Using Human-Capital Metrics to Contribute to Organization Success

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Introduction

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> Rebecca Toman

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Agenda…We Will Cover:

> History of Human Capital Metrics
> Considerations when using Metrics
> The ways Metrics can Help
> Case Study: ESL Federal Credit Union
> The Future of Metrics
> Final Thoughts
> Questions and Sharing
Quick Poll
Use of analytics today

<table>
<thead>
<tr>
<th>Category</th>
<th>Do not use</th>
<th>Produce reports</th>
<th>Historical trends and patterns</th>
<th>Predict future outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee engagement and commitment</td>
<td>13%</td>
<td>29%</td>
<td>50%</td>
<td>9%</td>
</tr>
<tr>
<td>Performance management evaluation</td>
<td>9%</td>
<td>36%</td>
<td>48%</td>
<td>8%</td>
</tr>
<tr>
<td>Talent retention</td>
<td>12%</td>
<td>35%</td>
<td>40%</td>
<td>13%</td>
</tr>
<tr>
<td>Workforce productivity</td>
<td>16%</td>
<td>34%</td>
<td>35%</td>
<td>16%</td>
</tr>
<tr>
<td>Sourcing and recruiting</td>
<td>16%</td>
<td>39%</td>
<td>38%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Legend:
- Do not use
- Produce reports
- Historical trends and patterns
- Predict future outcomes
Defining Metrics

> How are metrics defined/determined for use internally?
HR Metrics vs. Human Capital Metrics

> **HR Metrics** – specific to Human Resources function
  
  - How well is it operating?
  - Is it efficient? Effective?
  - What does it cost?

> **Human Capital Metrics** – specific to the business and focus on:
  
  - How do human capital metrics apply to Workforce?
  - How does management practice impact the workforce?
  - How do human capital metrics impact business results?
Human Capital Metrics give HR a strategy function

**Prior to HC Metrics**
- HR thought of as Support
- HR Impact unable to be quantified
- HR Metrics described the present

**After HC Metrics**
- HR starts to provide a strategic function
- Quantifiable impact of HR seen
- HR metrics become predictive indicators
The impact of HC Metrics throughout the organization

- More effective recruiting
- Improved performance management
- More value for compensation and benefits spending
- More effective training and development
- Employee Engagement up
Frederick Taylor

> Sought to improve efficiency

*In the past the man has been first; in the future the system must be first... The first object of any good system must be that of developing first class men.*

(Frederick W. Taylor)
The Evolution of HC Metrics

1. Frederick Taylor in the early 1900’s
2. Dr. Jac Fitz-enz. 1st HR metrics & The Saratoga Institute
3. Balanced Scorecard & Key Performance Indicators
4. Y2K leads to integrated HRIS systems
5. Shift from HR metrics to HC metrics
6. Systems / Technology continue to enhance HR’s strategic role
Systems/Reporting Capabilities

- HR metrics and analytics = information system
- Information → different & better decisions
- Does data actually exist which can be used?
- Do our systems have the capabilities needed to report information effectively and accurately?
- Is collaboration with the finance department important?
Budget and Internal Resources

> Who manages the budget?

> What human capital is needed to manage HR analytics/metrics?

- Capabilities
- Skills
- Competencies
Number of FTE’s required for HR Analytics

- 0 FTEs: 13%
- 1-2 FTEs: 47%
- 3-5 FTEs: 19%
- 6-10 FTEs: 5%
- More than 10 FTEs: 4%
- Don’t know: 11%
Why use Metrics?

“to measure is to know – if you cannot measure it, you cannot improve it”
– Lord Kelvin
In what ways has the implementation of HR metrics and workforce analytics generated ROI for your business overall?

You Said

- Better hiring practices: 30%
- Retain high-value employees: 60%
- Reduce turnover ratio: 50%
- Benchmark HR practices: 60%
- Other: 30%
Ways Metrics Can Help
Workforce Productivity

> Wikipedia Definition: the amount of goods and services that a worker produces in a given amount of time; can be measured for a firm, a process, an industry, or a country.

