Top Five Metrics for Workforce Analytics

Whitepaper by

Human Capital Management Institute and Human Concepts

About Human Capital Management Institute:

The Human Capital Management Institute (HCMI) was founded on the belief that organizations can, and must, find better ways of measuring their investments in human capital. Our goal is to help organizations transform workforce data into a source of value that drives fact based decision making, workforce measurement, planning, and analytic modeling. HCMI leads and educates organizations on what to measure, what it means, how it fits and how to improve it. While many organizations state people are their most valuable asset, few have the tools to assess, manage and optimize their workforce.

Introduction

Over the past few years, organizations have done an unprecedented amount of restructuring, retrenchment, and downsizing. Much of this has been very reactionary, without time to think, plan, or take into consideration the optimal workforce size and structure. Most organizations either lack metrics to measure the workforce or measure everything and don't know which numbers really matter.

The following five key human capital metrics can help make sense out of the challenges and confusion of economic downturns and growth cycles. These metrics provide visibility to understand and analyze the workforce and enable data driven decision making for the workforce. In an economic crisis, organizations who use these key metrics would be much better prepared to handle the changes, move rapidly with agility, and make precise surgical cuts rather than taking an ineffective "cut across the board" approach.

In addition, these metrics help organizations to avoid cutting muscle along with fat - or inadvertently cutting skills that would be critical to future success. The most advanced organizations in the world use human capital metrics and analytics tools to manage their workforce. With a defined human capital strategy, and advanced metrics to measure success, organizations are able to build a lean and highly productive workforce, and be prepared to quickly outperform competitors when opportunities surface.

Total Cost of Workforce

The first metric, Total Cost of Workforce, can be used at a macro level to measure alignment of the workforce with business objectives. The workforce is usually the largest single cost for organizations. The average Fortune 500 company makes a $3 billion plus annual investment in its workforce that the return on investment cannot be adequately measured. Even in organizations that have a high capital content with high operation costs, such as the airline industry, people costs consist of extremely skilled talent that can be very expensive on an individual level.

In most organizations, CEO and top line management continually ask, "How do we know we have the right staff?" Or, "Do we have the right number of people to achieve our objectives?" Regardless of the economic circumstances, these questions will always be critical in linking workforce and business strategy. How do we know we have the right mix going forward? All these questions are directed at HR. However, HR rarely has the tools to adequately answer these questions.

Formula:

Total Cost of Workforce =

Total Compensation Costs + Benefits Costs + Other Workforce Costs

See HCMI's Human Capital Metrics Handbook for more information.

Total Cost of Workforce is the sum of all workforce related costs, including all compensation, benefits, and other employee costs. Total cost of employees includes all employee related costs for the organization for a given period of time. The workforce is defined as employees plus contingent (contract and temporary) workers.

Measuring Total Cost of Workforce allows organizations to get a true picture of their workforce spend and make better workforce strategy decisions. Organizations that only track employee costs are inaccurately representing their true workforce costs for reporting and analysis purposes. Instead of applying workforce strategy like peanut butter – at the same level across the whole organization - embedding workforce cost information and metrics into advanced tools, such as HumanConcept's OrgPlus software, builds a workforce analytic capability and focus that allows users to more effectively manage the size and shape of the workforce. For maximum value and insights, Total Cost of Workforce can also be analyzed as a percent of expenses or revenue, and across multiple dimensions, such as business unit, job group, and tenure, among others.

The ability to identify and execute specific workforce cuts, re-organizations, and acquisitions and divestitures enables both thorough and thoughtful risk management and identification of unrealized opportunities for cost savings. For more information on Total Cost of Workforce, check out our article, ***"Managing an Organization's Biggest Cost: The Workforce."***

Management Span of Control

The second metric, Management Span of Control, is the best tool to address cost and structure of the management staff. When organizations are looking to optimize productivity and efficiency, this metric can be used to evaluate the overall organization as well as particular regions or business units. Management Span of Control is calculated by dividing the total population (including management) by the total management population. This could have a ratio of 3 to 1 or 5.5 to 1, for example. By understanding management span of control, and tracking it over time, organizations will gain insight into workforce trends and mix, for example if the workforce is top heavy or if management is stretched too thin.

