EUROPEAN
RENTAL
ASSOCIATION

THE USE OF HR KPIS
BY ERA MEMBERS

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1. INTRODUCTION

Key Performance Indicators (KPIs) are quantifiable values which are used within organisations to determine how effectively key business objectives are being achieved. They are based on quantitative data, meaning that they can be a great tool to use when comparing outcomes over time or across different sectors within an organisation. Using KPIs alone, however, simply measures business outcomes without attempting to reconcile the findings with any reasoning. Essentially, KPIs can highlight a symptom of a problem without addressing the fundamental reasons why, nor suggesting strategies that could be used to improve it. This is in stark contrast to qualitative data, which is non-numerical in nature, and instead is defined by that which approximates or characterises its subject. Qualitative data is the kind collected via interviews and open survey questions. It is harder to compare and track, but it allows researchers to gain deeper insights into the nature of subjective experiences, opinions and feelings surrounding any problems a business may be facing, pointing the way towards potential solutions.

This report will focus mainly on the KPIs used to evaluate the success of Human Resources (HR) departments of European Rental Association (ERA) members. We will look at the different KPIs used during each phase of the employee life cycle, and examine further those which are used predominantly by HR managers in the rental industry. Professor Patrick Müller, an expert on People Analytics, will also provide his perspective on their use, and how HR KPIs and people analytics could be used to improve the outcomes of HR departments in the rental sector. Additionally, we will also provide some insight into the factors to consider when choosing the right I.T. solution to keep track of KPI data.

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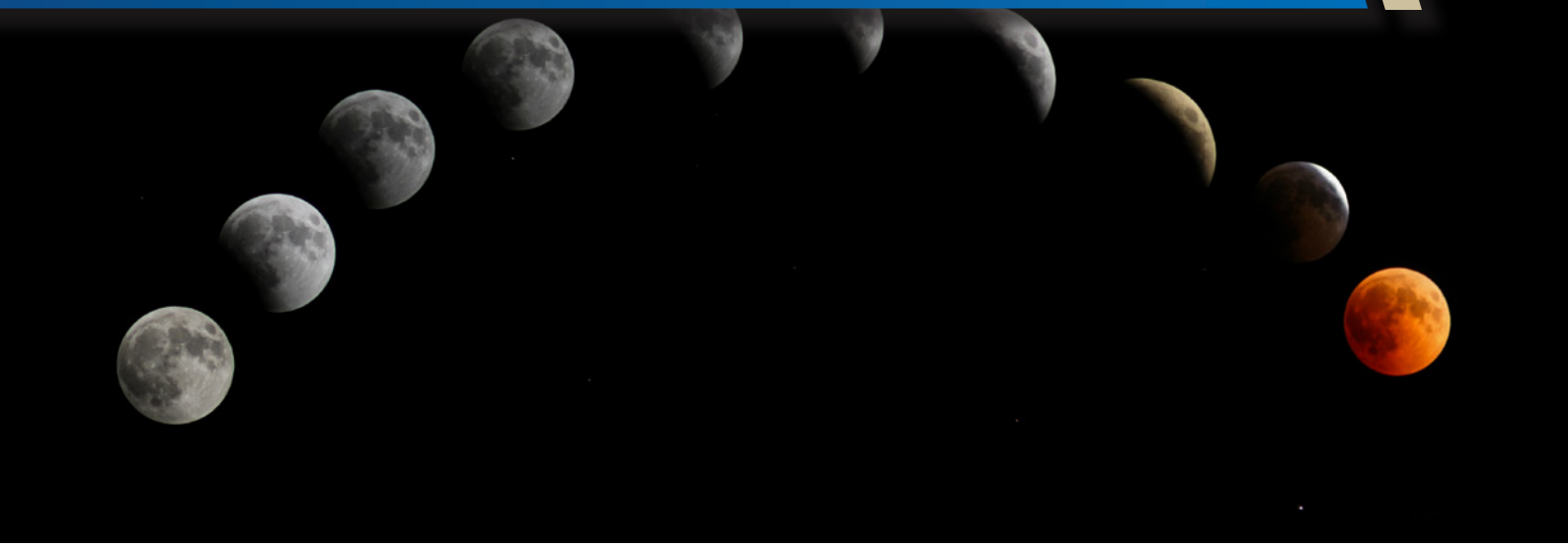
2. PHASES



Recruitment

During the recruitment phase, rental companies pay close attention to KPIs such as the time it takes to hire and the rate of retention. Some of the rental companies analysed recruit candidates via active sourcing, which essentially means they actively search for promising candidates before the need to fill a position has arisen. This involves HR departments establishing contact with potential employees, both at in-person events and on online platforms such as LinkedIn, and maintaining relationships with them in preparation for an open position. With this recruitment strategy, it becomes increasingly important that companies track KPIs such as cost per hire and cold outreach rate (email response rate) to ensure that their methods are on the right track and producing desirable hiring outcomes. Implementing more complex KPIs like the share of qualified candidates (e.g. measured by the share of candidates who have necessary or desirable certificates) would be even more

Onboarding

Onboarding is the process of integrating a new employee into the organisation. The first 100 days of employment are crucial as onboarding is an important phase for both the company and the new employee to determine if the new role is a good fit for both parties. The majority of ERA members across all countries have terms written into their employment contracts which allow for a more straightforward dismissal procedure during the onboarding phase.

