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HR METRICS AND ANALYTICS
USES AND IMPACTS

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EDWARD E. LAWLER III
ALEC LEVENSON
JOHN BOUDREAU

Center for Effective Organizations
Marshall School of Business
University of Southern California

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Edward E. Lawler III
Alec Levenson
John W. Boudreau

Center for Effective Organizations
University of Southern California

(213) 740-9814
elawler@marshall.usc.edu
alevenson@marshall.usc.edu
john.boudreau@usc.edu

Executive summary

Whether and how the HR Function in corporations uses metrics and analytics is studied.   The results indicate that HR functions often collect data on their efficiency. However, they often do not collect data on the business impacts of their programs and practices. This is a crucial point because the results show that those HR organizations that collect effectiveness data are more likely to be strategic partners. This finding suggests that if HR wants to play a strategic role in organizations it needs to develop its ability to measure how human capital decision affect the business and how business decisions affect human capital.

HR Metrics and Analytics – Uses and Impacts

Edward E. Lawler III, Alec Levenson and John W. Boudreau
Center for Effective Organizations
University of Southern California

Many recent articles, books, and studies argue that HR needs to become a strategic partner (e.g. Jamroq and Overholt, 2004). Recent research, however, suggests that HR is not making much progress toward becoming a strategic partner despite the belief by HR professionals that it should (Lawler and Mohrman, 2003a; 2003b).

Because of the growing importance of human capital in determining organizational effectiveness, the potential exists for HR to play a key role in developing and implementing corporate strategy and to become a high value added part of organizations (Lawler, 2003). If HR can make a strong case for being an important part of strategy development and implementation because of the importance of human capital, why does HR often fall short of being a strategic partner? At least one possibility is because HR lacks the type of analytic and databased decision-making capability that are needed to influence business strategy. One of the reasons for this may well be because it lacks the right metrics and analytic models. In comparison to finance and marketing, for example, HR often falls short when it comes to providing metrics that assess HR processes and practices from a strategic perspective. It also lacks analytic models that show the relationship between HR practices and the effectiveness of the organization.

A strong case can be made that HR needs to develop much better metrics and analytics if it is ever to become a true strategic partner in most organizations. Lawler and Mohrman (2003b) identify the use of metrics as one of four characteristics that lead to HR being a strategic partner. Boudreau and Ramstad (2003) distinguish between providing ever more HR measures (not a strategic contribution) and providing better logic and analytics for making decisions about talent

(a strategic contribution). Generally speaking there are three different kinds of metrics that organizations can collect in order to better understand and evaluate the impact of HR activities and to influence business strategy and business performance. They are efficiency, effectiveness, and impact (Boudreau and Ramstad, 2003).

The first kind of metric and in many respects the easiest to collect are those having to do with the efficiency of the HR function, in particular how well the HR function does its basic administrative tasks. The metrics that can be collected in order to assess HR efficiency include productivity and cost metrics for the HR function such as time to fill open positions, HR headcount ratios and administrative cost per employee. It is possible to produce a comprehensive set of metrics to evaluate HR's administrative activities that in effect evaluate it as a stand-alone business.

A key issue in evaluating the data gathered with respect to HR administration concerns normative data. There now exist multi-company databases that make it possible for organizations to compare their metrics data with comparable data from other companies. The result is that organizations with good metrics and normative data can make a very good assessment of the performance of their HR functions as administrative unit.

Organizations vary in terms of the cost per employee for HR administration but typically the cost falls in the range of $1,200 to $1,600 (Fitz-enz, 2000). This is a large enough cost so that it certainly is worth measuring not just how much is spent but how well it is spent in terms of the quality and impact of the services provided. The limitation of most efficiency-focused metrics is that they do not address the issues of service quality and impact of HR services on organizational effectiveness.