Management Span of Control can be used to identify pockets of the workforce where a specific structure can work better than others. The organization can adjust and optimize by increasing span of control where workers perform better with less management intervention, or decrease span of control with entry level workers who need more guidance. Not only do these "surgical" moves optimize the cost structure, but they result in happier, more productive workers, and decrease unplanned turnover. A complementary metric is Organization Layers, which looks at how many levels of reporting relationships exist to the top of the organization.

Formula:

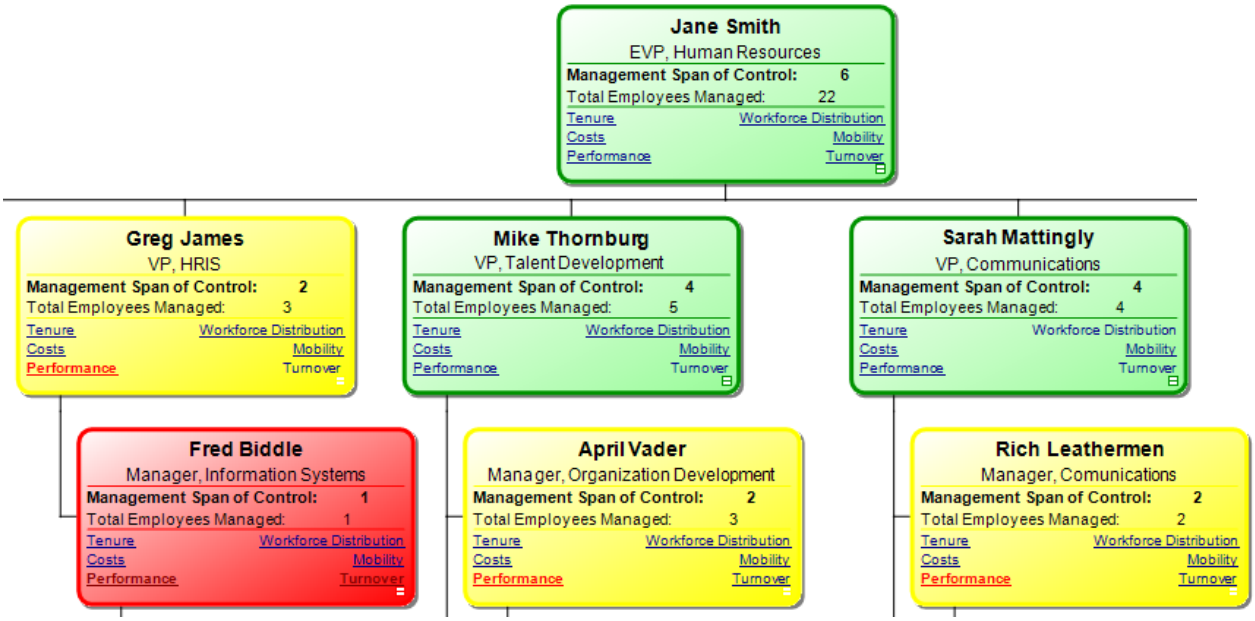
Management Span of Control =

Total Mgmt and Non Mgmt Population / Total Mgmt Population with Direct Reports

See HCMI's Human Capital Metrics Handbook for more information.

Figure 1 below is a sample organization chart from ***HumanConcepts***,' OrgPlus Enterprise that automatically calculates metrics on each manager, group, or division. The metrics update automatically, so any adjustments and testing of scenarios are instantly reflected. In addition, color coding can be used to quickly and easily identify areas for investigation. Employees with manager titles, but that do not supervise staff are also automatically excluded from the calculations. This is very useful, because as reorganization scenarios are tested, progress in relation to the planning objectives is displayed on a real-time basis.

Figure 1: OrgPlus Enterprise Management Span of Control Organization Chart



Three mistakes that organizations make related to span of control are: (1) promoting people to management tracks that may or may not be the best managers; (2) including managers who are not managing people, but managing projects and this may be their core competency; (3) managing span of control for distinct groups to an organization average or benchmark, instead of optimizing span of control for each group.

Measuring and tracking Management Span of Control can be tricky because it relies on hierarchy-based calculations that aren't part of most reporting or analytics tools. It also is difficult because there are many people with manager titles who do not manage people, for example, project managers, program managers, etc. Using span of control, especially in large organizations, can uncover significant opportunities for cost savings, increased efficiency and productivity improvements over time.

Leveraging a digital organization chart, can help organizations avoid these pitfalls and analyze their workforce to gain valuable insights and rapidly make the necessary adjustments.

