

Identifying Critical HR Metrics

Many human resource leaders are aligning their department and program strategies more closely with their companies' strategic business plans and goals. If, as your company's HR professional, you are changing the way you think about HR, the next logical question is, "How will I know if I am really supporting my company in a way that is strategically meaningful?"

For HR people, the new strategic thinking involves more than just looking at whether the turnover rate is going down, or if recruitment costs are in line with industry norms, although these are still meaningful measurements. However, in the new employment marketplace, HR needs to look at the bigger strategic picture and how it is helping move the company forward. Equally important is how to present the HR agenda to top management to show that HR is linking its activities to company strategy.

What to Measure

Certainly many, if not most, of the traditional HR measures are still valuable tools for measuring HR performance, including:

- Turnover rates
- Discipline issues and procedures
- Cost and competitiveness of benefit plans
- Compensation plans

However, you may need to rethink these measures in light of your organization's overall business strategy. For example, let's say your turnover rate is currently at a relatively acceptable level, say, fifteen percent. But further study reveals that a significant uptick happens at the three to five year tenure level, and your company is positioning itself for product growth and innovation. Losing experienced people at the point where they are most likely to be significant contributors to new product development could be detrimental to the company's longer term strategy. (Think Abbott Laboratories.) This turnover profile may not be as critical to a company that uses strong operational procedures, where individual performance doesn't have much of an impact, regardless of tenure. (Think McDonald's.) This is why it's critical to know how to present your HR metrics in a way that is meaningful to your overall corporate strategy and culture. In these cases, Abbott's would clearly want to reduce the turnover of seasoned professionals, and the cost of retention would not be a great concern. On the other hand, McDonald's might want to reduce turnover only from a cost standpoint, if its replacement costs were relatively high.

Corporate learning is another significant area of HR influence. The issue here is not the knee-jerk reaction to the current fad (remember when everyone was going through customer service training? TQM? The Managerial Grid?), but providing training that is relevant to your company's business objectives. If you are a customer-driven company, the number of your customer service training programs and the measure of their success will be key for you.

In our opinion, one of the most neglected areas for HR measurement is compensation. The most common measurement is whether the merit increase budget is competitive. The methods of tying the size of the increase to the performance evaluation are sometimes stunning in their complexity. A compensation specialist who is thinking strategically will look deeper than the mechanics. He or she will consider whether key performers are really being compensated for behaviors that contribute value to the company, not whether they are in the right quartile of the range for their length of service. Here the measure is whether or not the compensation dollars available are going to the right people for the right reasons.

There are many, many other metrics that HR professionals need to rethink in terms of the value of their programs to their corporate strategy. Blue Prairie Group excels in taking a fresh look at measuring HR's contribution, and we would be pleased to work with you in this area.