The second kind of HR metrics focuses on effectiveness. Effectiveness means that HR programs and practices have the intended effect on the people or talent pools toward which they are directed. In the case of training and development, for example, true effectiveness metrics should offer information on whether employees build needed skills not just on participation in training and/or employee and management satisfaction with the training provided. Measuring only participation in HR programs offers no insights into the programs' effectiveness. And while satisfaction surveys can be a useful tool for gauging alignment between HR services and the opinions of HR's customers, they fall short of providing the needed insights into the real impact of HR programs and practices.

A potentially meaningful set of effectiveness metrics for the HR function concerns talent and talent management. In most corporations, HR has the lead responsibility for acquiring, developing and helping to deploy talent. In order to assess how well organizations are carrying out this responsibility, measures of talent quality, talent development, and talent deployment are needed. Typical metrics in this area include measures of the strategic skills and core competences embodied in the work force, as well as metrics that classify how well pivotal jobs are filled and the type of development activities that are taking place for critical talent. A strong case can be made that talent metrics need to be regularly updated so that organizations have ongoing data with respect to the condition of their human capital.

Human capital metrics potentially can and often should influence the development and implementation of business strategies. Business strategies that make incorrect assumptions about the ability of an organization to staff critical jobs and develop new areas of expertise that support the strategy are obviously doomed to fail. Similarly organizations that are not staffed with the right talent will have great difficulty implementing new strategies and organizational changes.

Finally, metrics having to do with developing and optimizing the capabilities and the core competencies of the organization can be collected in order to measure the impact of HR programs and practices (Lawler, 2003). Note that impact in this case means demonstrating a link between what HR does and tangible effects on the organization's ability to gain and sustain competitive advantage. Operational effectiveness impact metrics might focus on changes in the performance of business processes (e.g., reduced defects, increased speed, more frequent innovations) that occur when the quality of talent is improved or when new HR practices are introduced.

Although the development of organizational capabilities and core competencies is typically not the sole responsibility of HR, HR needs to and usually is expected to play a key role in shaping and developing them. Both are highly talent dependent for their development and both involve the development of organizational social capital and individual skills and knowledge. These are clearly areas where HR has a potential role to play and where it can actively influence how quickly and effectively an organization develops its capabilities and competences.

The use of analytics in order to understand how HR practices and policies impact organizational performance is a powerful way for HR functions to add value to their organization. Statistical techniques and experimental approaches can be used to tease out the causal relationship between particular HR practices and such performance metrics as customer satisfaction, sales per employee and, of course, the profitability of particular business activities. In many respects the "Holy Grail" for HR functions is the ability to show the bottom line impact of its activities. This is a powerful way to increase its influence on company business decisions and future business strategies.

Being able to do the kind of analytics that show a relationship between HR practices and business outcomes requires several things. First it requires the right HR metrics. But metrics by themselves are not enough. It requires good analytic models and, of course, valid measures of company performance. HR needs to be able to bring data and data analysis to the strategy table that show how human capital management decisions affect organizational performance. It needs to go far beyond simply showing that HR can reduce the cost of HR administration and improve the quality of service. Doing this is not a high value added in most corporations. Providing data about the strategic readiness of an organization to execute a strategy is high value-added as is identifying what an organization needs to do to implement a strategy.

A number of studies have investigated the potential for HR practices to be strategically important. For example, Becker and Huselid (1998) found a relationship between HR practices and firm performance, as have others. Lawler and Mohrman (2003b) have shown how various features of the HR function are related to HR being a strategic partner. There is also an enormous amount of normative writings about the role that HR should play. There is no question that HR executives feel that HR should play a key strategic role in organizations. There is less clarity however about how metrics are currently being used by HR functions and how strong a relationship there is between the use of metrics and the degree to which HR is a strategic partner.

In the present study, we first look at the kinds of HR metrics that are used by organizations. Second we examine the degree to which analytics are used to capture the impact of HR on the business. Finally we assess whether those HR organizations that have more metrics and make greater use of analytics are more likely to be strategic partners.

