HR metrics: Everything you need to know

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What is an HR metric?

HR metrics are indicators that allow HR to track and assess performance across several dimensions. Put simply, organizational success is the repeated, periodic achievement of some levels of operational goal (e.g. zero defects, 10/10 customer satisfaction). Sometimes success is defined in terms of making progress toward strategic goals. Selecting metrics is dependent on a thorough grasp of what is essential to the company. What is considered important is frequently determined by the department assessing performance. As an example, the performance metrics helpful to Human Resources will differ from the metrics allocated to sales.

Why are HR metrics important?

HR metrics may be used to calculate the cost and effect of management initiatives and HR procedures. Metrics give information to help businesses make the best decisions possible. Metrics collect and provide data on common topics like employee engagement, retention, and performance.

More importantly, HR metrics can be used for monitoring performance. It creates a performance oriented-culture and promotes accountability in an organization. It ensures that the company's objectives, mission, and priorities are defined and understood by all workers. This enhances communication between employees and management by making employees aware of their obligations and the company's expectations of them. Furthermore, success criteria for performance assessment targets are developed and implemented. This allows companies to formulate a rewards framework that is transparent and fairly rewards employees that perform well.

Choosing the appropriate metrics

There is a need to understand well what is essential. There are various techniques to assess the present state of the business, and its key activities performance indicators. These assessments often lead to the identification of potential improvements. Performance indicators are routinely associated with 'performance improvement' initiatives. A very common way to choose metrics is to apply a management framework such as the balanced scorecard.

Cronin (2017) advises that when deciding on which performance metrics are relevant to a specific company, managers should consider the strategies and objectives that they wish to address. This then allows managers to choose the measures that speak directly to their goals. These indicators are most effective when tracked consistently and comprehensively. Griffin (2004) adds that performance indicators work best when they cannot be manipulated or changed by external influences and when there is a direct link to the company's goals. This allows companies to thus be able to make actionable strategies that can be relied upon. According to Eckerson (2009), effective key performance indicators should be specific, measurable, attainable, relevant, and time-bound, i.e. they should be S M A R T.

In addition to this, Eckerson indicated that effective key performance indicators are those indicators that meet the following criteria:

- **Sparse** - key performance indicators are more effective when they are few.
- **Drillable** - effective key performance indicators can have more information and detail "drilled into" them by users.
- **Simple** - effective key performance indicators are easy for all employees to understand.
- **Actionable** - key performance indicators are more effective if all employees know which actions can affect outcomes.
- **Owned** - key performance indicators are assigned to individuals, who are subsequently responsible for meeting them.
- **Referenced** - key performance indicators are more effective if employees can trace the origins of the indicators
- **Correlated** - effective key performance indicators have a direct relationship with the desired outcomes.
- **Balanced** - effective key performance indicators are both financial and non-financial.
- **Aligned** - effective key performance indicators support each other in achieving the intended goals and do not contradict each other.
- **Validated** - key performance indicators are effective if no employee can find a way to outmaneuver and bypass the performance indicators.

HR metrics to consider

The most important KPIs to watch for are those KPIs that meet the abovementioned criteria and they are as follows:

Absence Rate and Absence Cost

Companies must watch the absence rate and the absence costs. These two KPIs quantify the rate of absenteeism in the organization and assign a cost, enabling companies to see how absenteeism affects business operations. Usually, when an employee is absent, other employees must cover for them, thereby dividing their attention between their duties and those of the absentee.

The absence rate is simply a ratio of the number of days an employee was absent from work versus the number of days an employee was present at work. This can be calculated explicitly by dividing the total number of days an employee was absent by the total number of days they were at work. The absence cost is calculated by using employee pay.

Employee Engagement Index

Employee engagement quantifies an employee's investment and attitude towards a company's goals. Several studies have shown that more engaged employees tend to be more productive, offer better customer service, tend to be involved in fewer accidents and make fewer mistakes, have fewer cases of absenteeism, and result in lower turnover.

Benefits or Remuneration Satisfaction Index

How satisfied an employee is with the remuneration and benefits they receive can have an impact on their decision to leave the organization. This index can be measured through an employee engagement survey.

Employee Productivity Rate

The employee productivity rate tracks how productive an employee is by using company-specific metrics. These differ by industry and company.

Employee Innovation Index

The employee innovation index can also be found using the employee engagement survey. Innovation speaks to the ability of employees to find new effective ways to address a problem. It is thus key to the success of a business.

Internal Promotion Rate

The internal promotion rate finds the proportion of senior positions which were filled by internal employees. Internal promotion rate can be calculated by dividing the number of senior positions which were filled by internal employees(through an internal promotion) by the number of senior positions which were filled in total. Employees who are already within the organization and receive a promotion can hit the ground running and reduce the risk of a bad hire. In addition to this, internal hires are more likely to stay in the company longer, enabling companies to plan more effectively.

Quality of Hire

How effective an organization is in hiring aids companies in refining the organization's talent acquisition and hiring process thereby promoting a system that ensures the best candidates are chosen. The quality of hire is calculated as a percentage of new hires that receive good ratings from their managers during their performance review.

Turnover Rate

Turnover rate is an important KPI to assess especially as employee turnover can be very costly for organizations. Linked to this metric are three other KPIs.

Involuntary turnover rate divides the number of resignations which were initiated by the employer by the total employees leaving the company. Voluntary turnover rate divides the number of resignations which were initiated by the employee by the total employees leaving the company.

90-Day Quit Rate

The 90-day quit rate assesses the number of employees that leave the organization within the first three months. This KPI assesses the quality of hires that the company is hiring.

Conclusion

Organizations need to periodically assess their performance to determine if they are performing to the best of their ability. They assess whether any strategies they are implementing to improve performance are producing the desired results. In the 2011 paper "Metrics pave the path to world-class organziations" Anderson stressed the importance of measuring performance saying that unless the performance is measured and benchmarked, companies will not know how they are performing and which areas need improvement. Such blindspots restrict them from identifying and focusing necessary corrective strategies and efforts on the areas that require improvement. Also, once these strategies have been implemented, companies need to be able to track their performance so that they may ascertain which strategies have been effective and which have not yielded satisfactory results. Action plans can then be made to ensure the relevant areas are addressed.

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