

## The Metrics Maze.

*Little by little, experts and practitioners are learning how to value the contributions of people.*

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By now, most HR professionals have gotten a handle on basic HR metrics, such as how long it takes to hire people and how much it costs to bring them on board. Now, HR leaders are exploring the exciting frontier of how their workforce, and each division or team of employees, contributes to their organization's financial goals. They are graduating from HR department metrics to organizationwide human capital metrics.

In fact, some HR leaders say they are getting close to the "Holy Grail" of organizational measurement: calculating with confidence the return on investment (ROI) of individual employees. They hope to determine who is generating how much profit per dollar of company investment in salary, benefits and training—and why—to make the best use of their human capital.

It's a developing and complex science, with a series of breakthroughs, each building on the past work of many pioneers and improving understanding of how organizations build value. "Like most fields of endeavor, there will be more and more certainty and advances," says Bruce Pfau, national practice leader for organization effectiveness at Washington, D.C.-based consulting firm Watson Wyatt.

But for every organization currently achieving success with human capital metrics or confident that it is on the verge of a breakthrough, there are many still slogging through the mire of confused data gathering and interpretation. Researchers, consultants and HR leaders have a message for everyone who is frustrated in their efforts to get a handle on meaningful organizational metrics: Don't feel bad; you're far from alone.

'Fraught with Challenges and Potholes'

"It seems so simple," says Wayne F. Cascio, a professor of management and international business at the University of Colorado at Denver, "until you get into the messy details. It's an emerging field fraught with challenges and potholes."

Rutgers University HR strategy professor Mark Huselid agrees. "Many firms are working on the issue. Few have their hands around it very effectively," he says. "Some are doing parts of it very well."

Companies are committing substantial resources to measurement initiatives. But even some of the largest organizations, with highly paid in-house experts, are struggling. In a

packed conference room earlier this year, representatives of several big corporations told members of the Society for Industrial and Organizational Psychology about undertaking metrics initiatives with great hopes—and at great expense—only to step back and reconsider what they were doing, how they should continue and even if they should continue.

“We’re continuing to struggle with it,” admitted an HR leader with one Fortune 500 corporation. Another conceded: “We still don’t know how to measure some things.”

These frank assessments don’t mean that human capital measurement is a waste of time and resources. They simply underscore the difficulties of doing something this important.

The experts don’t all agree on the state of the art of these metrics today. Some suggest that the discipline is still in the toddler stage; others see it up and sprinting. Most do see a huge upside to the work, however. Says Dave Kieffer, who heads Washington-based Mercer Human Resource Consulting’s human capital strategy practice, “We are on the cusp of measuring things in human capital and human resources that have never been measured before.”

These measurements will tell businesses how to run more effectively, to gain competitive advantage and boost profits.

Researchers have developed and refined many useful workplace metrics over the past few decades. For example, “We know that measuring employee engagement is a very good thing,” says Pfau of Watson Wyatt. “Workers’ discretionary effort increases shareholder value.”

There are many ways to collect and analyze companywide, divisionwide and in some cases teamwide data of this type, he notes. But when it comes to calculating individual employees’ contributions to the bottom line—as a few companies, such as Dow Chemical, are attempting—Pfau and some other leading voices in the metrics debate raise a yellow flag.

“I think it’s doable,” says Pfau, but “the methods of doing that need to become more disciplined.”

Baruch Lev, an expert in valuation of intangible assets and a professor of accounting and finance at New York University’s Stern School of Business, notes that, “Employees are part of a team. There are things that are very difficult, perhaps even impossible, to disentangle. If it can be done, it’s beautiful. But I’m skeptical.”

Still, there is a world of human capital metrics to be explored between the old, familiar “time to hire” type of metric and the new, daunting “human capital ROI.” A variety of initiatives between the two extremes can succeed with the right approach, say the experts.

“When you boil it down, it’s: What people make a difference? Why? And how?” says Charles G. Tharp, an HR management professor at Rutgers University. “I don’t think it’s any more complicated than that.”