The Study

Surveys were mailed to medium and large corporations that are corporate sponsors of the Center for Effective Organizations at the University of Southern California or were known by the authors to have an interest in HR measurement. Surveys were filled out by HR executives who have positions with corporate wide visibility of the HR function. Thirty-seven usable surveys were receive for a response rate of 38%. Most survey responses came from large US based firms that are on the Fortune 500 list. The survey covered six areas: 1) the company's HR strategy at the present time and in the future. 2) The HR data the organization collects in order to influence decisions. 3) The overall effectiveness of the measurement and analysis system of the organization. 4) The type of metrics and analytics that are collected by the organization. 5) How the organization uses the analytics and metrics to assess and understand the impact of its HR programs. 6) The degree to which the HR function is a strategic partner.

How HR Operates

The key elements of how HR organizations operate with respect to business strategy are presented in Exhibit 1. It shows that a minority of them report that they are already very involved in strategic issues. Less than 25 percent of them are very involved in change management, partnering to develop business strategies, having integrated business and HR strategies, and providing analytic support for business decision making. Surprisingly only 13 percent report being very involved in a data based talent strategy.

Exhibit 1 also presents data on how these HR functions see their role in the future. It clearly shows that these HR functions intend to be a major player in business strategy. Two-thirds or more say that they plan to focus on providing analytics and metrics that are relevant to

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business performance and strategy. For example, 66% say that an important future focus for them is to partner with the line in developing business strategy. A similar percent say that they want metrics that provide support for business decisions. Eighty-two percent say they plan to have an integrated human capital and business strategy. Overall, it is clear that the HR organizations studied, undoubtedly like many others in large corporations, are committed to becoming strategic business partners.

Presence of HR Measures

A series of questions asked whether the organizations had particular HR measures. Exhibit 2 presents the responses to these questions. It shows a wide variation in the presence of the different types of metrics. Most organizations have an HRIS system and have benchmark data available on the operations side of their HR function. Two-thirds have cost efficiency data and over half have cost of service data. The numbers are much lower, however, when it comes to analytic information and measures with respect to the business impact of HR policies and HR practices and a dashboard or score card for HR activities. Overall, the results suggest that efficiency measures are most prevalent, effectiveness measures exist, but are far less prevalent, and measures of impact are rare.

Effectiveness of HR Metrics and Analytics

Exhibit 3 presents data on how effective organizations are in using metrics and analytics to address critical business and HR issues. Among possible impact areas there is a wide range of effectiveness levels. The least effective are assessing new business strategies and possible HR programs. The most effective is identifying high-impact talent. However, even here, when we interviewed several survey respondents, they said that while they did specify which talent might

have high impact on the business (e.g., leaders, salespeople, etc.) they often did not have a model or metrics to determine why some talent pools are chosen as high-impact and others are not.

Exhibit 4 shows the results with respect to the degree to which organizations have the skills and data needed to address important business operations and business strategy issues. Interestingly, in the case of both skills and data, organizations are much more optimistic that they have the skills than that they have the data. It provides one more piece of evidence that what is often missing when it comes to HR being a business partner is the right data. The interesting paradox is that when we interviewed the survey respondents they often said that the necessary data did exist, but it was not connected to the HR data. They noted that the right logic and analytics for connecting HR data and business or strategy measures is an essential element of success but that in general they did not have them.

Impact of Metrics

Exhibit 5 presents data showing the relationship between HR being a strategic partner and the presence of a variety of metrics. The presence of two metrics shows a clear relationship to the role of HR as strategic partner. Organizations which have data that shows the business impact of HR practices report they are much more likely to be a strategic partner than those that don't. In addition, those that have measures of the effectiveness of HR practices targeted toward the work force show a significant difference in comparison to those who don't. Those organizations that can measure the impact and effectiveness of their HR practices on the work force are more likely to be strategic partners than are those who can not.

