PayScale + Namely

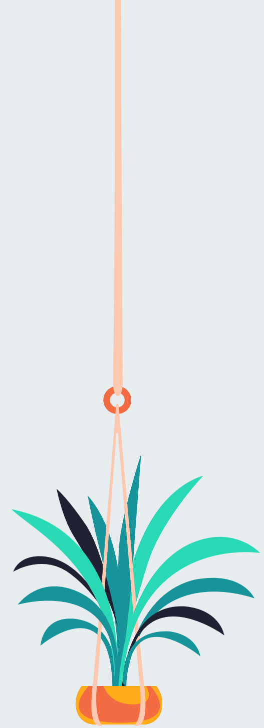
6 CUTTING-EDGE HR METRICS TO MEASURE

The future of HR is data-driven. Need numbers to back that up? In one survey, more than 75 percent of survey respondents believed analytics would either make a substantial impact or be "revolutionary" for their organizations in the coming years. According to a Bersin by Deloitte study, data-driven HR teams are four times more likely to be respected by colleagues. At public companies that invest in people analytics, stock market returns are 30 percent higher.

The data doesn't lie. So while the profession's focus on data isn't going anywhere, it's definitely evolving; traditional HR metrics like turnover and retention aren't cutting it anymore. In their place are new, cutting-edge metrics like quality of hire, career path ratio, and range penetration.

If that didn't make any sense to you, don't fret—we've got you covered. In this guide we'll explore the critical HR and compensation metrics you and your team need to add to your repertoire. From the prep work to actual calculations, we'll empower you to be a bonafide HR's data scientist.

1. QUALITY OF HIRE



You could call quality of hire the "holy grail" of people metrics. Since the beginning of the HR practice, businesses have sought to score hiring decisions. While doing so has traditionally been the responsibility of recruiting teams, there's value in getting the broader HR team involved.

Every company defines quality of hire differently. That's mostly because each company has its own unique ways of measuring performance.

Expand your notion of what quality of hire measures. Yes, it's a metric, but when you drill down further, you see it's actually a collection of data points. Consider there is more than one characteristic or trait that defines a "quality" new hire. For example, many organizations score employees based on a number of factors, including productivity, engagement, and adherence to company values.

Identifying your company's list of most valued characteristics in a new hire is the first step. As mentioned earlier, your list should include what matters most at your organization. For example, you might look at characteristics such as performance, productivity, job fit, and values fit. Whatever your list looks like, it's recommended that you don't use any more than four or five metrics in your calculation. Doing so will needlessly complicate your calculation and potentially introduce unwanted bias in the process.

Remember, the key to getting started with quality of hire isn't to nail your first attempt and consider every conceivable factor. Your goal is to make this measurement repeatable and objective.

HOW TO CALCULATE QUALITY OF HIRE

FORMULA

Quality of Hire = Average of (Performance + Productivity + Job Fit + Values Fit)

For each of your chosen factors, implement a rating system that ranges from one to five (e.g., severely underperforming, underperforming, neutral, satisfying expectations, exceeds expectations). In that scale, consider anything above four to be a positive score. If your existing rating scales don't fit that methodology, assign scores based on either an educated guess (someone with a "exceeds expectations" performance rating could rank as a five).

If you don't have any scores to work with, consider running a manager or peer survey in which you ask about factors like performance and values fit. Here are some potential survey questions you could ask managers or peers to use when rating an employee's performance from one to five.

- "This person has reached or exceeded the level of productivity expected after this long on the job."
- "How would you rate the overall fit between your new hire's competencies and the job requirements?"
- "How would you rate your new hire's fit with our company values overall?"
- "If this person was interviewing again, I would rehire them as a bar raiser (i.e., performing better than 50 percent of current employees)."

Once you have your numbers, average the scores to come up with one definitive quality of hire metric. Ideally, you should be measuring this between 60 and 90 days from the new hire's start date. That data is immensely valuable for informing everything from your recruiting processes to internal learning and development programs. Are there specific skills or competencies in which recruits might be scoring low? This could signify an opportunity for your HR team to further invest in onboarding procedures.

