



"What Makes a Good HR Metric?"

I have always loved Economics. I am one of those people who find money and its movement through our lives and our economies fascinating. So when I started to get involved with business analysis, I discovered a way I could really let my analytical side run wild at work. Suddenly, I was blending my communication and human resources competencies with my love of economics and technology. It was an unexpected, happy marriage.

As a result, I have started to walk with one foot in the world of HR metrics - another unexpected turn. But I should have seen it coming - HR metrics is a natural progression of business analysis. When you're trying to build a business case for a new initiative - for example, new technology - the more quantifiable measures you can use to illustrate the need and the value of the ROI, the stronger your case. Using HR metrics is a viable way to illustrate the impact people have on a business's bottom line. The expense of labor to a business is often 60-70% of the costs of operations. Managing the impact of this amount of money is no small feat.

Hence, the new discipline founded by me and HR Logistics - "Human Risk Management". Risk Management is defined as "an approach of management that is concerned with the preservation of the assets and earning power of the business against risks of accidental loss" (The Essential Dictionary of Management & Human Resources. Jerry M. Rosenberg). Logically then, "Human Risk Management" can be defined as "an approach of management that is concerned with the preservation of Human Capital assets and their contributions to the earning power of the business against risks of loss of the asset or the asset's favorable contribution." This just makes sense to me.

HR professionals consistently talk about the need for the soft skills but the soft skills have not helped HR professionals get an invitation to the strategic table. In my work, I still encounter CFOs who are looking for ways to manage people related costs objectively. HR's answer to Finance has been the creation of HR metrics. But Finance still doesn't trust HR to be objective - no matter how many metrics are out there. So let's take a look at how to create objectivity.

Recently, as I conducted research for a presentation on HR metrics and leveraging technology, I discovered an article written in 2004 by a "recognized expert in the area of HR metrics" - we'll call him "Dr. S." In his article, Dr. S provides a list of 37 different HR metrics that he thinks are the best choices for large organizations. As I considered each of the measurements from a financial perspective - there were only 10 of the 37 that I thought remotely measured financial impact and were therefore relevant to the business as a whole. And of those 10, 4 of them seemed almost redundant - just rehashes of the same number. To me, the other metrics were measurements relevant to Human Resources and how well they were doing their job. So what makes a metric relevant?

I found myself recalling a book I read - Women of the Street by Sue Herera. I picked up this book at a local library sale when the library was discarding books that were becoming dated. At \$5 per BOX of books, I bring a lot home. This book studied women who had become successful in the investment world and on



Wall Street. The book was quite good - and eye opening. Eye opening because I discovered how much these women had used metrics to achieve strategic credibility.

Almost 100% of the 14 women profiled used technical analysis and econometrics to make strategic financial decisions. They relied on reports, measurements and numbers. But the numbers didn't tell the entire story. So they tied the numbers together, added a little personal investigation using their professional network and other indicators, and developed a hypothesis of anticipated stock market behavior. To me, this seems very similar to the goal of HR metrics for an organization. HR metrics are supposed to provide information that - coupled with other indicators and personal investigation - support a predictive hypothesis of employee behavior. The soundness of the method used to develop the hypothesis is tested by evaluating accuracy of the prediction over time.

The problem for HR is deciding which metrics to develop in order to ensure relevance. You can create a gazillion different measurements, but if they aren't relevant to the business question, they have no value and no relevance. It's like the line from Jurassic Park - "The scientists got so caught up in if they "could" do it", they didn't stop to think about if they "should" do it". Metrics have the same issue. The first requirement of the metric has to be that it is relevant to something the business needs to know in order to be successful.

The second key to a good metric is reliability. If your metric is relevant but not reliable, it doesn't make sense to build it. It will only have value intermittently. Think about the technical analysis used by the women of Wall Street. The metrics they used had shown reliability over time - when the housing numbers went up, the economy was expanding. The majority of the time the metric was a reliable indicator of a specific relationship between cause and effect. That metric has earned a reputation of reliability in predicting certain outcomes.

For example, let's suppose your HR metric says that \$25,000 spent per year on professional development results in longer tenure for employees than \$10,000 per year. You might determine this hypothesis by comparing training costs by employee against tenure. Now, let's suppose that each new hire requires \$18,000 to recruit and ramp up. You have potentially illustrated that the company actually saves money by spending \$25,000 per year on training. But you have a deeper question you need to consider - the turnover rate since you are spending training dollars on every employee and only recruiting for a portion of the employees. What's the break even point? More importantly, what's the relevance of this measurement? The relevant question is if there is a level of training that actually saves the company money and continues to continue to employee productivity. The reliability of the measurement can be theorized to exist in the measurement of tenure, but measurement over time will provide a stronger test.

Last, your metric has to be replicable. If you can only create a metric once with any reliability, don't waste your time. Trust in metrics is built over time - just as the women on Wall Street were trusting reports and economic indicators that had been used for years. Your metrics must earn their right to be deemed



reliable and objective. HR cannot conquer the credibility issue overnight. It has to be earned through repeated opportunities to illustrate value, relevance and reliability. That is why your ability to replicate your metric is so important. You need time for the metric to prove its value.

It's important for HR to demonstrate understanding of the organization as a whole in order to be seen as strategic. HR metrics must have all three legs of the stool - relevance, reliability, and replication - in order for the business to give them any respect. It's the new definition of the 3 Rs.

Oh - one more thing? If you're looking for credibility, control your business presence as well. Otherwise, don't bother with metrics...

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