YOUR INTRODUCTION TO HR METRICS

A how-to guide written for HR professionals (no data science degree required).

Namely HR for Humans

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INTRODUCTION

Modern HR is all about the numbers. According to one industry report, 56 percent of people teams hope to incorporate more data in their processes in 2018—a 10 percent jump from last year.

Feel left behind? You're not alone. While the HR profession is over a century old, its embrace of data science is a new phenomenon. As recently as 2017, nearly all companies admitted to having difficulty gleaning meaningful insights from their people data, and 60 percent of HR professionals say they'd have a hard time communicating even basic metrics like turnover to their CEO.

We can change that. In this guide we'll outline six basic HR metrics, all in layman's terms. We'll provide you with sample formulas and actionable advice that you can use to launch your next data initiative and more effectively discuss metrics with the C-Suite. Dust off those calculators—it's time to get started.

Ready? Let's get started.

1

TURNOVER RATE

One of HR's most essential metrics.

Out of all the data points measured by HR, few are as essential as **turnover**. Quite simply, turnover rate measures the number of employees who leave your company within a set period of time. While your base metric should include both voluntary and involuntary terminations (people who quit or are asked to leave, respectively), you can calculate turnover separately for both types of departures.

To the job applicant, turnover can be used to measure the culture or health of a company. To members of the C-Suite, it's a number closely tied to finance—mostly because replacing employees is an expensive proposition. By some measurements, replacing an entry-level employee can cost a business up to 50 percent of their salary. For highly specialized or technical roles, that figure is much higher: *400 percent*.

To calculate turnover rate, tally the number of involuntary and voluntary terminations over the timeframe you're considering (typically a year). Then, divide this amount by your average headcount during that same period. Finally, multiply this number by 100 to arrive at a percentage.

TURNOVER RATE

(# TERMINATIONS ÷ AVERAGE HEADCOUNT) X 100

Wondering how to calculate average headcount? Thankfully, that math is relatively simple. If you're considering the last year, just pull a report on headcount for each of the last 12 months, tally those numbers together, and divide by 12.

You may have heard of another, similar metric called **attrition**. While both turnover and attrition track employee departures, they differ in one key respect. Attrition occurs when an employee leaves but does not need to be replaced, as might be the case when a position is eliminated. Turnover only applies to roles that are meant to be replaced.

While determining turnover is simple, decoding whether your company's numbers are healthy isn't. Last year, the average turnover rate among U.S. employers was 19 percent. That said, industry can greatly influence this metric. For example, insurance companies' average turnover rate is 12 percent. In comparison, the hospitality industry trends at 71 percent. Within those sectors, specific roles or departments may inherently have higher turnover due to the nature of the work performed. For example, because sales departments are so intensely quota-driven, they have among the highest turnover rates at companies.

Turnover is a nuanced metric. Before determining whether yours is indicative of a problem, carefully weigh industry and role-specific averages. Don't be afraid to leverage your professional network to get a better sense of what's typical in your line of business.

2

TIME TO FILL

How efficient is your recruiting process?

Fear not recruiters, we have a metric for you as well. Our next datapoint, **time to fill**, is used to determine both the length of time it takes to fill a position, as well as your acquisition team's overall efficiency.

Determining time to fill for any single position is easy. Simply count the days between when the job opening was made public and when the offer letter was signed—no formula needed! If you want to calculate your team's average time to fill across all positions, you can do so with some simple math.

First, limit your numbers to a specific timeframe, typically a quarter or year. Then, add up all of your positions' time to fill and divide the sum by the number of positions recruited for within that same timeframe.

AVERAGE TIME TO FILL

SUM OF ALL ROLES' TIME TO FILL ÷ TOTAL # OF OPENINGS FILLED

Across all industries and job types, the average time to fill is 26 days. That said, this metric can be heavily influenced by the nature of the roles in question. Here's a general rule of thumb: the more senior the opening, the longer it takes to fill. For example, it takes an average of 108 days to hire a Senior Sales Director. In comparison, clerk openings rarely stay open longer than 30 days.

Roles requiring highly specialized or technical knowledge may also require longer lead times. Data engineers rarely take less than 150 days to source and hire. It certainly doesn't help that demand for engineering roles is expected to increase by nearly 30 percent in the next three years.

When your company's time to fill metric exceeds industry norms, your company is likely missing out on top talent. Technology can help streamline many of the inefficiencies faced by resource-strapped acquisition teams. Using an applicant tracking system (ATS) makes it easier to review incoming resumes, schedule interviews, and equip hiring managers and interviewers with the information they need to successfully screen candidates. Many of them will even integrate with your existing HR platform, allowing for a seamless onboarding experience.