Here, then, are tales from the field and lessons learned—how five companies have fared in their sometimes modest, sometimes ambitious efforts to measure human capital contributions.

### **Ford: Tackling Diversity and Work/Life**

Ford Motor Co. was going back to the basics. After several difficult years, marked by management changes and a tire quality crisis, executives decided to focus on rebuilding relationships with suppliers, dealers and employees. Diversity and work/life initiatives were a big part of HR’s mission at the Dearborn, Mich.-based company.

Ford set out to measure its progress in those HR areas; among the first goals was developing metrics regarding diversity and work/life efforts that could be displayed in a way that would be easy to interpret, would be a useful planning tool and would lead to action to improve the company.

Almost immediately, challenges became apparent. Getting standardized and accurate data across an organization as broad as Ford couldn’t be accomplished by a simple memo. On the diversity side, identifying useful metrics for race and gender proved to be sticky, particularly on a tight schedule. For example, Ford had software designed to display color-coded summaries of its findings, but its general counsel’s office was uncomfortable assigning colors to anything involving ethnicity or race.

### **Tips for Getting Started**

HR professionals, researchers and consultants offer the following tips for organizations that have not yet mastered the art of using human capital measurement to improve their operations:

- \* From the outset, don’t be shy about seeking help from industrial/organizational psychologists and other experts, either in-house or from outside the organization.

- \* Identify precisely what you want to measure and why. It should be something that’s appropriate for and important to your organization. What works for another organization might not be of much value in yours. (See “Measuring HR? Benchmarking Is Not the Answer!”)

- \* Go beyond measures of how HR does its job. Focus on what drives people to generate business success.

- \* Make sure that senior management buys in to your plans. Without that interest and support, you might be wasting time and resources.

\* Make sure that your results will be practical enough to drive action. If the numbers aren't used to improve the organization, why gather them?

\* Don't try to measure too much, especially at first. Excessive data can overwhelm people and turn them off to the project.

\* Make sure that you can find and collect the right data when you need it. Some operations are difficult to quantify objectively, and different parts of your organization might measure them differently, calling into question the validity of your results.

\* Interpret and present statistics in a way that will be easy for employees and managers to understand. Don't invest heavily in whiz-bang technology just for its looks.

\* If you get stuck or are not confident about the results, step back and reconsider your goals and how to reach them.

Because of these complications, it became apparent that “the goals were completely unrealistic,” says Michele E.A. Jayne, personnel research manager at Ford.

After a few months of working with the firm's HR “data warehouse,” as Jayne calls it, the metrics team labored to “sustain and stabilize” the project. That entailed identifying and tracking the most meaningful measures, even if they were not what the team had originally expected or hoped to find.

Among the lessons learned: “Start with a strategic framework that has senior management support,” she emphasized. “Approach measurement as a change initiative; you're much more likely to get these metrics accepted and implemented. But don't underestimate the resources you will require. And don't measure too much too soon.”

Jayne urges HR professionals to choose their technology carefully. It's great to be able to create a “dashboard” computer screen view of key metrics, with the ability to drill down, see charts and get analysis of the data. But you must have data you're comfortable with, and a guarantee that raw data will come in on a regular basis and in consistent form from all parts of the organization, before the view has much value.

At the same time, Jayne says that if you try too hard and too long to get exactly the information you'd like, you might never complete the project. “Don't let imperfect data stop you.” And be ready for a range of reactions to what the metrics show, she says. “Measurement is about change. You're going to get push-back.”

However, hard work often pays off, she notes. Ford has been tracking employee engagement through a survey program that dates to 1998 and “we've been able to see improvement” in that metric, which is linked to the vital goal of customer satisfaction.

### **National City: Investing in Retention**

A large financial services company based in Cleveland, National City Corp. had a big problem: turnover. People were leaving in droves during and after training, and the company was earning a reputation as a revolving door. With more than 1,000 branch offices and 33,000 employees, the company was large and stretched out; top management looked for a systemwide fix.