A number of items in Exhibit 5 show a difference in the strategic role for HR between those companies that have measures and those that don't, but they don't reach statistical significance. For example, those companies that use efficiency metrics such as benchmarks, cost

of services measures and outsourced services show a tendency to be a strategic partner more than those that don't, but the differences are not statistically significant. Apparently what really makes the difference in being a strategic partner is having HR data that address key business issues such as the condition of the work force and the business impact of HR practices and policies. The ability to run an effective HR organization and having measures of how efficiently the HR organization runs, although perhaps helpful in making HR a creditable strategic partner, is not the difference maker that business impact data are, despite the fact that such efficiency measures are the most prevalent metrics used by HR today.

Exhibit 6 supports the argument that HR organizations must provide strategic analysis in order to be a strategic partner. It shows the correlations between the degree to which an organization is a strategic partner and the current condition of HR metrics and analytics. There are a number of significant relationships in the table. As was expected having measures that relate to business decisions is related to being a strategic partner. Perhaps the most interesting relationships are the ones that are not significant. Specifically, having metrics that relate to outsourced HR transactions and having a low cost of HR services are not related to being a strategic partner. What are related are items concerned with the impact of HR on business decisions.

HR as a Strategic Partner

The results of the study provide support for the model developed by Lawler and Mohrman (2003b) of when HR will be a strategic partner. That model hypothesizes that an important contributor to a strategic partnership relationship for HR is having the right metrics and data. The results of the present study are strongly supportive of that hypothesis. Those

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organizations that have the capability to do strategic analysis are the ones that are most likely to be positioned as strategic partners.

The results suggest that not all data are equally powerful when it comes to making HR a strategic partner. Having analytic data about strategy is a powerful way to gain a seat at the strategy table, while data about the operation of the HR function is not. Thus it appears that "all" HR has to do to become a strategic partner like finance and marketing is to develop better HR metrics and analytics with respect to organizational effectiveness and strategy. This of course raises the question of what the results indicate about the degree to which HR currently has the right metrics.

The results suggest that in the firms studied, there is considerable room for improvement when it comes to their ability to gather and analyze the types of metrics data that are needed in order for HR to be a strategic partner. They seem to have good efficiency data about HR operations so that they are in a strong position when it comes to improving HR administration and to controlling it's cost. But efficiency data about HR operations is not the kind of data that is associated with HR being a strategic partner.

What is needed are measures which indicate whether HR programs and practices actually make a difference in the organizational effectiveness areas they are directed toward. In addition it is important to measure whether and how improving talent areas actually affects business processes, resources, and ultimately strategic success. These two elements clearly are the weakest in the companies studied. Many of them need to develop better metrics with respect to talent, organizational capabilities and core competencies. They also need to develop analytic capabilities in order to assess the degree to which such HR practices as talent management

impact organization performance, and the degree to which organizational capabilities impact organizational performance.

Since the companies studied do not represent a random sample of all companies there is a good chance that our results do not accurately reflect the condition of most companies when it comes to metrics and analytics. Indeed there is a very good chance that the companies in our sample are well above average when it comes to using metrics and analytics. They are in the sample because they were already active or wanted to be active in these areas. Thus, it is likely that a study which covered a random sample of companies would find a much lower average level of activity and effectiveness with respect to metrics and analytics.

HR in the Future

Will HR develop its metrics and analytics capability? There are a number of reasons to believe that it will despite the fact that at the present time there is good reason to believe it is at a low level. HR managers clearly want to address key strategic business issues. They also are aware that their HR metrics and analytics capabilities fall short of what is needed to address most key business decisions and business strategy issues. Thus in terms of change they meet the first condition for change: there is a felt need.

The growing use of information technology is a clear positive with respect to the ability to change. The fact that most organizations now have an HRIS system means that enormous data warehouses are being created. In the cases where data warehouses contain valid measures of important HR practices and outcomes, it creates a great opportunity for organizations to answer key business issues with quantitative data. Eighty-percent of the organizations responding to our survey have an enterprise-wide HR information system that could be linked to

business data, yet far fewer reported using metrics and analytics to connect HR investments to business outcomes.