> The very best measure of overall Company and HR success is workforce productivity. Any HR department that takes responsibility for improving overall company workforce productivity is sure to be a hero among senior executives. The key is to continually improve the ratio between the dollars spent on employee costs (e.g., wages, commissions, benefits and overall HR expenses) and overall company revenue / financial performance.
Common Workforce Productivity Metrics

> Revenue per Employee: This is usually at the top of everyone’s list (although some organizations prefer to look at profit instead of revenue). Revenue per employee helps the business determine the value of each individual, and it helps management measure changes in spending on training and development, benefits, etc.

> Other Workforce Productivity Metrics:
  - EBIDTA/FTE or Profit per Employee
  - Operating Revenue per Employee
  - Operating Expense per Employee
  - Revenue per Salesperson
  - Department Expense per Employee

**Advice:** Develop and maintain strong relationships with FP&A and Accounting staff who typically “own” Revenue, Profit, or Op Ex data; usually reported quarterly.
Revenue Per Employee Sample

> The following graph summarizes actual revenue generated per employee at Hologic, Inc. over last 6 years compared to trend (hypothetical). FY13 values improved over prior years as a result of (1) added revenue recognition from recent acquisition and (2) reduced headcount due to company “right sizing” / budget reductions.

Comment: This calculation is very simple; can be updated monthly, quarterly, or annually (based upon ability to produce baseline data).
HR Productivity Metrics

> Modern HR departments must show the organizational value of money and time spent on human resources management activities. This effectiveness can be measured through a variety of measurements and metrics.

> For HR metrics to be effective, they must be the right metrics and aligned with business objectives; each company is different.

> Most Common Themes for HR Metrics:

  - Recruiting metrics
  - Retention metrics
  - Compensation and Benefits metrics
  - Performance/Development metrics
Common HR Productivity Metrics
Dozens of HR Metrics Exist; Listed Below are Most Common

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruiting cost per hire</td>
<td>Measures the amount of financial investment a company makes to attract and recruit new employees. These financial investments include advertising agency fees, employee referrals, travel cost of applicants and staff, relocation costs, and recruiter pay and benefits. Calculate monthly, quarterly or annually.</td>
</tr>
<tr>
<td>Time to fill</td>
<td>Measures the number of days it takes to fill a position; level of efficiency in the hiring process. Calculate quarterly or annually.</td>
</tr>
<tr>
<td>Turnover</td>
<td>This metric can reveal “issues” with specific departments, job functions, hiring processes, morale, or engagement. Can be calculated overall, voluntary, and involuntary by location or by function/department. Can be broken down by tenure group or performance rating. HR leaders should further investigate results via 1 on 1 interviews w/leaders, exit interview results, or employee surveys to pinpoint problem areas. Calculate monthly, quarterly or annually.</td>
</tr>
<tr>
<td>HR Costs</td>
<td>Measures total spend of HR function (salaries, benefits most common plus other spend/budget variables) as a percentage of revenue. Calculate quarterly or annually.</td>
</tr>
<tr>
<td>Cost of Benefits per employee</td>
<td>This metric can evaluate a cost for the total benefits package or just a single benefit. Be sure to deduct the amount the employee contributes when calculating cost. For instance if the employee pays 20% of their coverage and 100% of their family coverage, you’ll need to deduct their contribution from the total cost to get an accurate snapshot of how much the company is out of pocket for benefit(s). Calculate quarterly or annually.</td>
</tr>
</tbody>
</table>

Advice: Develop and maintain strong relationships with FP&A and Accounting staff who typically “own” Budget spending or Financial performance data
Turnover Calculation Sample

> The following graph summarizes actual turnover from prior fiscal year at Hologic, Inc.

> Upticks in involuntary turnover as a result of multiple RIFS and impacts overall turnover trend line.

> Voluntary turnover has remained steady in the 8%-9% each quarter.