Bottom line? Quality of hire isn't about just measuring one static number once; it's also about spotting trends over time. Check in on the metric every quarter or every other quarter. Any more frequent, and you may not have enough meaningful new data to compare. Also, be sure to involve team members from every facet of HR—doing so will empower the broader team to spot problem areas and continually improve on your internal programs and practices.

2. CAREER PATH RATIO

While the quality of hire metric is about new recruits, career path ratio focuses on existing employees. Specifically, career path ratio examines current employees' mobility in your organization.

Forget your traditional "promotions and demotions." In today's workplace, employees are empowered to move in all directions, be it to another sub-department or into a newly created job within an organization. Keeping the pulse of both traditional and lateral moves is critically important for HR teams, as it informs strategic workforce planning.

How does career path ratio inform workforce planning? Career path ratio shows you how people move within your organization, empowering your team to keep tabs on the impact of promotions. Keeping track of promotions is important because if your organization becomes too "top heavy" (e.g., too many managers), individual contributors are less likely to develop and rise into leadership positions. This stagnation could potentially push all-star talent out of the organization prematurely and unintentionally.

Similar to the other metrics discussed in this ebook, measuring career path ratio requires some prep work. If you haven't already, you'll need to establish differentiated job levels or tiers. Doing so is critical, as otherwise, you may not be able to discern what role changes were actually promotions or lateral moves. In addition, make sure you have job levels available and coded in your HRIS, like "associate," "manager," and "director." Identifying levels doesn't just make it easier to measure career path ratio, it's a talent management best practice in general.

Organizations that have little to no hierarchy in place are called "flat," and generally run into difficulty when trying to get started with career path ratio. But thankfully, even flat organizations often have some indicator of professional growth. For example, an individual contributor may have "senior" added to their title or be assigned additional responsibilities. In cases like these, you would simply consider these changes to be promotions for your calculation.

HOW TO CALCULATE CAREER PATH RATIO

FORMULA

$$\frac{\textit{Number of Promotions}}{\textit{Number of Promotions + Lateral Moves}}$$

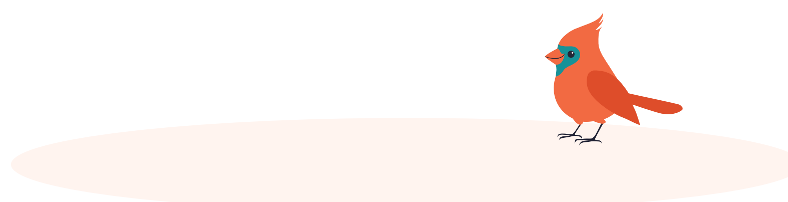
Once you've done your homework and established clear job tiers and what it means to "ascend" at your organization, export a job history report from your HRIS. Ensure the data is clean and actually reflects true position changes, rather than trivial adjustments like commas. What if you're unsure whether someone received a promotion or not? Though this isn't always the case, it's typically safe to assume a new title actually represented a role change when compensation was also adjusted.

Once you have those numbers, calculating this metric is fairly straightforward. Simply divide the number of promotions in a given period by role changes overall (promotions and lateral moves). The resulting example is your career path ratio. So, if you have one lateral move and two promotions in the same period, that equation would be:

2 (Number of Promotions) ÷ 3 (Total Moves) = 0.67 (Career Path Ratio)

Not sure where you stack up against other companies? Here's your gut check: the Society for Human Resources Management benchmark for career path ratio is 0.70. While there's value in comparing your company-wide ratio to this benchmark, don't forget to look at specific departments or job types. That data will better equip you to identify and resolve issues that may not be apparent from the company-wide ratio.

As is the case with most of the metrics we will discuss in this ebook, the true value of career path ratio becomes apparent when you measure it over time. Depending on the pace of change at your organization, that frequency may be monthly or even quarterly. If your company's promotions typically coincide with a specific season (like performance reviews), your HR team will want to be equipped with career path ratio numbers as they make those promotion decisions, to keep the organizational structure healthy and balanced.