There's no shortage of ATS vendors available to choose from. You can find of some of Namely's favorites by visiting our partner page.

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HR-TO-EMPLOYEE RATIO

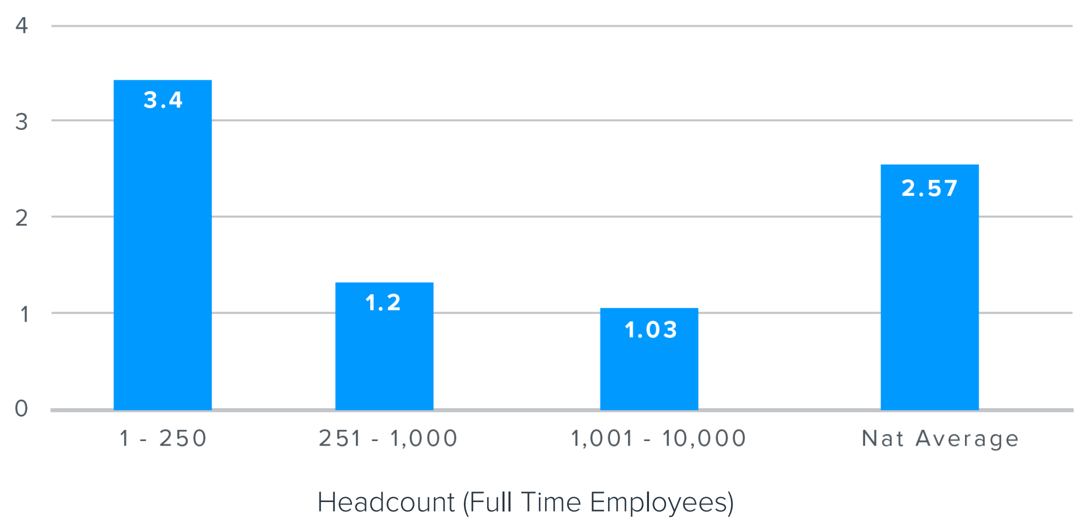
Is your HR team big enough?

Ever wish you could be in two places at once? If you get that feeling on a regular basis, it may be time to take a close look at your HR-to-employee ratio, or the size of your people team relative to the rest of company.

This metric can fluctuate by necessity throughout a company's lifespan, as the needs of smaller versus larger companies vary dramatically. For example, HR teams at small organizations might employ what seems like a disproportionate number of recruiters to facilitate growth. Conversely, while established businesses with 1,000 or more employees have large people teams on paper, their HR-to-employee ratio is actually much smaller. Because these companies are more likely to have efficiencies like all-in-one technology in place, they're able to handle HR administration for a larger number of employees with greater ease.

Whether an ideal HR-to-employee ratio exists has been a subject of debate for decades. The Society of Human Resources Management (SHRM), the profession's leading member association, finds that **overall, U.S. businesses have 2.57 HR professionals for every 100 full-time employees**. A full breakdown, by company size, can be found below.

AVERAGE HR-TO-EMPLOYEE RATIO (BY COMPANY SIZE)



Courtesy SHRM: How Organizational Staff Size Influences HR Metrics

Where does your company stand in comparison? HR-to-employee ratio is thankfully easy to calculate. Divide your HR team's headcount by your company's total number of full time employees, and then multiply that number by 100.

HR-TO-EMPLOYEE RATIO:

(HR TEAM HEADCOUNT ÷ FULL TIME EMPLOYEE HEADCOUNT) X 100

So what happens when you get this number wrong? If your ratio is significantly higher than the national average, it could simply mean you're in a hiring sprint and need the extra hands on deck. For companies where that isn't the case, it may suggest that your team is either over-specialized or technologically underserved.

And what if your ratio is too low? If you have too few HR professionals on payroll, it can lead to systematic cultural and performance nightmares. The last year has seen a wave of public HR scandals at companies of varying size. At Thinx and Uber, chief executives at both companies resigned in disgrace due to issues derived from their nonexistent or shorthanded people teams. Hiring discrimination, paltry paid leave offerings, inequitable pay, and a *laissez faire* attitude toward sexual harassment allegations were just some of the worst-case symptoms of companies with little or no HR presence.

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CAREER PATH RATIO

Career ladders are out.

The notion of the career "ladder" has been relegated to the dustbin. Employee movement at modern day organizations is multi-directional—meaning lateral moves across departments and specialties are becoming more the norm. Enter our next metric: **career path ratio**, or a measure of how many internal moves are promotions versus lateral transfers.

To calculate this metric, simplify divide your total number of promotions by the sum of all role changes, regardless of whether it was an upward or lateral move. If you did the math correctly, the resultant figure should be less than 1.