High-Performer Turnover Rate

The third metric is High-Performer Turnover Rate. Most everyone is familiar with overall turnover rate, and there is a lot of information on the Web and in various sources and research about the impact of turnover. However, we actually disagree with a lot of conventional wisdom on turnover rate. Unless turnover rate is very high and possibly in some cases extremely low, it does not necessarily indicate failure. It simply indicates how many people you're losing. If an organization is conducting a reorganization or restructuring, turnover might be unusually high, but may actually be good for the business.

Formula:

High Performer Turnover Rate =

Total High Performer Terminations / Average High Performer Headcount

See HCMI's Human Capital Metrics Handbook for more information.

The real key, in good times or bad, is how many *high-performing employees* are leaving the company. This can be calculated by dividing the total number of high-performing employees that terminated in a given period by the average high performer population at the organization over the same period. We frequently talk to organizations that have a high degree of focus on turnover, and indicate due to the cost, they'll do anything to avoid it. However, without accurate calculations to identify the true cost of turnover, and how it varies between performance levels across segments of the workforce, organizations don't have the right information for data driven decision making and launching intervention strategies. Other organizations say, "Well, we don't really have a turnover problem. Our turnover is only 4 - 6%, so it's not an issue." In which case we ask, "What is your high-performer turnover rate? What percentage of your best people are you losing?" We usually get a blank stare back, because many organizations don't actually know how many high performing employees are leaving.

The key is to track a metric that not only tells you about your organization, but is also predictive. Turnover alone, only tells you how many employees you've lost. High Turnover Rate indicates the value of that loss, in other words, it's predictive of pure talent loss. Why? Because if your overall turnover rate is only 4%, but your high-performer turnover rate is 8%, in essence, you're bleeding talent. What are you replacing it with? In all likelihood, average performers. Over time, you'll be shocked as you no longer have a productive workforce with high-performance capability.

The other issue is that it often takes more than one person to replace the high performers that are lost, which significantly increases your costs over time. Some supervisors are upfront about it and say, "I lost one of my best employees. I may need to restructure the department." Other supervisors aren't as cognizant of it. Instead, they continue trying to produce the same amount of work with the same resources, and the next thing you know two or three positions are added to replace the one high performer who left. The high performer was doing the equivalent of two or three jobs, hence it would have been better for the organization to have done everything they could to keep them.

In addition to turnover, organizations can measure high performer retention. Some companies incorporate this into the management mindset by creating a goal for management to maintain a certain retention rate for high performers. This enables organizations to create dialogs around building high-performers and developing success profiles for employees who might be more likely to stay or become high performers. Once this is established, organizations model how high performers vary across different job groups and segments of the workforce. When you can answer some of these questions, you really enable yourself to take huge steps forward and create levers that connect workforce analytics to business outcomes and truly drive results.

Career Path Ratio

The fourth metric is Career Path Ratio, which shows the rate of upward movement versus lateral movement at an organization. Why is that important? If you think of organizations as a pyramid, there is a limited amount of *up*, but there's an almost unlimited amount of *over.* There is a great deal of transfer capability for many different professional and executive roles. This is a very low cost way to enhance and build workforce capability over time. It's also a way to renew and expand experience by giving workers new jobs that stretch and challenge them in new ways with a minimal increase to workforce costs. Many leading organizations have developed a spiral staircase with more lateral movement than upward movement. Their planning factors in lateral movements and transfers both within the same functions and cross functionally, such as from Finance to HR.

Formula:

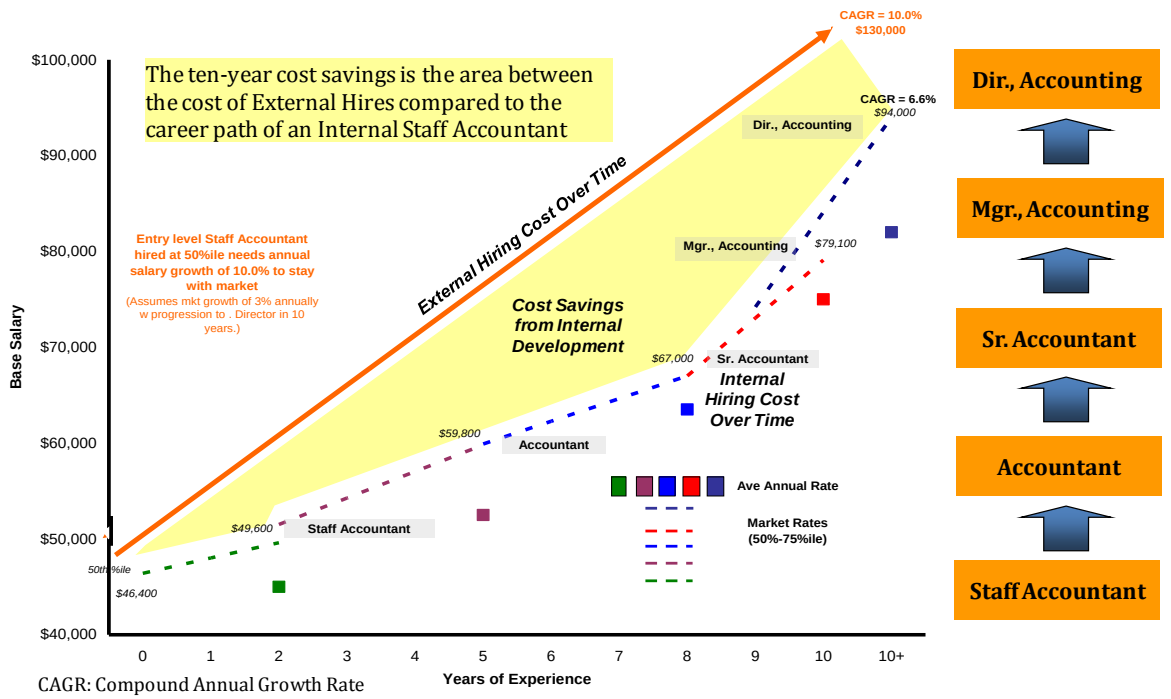
Career Path Ratio =

Total Promotions / (Total Promotions + Total Transfers)

See HCMI's Human Capital Metrics Handbook for more information.

Career path ratio is calculated by dividing total promotions by total movement at the organization. This metric combines two important measures that reflect mobility together into one metric that is more meaningful: total promotions and total transfers. If the ratio is close to 1, then it means the organization is either doing too many promotions or it's not doing enough transfers. Career Path Ratio can be calculated at an aggregate level for the entire company, business unit or by position group. *Figure 2* below shows an example of calculating the value of a career path for the Accounting function.

Figure 2: Career Path Model of an "Appreciating Asset"



CAGR: Compound Annual Growth Rate

Career Path Ratio ads a very powerful dimension for measuring career path mobility and internal movement throughout the organization. When organizations analyze Career Path Ratio in combination with employee retention and performance, they are able to identify linkages between mobility and drivers of critical workforce issues. Identifying true drivers of engagement, performance and retention allow organization to use mobility to shape results and improve workforce productivity and business performance, while effectively managing workforce costs.

Talent Management Index

The fifth metric is Talent Management Index, which is a combination of metrics that work together holistically across the entire employee lifecycle. This metric allows organizations to evaluate and analyze talent management practices for recruiting, mobility, performance management, training and development, and turnover and retention. Tracking Talent Management Index also enables organizations to hold all levels of management accountable for management practices and quality, by measuring effectiveness of hiring practices, success of training and development efforts, and cost efficiency.

While many metrics could potentially be included in an organization's Talent Management Index, below are 5 recommended metrics, several of which are also included in our top five metrics for workforce analytics:

Formula:

Talent Management Index =

Combination of Select Key Metrics, Weighted by Importance and Impact to the Organization

See HCMI's Human Capital Metrics Handbook for more information.

1. **New Hire High Performer Rate** - In the recruiting and hiring area, New Hire High Performer Rate is calculated by the percentage of new hires rated as high-quality, high-potential, or high-performing employees, depending on each organizations new hire evaluation and performance management process and standards.