3. TOP PERFORMER RETENTION RATE

Attracting top talent is one thing. Keeping it, on the other hand, is an entirely different story. That's where our next metric comes into play: **top performer retention rate.**

Before diving into the nuances of this specific kind of retention metric, let's get a few things straight about retention. A common misconception is retention represents the opposite of turnover. Based on the way most HR teams calculate both metrics, that correlation isn't entirely true. In essence, turnover represents people leaving whereas retention represents people staying. But there's one important nuance with the latter metric: new hires don't factor into the calculation, meaning your statistics just includes the employees who were already in place at the beginning of your calculation.

That distinction is critical, and in many ways makes retention the superior metric. Because seasonal hiring swings can't play a role in skewing the data, it's a much more accurate representation of the state of your workforce.

Businesses and their HR teams look to a number of different vehicles to improve retention. They might conduct employee surveys, run compensation analyses, or employ other engagement "hacks" to inspire employees. But, what if there was a more targeted approach? The greatest potential impact of these initiatives arrives when you focus on specific, high-value employees and compare their status with the broader employee population.

Similar to the other metrics we've discussed, measuring top performer retention involves some prep work. Thankfully, chances are your team has already done much of the leg work. To calculate this metric, you need to identify what a top performer actually is. Do you have a performance review scale in place already? That's a great starting point for running your measurement.

If you don't have the performance data in place already, work with managers to identify individuals who have an outsized impact on the organization. Oftentimes, the most valuable insight you'll receive might come from leaders other than the individual's direct manager—especially at companies that rely heavily on cross-departmental work.

HOW TO CALCULATE TOP-PERFORMER RETENTION RATE

$$\frac{\textit{Number of Top Performers at the end of the period}}{\textit{Number of Top Performers at the start of the period}} \times 100$$

Once you've identified your company's top performers, it's time to run your calculation. First, identify a set period of time (a month, quarter, or year) to examine. Then, tally the number of top performers at the end of that period and divide that figure by the number of top performers at the start of that period. Once you've done that, multiply the resulting number by 100. The product will give you a percentage, or your top performer retention rate.

As a rule, you should ensure your top performer retention percentage is higher than your overall retention rate. If the opposite is true, you're potentially seeing an exodus of your most valuable team members.

Top performer retention rate is one of the more compelling metrics HR professionals can share with company leadership. While there are different ways to visualize this data, we've included one of our preferred ways as an example below.

In addition to being compelling for the C-suite, this data can make the most impact when it's shared with people leaders. When you see your top performer retention rate dip, talk with managers and employees sooner rather than later to diagnose the problem. Act quickly and demonstrate your HR team's genuine commitment to address whatever factors might influence the problem.

4. COMP RATIO

Are your employees underpaid or overpaid? The truth is, it depends. What constitutes as fair pay depends on a number of factors such as an individual's tenure within an organization, their skill level and their performance level versus how much the organization pays similar performers in the same or substantially similar roles. You can get a sense of whether an employee might be overpaid or underpaid at a mere glance, by calculating the comp ratio for each employee.

HOW TO CALCULATE COMP RATIO

FORMULA

$$\frac{\textit{Employee's Current Salary}}{\textit{The Current Midpoint of the Internal Pay Range For the Employee's Position}}$$

Comp ratio is calculated as the employee's current salary, divided by the current market rate as defined by the company's competitive pay policy. Each job position has a salary range that includes a minimum, midpoint and maximum. A ratio of 1.00 or 100 percent means the employee's pay is at the midpoint of the salary range.

If the ratio is less than one, it means the employee's salary is below your established midpoint.

If the ratio is greater than one, it means the employee's salary is above the range midpoint. For example, a range penetration of 1.50 means the employee's current pay is 50 percent higher than the midpoint of the internal pay range.

Comp ratio is helpful because it empowers you to see which employees are earning significantly less (or more) than the midpoint of their compensation range. Based on your findings, individuals may need a raise or a pay freeze. In today's competitive job market, it's important to ensure your effort is focused on keeping the great employees you already have.

Employees who are high performers but low in their pay range (and thus have lower comp ratio) should be prioritized as flight risks.