The most important KPI to consider during this phase is employee turnover within the first 3/6/12 months of employment, which is tracked by every participating ERA member in this research. One rental company takes it even further by gathering qualitative data via surveys from all newcomers after 12 weeks in their new position to support the outcomes measured by the KPIs.

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2. PHASES

Regular employment

One of the most fundamental KPIs for businesses when looking at the phase of regular employment is the number of total employees, which is calculated on the basis of full-time equivalents (FTE). By assessing the total number of cost-effective and active employees on the respective first day of the month, companies can evaluate their sizes on key dates. This KPI can be separated into the different sectors of the business, such as the FTE of sales people and the FTE of service engineers, which can help in gauging the company's expansion of their market position and sales success, respectively.

The rental industry is a hugely results-driven sector, and therefore many KPIs based on productivity and performance are tracked for almost every role within rental companies. Turnover per employee is used ubiquitously and, like FTE, can also be separated by department (salespeople, service engineers) to gain a deeper understanding of how efficient specific departments of the business are deployed. Turnover is often assessed on a more developmental basis by tracking the percentage increase or decrease of turnover compared to the previous year. Order intake is another useful performance KPI used to assess the sales success of a company, but is measured in quantity as opposed to turnover value.

Employees are also assessed on an individual basis, depending on their role a performance KPI is used like for example EBIT (Earnings Before Interest & Taxes) per sales executive, which allows companies to see the development of operating profit per salesperson, without distortion by variable tax and interest rates. Individual performance KPIs like these are often connected to variable compensation models, to motivate employees further to meet and exceed their targets. There are different ways to organise the connection between benefits and objectives like:

- Individual benefits based on personal goals. This was the most common form of compensation strategy amongst the rental companies we surveyed. Essentially, the employee and their direct line manager agree upon a selection of KPIs which will be used to assess the employee's performance, and it is upon the meeting of set targets relating to those KPIs on which part of their salary is dependent.

- Team benefits based on team performance. In this instance, a team manager and their team will agree upon several KPI targets which need to be fulfilled by the team. In larger organisations, it may be the responsibility of the company board to select the KPIs and their respective targets. Only if the team meet the targets will they all receive their salary benefits.

- Unfair payment. This is an Anglo-American approach implemented at large tech companies such as Google. This compensation strategy works by rewarding employees attaining extraordinary results with two to three times the salary of their colleagues. The benefits are two-fold—extraordinary employees are harder for competing organisations to recruit, and their average-performing colleagues are extremely motivated to push themselves further knowing the benefits that await them if they perform well.

