

# Using the Right Metrics: The Foundation of HR Analytics

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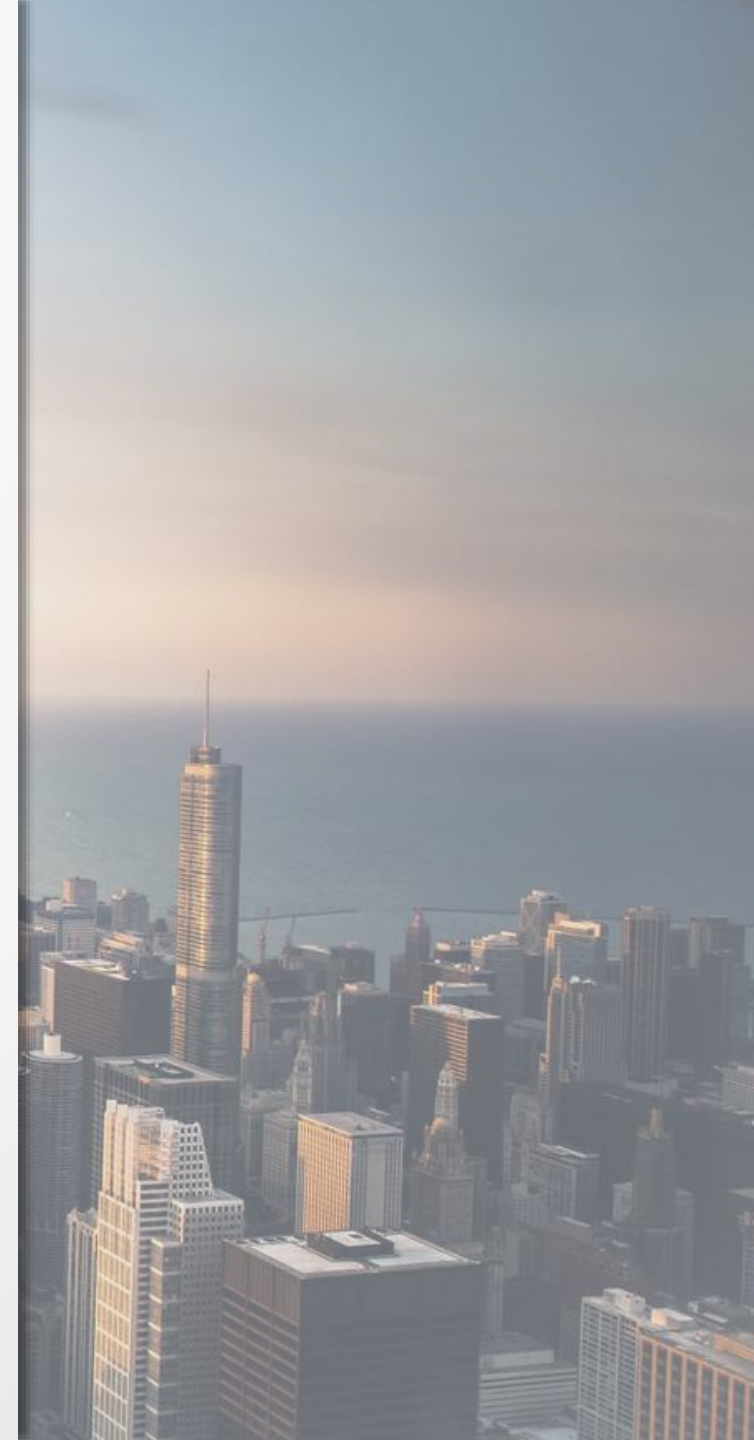
## About the Presenter



Harish Reddy – Head of Product, HCM I

Harish Reddy has over 8 years of experience working in Human Resources specializing in Workforce analytics, planning, and Business Intelligence. He has helped clients in the full cycle of workforce analytics and planning initiatives from creation to optimization that include reporting capabilities, statistical analysis, benchmarks, and measuring productivity.

In his current role at HCM I, Harish works on client engagements to help companies successfully reach workforce analytics & planning goals and milestones with data driven decision making. He also develops leading products in workforce analytics and planning. Harish earned his MBA in Finance from Pepperdine University.





- ✓ Workforce analytics software (SOLVE™) and services firm
- ✓ Thought leader in linking human capital to financial results
- ✓ Cost and value driver insights to optimize workforce spend

- ✓ Integrates HR, finance and operations data
- ✓ Applies AI with 100s of metrics and predictive machine learning algorithms
- ✓ Links workforce analytics to financial and business outcomes



# About SOLVE™ Workforce Intelligence Software

SOLVE™ is a turnkey workforce intelligence SaaS platform that integrates disparate HR, Financial and Operational data sources to deliver over 620 “out-of-the box” standard human capital metrics with predictive scenario modelling through dynamic user-defined visualization.

## Why SOLVE™?

### 1. Drive value by linking workforce investments to business impact

SOLVE™ forecasts workforce risks, costs and value creation at each stage of the talent management lifecycle, enabling users to select interventions with the highest ROI.

### 2. Leverage insights to build a strategic workforce plan

SOLVE™ provides insightful answers to “what-if” questions that can be incorporated into workforce planning scenarios.

### 3. Expertise included

SOLVE™ comes with analytics subject matter expert support to complement client’s internal capabilities.



# What is the Problem?

*“Most organizations either lack metrics to measure the workforce or measure everything and don't know which metrics really matter ” – Jeff Higgins, CEO of HCMI*

## **Poll:**

Which bracket does your company fall under?

- a. We lack metrics to measure workforce
- b. Measure everything and don't know which metrics really matter
- c. Other

# Why is it a Problem?

The Challenges in Measuring Human Capital

## Complexity of Workforce Data

- Employee/Full-Time-Equivalent (FTE)
- Jobs/Roles/Skills
- Time - Tenure
- Compensation (\$ vs. Equity)