CAREER PATH RATIO

TOTAL PROMOTIONS ÷ (TOTAL TRANSFERS + TOTAL PROMOTIONS)

Unsure of what a healthy career path ratio looks like? The rule of thumb is that companies should average approximately four transfers for each promotion, meaning a career path ratio of 0.2 or less. If your ratio number ends up between 0.5 and 1.0, that may be indicative of a problem with how your business approaches development. In cases like these, managers may be guilty of "talent hoarding," or shielding high-performers from any and all transfer opportunities. According to one survey, as many as 50 percent of managers admit to being guilty of this learning and development roadblock.

While providing greater opportunities for lateral movement might be the right thing to do, is there a business case for it? Over 70 percent of dissatisfied workers cite feeling “boxed in” by their roles, enough to seek employment elsewhere. What’s more, when employees are only given the chance to move upward, that often forces them into a premature jump into management. By some estimates, nearly 60 percent of new managers fail within the first 24 months after their promotion. If these same individuals were given the opportunity to expand their skill set in other roles beforehand, they might have been better equipped to move their career forward.

Those looking to get full use out of this metric will need clearly delineated job tiers in place. Otherwise, it may be difficult to discern what constitutes a promotion versus a transfer. Compensation is not a reliable metric here, as the going rate for jobs within the same tier can vary significantly from each department or even subdivision. This is particularly true when transfers involve a location change. Using an HR platform that gives you a full view of employee roles, either in the form of an organization chart or tiered list, is crucial for those who want to easily monitor career path ratio over time.

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REVENUE PER EMPLOYEE

Where does your company stack up?

Here's one of the C-Suite's favorite metrics: **revenue per employee**. Quite simply, this datapoint represents how much company revenue each employee accounts for. To calculate it, divide your company's annual revenue by full time employee headcount. Full time employees work 40 or more hours per week.

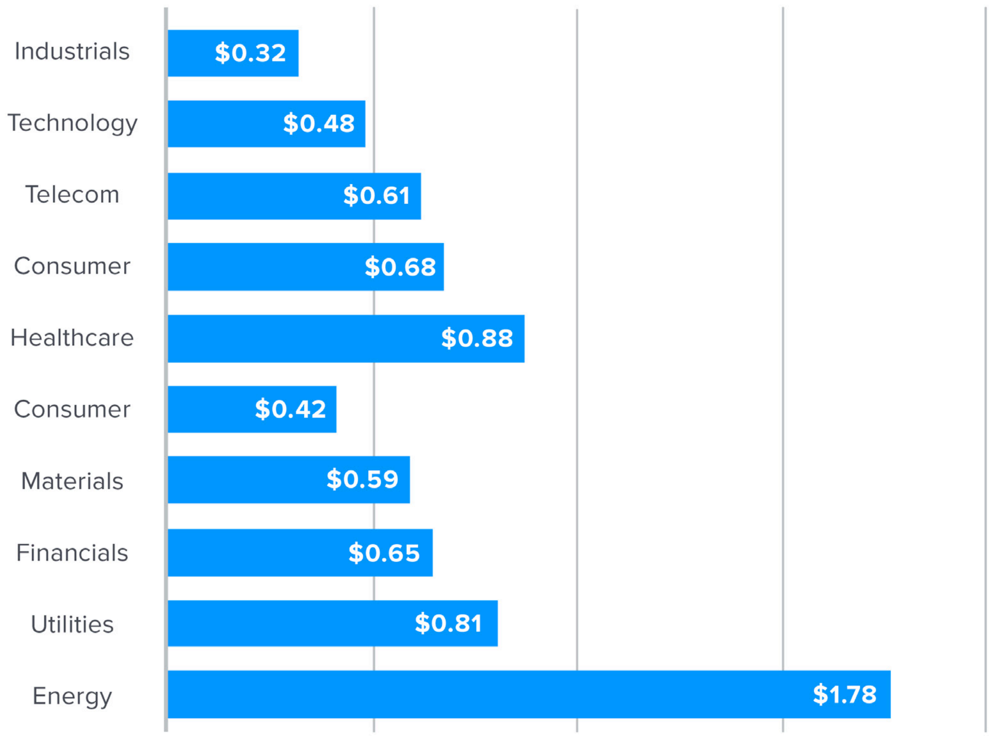
REVENUE PER EMPLOYEE

ANNUAL REVENUE ÷ FULL TIME EMPLOYEE (FTE) HEADCOUNT

In essence, revenue per employee measures output. CEOs often turn to this metric because it speaks to overall efficiency, and it can be used to help determine whether a business is over or under-staffed. Unless you just completed a massive hiring push, your revenue per employee should be increasing over time.