> Turnover stats are shared quarterly to BOD Compensation Committee and senior leadership team

Annualized turnover formula:

**Monthly:** \((\text{total turnover for month} \times 12) / \text{total headcount for month}\)

**Overall:** \((\text{total turnover for period} \times 12) / \text{total headcount for the year}\)
US Health Benefits Cost:

*Average Net Cost Per Employee Sample at Hologic*

- The following graph summarizes average annual healthcare spend per employee for prior three fiscals year at Hologic, Inc. compared to trend.
- Significant cost increases at Hologic similar to macro-trend.
- 2014 increase less than 2013 increase as Hologic shifted greater cost burden to employees.

**US Health Benefits: Avg Cost Per Employee**

- 2012: $9,899 (18% Increase)
- 2013: $11,688
- 2014: $12,479 (7% Increase)
- Trend: $12,535
Cost Management

<table>
<thead>
<tr>
<th>Benefit Cost as a % of Total Compensation</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Benefit Cost</td>
<td>$10.0 M</td>
</tr>
<tr>
<td>Total Compensation Including Incentives @ Target</td>
<td>$37.1 M</td>
</tr>
<tr>
<td>Total Cost</td>
<td>26.9%</td>
</tr>
<tr>
<td>Benchmark data</td>
<td>28.0%</td>
</tr>
</tbody>
</table>
Employee Engagement

> Case Study:

- How ESL Federal Credit Union used survey data to revolutionize the employee experience and become a Great Place to Work
ESL At-a-Glance

- **1920**: Founded by George Eastman as Eastman Savings and Loan
- **1995**: Became independent of Eastman Kodak
- **1996**: Federally chartered as ESL Federal Credit Union
- **Today**:
  - Full-service financial institution with $4.8 billion in assets
  - More than 319,000 members worldwide
  - 660+ employees
  - 20 community branches and growing
Growth and the Employee Experience

> Rapid Growth since ’96
  - Membership
  - Community branches
  - Assets
  - Employees

> The Strategic Imperative
  - To deliver a superior member experience,
    we must create a superior employee experience

> The Employee Experience
  - Employee satisfaction
  - Employee understanding
  - Employee engagement and commitment
By late 2004, our CEO realized change was needed in HR:

- Slow and unresponsive to the organization’s changing needs
- Perceived as an obstacle to get around -- rather than a valuable, helpful resource
- Talent development was minimal; bench strength throughout the organization was weak
- Frontline turnover was high; time-to-fill for member-facing positions was high
Enhancing the Employee Experience

> Reorganized Human Resources in 2005

- Strengthened key HR, recruitment, and learning & development practices
- Changed staff and added key roles
- Created an Employee Communications Department
  > Team “owned” internal communications for the first time
  > Streamlined and enhanced disparate employee activities and functions
- Articulated and promulgated our core values
2005 – First Employee Pulse Survey

Objectives:

> To capture employees’ general attitudes in five key areas

(“the pulse” of the organization):

- mission/vision
- values
- business strategy
- communication
- general culture

> To identify areas of concern, improvement, and excellence

> To help improve the overall “employee experience” at ESL

2005 OVERALL SCORE: 79%
Themes Emerged

> Recognition needed improvement
> Negative emotion around the sales program
> Perception that employee skills were not well suited for their position
> ……and more
> HR conducted focus group to get further clarity
> Senior management team created meaningful action plans
> “Manager effectiveness” focus began

Key Message:

Senior management took the survey process and all feedback seriously. Action plans were detailed and improvement was expected.
## 2005 Rubric

<table>
<thead>
<tr>
<th>RUBRIC</th>
<th>AGREEMENT %</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>GREEN</td>
<td>90-100%</td>
<td>Good; work to maintain or improve</td>
</tr>
<tr>
<td>YELLOW</td>
<td>75-89.9%</td>
<td>Acceptable, but room for improvement</td>
</tr>
<tr>
<td>RED</td>
<td>Below 75%</td>
<td>Area needs attention</td>
</tr>
</tbody>
</table>
Results Were Shared

> CEO shared Corporate results and action plans at Employee Forums
> Senior managers shared results in their areas
> Articles highlighting the survey and results were featured on Intranet

  Top 10 results.....  Lowest scores.....