As an example, let's look at an employee, Julie. Julie is an HR Generalist. When Julie first started in the role, her starting salary was $60,000 and the range midpoint is $75,000 (putting her comp ratio at 0.8). However, Julie is a quick study; she gains proficiency quickly and soon begins to make an outsized impact on her team. After 18 months, Julie has received a $6000 pay increase and her pay is now closer to the range midpoint. Her updated salary is $66,000 and the comp ratio is 0.87 (66,000 divided by 75,000).

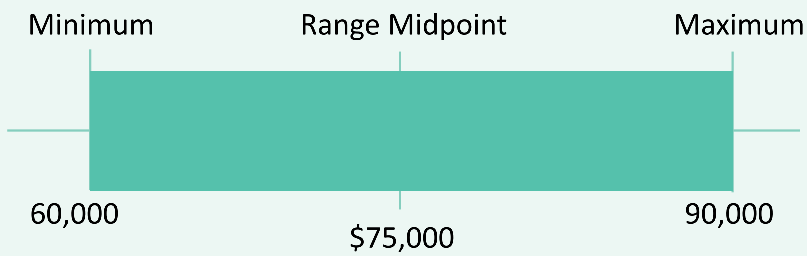
However, because Julie is a top performer, she is now underpaid relative to her performance, because the rate at which she's gained proficiency in her role has exceeded the pace of salary reviews and pay increases at her organization.

In other words, if you hire a junior employee who quickly evolves into a rock star performer, their initially low compensation might not be keeping up with their overall contribution to the firm. For this reason, we recommend organizations review the salaries of their new hires more frequently than more tenured employees. And, if you're in a particularly hot market, you might consider reviewing pay every six month for every employee.

When you look at comp ratio with groupings in mind, you can gain more insight. For example, you can group employees by performance rating and see if your company is truly paying for performance the way you intended. Other useful groupings could be by job function or by geographic location.

5. RANGE PENETRATION

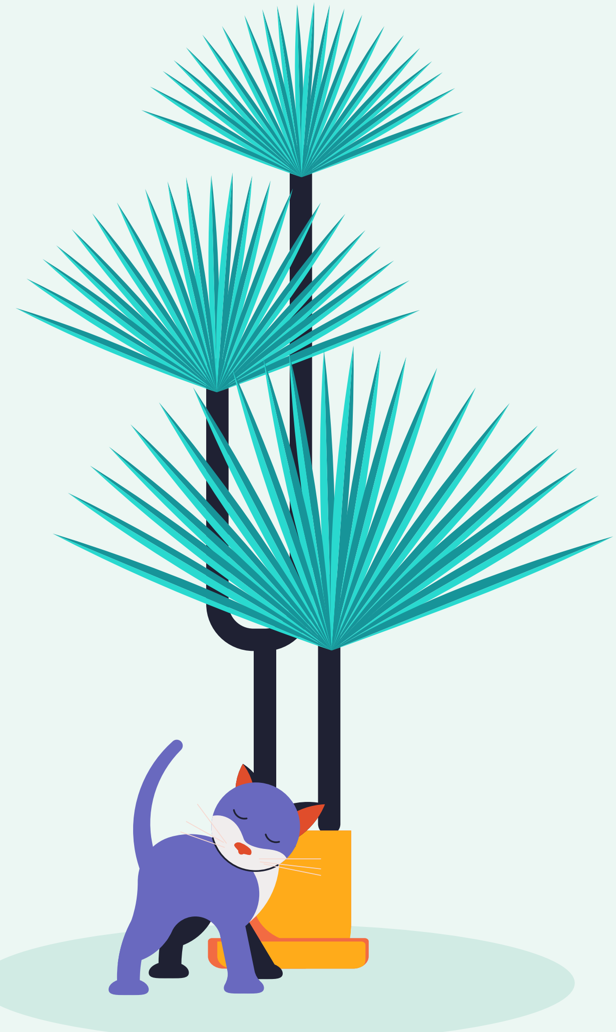
Range penetration is a compensation metric you should look at in tandem with a comp ratio. While comp ratio gives you information about someone's pay relative to just one data point -- the range midpoint, range penetration looks at salary in relation to the whole pay range. This is displayed as a percentile.