So where does your company stack up? Take any comparisons with a grain of salt, particularly with household names. Not all companies can reasonably compete with Apple, for example. That company's revenue per employee is an impressive $2.13 million, compared to the U.S. average of $0.47 million. Weigh your company's numbers with similarly-sized businesses in your industry, which in all likelihood don't include Apple or Google.

AVERAGE REVENUE PER EMPLOYEE BY SECTOR (IN MILLIONS)



Source: Business Standard, Revenue Per Employee in the US Tech Sector

Even if your numbers are low, that doesn't mean mass layoffs are the answer. HR knows full well how difficult it can be to recruit talent; your organization should instead prioritize getting more out of its existing employees. That means putting better technologies and processes to good use. Even your HR team could likely benefit from new efficiencies. While it'll take a full effort from management to increase revenue per employee, your HR team can be the one to bring the issue to the table.

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EMPLOYEE NET PROMOTER SCORE

Is your company a great place to work?

Most of the metrics in this guide are tied to cold, hard numbers. That said, there's an equally if not more important datapoint that's a bit abstract: employee engagement. Measuring your company's **employee Net Promoter Score** (eNPS) empowers your team to get an accurate read on something as subjective as how individuals feel about work.

If "NPS" sounds familiar, that's for a good reason. Originally conceived of by business strategist Fred Reichheld as a way for companies to gauge customer satisfaction, NPS surveys ask participants one "ultimate" question: "What is the likelihood that you would recommend [...] to a friend or colleague?"

Respondents are asked to measure their approval on a scale of 0 to 10. Those who respond with a 9 or a 10 are considered "promoters," and those who answer 0-6 are detractors. Anyone in between those ranges is considered "passive." An overall score is calculated by subtracting the percentage of employees who are detractors from the percentage who are promoters.

While NPS surveys have been a business mainstay for over a decade, only recently have they been embraced by HR teams. To measure your eNPS, survey employees on a monthly or quarterly basis with a modified version of Reichheld's simple question: "What is the likelihood that you would recommend [company name] to a friend as a great place to work?" After giving employees at least a week to respond, apply the following formula to calculate your overall score.

EMPLOYEE NET PROMOTER SCORE

% PROMOTERS - % DETRACTORS

Scores can range from a perfect 100 to worst-case-scenario -100. Because of the NPS scale's narrow definition of a promoter, seemingly low scores are still favorable. For example, an overall eNPS of 50 is seen as great, while anything between 10-30 is good. As you might suspect, anything below 0 is problematic.

While responses should be anonymous (in that they aren't tied to a name), it's advisable to track results by department so you can follow-up with managers as needed. Do your most unhappy employees fall under a specific demographic? Some employers turn to third-party vendors to conduct their surveys, who can then tie results to other data points, like ethnicity and gender.

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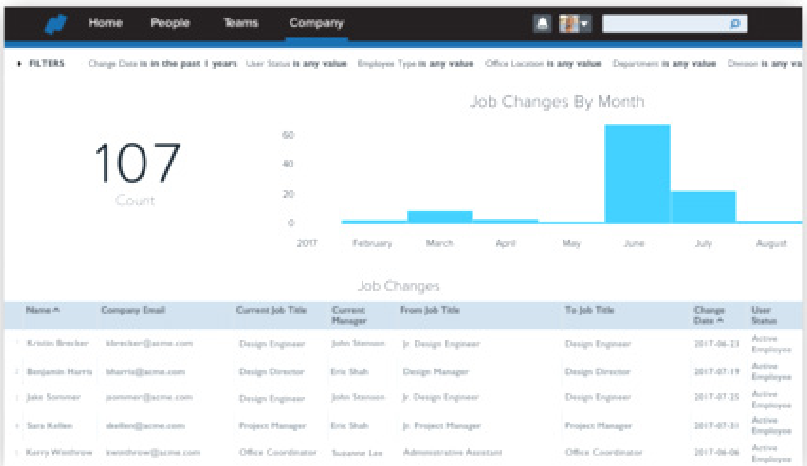
CONCLUSION

Taking HR metrics to the next level.

You have the know-how, but what about the tools? If you're currently managing your people data on spreadsheets (or worse, on paper) pulling even rudimentary reports can be a challenge. Reporting on most of the metrics covered in this guide will require at least having an HRIS in place. More advanced tools like Namely Analytics can help make data analysis even easier.



Once you feel confident enough to report on the data points covered in this guide, start considering metrics in tandem. For example, is employee turnover increasing but your time to fill decreasing? Perhaps you're hiring talent too hastily. If you have the right HR technology in place, also try combining reports. While role changes and employee demographics are basic reports, brought together they become something even greater: an equal pay audit. You're now an HR data scientist, so act like one. Experiment!

See how Namely makes it easy to report on people data, identify trends, and transform even the numbers-averse into data rockstars.

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