HR helped create the National City Institute, a department that provides ongoing orientation and training to new employees. But the company wanted an objective, scientific method of evaluating the effectiveness of the institute, which cost about \$2.5 million to create and costs more than \$1 million annually to operate.

Officials wanted not just to cut turnover, but also to discover how much trainees learned and how it changed their work performance. And, if possible, officials wanted to connect the initiative to the financial performance of the business.

National City brought in a major HR consulting firm and spent three years developing an employee orientation program that officials hoped would pay for itself by reducing turnover, increasing effectiveness of employees and allowing them to create positive relationships with customers. The company devised a series of workshops for new hires, with at least 15 hours of classroom-based training through the institute.

“We collected reams of data,” says Michael H. Hannibal, SPHR, curriculum and measures manager for the institute. “We used a measurement period of 12 months; we gathered sales data, performance data. We did post-workshop surveys to gauge behavior changes. We came at this from a variety of directions.”

Under a “pretty rigorous plan” of data collection and analysis recommended by the firm’s consultants, National City found that it needed to use different types of performance measures for people in different jobs to come up with comparable results. For example, bank tellers, debt collectors and employees who code checks require different training and have different impacts on company performance, so their work could not be measured exactly the same, says Hannibal.

The bottom line: “We found some positive differences between those who took the training and those who did not,” including greater longevity with the company. In addition, says Hannibal, “we’re beginning to demonstrate some impact on sales. We’ve improved branch-level performance.”

Some of the background data was already available to HR, which made the measurement effort somewhat easier. Hannibal says metrics will be used regularly to effect continuous improvement.

### **ArvinMeritor: Taking ‘A Big Step Back’**

Life’s rarely simple for HR leaders at ArvinMeritor, a Troy, Mich.-based vehicle parts manufacturing company that has been through a series of spin-offs and mergers in recent

years. So when HR and corporate leaders decided to develop sophisticated human capital metrics to guide crucial business decisions, they hired an outside vendor and dove in to the human capital metrics pool—only to jump back out and catch their breath 18 months into the project.

The vendor provided “a fabulous tool, very graphical with lots of drill-downs,” but “we weren’t ready for it; our questions were so elementary,” says Laura A. Gniatczyk, manager of organization effectiveness. “We dropped the vendor and have taken a big step back. We realized that we didn’t exactly know what we were doing with metrics.”

HR and others in the company were gathering a lot of data, but they weren’t confident that it was the right information or that it was being analyzed in the right way. And in some cases, they weren’t sure if they could find the data they sought.

For example, managerial bench strength. How do you measure that? The number of people who can do a job? How well they can do it? What are the data points to collect, and how do you weigh them?

“There’s a real challenge operationalizing some metrics,” states Gniatczyk. “There are measurement nightmares” around many corners, such as different departments that capture turnover data differently.

Shortly after officials decided to re-evaluate what they wanted to do with metrics, another organizational restructuring came down the pike. HR is focusing on a few basic metrics now, including one that tracks promotions over time.

Among the lessons ArvinMeritor has learned from its metrics experiences: “I don’t think you can possibly sell it enough” to all parts of an organization, says Gniatczyk, who is an industrial/organizational psychologist. “I live and breathe this stuff, but not everyone else does.”

She urges HR professionals to partner closely with information technology colleagues and to recognize that people throughout the organization “are going to question the data” you produce. “It’s important that people like the data. It’s a looong process getting everyone doing the same thing.” And sometimes, “maybe we need to say ‘it’s no longer important to measure this.’ ”

There have been metrics successes at the firm, despite the struggles. An analysis of the age and tenure of employees produced a “huge ‘aha!’ moment” that indicated where the company was most vulnerable to mass retirements.

“Some of my HR leads said to me, ‘I didn’t know you could get that kind of information from me,’ ” recalls Gniatczyk. “It’s all a matter of what you’re interested in.”

### **Whirlpool: Gauging Employee Engagement**

Whirlpool Corp., the appliance manufacturing firm based in Benton Harbor, Mich., didn't have the employee churn of National City Corp. or the frequent restructuring of ArvinMeritor, but it had a challenging mission: create loyal customers for life.