> Employees began believing in “The Power of the Pulse”
> Annual Pulse results improved from working the data
Nine Years of Monitoring & Listening

Overall Pulse Survey Score

• Tells a great story about the ESL Employee Experience!
ESL’s ongoing journey to be a Great Place to Work®
Made Top 25 Medium list 3x in 4 years

- **Fierce competition:** Nearly 700 companies competed in the 10th annual GPTW competition for small and medium sized companies in 2013

- **Only 50 spots!** (25 small /25 medium)

- **Extremely high benchmarks**

- **Back on list** (after falling off in 2012)
  - 2013: #14
  - 2011: #16
  - 2010: #12

- Cited in **FORTUNE** Magazine (10/7/13)
We continue to use both Pulse Survey and GPTW data to improve the Employee Experience.
HR Department Productivity

Example Balanced Scorecard

People, Tools & Culture measures

(are really more than just HR dept metrics)

<table>
<thead>
<tr>
<th>Hire and develop diverse, capable, and committed people</th>
</tr>
</thead>
<tbody>
<tr>
<td>First year turnover</td>
</tr>
<tr>
<td>% of positions filled from within ESL (excluding frontline entry level)</td>
</tr>
<tr>
<td>% of leadership positions filled from within</td>
</tr>
<tr>
<td>% of favorable (agree or strongly agree) responses to “I am offered the training or development to further myself professionally” from the Great Place to Work survey</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recognize and reward our employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of favorable (agree or strongly agree) responses to &quot;I feel I am recognized for my work.&quot; from the Pulse Survey</td>
</tr>
<tr>
<td>% of top performers retained (excluding retirements)</td>
</tr>
<tr>
<td>% of favorable (agree or strongly agree) responses to “Management shows appreciation for good work and extra effort.” from the Great Place to Work survey</td>
</tr>
</tbody>
</table>

<table>
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<th>Equip our employees to succeed</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of favorable (agree or strongly agree) responses to &quot;I am given the resources and equipment to do my job.&quot; from the Great Place to Work survey</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Be a great place to work</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of favorable (agree or strongly agree) responses to &quot;Taking everything into account, I would say this is a great place to work.&quot; from the Great Place to Work survey</td>
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</tbody>
</table>
The Future of Metrics

“What would you like to better explore within your organization that you are unable to do today? (Choose top three.)” (n=452)

