics that were appropriate for one HR function.

In this organization, HR was rated critically in not understanding the business. The HR leadership team decided that it was important to increase their business acumen to be able to deliver higher value. They also realized that they had not been active in the HR community, and therefore, were still using many outdated processes and tools. Another measure for them therefore included a measure of becoming “state of the art” in their field, so they could identify and bring fresh new ideas into the organization.
4. Building the Right Measures. Armed with this strategic thinking, it now becomes a matter of populating each of these people and HR concepts with measures that help the management team track how well the organization is doing in reaching its end goals, and how effective various initiatives are in helping to ‘move the dials’ on the outcomes or the drivers of important outcomes. Caution should be exercised here to ensure that the measures are not just ones that are easy or readily available; if those measures do not capture the concept well, then the time and cost of measuring may be a waste of resources, not to mention the potentially guiding decisions in the wrong direction.

Once you know what you want to measure, it is important to sort out what already exists versus what new measures are needed. For the measures for which insufficient information exists today, plans need to be built to identify how the organization will obtain that information. Does the information exist in outside databases? Is it embedded in other internal databases? What is the timetable for obtaining and institutionalizing this information?

Another hidden opportunity lies in looking for ways to secure important measures from the same data capture method. For example, we often find that organizations using employee surveys only capture a fraction of the important information they might be obtaining from their employees on strategy execution, customers, and other important issues. As discussed earlier, the three components of People Equity—Alignment, Capabilities, and Engagement—are crucial to maximizing workforce impact. Many organizations capture Engagement in an employee survey and fail to recognize that they could also be obtaining valid measures of Alignment and Capabilities in the same survey instrument.
5. **Building the Measures the Right Way.** Next, it is important to have context. Targets are important for setting future goals, but in order to set targets, it is helpful to have baseline information to understand what the performance on a measure has been in the past. Where possible, this might be the place to look at benchmark information, assuming it is truly relevant for your strategy and context. However, it is important to not benchmark measures that will cause you to focus on some other organization’s strategy. If Nordstrom’s—with its customer intimacy model—uses benchmarks of Wal-Mart or other cost driven strategies, potential disaster looms.

6. **Linking the HR organization together.** For larger HR organizations, it is possible at this stage to use a cascade process to ask each major HR function (e.g., recruiting, training) how their processes are influencing important people measures. Each of those sub-units will probably want to have some key concepts and measures that help them focus their attention and evaluate their impact on the overall people goals.

7. **Using the Measures to Drive High HR Performance.** Once concepts, measures, and targets have been decided, it is then important to have measurement owners, disciplined reporting time frames, and a good root cause analysis process to help prioritize gaps, and allocate resources to the most important areas. Often, the biggest stumbling block is getting the review process off the ground. Measures without good standards or a regular review process will offer little value--dieters are notorious at monitoring the scale without changing behaviors!

8. **Validating Your Measures.** Linkage analysis is a key step in understanding if the overall value map is correct, and if not, where it needs to be changed to enhance effectiveness. Linkage analysis is the approach by which one can quantitatively test the hypotheses in the model. Does Leadership positively influence employee engagement, which in turn influences employee retention, which in turn influences higher customer retention and more profits?

**Fig 6: Linkage at Jack in the Box**

A good example of this comes from Jack in the Box, in which their HR leaders have worked hard to test how concepts such as employee Alignment or Engagement drive employee discretionary effort, performance and turnover, which in turn drive customer behaviors, and financial performance of their restaurants (see Figure 6 for a short version of this work). These assessments are important in helping to adjust models over time by eliminating factors that are not driving important business outcomes or in deciding whether Engagement or Alignment, for
example, might be more important at a given time in creating higher business performance. This allows the organization to then channel different resources (engagement training perhaps vs. goal setting and coaching) to best improve results.

Conclusion

HR Metrics are too often tactical and fraught with incompatibilities among far too many measures. Instead, HR measures should be a clearly linked set of a “critical few” measures that tie closely to the business strategy rather than scores of HR benchmark measures that proliferate many “best practice” data bases. Instead, we recommend a focus on identifying a small number of HR measures that are directly connected to the “strategic people measures” of the business.
References