Manager of Organization Effectiveness Mahesh V. Subramony was tasked with measuring and improving levels of employee engagement to the organization and to the strategy of boosting customer loyalty. But exactly how could he do that?

The first, possibly most crucial, step: define the drivers of employee engagement, keeping in mind that the goal was not employee satisfaction but employee connection to the work that serves customers' wants and needs. Fortunately, much of the data he needed could be obtained from employee surveys, a far easier method of obtaining data than calculating management bench strength, for example.

But if there was one step in the process that was almost as important, it was obtaining leadership buy-in. Previous human capital measurement efforts didn't always have the enthusiastic backing of senior management, notes Subramony.

In addition, Subramony was concerned about creating high employee expectations that might not be met and about having officials in various regions where Whirlpool does business embrace the project.

He and his metrics team reviewed all the research they could find on employee engagement and asked some "very basic questions" around the company. Like "what does it mean for an employee to be engaged?"

"We wanted everybody to buy in to it, and we wanted to come up with something unique to Whirlpool," says Subramony.

He convened a meeting of people from throughout the corporation to make sure everyone was on the same page, conducted focus groups and began to develop a consensus of what to measure. Eventually, the key drivers of engagement were boiled down to four categories: great jobs, great leaders, customer focus and inclusive environment.

Even then, Whirlpool brought in a consulting firm to validate the metrics plan and showed the model to a lot of people before beginning in earnest the task of designing an employee survey. In early 2004, says Subramony, the project should yield data that each region can use to improve engagement among its workers.

### **Dow: Questing for the Holy Grail**

And then there's Dow Chemical, which is devoting substantial time, energy and resources to reach that Holy Grail of human capital measurement: the return on investment of its employees, a tool that can guide effective business decisions. "We are on the path now," says David Near, global portfolio director in the Human Resources Development Strategic Center of the Midland, Mich.-based corporation.

The goal is to develop a reliable method to calculate employees' current and expected future contribution to the financial goals of the business based on workers' project assignments, a method that was developed by a team of HR professionals working with finance and management officials.

The project got under way nearly three years ago as officials searched for ways to align employees' skills and abilities with the needs of the business. The company had ways of estimating the value of its other intangible assets, such as patents, business models and even customer relationships. But people—the most significant intangible asset—remained elusive.

Dow examined what other organizations were doing in this area, then brought in a team of consultants to help define what it wanted to do and develop mathematical tools. The company decided to pilot the project in one business unit, seeking to employ two key metrics: expected human capital return (EHCR) and actual human capital return (AHCR).

EHCR represents the break-even point of Dow's investment in a worker, the minimum rate of return of the employee above salary and other outlays, such as recruiting and training. "This tells the vice president that this is the actual cost of our investment" in that employee, says Near.

AHCR is a measurement of the actual value contributed by the worker based on the value created by the projects on which he or she works. This tricky metric factors in the skills and knowledge base of the employee and determines the portion of those attributes that are reflected in the net present value of the project. (For an explanation of net present value, see "Accounting for Time" in the September issue of HR Magazine.)

The two measurements are compared, but they are not designed to be used as a performance assessment tool, Dow officials say. They should help managers find the best fits between employee talents and project needs and should guide development for employees. To the degree that the results are a report card, they're a reality check on how well business units are staffing their teams.

"It's really a very deep art," says Near. "We're not done with it yet."

Validation studies are continuing, with the help of a group of in-house industrial/organizational psychologists, says Nancy Tootle, global design leader in Dow's Workforce Planning Strategic Center and leader of the metrics project. The system is being used in the HR operation now and likely will be pushed out to the rest of the business in a year or so, she says.

"It's exciting, but it's a little scary culturally," she concedes. However, Tootle and Near say that employees are beginning to see it as a valuable tool that will help get them involved in the right projects.

Time will tell how effective the metrics are, and whether other companies can emulate the system. But Dow is forging ahead with its grand experiment. Says Near, “Our culture is primed for it.”

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