- Whether our rewards strategy effectively motivates and engages our best-performing employees: 57%
- Which elements of our rewards strategy (e.g., compensation, benefits, worklife) effectively motivate our best-performing employees: 57%
- The critical drivers of employee retention in our organization: 46%
- Whether our current sources of talent will fulfill our future business needs: 40%
- Where we can reduce or reallocate workforce costs (e.g., headcount, benefits, compensation) without diminishing the quality of output: 34%
- How our rewards strategy needs to adjust to changing demographics or generational trends: 32%
- How we can effectively segment our workforce to identify critical talent segments: 22%
- Other: 1%
Final Thoughts / Points to Remember
<table>
<thead>
<tr>
<th>Metric</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absence rate</td>
<td># days absent in month ÷ (average # of employees during a month x # of workdays)</td>
</tr>
<tr>
<td>Benefit or program costs per employee</td>
<td>total cost of employee benefit/program ÷ total # of employees</td>
</tr>
<tr>
<td>Benefits as a percent of salary</td>
<td>annual benefits cost ÷ annual salary</td>
</tr>
<tr>
<td>Compensation as a percent of total compensation</td>
<td>annual salary ÷ total compensation (salary + benefits + additional compensation)</td>
</tr>
<tr>
<td>Compensation or benefit revenue ratio</td>
<td>compensation or benefit cost ÷ revenue</td>
</tr>
<tr>
<td>Cost per hire</td>
<td>recruitment costs ÷ (compensation cost + benefits cost)</td>
</tr>
<tr>
<td>Engagement or satisfaction rating</td>
<td>percent of employees engaged or satisfied overall or with a given aspect of the workplace or percentage of employees that “look forward to coming to work</td>
</tr>
<tr>
<td>Percent of performance goals met or exceeded</td>
<td># of performance goals met or exceeded ÷ total # of performance goals</td>
</tr>
<tr>
<td>Revenue per employee (workforce productivity)</td>
<td>revenue ÷ total # of employees or dollar value increase between this year and last year</td>
</tr>
<tr>
<td>Time to fill (average)</td>
<td>total days taken to fill a job ÷ number hired</td>
</tr>
<tr>
<td>Training/development hours</td>
<td>sum of total training hours ÷ total # of employees</td>
</tr>
</tbody>
</table>
### Useful Metrics (continued)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenure</td>
<td>Average # of years of service at the organization across all employees</td>
</tr>
<tr>
<td>Turnover (annual)</td>
<td># of employees exiting the job during 12 month period ÷ average actual # of employees during the same period</td>
</tr>
<tr>
<td>Turnover costs</td>
<td>Total costs of separation + vacancy + replacement + training</td>
</tr>
<tr>
<td>Utilization percent</td>
<td>Total number of employees utilizing a program/service/benefit ÷ total number of employees eligible to utilize a program/service/benefit</td>
</tr>
<tr>
<td>Workers’ compensation cost per employee</td>
<td>Total workers compensation cost for year ÷ average number of employees</td>
</tr>
<tr>
<td>Workers’ compensation incident rate</td>
<td>(number of injuries and/or illnesses per 100 full-time employees / total hours worked by all employees during the calendar year) x 200,000</td>
</tr>
<tr>
<td>Yield ratio</td>
<td>Percentage of applicants from a recruitment source that make it to the next stage of the selection process</td>
</tr>
<tr>
<td>Interview to offer ratio</td>
<td>Number of interviews divided by job offers</td>
</tr>
<tr>
<td>Quality of hire</td>
<td>% of new hires retained after one year or average performance rating of new hires</td>
</tr>
<tr>
<td>Appraisal rating to salary</td>
<td>% of employees rated as top performers over those paid above the top average salary for position</td>
</tr>
<tr>
<td>HR to Staff Ratio</td>
<td>Employees/HR team members</td>
</tr>
<tr>
<td>General HR Costs</td>
<td>Dollars spent in HR vs. revenue generated (year over year)</td>
</tr>
<tr>
<td>Metric</td>
<td>Formula</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>First Year Turnover</td>
<td>Number of employees still employed after first year of hire</td>
</tr>
<tr>
<td>Percent of leadership positions filled from within</td>
<td>Number of leadership positions filled within ÷ filled overall</td>
</tr>
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<td>Percent of favorable responses to “I am offered the training or development to further myself professionally.”</td>
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<td>Percent of favorable responses to “I feel I am recognized for my work.”</td>
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</tr>
<tr>
<td>Percent of top performers retained</td>
<td>Percent of top rated performers employed one year after high rating</td>
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<td>Percent of favorable responses to “Management shows appreciation for good work and extra effort.”</td>
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<td>Percent of favorable responses to “I am given the resources and equipment to do my job.”</td>
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<tr>
<td>Percent of favorable responses to “Taking everything into account, I would say this is a great place to work.”</td>
<td></td>
</tr>
<tr>
<td>Voluntary Separation Rate</td>
<td>Voluntary Separations / Headcount</td>
</tr>
<tr>
<td>Human Capital Added</td>
<td>(Revenue – Operating Expenses – Compensation &amp; Benefit Cost) / Total Full Time Employees</td>
</tr>
<tr>
<td>Human Capital Return on Investment</td>
<td>(Revenue – Operating Expenses – Compensation &amp; Benefit Cost) / Compensation &amp; Benefit Cost</td>
</tr>
<tr>
<td>Total Compensation Revenue Ratio</td>
<td>Compensation &amp; Benefit Cost / Revenue</td>
</tr>
<tr>
<td>Labor Cost Revenue Ratio</td>
<td>(Compensation &amp; Benefit Cost + Other Personnel Cost) / Revenue</td>
</tr>
</tbody>
</table>
Questions / Sharing