In general, the results are encouraging with respect to the future ability of these organizations to relate HR metrics to operational outcomes. Most of these organizations are in the process of developing the kind of skills and data needed to effectively assess the link between HR policies and practices and organizational performance. However, it remains to be seen whether these organizations will ultimately develop the needed skills and data.

In order for HR metrics to drive change, the right analyses need to be done. The wrong analyses can mislead, such as when leaders assume that just because one thing is associated with another (such as satisfaction is correlated with performance), it means that one thing causes the other. Many HR organizations do not have skills in analysis, research design and data interpretation within the function. Even when these skills exist, they are applied only to very specific areas such as attitude surveys or test validation. Where can HR go for such skills if not within its own function? In areas of organizations that depend on data analysis (such as R&D, market analysis, operations management, financial audit, etc.) there are often skilled analysts whose expertise can be brought to bear on the data and logic of how people and their talents connect to business success. HR organizations can forge partnerships with these areas in order to obtain analytic skills. In the long run, we believe that analytic skills need to reside within the HR organization itself, and should become an important HR competency.

There is a good possibility that as part of the overall changes that are taking place in the HR function there will be considerably more analytic and metrics work done and it will help HR take on a more strategic role in corporations. It may be an overstatement to say that metrics represent a kind of holy grail that will help HR become a true strategic partner. But it is not an

overstatement to suggest that a growing focus on metrics and analytics can help HR functions

become more of a player in the game of corporate business decisions and strategies.

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EXHIBIT 1		
How HR Operates		
	Percent Currently[1]	**Percent Future**[2]
HR Drives Change Management	23	71
Analytic Support for Business Decisions	17	65
Integrated Human Capital and Business Strategy	23	82
HR Develops Business Strategy	23	66
Data Based Talent Strategy	15	68

1. Answer: Great extent on a 1 (not at all) to 5 (great extent) scale
2. Answer: Important focus on a 1 (not in plans) to 3 (important focus) scale

EXIBIT 2	
Have HR Measures	**Percent**[1]
HRIS	80
Business Impact	34
Cost of Services	51
Cost / Benefit	20
Dash Board / Scorecard	37
Cost Efficiency	66
Track Outsourced Activities	56
Impact on Workforce of HR programs	56
Benchmark data	77

1. Answer: Yes on a Yes or No Scale

EXHIBIT 3

Effectiveness of HR Metrics and Analytics	
	Percent[1]
HR Practices to Performance	23
Identify High Impact Talent	44
Assess Possible HR Programs	17
Identify Poor HR Programs	18
New Business Strategies	17
Evaluating HR Practices	31
Support Change Efforts	37
1. Answer: Effective or very effective on a 1 (effective) to 5 (very effective) scale	

EXHIBIT 4

HR Organization – Skills and Data	
	% Agree[1]
Skills – Business Operations	76
Data – Business Operations	52
Skills – Business Strategy	69
Data – Business Strategy	46
1. Answer: Slightly agree to strongly agree on a 1(strongly disagree) - 7 (strongly agree) scale	

EXHIBIT 5		
HR is Strategic Partner[1]		
	Have Measures	
	Yes	**No**
HRIS	5.0	5.0
Business Impact	5.9	4.5*
Cost of Services	5.4	4.6
Cost Benefit Analyses	5.3	4.9
Balance Scorecard	5.4	4.8
Financial Efficiency	5.1	4.8
Impact of Workforce	5.5	4.4*
Outsourced Services	5.3	4.6
Benchmarks	5.1	4.6
1: Mean: Based on a 1 (Strongly disagree) to 7 (Strongly agree) scale; * P ≤ .05		

EXHIBIT 6	
Relationship with Being Strategic Partner	
	Correlations
HRIS – Accurate	.39
Outsourced Transactions	-.04
Low Cost Services	.23
Customer Service Satisfaction	.57*
Management Satisfaction with Value Added	.75*
Data Based Talent Strategy	.51*
Analytic Support for Business Decisions	.73*
Data for Driving Change	.74*
* P ≤ .05	