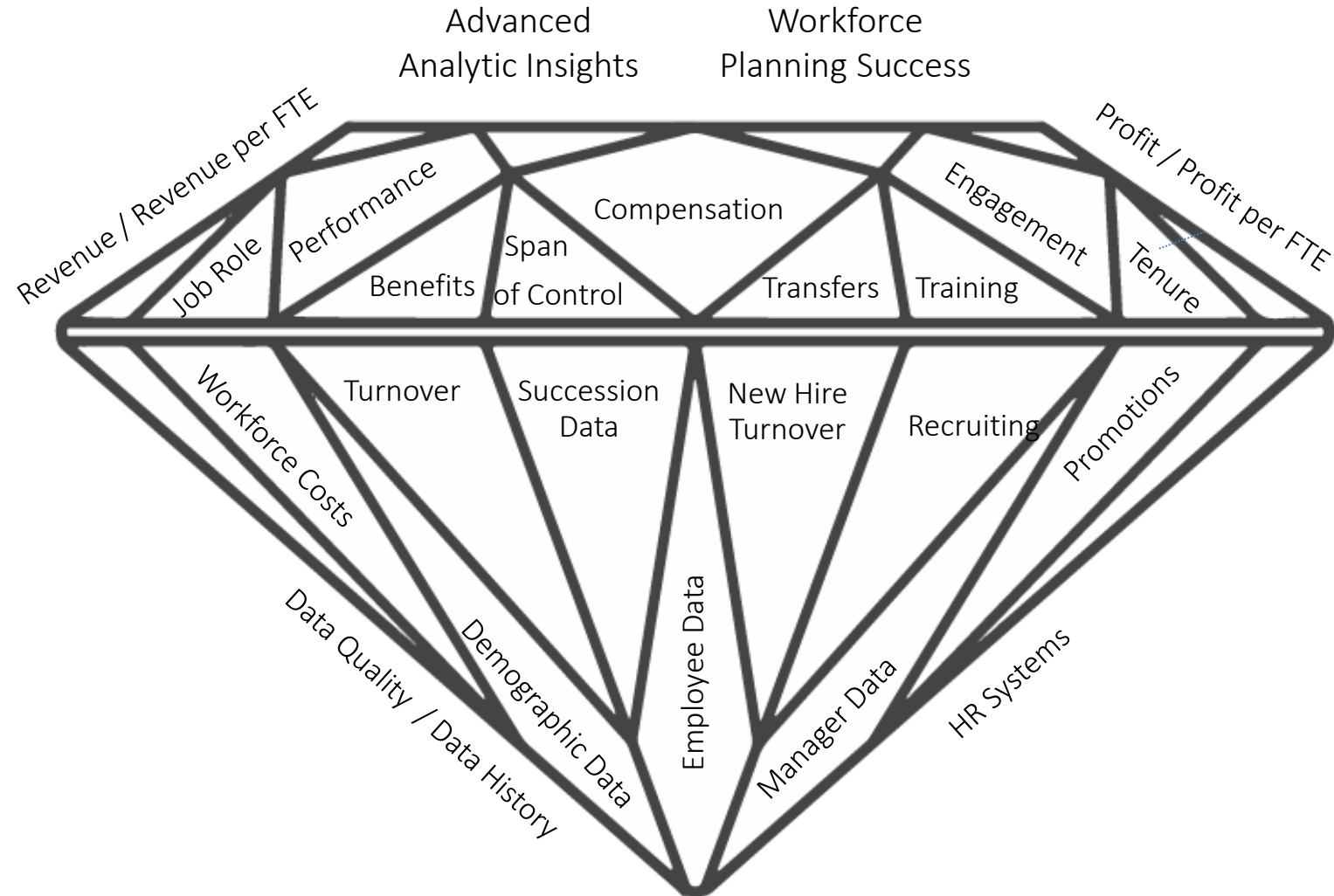
## Lack of Standards

## Frequency of Change

- Promotions, Transfers, Hires, Terminations
- Jobs/Roles/Skills
- Time - Tenure

## Lack of Analytic Skills

## Measuring the Intangible



# What is the Solution?

## Human Capital Financial Statements or HCF\$™

Part of - ISO 30414 Human resource management -- Guidelines for internal and external human capital reporting

### TRADITIONAL FINANCIAL STATEMENTS

#### 1. Asset Statement

#### 2. Cash Flow Statement

#### 3. Income Statement

Data

#1

#2

#3

#4

#### 1. Asset Statement

Examples:

- Employee Headcount
- Workforce Productivity Value Added
- Capitalized Training
- Workforce Cost Distribution

#### 2. Flow Statement

Examples: Inflows, Outflows, number of Contingent Staff, Transfers, and Promotions

#### 3. Impact Statement

- Total Cost of Workforce (TCOW)
- Human Capital ROI Ratio

#### 4. Management Discussion

Examples: Overall workforce growth, critical and non-critical job roles, etc.



# Summary Human Capital Impact Statement

Understand the relation between workforce cost and other key financial metrics

## HUMAN CAPITAL IMPACT

	Prior Year	Current Year	% Chg
<b>Revenue</b>			
Net Operating Revenue	\$ 1,400,000,000	\$ 1,540,000,000	10.0%
Total Headcount (FTE)	15,000	16,400	9.3%
Revenue per FTE	\$ 93,333	\$ 93,902	0.6%
<b>Costs</b>			
Total Operating Expenses*	\$ 1,170,000,000	\$ 1,285,000,000	9.8%
Total Cost of Workforce (TCOW)	\$ 779,950,000	\$ 861,000,000	10.4%
TCOW per FTE	\$ 51,997	\$ 52,500	1.0%
TCOW % of Revenue	55.7%	55.9%	0.4%
<b>Profit</b>			
Net Operating Profit	\$ 143,750,000	\$ 159,375,000	10.9%
Profit per FTE	\$ 9,583	\$ 9,718	1.4%
<b>Workforce Productivity</b>			
Human Capital ROI Ratio	1.29	1.30	0.1%
Return on Human Capital Investment	18.4%	18.5%	0.4%
Human Capital ROI Ratio	\$ 15,333	\$ 15,549	1.4%

## About Summary Human Capital Impact Statement

This statement quantifies workforce productivity and return on human capital from a financial impact standpoint. The return on human capital metrics show the rate of return to the organization of \$1 invested in the workforce.

The data you need to prepare this statement:

- Financial Information on your annual report
- Headcount
- Total Cost of Workforce



# Summary Human Capital Impact Statement

Understand the relation between workforce cost and other key financial metrics

## HUMAN CAPITAL IMPACT

	Prior Year	Current Year	% Chg	
<b>Revenue</b>				<b>REVENUE per FTE</b> Revenue increased 10.0% while headcount increased 9.3%, resulting in a revenue per FTE increase of .6%
Net Operating Revenue	\$ 1,400,000,000	\$ 1,540,000,000	10.0%	
Total Headcount (FTE)	15,000	16,400	9.3%	
Revenue per FTE	\$ 93,333	\$ 93,902	0.6%	
<b>Costs</b>				<b>TCOW INCREASING MORE THAN REVENUE</b> Total cost of workforce (TCOW) was up year-over-year 10.4% above the 10.0% Revenue increase, negatively affecting workforce productivity.
Total Operating Expenses*	\$ 1,170,000,000	\$ 1,285,000,000	9.8%	
Total Cost of Workforce (TCOW)	\$ 779,950,000	\$ 861,000,000	10.4%	
TCOW per FTE	\$ 51,997	\$ 52,500	1.0%	
TCOW % of Revenue	55.7%	55.9%	0.4%	
<b>Profit</b>				<b>PROFIT per FTE</b> Operating Profit increased 10.9%, and profit per FTE 1.4%, partly offsetting the negative impact of higher TCOW. Further profit gains vs. peers seem unsustainable without further productivity gains.
Net Operating Profit	\$ 143,750,000	\$ 159,375,000	10.9%	
Profit per FTE	\$ 9,583	\$ 9,718	1.4%	
<b>Workforce Productivity</b>				<b>WORKFORCE PRODUCTIVITY</b> Both workforce productivity metrics improved, however the rate of growth is minimal and well below the 3% productivity gains of competitors.
Human Capital ROI Ratio	1.29	1.30	0.1%	
Return on Human Capital Investment	18.4%	18.5%	0.4%	
Human Capital ROI Ratio	\$ 15,333	\$ 15,549	1.4%	

