



**E M S L I E** analytics

*Accounting for people in business*

## The Importance of People Metrics

Measurement of the people contribution to the organisation, in much the same way as one would measure the financial and production performance, has been talked about for a long time. However the aspiration is only now being turned into reality in a small number of forward-thinking and opinion-influencing organisations.

Why has it taken so long for this common sense notion to be turned into a tangible outcome?

More often than not, the reasons are pretty basic:

- the data is believed to be inaccessible or the cost of capture, in terms of time and money, outweighs the perceived benefits
- HR has not yet been persuaded about the value, or need, for people metrics
- The provision of **Data** is often confused with the provision of **Information**. The former can be, and often is, provided in excess, leaving the recipient in much the same situation as someone without any data, namely not able to readily differentiate between relevant and irrelevant data elements. The latter is the application and manipulation of elements of data in such a way that the resultant 'measure' tells us something relevant and important.

**Metrics** are measures which not only combine two or more elements of data, but do so in such a way that it is possible to make objective comparisons. Those comparisons can be of the same thing over time or, alternatively, between two or more organisations in a similar time frame. This process of comparison is often referred to as benchmarking.

*A simple example of the difference between simple data comparison and metric comparison is as follows:*

*Two companies both make the same product in the same town*

*Company A 100 people resigned in the first half of 2004*

*Company B 100 people resigned in the first half of 2004.*

*On the basis of the above data, we could easily conclude that their circumstances are the same and that both are losing people at the same rate. If, on the other hand, we create a metric, we can establish a much more reliable basis for making a comparison and the result will be much more informative. For example, in this case, if we create a metric: "Number of resignations per 1000 people employed" we will have a much better indication of the seriousness of the problem to each company.*

*Company A employs 1000 people; Company B employs 500.*

*The metric for A is 10:1 or 10%; the metric for B is 20:1 or 20%.*

*Company B clearly has a much more serious problem than Company A on a like-for-like or "apples-with-apples" comparison basis.*

In creating a metric, we not only want to have a unit of measure which standardises the basis of comparison, but the "apples-with-apples" requirement extends into the detailed elements of the metric. By this, we mean that a 'resignation' in Company A must be the same as a 'resignation' in Company B. It is no good just taking a generic statement and



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assuming that the two are the same. Instead, we must state clearly what is included and what isn't in a standard definition of a 'resignation'. Similarly, we must be clear whether 'people employed' relates to headcount (which includes part time as well as full time) or FTEs (Full Time Equivalents). By adopting rigour in both the definitions and the formulation of the metrics we can be confident in the quality and accuracy of the comparisons made. Consequently, decisions based upon such data are likely to be more sound.

Finally, metrics used on a stand-alone basis are only of marginal value. The real benefit is derived from being able to test relationships, correlations and interactions between metrics to enable the user to develop a much clearer and more accurate picture of what is going on with the people within the organisation. Without this, the wrong issues may be addressed.

*Another simple example:*

*The HR activity has made considerable savings in reducing their "Cost per Hire" over the past year. In a time when cost savings are being encouraged this is clearly a virtue - or is it? Study of another metric may show that, in the same period, Resignations have increased substantially. Further analysis of the resignations shows that 60% of those resigning do so in their first year of service. So, the question is whether or not cutting back on Cost per Hire has been a contributing factor in the rise in short service resignations, the costs of which will be shown to far exceed the savings generated by reducing Cost per Hire.*

## **In Conclusion**

HR data in itself is valueless, HR metrics are value adding. They are the foundation stones for objective analysis of people performance against business objectives.

It is well recognised that most organisations accept the need to have people metrics, most do not currently have the capability of collecting the requisite data and creating those metrics; most do not, as yet, understand how to interpret the metrics and make use of them as an important planning and performance checking resource.

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