Range penetration—0%
Employee's pay is at the minimum

50% range penetration

Range penetration—110%
Employee's pay is at the maximum



FORMULA

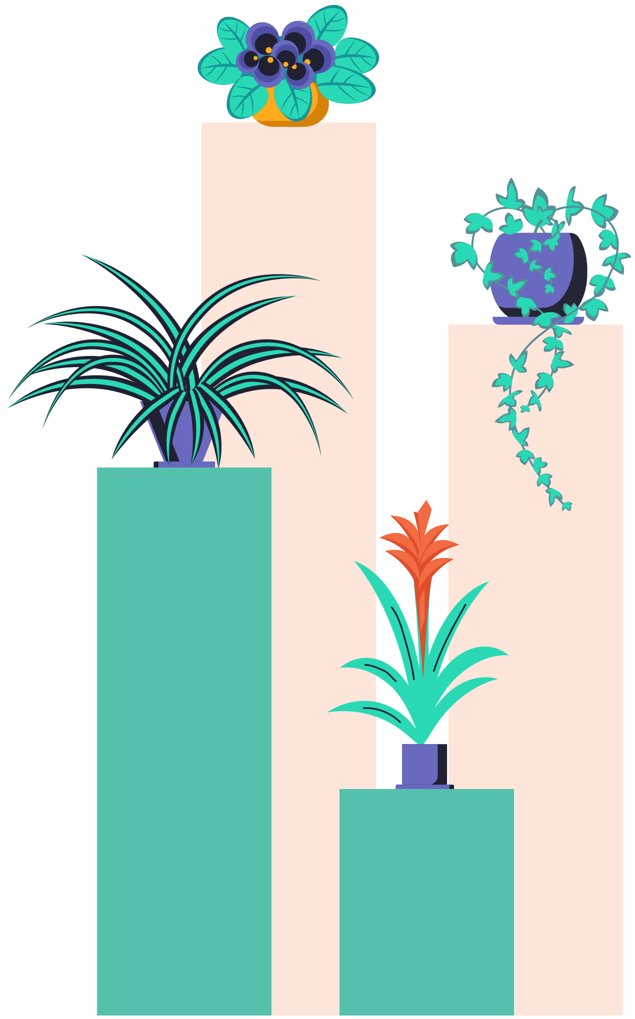
$$\frac{\textit{(Employee Salary - Range Minimum)}}{\textit{(Range Maximum - Range Minimum)}} \;\; X \;\; 100$$

HOW TO CALCULATE RANGE PENETRATION

Get your managers and employees familiar with this term. This is an easy way to communicate to employees about where their compensation stands in their range and whether there's room for increase.

It is important for your organization to determine upfront—when you initially price a job—how wide a range should be. You can also use this metric to communicate guidelines to managers on where new employees should be placed within the range versus well-tenured employees. For example, you might set a guideline stating all new employees should start between the 10th and the 30th percentile of the range for their position. And then reserve the 71th to 100th percentile of the range for employees who are exceeding expectations in their role.

While range penetration on an individual basis can be useful, looking at where all of your employees fall within each of your ranges can help you determine if your ranges are too wide or too narrow.



6. PAY DISPARITIES AND PAY EQUITY

A pay disparity occurs when two people in the same job or very similar jobs have a large variance in pay. That difference can occur for a variety of legitimate (and illegitimate) reasons.

In an ideal world, disparities in pay would be based strictly on bonafide factors like experience, seniority and skills. Whether intentional or otherwise, differences in pay often manifest themselves along the lines of gender, ethnicity or other protected traits. While federal, state and local laws exist to prevent this from happening, discrimination persists nevertheless.

With unemployment at an all-time low and individuals afforded the opportunity to pick and choose employment options, ensuring equitable pay has never been more important. You don't have to look very far to notice headlines of brands whose reputations have been tarnished by by high-profile pay discrimination disputes.

When you identify a disparity, you need to ask yourself two key questions:

1. Is the variance in pay reasonable?
2. Are these employees *really* in the same job?

When tackling the first question, consider whether the disparity is based on tenure, performance or other legitimate factors.