# Summary Human Capital Flow Statement

Understand the flow of talents across the organization

## (B) HUMAN CAPITAL FLOW

(B) HUMAN CAPITAL FLOW		Buy				Build			
	Prior Year Headcount	New Hires	% Chg	Terms	% Chg	Internal Mobility	% Chg	Current Year Headcount	% Chg
Workforce by Job Category									
Total FTE* Employees	13,300	2,500	18.8%	-1,400	-10.5%	150	1.1%	14,550	9.4%
Management, Senior Leadership	1,250	115		-90		75		1,350	
Scientific, Technical Staff (STEM)	550	120		-60		-10		600	
Sales Staff	3,000	860		-450		-10		3,400	
Professional Staff	2,000	290		-130		40		2,200	
Operations Staff	1,450	225		-110		85		1,650	
Service Staff	2,750	640		-465		-25		2,900	
Other Support Staff	900	105		-50		45		1,000	
Administrative Staff	1,400	145		-45		-50		1,450	
Rent									
FTE Contingent Staff	1,700	850	50.0%	-550	-32.4%	-150	-8.8%	1,850	8.8%
Contractor	600	300		-110		-60		730	
Temporary	1,100	550		-440		-90		1,120	
Total FTE Workforce	15,000	3,350	22.3%	-1,950	-13.0%	0	0.0%	16,400	9.3%
Workforce by Geography									
North America	12,500	2,550		-1,590		-60		13,400	7.2%
Europe	1,500	180		-90		10		1,600	6.7%
Asia Pacific	1,000	620		-270		50		1,400	40.0%

### Management Internal Hire Rate

75 Internal Staff were promoted into management however 115 were hired externally or only 39% of internal staff was considered ready for management

### Critical Job Roles - Sales

While 860 sales people were hired, (450) departed. Why? Are they high or low performers, new hires or veterans? Co. Growth and success is heavily reliant on this group.

### Increases in Support Staff

What is driving increased support staff? Is this why TCOW is increasing faster than revenue?

### Contingent Workforce

Is contingent workforce a feeder group for critical roles? A low cost workforce strategy or a gap filler? How does contingent workforce fit in the strategic company direction?

# Summary Human Capital Cost Statement

The details of human capital cost

## (C) HUMAN CAPITAL COST

	Prior Year	Current Year	% Chg
<b>Workforce Costs</b>			
Employee Salary Cost	\$ 465,710,000	\$ 510,940,000	9.7%
Bonus and Incentives Cost	\$ 70,000,000	\$ 75,140,000	7.3%
Benefits Cost	\$ 146,000,000	\$ 164,230,000	12.5%
Absence (Lost Days) Cost	\$ 4,000,000	\$ 5,000,000	25.0%
Contingent Workforce Cost	\$ 45,290,000	\$ 51,690,000	14.1%
Other Compensation	\$ -	\$ -	0.0%
<b>Total Workforce Cost</b>	<b>\$ 731,000,000</b>	<b>\$ 807,000,000</b>	<b>10.4%</b>
<b>HR Costs</b>			
Training & Development Cost	\$ 27,800,000	\$ 31,250,000	12.4%
Recruiting & Onboarding Cost	\$ 8,000,000	\$ 9,000,000	12.5%
Labor Relations, Talent Management	\$ 5,000,000	\$ 5,100,000	2.0%
HR Administration Cost (e.g. payroll)	\$ 7,150,000	\$ 7,650,000	7.0%
<b>Total HR Expenses</b>	<b>\$ 47,950,000</b>	<b>\$ 53,000,000</b>	<b>10.5%</b>
HR Cost % of Total Workforce Cost	6.6%	6.6%	0.1%
<b>Other Workforce Costs</b>	<b>\$ 1,000,000</b>	<b>\$ 1,000,000</b>	<b>0.0%</b>
<b>Total Cost of Workforce</b>	<b>\$ 779,950,000</b>	<b>\$ 861,000,000</b>	<b>10.4%</b>

### Additional Current Year Metrics

Avg. Employee Salary:

\$32,000

Avg. Actual Incentive Paid:

\$4,600

Avg. Benefits Cost per FTE:

\$10,320

Benefits Cost = 32.2% of Salary

Avg. Contingent Workforce Cost per FTE

\$24,500

Avg. Training Cost per FTE:

\$1,900

Avg. Training Hours per FTE:

88 hours or 11 days

Avg. Recruiting Cost per Hire:

\$3,600

## Benefit Costs

The largest rapidly rising cost is benefit costs for employees. What is the plan to better manage these costs? How does the organization compare to peers in this area?

## Absence Lost Days and Cost

These costs are increasing rapidly, was this due to one time events or longer term trends?

Are Training & Development costs aligned with the company growth strategy?

Is the organization “Building, Buying, or Renting” its best current and future talent?

## Total Cost of Workforce (TCOW)

TCOW is increasing as a higher rate than revenue, a long term predictor of declining workforce productivity. How will the company better manage these costs as they execute on their growth plans?



# Case Study

BroadTek's Human Capital Financial Statements



## Case Study: BroadTek's HCFS

### BroadTek's Communication

**Background:** BroadTek is a leading regional telecommunications company, it is the most experienced telecommunication provider in their market and region.

Competitors have tiered their product offerings effectively, grabbing market share of both high volume data users and low cost prepaid texting users. As a result, BroadTek has been considering restructuring, outsourcing and reductions in workforce to compete more aggressively with competitors and satisfy questions about productivity.

