

HR Metrics and Turnover

What to Measure and How to Evaluate

Metrics may be referred to as the language of business. As we (HR professionals) strive to be part of the C-Suite, we have been told we need to bring “value” to the table. One way to do that is by effectively using HR metrics. Turnover is close to the heart of many companies and CEOs. When this topic is brought up, many questions arise. What’s your average turnover? Do you know how much it costs to replace an existing employee? How do you know if you make a good hiring decision or not? Recent surveys tell us that once the economy improves, we may need to brace ourselves for turnover in our companies. So what can we do? How can we use metrics to assist us?

HR Metrics: Opportunities

HR metrics should be looked at as opportunities to provide valuable decision-making data, assess internal controls, and improve performance. According to a survey¹ of international risk managers, the human capital risk is the biggest threat facing organizations worldwide. It is also one of the least effectively managed. “Human capital risk” includes the loss of key talent and operational knowledge. Therefore, the goal of HR metrics should be to effectively communicate the value added.

To do this, HR needs to supply metrics that:

- Are action oriented
- Are aligned with organization objectives
- Offer a line of sight to the future
- Are understandable
- Are relevant to operations, not just to HR activity or financial transactions
- Are transferable and sustainable
- Facilitate improved organizational performance

Metrics: Errors and Risks

Measuring the wrong thing can be worse than measuring nothing. Above all else, metrics need to be understood and looked at as more than data. Ask yourself if you are producing knowledge, or just data. The real value arrives when we can take the quantitative data and look at it from a qualitative perspective. A simple way to look at the difference is illustrated by looking at the metric for calculating turnover:

- Quantitative metrics are calculated by dividing the number of terminations by the total employee census – producing data.
- Qualitative metrics looks at who left and why – and turns data into knowledge about engagement and how to improve it.

Certainly, having the quantitative information is valuable. Sometimes, knowing the organization’s total turnover is not enough. You may need to get more specific, i.e. turn the data into knowledge, by calculating turnover in one particular department or location.

There are risks in using HR metrics in an organization. Depending on what the metric measures, it may put the organization on notice of compliance deficiencies, creating discoverable information. Depending how data is interpreted or if the data isn't "clean," it may create misleading or inaccurate information. Additionally, everyone who views the metric may have a different interpretation which could create more discord within the organization and not add value.

Some metrics may de-motivate retention rather than motivate. Employee surveys can be used as a valuable measurement tool for metrics; however, surveys can be a two-edged sword. Are you prepared to make changes based on your findings? Is the survey designed to give you the answers you want, rather than what employees really think? These are just a couple of questions you would want to ask before engaging in a survey.

The Strategic Process

Once it has been determined to use metrics to assess human capital or other variables within an organization, a strategic process needs to be in place. The basic steps include the following:

1. Identify business needs
2. Select appropriate metric(s)
3. Choose measurement tool(s)
4. Apply the tool(s) to the task
5. Interpret and analyze results
6. Evaluation
7. Presentation

First, the business needs must be identified. When identifying business needs, priorities need to be set and the scope determined. When using a metric for human capital, business needs may include quality hires, increased retention, and reduction of turnover. Consider the problems that may arise as a consequence of the solution.

The next step is to select appropriate metrics to measure these items. The metrics need to not only result in quantitative measures (data) but also qualitative measures (knowledge). When turnover is calculated, the quantitative measurement may be compared to an industry benchmark to determine where you are in comparison to your peers. To determine the qualitative measures, quality-of-attribution is an important metric to review and will be expanded on in the next section. When the qualitative information is gathered, the value is realized as the turnover can be pinpointed and improvements made where the problem actually exists.

The measurement tool may vary based on what metric is being measured and the business needs. You may choose to use a survey, focus group, depth interviewing, or other forms of assessment. When applying the tool, appropriate participants should be chosen representing a cross spectrum of your employee population.

One of the most important, if not most critical, steps in the process is the interpretation and analysis of results. As stated earlier, this may also be a risk as multiple interpretations may exist. It is very important

to: (a) understand the results; (b) put the results into context; and (c) decide on limitations as to how the results will be used.

When evaluating the results, review the implications if the results are applied. This can be done by determining the potential uses for the results. How will they be implemented? To what capacity? What could be the possible outcomes – both good and bad?

Finally, present the metrics to management. In order for a metric to be successful, it should have executive buy-in and sponsorship. If your HR metrics are business metrics, aligned with organizational objectives, this should help in accomplishing this objective.

Turnover Metrics

Now that the strategic process has been identified, what are the metrics that will be used for turnover? As identified earlier, one basic metric is to calculate the turnover rate:

- Divide the number of terminations by the total employee census – resulting in the quantitative measure

To arrive at a qualitative measure, you must first determine what aspects of turnover are important to your organization. If your organization has high turnover within the first year, you may want to calculate the turnover rate just for the employees who leave within that time period. With this rate in hand, you will be able to see just how much a high turnover rate among first year employees affects your recruiting costs. To calculate, divide the total number of separated employees with less than one year of employment by the total number of separated employees. For example, if there are a total of 150 separations through a year, and 32 of those were within one year of employment, your first year turnover rate is 21.33%.

To dig into turnover even further and tell the whole story, quality-of-attrition metrics may be useful. Attrition typically reflects total voluntary and involuntary turnover. Some quality-of-attrition metrics to consider are the following:

- Regrettable termination rate – Employees who left the company but who the company had planned to retain.
- Non-regrettable termination rate – Employees who left the company whose departure did not hurt the company.
- Controllable separation rate – Employees who left for a reason that, if known, the organization might have been able to address.
- Uncontrollable separation rate – Employees who left for a reason that, even if known, the organization could not have prevented.
- High-performer separation rate – Employees designated as high performers who left the company.

Although gathering the information to arrive at metrics for the above measurements may involve much more work, this is the “knowledge” piece that adds true value to the organization. It provides the

information that creates an opportunity for HR to bring value, and then assess the next steps of addressing these items.

Summary

Business leaders seek relevant and useful HR metrics. You can raise your value to the organization by demonstrating the business value that metrics can provide by looking beyond the quantitative measurements and bringing to the table the qualitative information.

¹Reported on www.businessinsurance.com

Other Sources: M. Lee Smith Publishers, LLC

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I4cp's Talent Management Measurement Survey