For the second, consider the nuances of the two respective roles and the duties performed. Is one individual more senior than the other? Is one in a newly created role that needs to be further defined and benchmarked? These nuances are critically important, as often you might have a spoken-for but otherwise undocumented understanding, like when an individual takes on additional responsibilities but has not had a title change.

If you find one individual is really in a different role than their current job description says, it's important to update this employee's job description to accurately reflect their current duties, and then re-benchmark this job with the updated inputs.

Organizations need to understand if pay disparity is a problem, rectify the differences in pay they discover and put guidelines in place when making pay decisions to prevent this from happening in the future. To understand whether your organization has issues with pay disparity, you can run a pay equity audit.

HOW TO RUN A PAY EQUITY AUDIT

A pay equity audit requires you to examine your company's payroll data for evidence of a pay gap and make appropriate recommendations to senior management. The goal of a pay equity audit is to understand whether employees performing similar work at the same level are paid consistently. This is a separate analysis from your annual pay adjust cycle. It is important to consult with a lawyer when you audit your pay practices; audits completed with a lawyer should be protected by attorney-client privilege.

Start by pulling employee pay data and consider how you want to group the data. Good groupings are key to ensuring your findings are sound.

You'll want to look for things including:

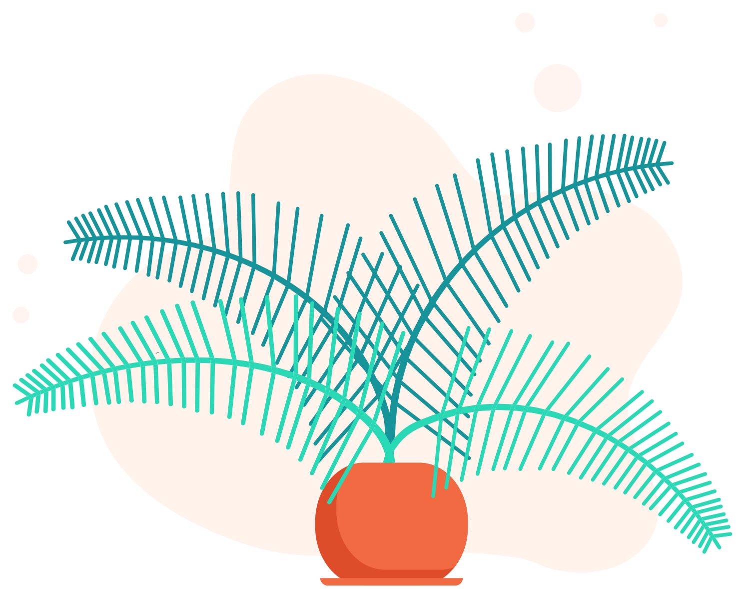
- Pay gaps hidden in certain job titles or departments
- Underpaid high performers and overpaid low performers
- Significant differences in promotion rates, raise frequencies and bonuses
- Men and women who do similar work, but are not at the same job level

Look job-by-job to see if you have instances where you can't explain why a group of employees are making more than others. Beyond job-based analysis, look department-by-department, function-by-function, manager-by-manager and location-by-location to ensure there are no inequity trends.

If you have workers in multiple states, consider doing separate analyses in jurisdictions with their own pay equity laws, especially in California, Massachusetts, Oregon and Washington.

Here's an important thing to note: If you have identified broad issues with pay equity at your organization, it's imperative you act quickly to rectify it. Not simply because it's the right thing to do—and it is—but because ignoring the problem opens up your organization to legal risks.

For more details on how to conduct a pay equity analysis, check out PayScale's webinar.



CONCLUSION:

Getting executive buy-in requires a certain savvy with HR metrics that go beyond just the basics. It takes a focused, nuanced look at measurements like quality of hire, career path ratio, and the results of pay equity analysis to catch the C-suite's attention and tell a compelling story.

When it comes to implementing these metrics, don't be afraid to take the leap. Getting started is half the battle. Once you've developed the habit, feel free to iterate and test alternative ways to analyze the data. After all, you're an HR data scientist—don't be afraid to experiment!

The HR profession has long talked about getting that elusive "seat at the table." Equipped with cutting-edge metrics like these, you won't just be present at your next boardroom meeting—you'll be leading the conversation.