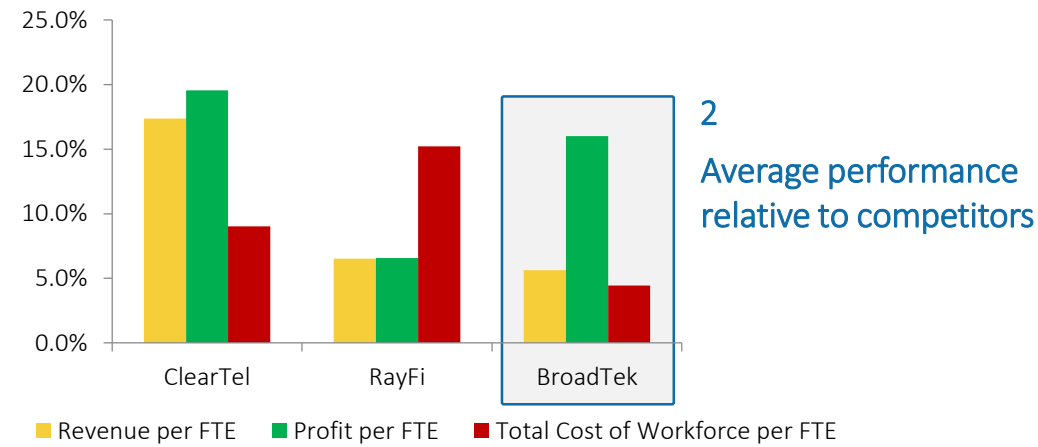
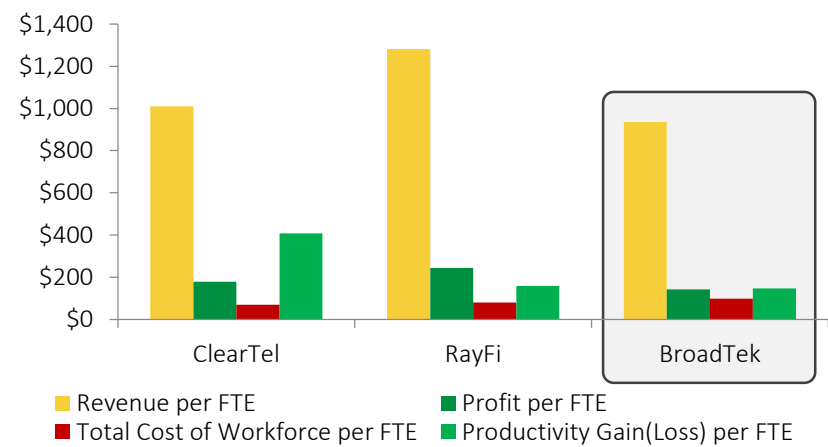
**Objective:** Supporting analysis using the Human Capital Financial Statements (HCF\$™) to launch an organization wide workforce planning initiative.

#### Key Questions:

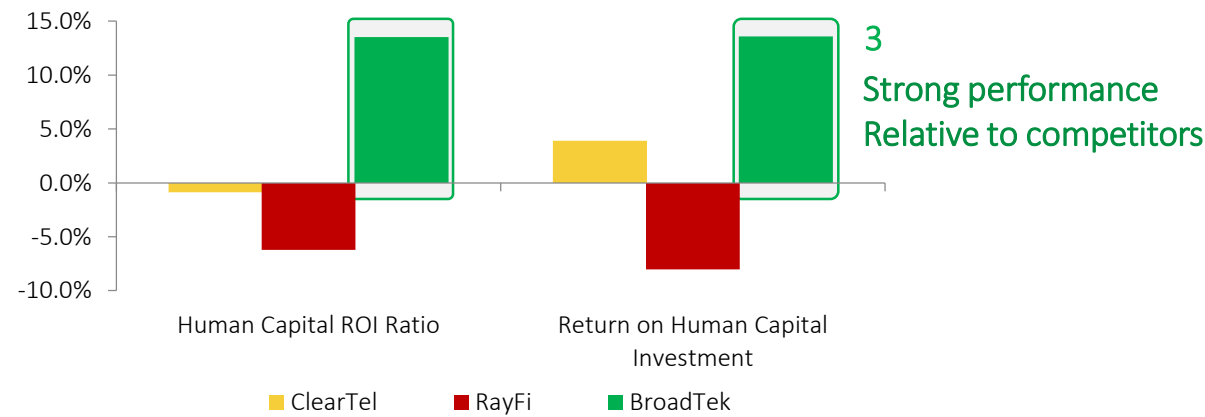
- Can we model our workforce to optimize profit, cost, and productivity?
- Is the ROI on Human Capital higher than other investments?
- What is the current Total Costs of Workforce and how will it change with new model?
- What is the best workforce intervention and the hard cost savings can be realized following through?

# BroadTek Communications Case Study

Use HCFS to make strategic talent management decisions



Productivity Variance Year Over Year



Note: All Dollars in Thousands  
KPI = Key Performance Indicator  
FTE = Full Time Equivalents

# BroadTek Communications Case Study

Use HCF\$ to make strategic talent management decisions

## (A) HUMAN CAPITAL IMPACT

	Prior Year	Current Year	% Chg
<b>Revenue</b>			
Net Operating Revenue	\$ 4,114,540,000	\$ 4,444,560,000	8.0%
Total Headcount (FTE)	4,645	4,750	2.3%
Revenue per FTE	\$ 885,800	\$ 935,697	5.6%
<b>Costs</b>			
Total Operating Expenses*	\$ 2,788,752,921	\$ 2,809,406,376	0.7%
Total Cost of Workforce (TCOW)	\$ 447,661,952	\$ 467,567,712	4.4%
TCOW per FTE	\$ 96,375	\$ 98,435	2.1%
TCOW % of Revenue	10.9%	10.5%	-3.3%
<b>Profit</b>			
Net Operating Profit	\$ 573,155,422	\$ 680,017,680	18.6%
Profit per FTE	\$ 123,392	\$ 143,162	16.0%
<b>Workforce Productivity</b>			
Human Capital ROI Ratio	3.96	4.50	13.5%
Return on Human Capital Investment	128.0%	145.4%	13.6%
Human Capital ROI per FTE	\$ 285,422	\$ 344,243	20.6%

### Key Findings:

- (1 & 2) TCOW growing slower than Revenue and Profit per FTE
- (3) Positive HC ROI Ratio and Return on HC Investment



# BroadTek Communications Case Study

Use HCF\$ to make strategic talent management decisions

## Step #1: Measure Changes in Workforce Headcount

- Total Employees
- Sales Staff and Service Staff = Core Workforce
- Administrative + Laborers and Helpers = Non-Core Workforce

## Step #2: Quantify Differential Value of High vs. Low Value Add Roles

- Core Job Roles add greater value
- Critical Job Roles add greater value

Human Capital Headcount Deployed	Prior Period	Percent of Total	Current Period	Percent of Total	Variance
Employees	4,395	94.6%	4,535	95.5%	3.2%
Management & Senior Leadership	610	13.1%	615	12.9%	0.8%
Professional Staff	1,310	28.2%	1,405	29.6%	7.3%
Sales Staff	730	15.7%	805	16.9%	10.3%
Specialists and Technicians	515	11.1%	530	11.2%	2.9%
Skilled Trade Staff	115	2.5%	105	2.2%	- 8.7%
Operations Staff	210	4.5%	210	4.4%	0.0%
Service Staff	550	11.8%	560	11.8%	1.8%
Administrative Support Staff	250	5.4%	220	4.6%	-12.0%
Laborers and Helpers	105	2.3%	85	1.8%	- 19.0%
Contingent Staff	250	4.3%	215	4.5%	- 14.0%
Total Workforce	4,646	100%	4,750	100%	2.3%

# BroadTek Communications Case Study

Use HCF\$ to make strategic talent management decisions

## Core

- Roles that are **revenue generating**
- Roles that are key to bringing in “**future revenue**”
- Roles that are **customer facing**
- Roles that **directly support revenue generation /or manage cost**

## Low Value Add

- Roles that are **administrative in nature**
- Roles that **do not make decisions**
- **Typically easier to outsource**