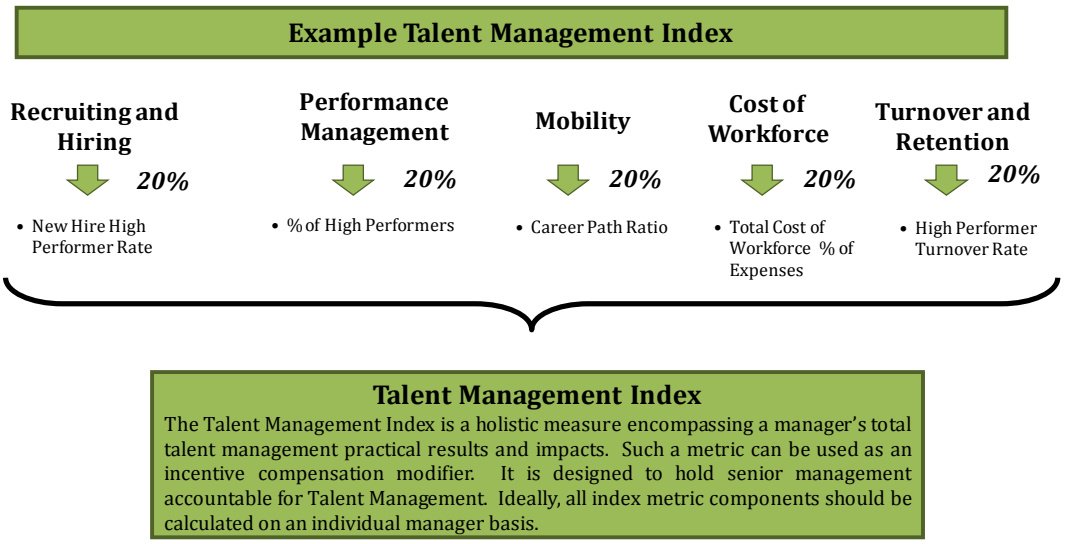
2. **Percent of High Performers** - For a particular workforce segment, business unit, or overall organization, this metric measures the percent of the population that is rated as high performing. The best use of this metric, when calculated as part of Talent Management Index , is on an individual manager basis to hold management accountable for nurturing and developing the organization's most promising talent.

3. **Career Path Ratio** – As described on the previous page, Career Path Ratio measures relative upward and lateral mobility at the organization. For optimal use as part of Talent Management Index, this metric should be calculated by individual manager.

4. **Total Cost of Workforce** - While it may be hard to see how cost of workforce relates to talent management, the best managers are actually able to achieve better results while reducing overall workforce costs. Whether it's through more efficient recruiting and hiring methods or using transfers, mobility, or promotions effectively, these managers are able to build, rather than buy the best talent.

5. **High Performer Turnover Rate** – This metric allows organizations to measure management effectiveness in retaining top talent at the organization. Again, when included as part of a Talent Management Index, this metric should be calculated on an individual manager basis. For effective talent management at any organization, the focus should always be on identifying, grooming, managing and retaining top talent.

Figure 3: Example Talent Management Index



As indicated in *Figure 3* on the previous page, Talent Management Index is comprised of a combination of key metrics, each weighted according to importance and impact to the organization. The overall index can be displayed as a percentage of 100, or on a 10 point scale, depending on organization preference.

The power of the Talent Management Index lies in evaluating individual managers and making targeted and specific improvements to improve the overall performance and productivity at the organization through effective talent management practices. An excellent tool for managing this index is a digital org chart, in which metrics can be calculated and readily reported and analyzed, such as ***OrgPlus*** *software*. Leveraging Talent Management Index shifts the paradigm from managers simply being evaluated on business results, to also being held accountable for achieving management by objectives around talent retention, productivity, employee development, efficiency, and, ultimately, the resulting desired business outcomes.

Conclusion

The potential of these top five metrics is significant, and the greatest value can be achieved when they are linked to financial metrics, such as revenue or profit for FTE, for example. By leveraging key metrics to predict future outcomes, organizations have the ability to identify potential issues before they become problematic, calculate the financial impact, and formulate a strategy for intervention.

Organizations can use these top metrics to move from awareness to excellence in their human capital practices, and as an important step to enable predictive analytics and advanced workforce planning. In addition, these metrics are critical components for analysis to ***quantify the ROI of workforce decisions***, identify employee success profiles and develop a true talent management strategy at any organization. For maximum impact, measurement should be conducted across all elements of the employee lifecycle.

Targeting critical workforce metrics that link workforce strategy to business results will finally give HR a seat at the table and the credibility to make business and workforce strategy decisions by identifying cost savings opportunities, improving retention of key talent and increasing workforce productivity and efficiency. Organizations that are able to leverage data driven decision making for the workforce will not only outperform their competitors, but also return higher value to shareholders and be better positioned to meet workforce and business demands for the future.

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