Prior Year

54.5%

Current Year

48.5%

## High Value Add

- Roles that **establish strategy**
- Roles that **make critical decisions** that will impact results
- Roles that **manage a team or key business processes**

Prior Year

18.5%

Current Year

23.5%

## Non Core

- Roles that indirectly supports **revenue generation**
- Roles that are not **customer facing**

Prior Year

22.5%

Current Year

21.5%

Prior Year

4.5%

Current Year

6.5%

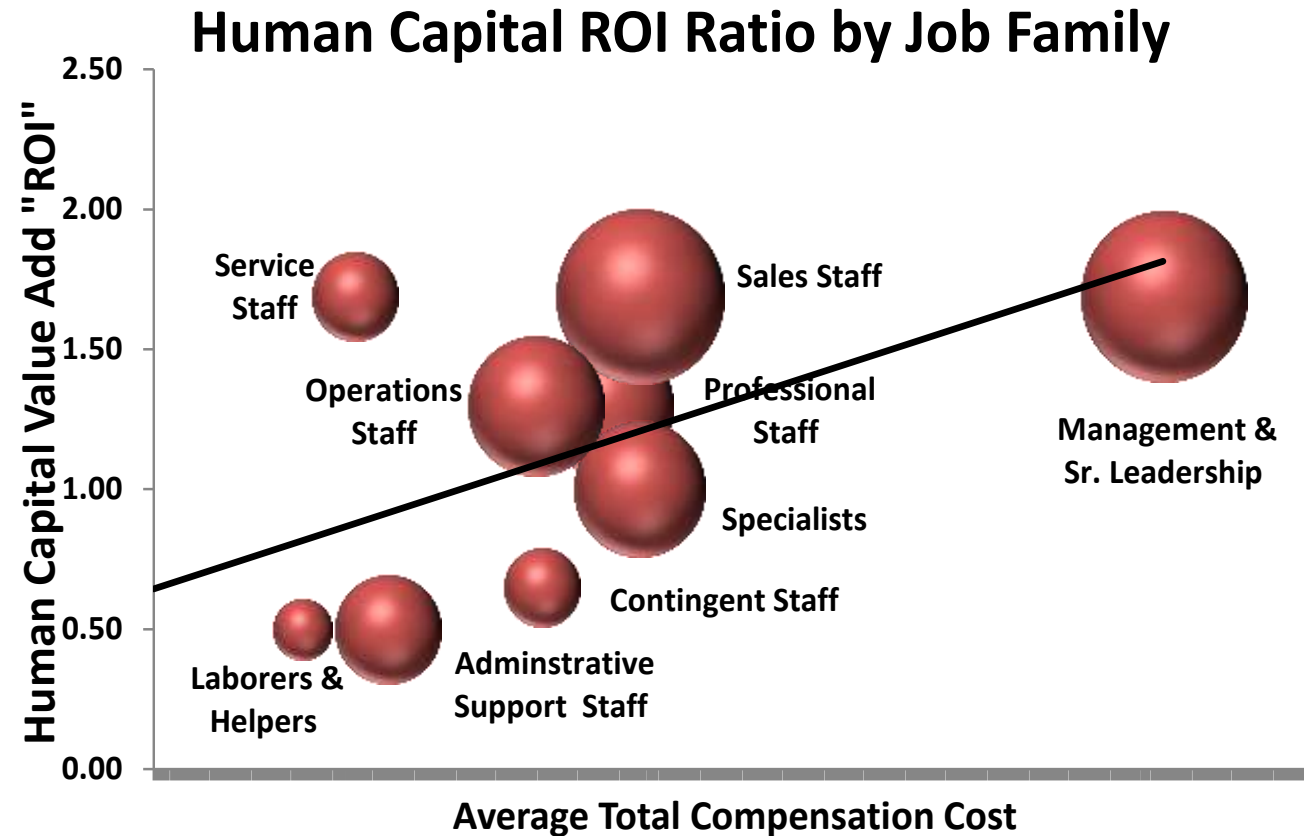
# Productivity by Job Group

Example: Human Capital ROI Ratio

## Highlights

- Which job group(s) have the highest ROI?
- Which job group creates the most value relative to cost?
- Which job category is the best investment ROI \$\$\$ of training?

Workforce Productivity by job group = return on workforce





## Case Study: BroadTek's HCFS

### BroadTek's Communication

#### Finding

- Contrary to the Board of Director's belief, BroadTek was improving workforce productivity and measurable return at a significantly faster rate than competitors.
- A possibility for further strategic human capital investment if BroadTek could identify the source of the productivity gains

#### ROI & Strategy:

If BroadTek increased their investment in human capital, could they surgically identify where to invest?

- BroadTek had made strides in re-allocating the workforce, controlling costs, and hiring in some areas while investing in others.
  - More specifically, the management increased the percentage of workforce in core high value add roles as well as non-core high value add roles while controlling or reducing core low value add and non-core low value add roles.

Revenue 10% ▾ Profit 10% ▾ Operating Expense 6% ▾ Salary 3% ▾ Bonus 3% ▾ Benefits 10% ▾ Other Comp 3% ▾ Training 3% ▾ Recruiting 3% ▾ HR & Admin 3% ▾ Contingent 3% ▾ Employee FTE 5% ▾ Contingent FTE 10% ▾



Division **All** ▾ Year **All** ▾

Human Capital ROI Ratio

**2.70**

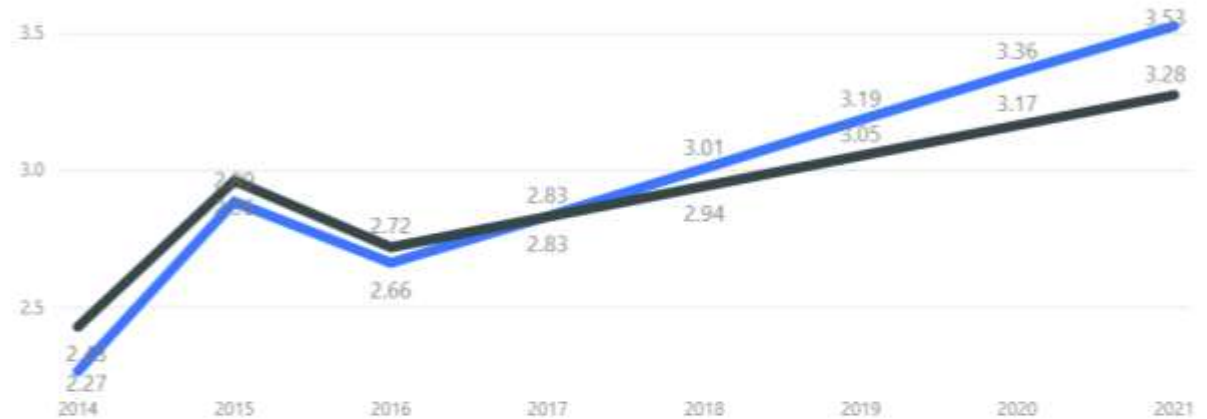
Impact

**\$230.06K**

**Productivity Metric Components**

Human Capital ROI Ratio

\*2017 to 2021 - Forecast data



Revenue per FTE



Profit per FTE



Total Cost of Workforce



Human Capital ROI per FTE



Return on Human Capital Investment



Revenue 4 % ▾ Profit 10 % ▾ Operating Expense 10 % ▾ Salary 6 % ▾ Bonus 6 % ▾ Benefits 12 % ▾ Other Comp 6 % ▾ Training 10 % ▾ Recruiting 10 % ▾ HR & Admin 6 % ▾ Contingent 6 % ▾ Employee FTE 10 % ▾ Contingent FTE 10 % ▾



Division

Consumer Nutritional Pharmaceutical Surgical

Year ▾

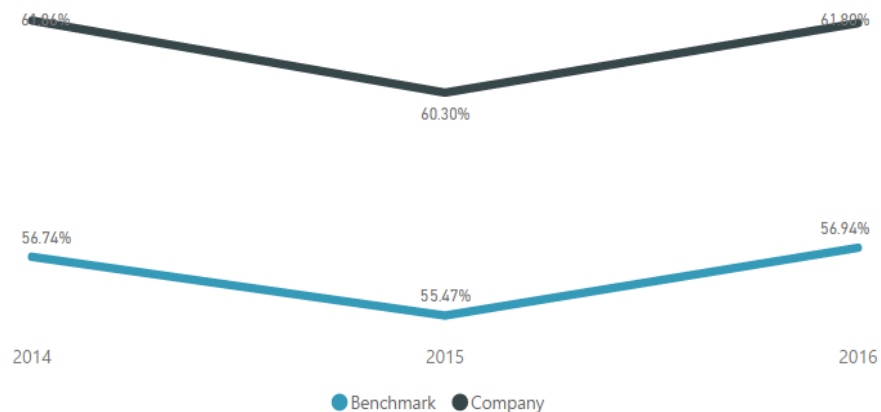
Multiple... ▾

## Total Cost of Workforce Breakdown

\*2017 to 2021 - Forecast data

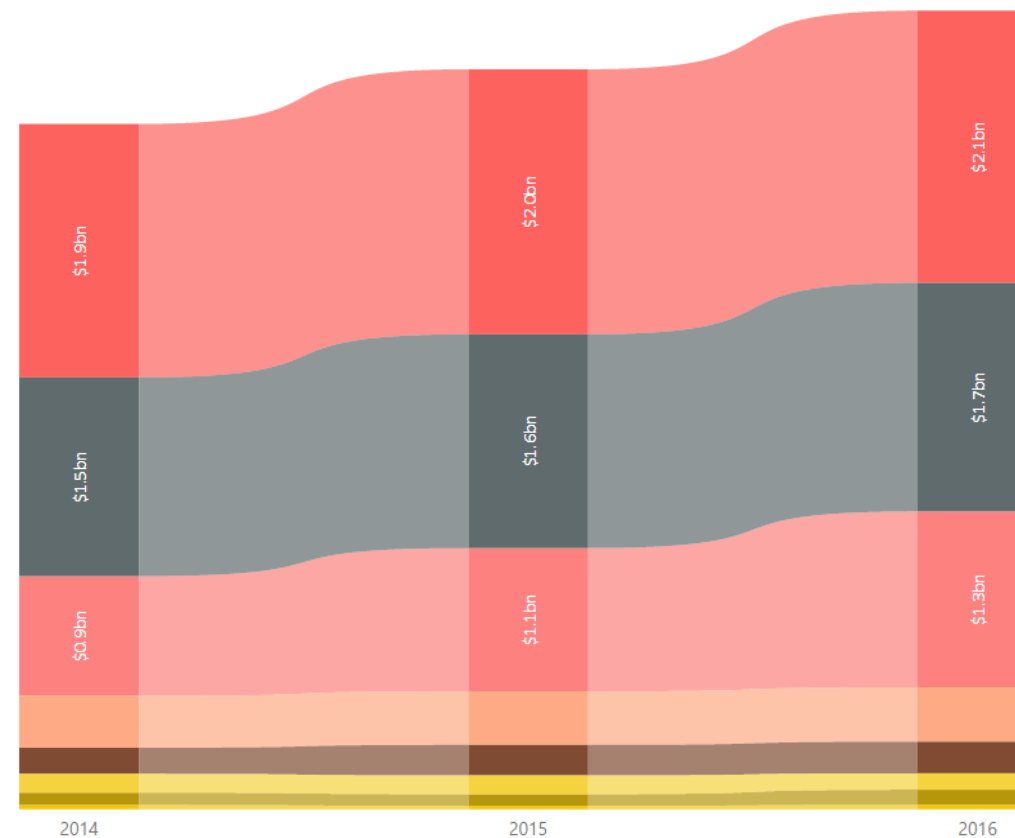
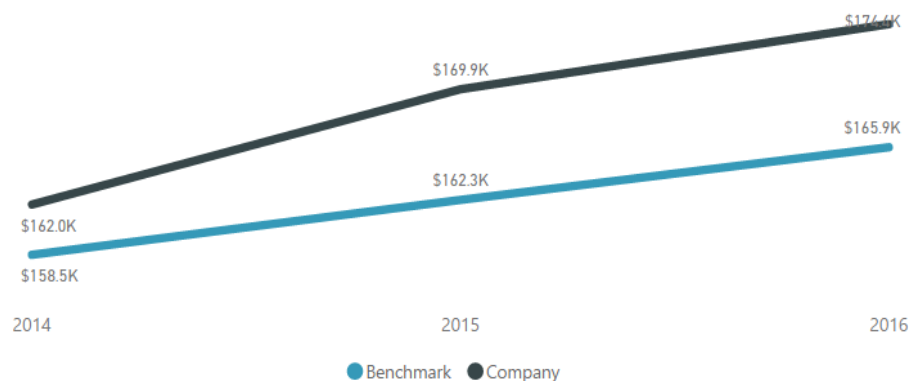
### TCOW % of Expense

\*2017 to 2021 - Forecast data



### TCOW per FTE

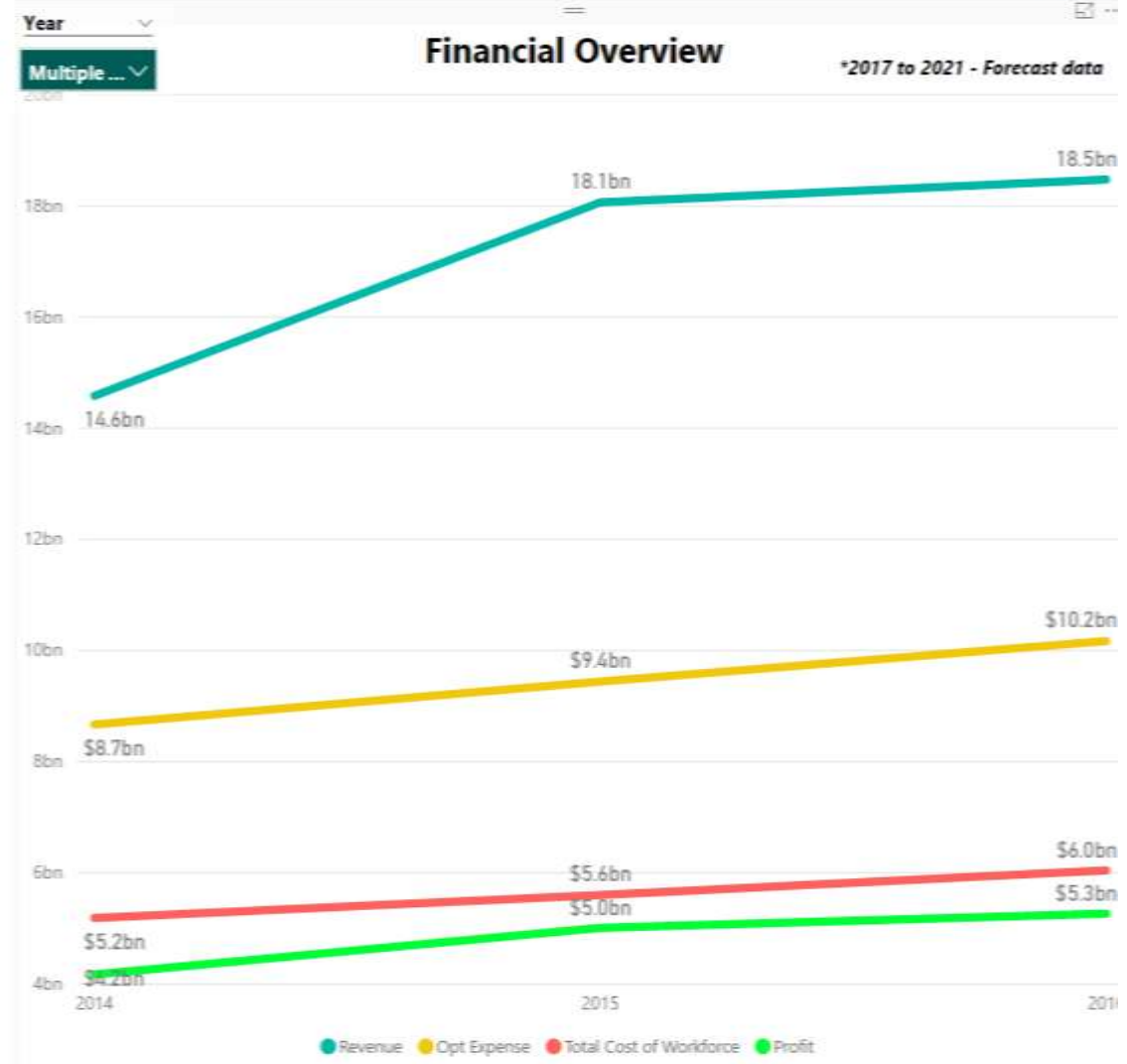
\*2017 to 2021 - Forecast data



Salary Bonus Benefits HR & Admin Other Comp Recruiting Training Contingent

## HCFS Summary Impact

	Prior Year	Current Year
Net Revenue	18.07bn	18.48bn
Headcount FTE	33.18K	34.26K
Revenue per FTE	\$557.31K	\$542.84K
Total Operating Expenses	\$9.44bn	\$10.17bn
Total Cost of Workforce	\$5.60bn	\$6.04bn
TCOW per FTE	\$169.93K	\$174.41K
TCOW % of Revenue	31.11%	33.96%
Net Operating Profit	\$5.01bn	\$5.26bn
Profit per FTE	\$153.94K	\$154.44K
Human Capital ROI Ratio	2.55	2.39
Return on Human Capital Invest.	89.62%	87.52%
Human Capital ROI per FTE	\$264.94K	87.52%

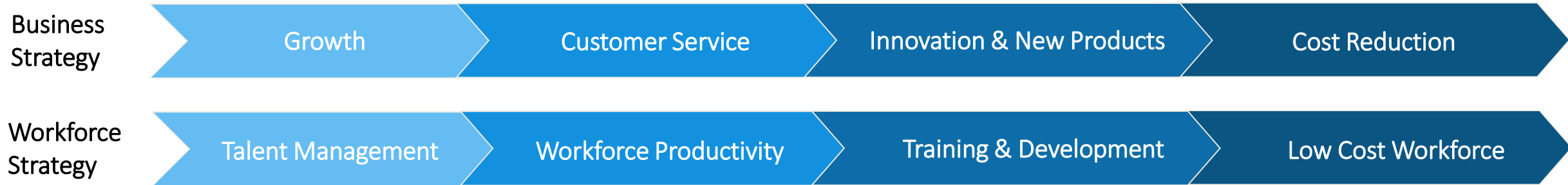




# Workforce and Business Strategy Alignment

Putting the puzzle pieces together

**Scenario Name:** Recovering Economy, Stable Growth

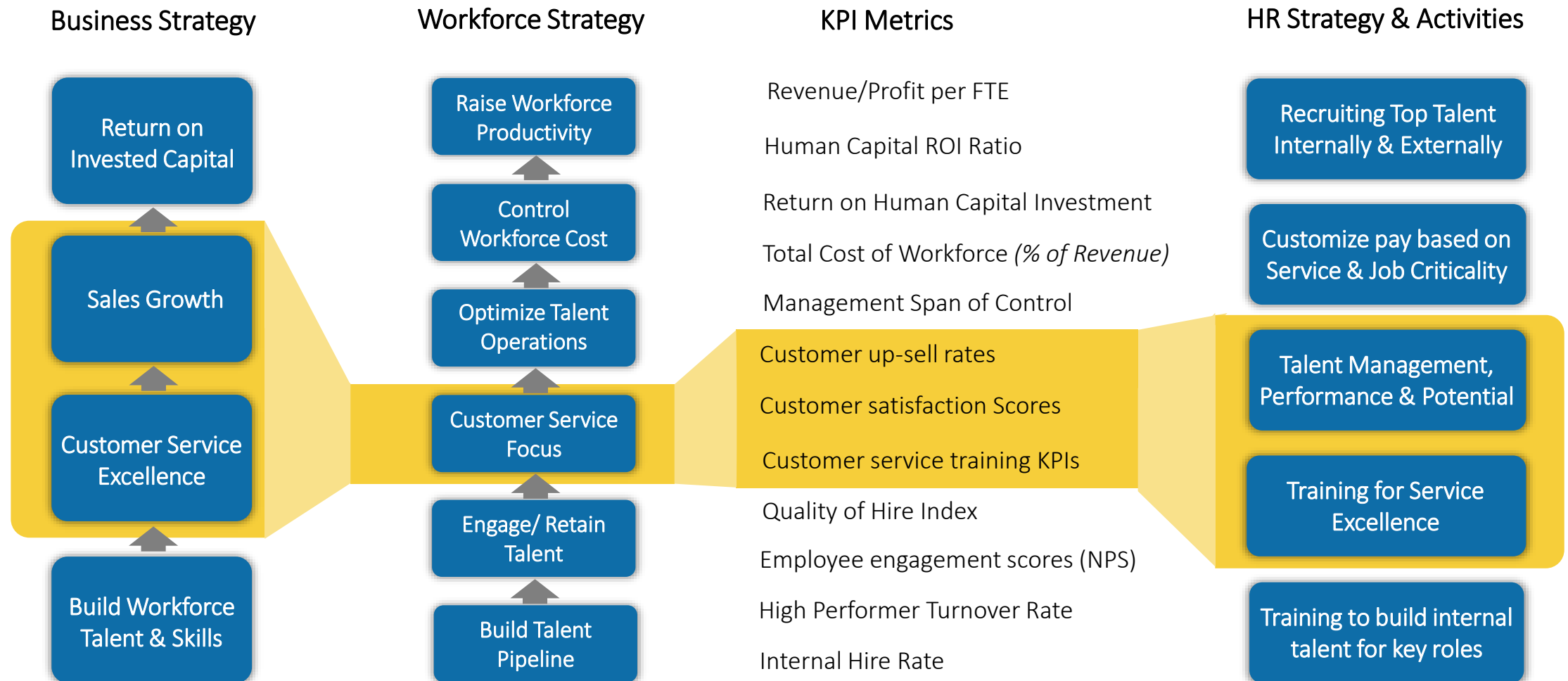


Select scenario assumptions, variables and outputs based on anticipated market conditions, organization culture normative assumptions, business strategy/vision/goals or mission and workforce strategy:

Past	Current State	Future State
<ul style="list-style-type: none"><li>• 10% revenue growth</li><li>• Industry expansion</li><li>• High customer service levels</li><li>• Costs and location not factors</li><li>• Retention challenges</li><li>• Shortage of key talent</li></ul>	<ul style="list-style-type: none"><li>• <b>Recession, slow growth</b></li><li>• Industry consolidation</li><li>• Service level issues</li><li>• Cost and location is critical</li><li>• Low turnover</li><li>• Plentiful talent</li></ul>	<ul style="list-style-type: none"><li>• Growth Opportunities</li><li>• <b>Market share gains/acquisitions</b></li><li>• Service as differentiator</li><li>• Optimize locations &amp; costs</li><li>• Increasing turnover</li><li>• Talent shortages</li></ul>

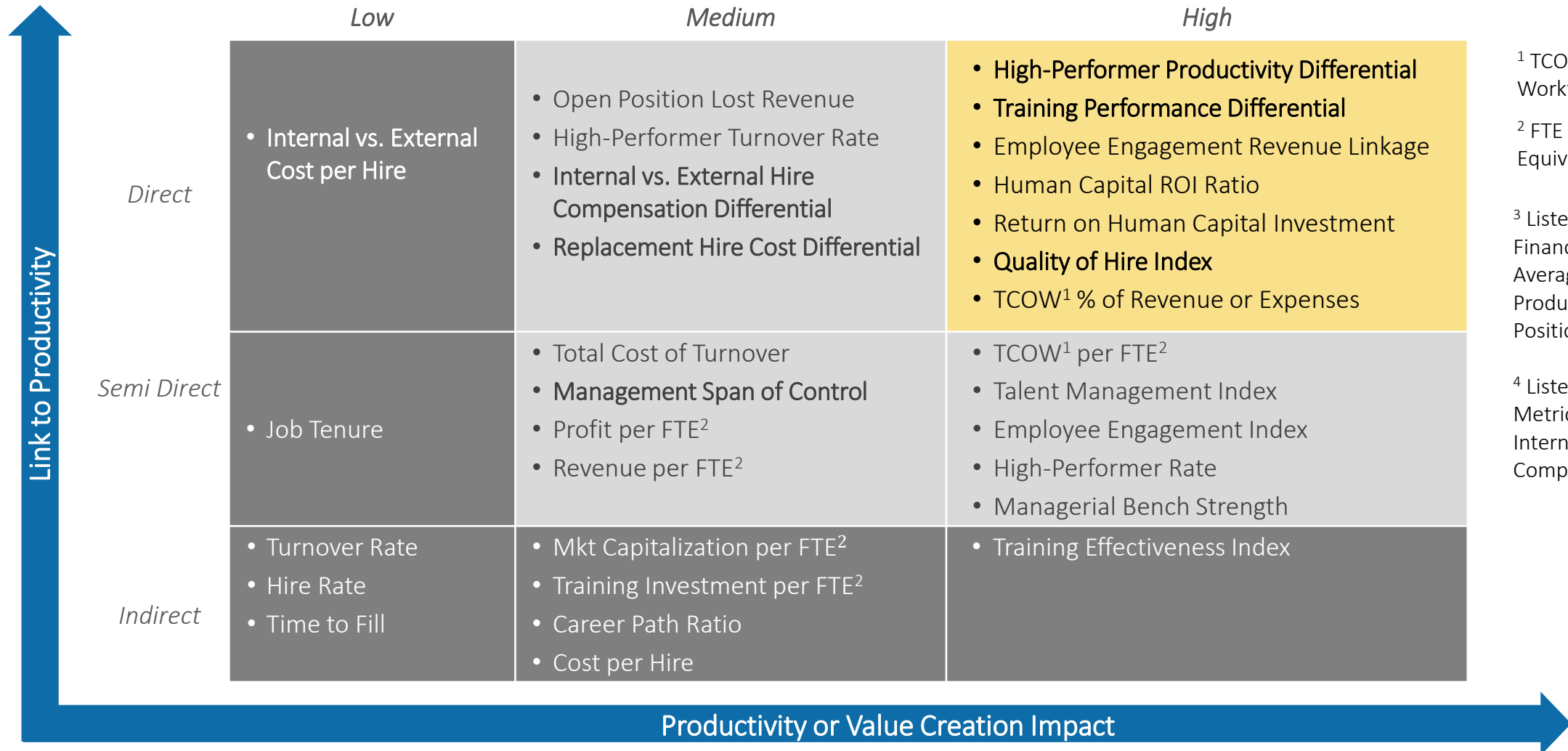
# Linking Business Strategy to Metrics & HR Activities

From business strategy to HR strategy and activities



# Top Metrics that Link to Productivity

Top metrics to include in your next report & dashboard



<sup>1</sup> TCOW = Total Cost of Workforce

<sup>2</sup> FTE = Full-Time Equivalent Workforce

<sup>3</sup> Listed in Human Capital Financial Statements as Average Lost Revenue or Production per Day per Position

<sup>4</sup> Listed in Human Capital Metrics handbook as Internal vs. External Hire Compensation Difference



# Questions

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# Thank you!

## Human Capital Management Institute

**Contact:**

[info@hcmiinst.com](mailto:info@hcmiinst.com)

(323) 522-HCMI (4264)

[www.hcmi.com](http://www.hcmi.com)