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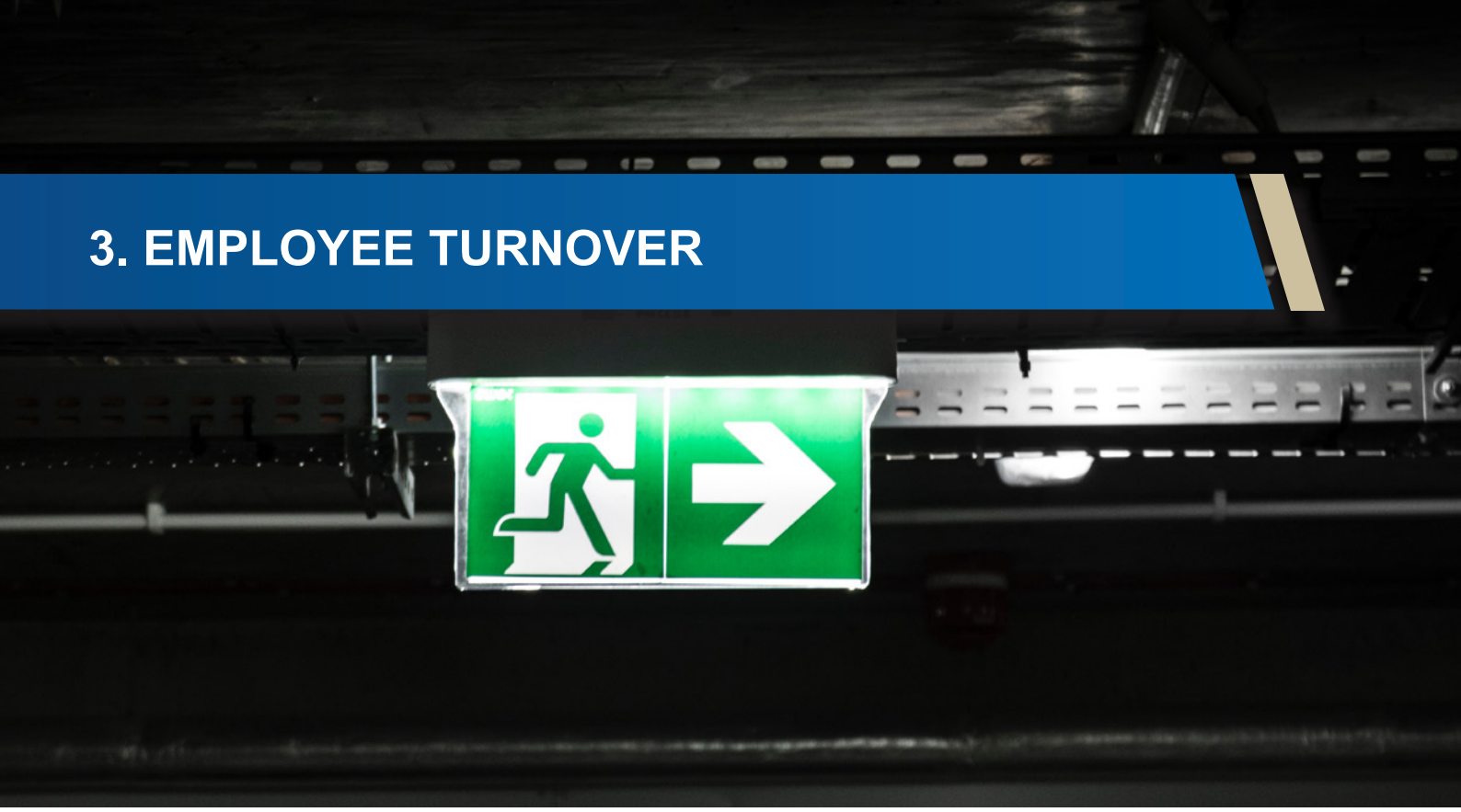
3. EMPLOYEE TURNOVER



Retaining quality employees will always be cheaper than recruiting new ones, that's why most rental companies use KPIs relating to staff fluctuation to keep a close eye on their retainment rates. Fluctuation is calculated as the relation between the number of terminations by employees and the average total number of employees in the reporting period. A low fluctuation, similarly to a low sick leave, can indicate high levels of employee satisfaction; whereas a high fluctuation leads to increasing costs of recruitment and the training of new employees. Fluctuation rates are significant in all areas of an organisation, not just in departments like sales which have a direct reference to turnover. Some companies also gather qualitative data alongside tracking quantitative KPIs by conducting exit interviews with ex-employees. For more information about the benefits of exit interviews, please see the previous ERA report on the subject.

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4. HEALTH & SAFETY KPIS

KPIs relating to accidents in the workplace and general health and safety play a more significant role in the rental industry than in many other sectors. These KPIs am often indicative of how well workplace processes are designed and carried out. Well-organised and well-monitored processes often have lower rates of accidents, and vice versa. Health and safety KPIs were used in this way by several of the rental companies analysed.

The rental industry can be a demanding place to work for employees, and therefore KPIs relating to sick leave am very useful in assessing which teams within the company potentially require more manpower and attention. These KPIs are usually calculated as the relation between the total days lost due to illness of all employees and the sum of possible working days within the reporting period: a low sick leave can indicate that employee satisfaction is high, whereas a high sick leave could mean that an improvement in working conditions is needed as absences due to sickness lead to high costs for the organisation.

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5. SUCCESSION PLANNING

One often underappreciated issue in HR systems is succession planning. This topic can profit strongly from the implementation of KPIs and does not feature in any ERA members' HR KPIs yet. However, measuring, for example, the share of performance critical positions that need to be filled in the next five years and have a competent successor in line, can help companies to ensure that serious performance gaps can be avoided

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6. CRITICISMS OF KPIS

Across the rental industry, the workplace as a whole is often orientated around the setting of goals and the attainment of certain KPI targets. Whilst the benefits of this approach are undisputed, at the same time the exhaustive focus on achieving KPI-based goals has drawn criticism in modern organisation development theories. Some believe goal-setting to actually be counterproductive in the long-term as often employees only aim for the goal which they have been assigned, particularly if there are no compensatory benefits for exceeding (instead of just meeting) those targets. For example, if a sales representative achieves their annual KPI target well in advance of the end of the year, it is likely they will reduce their efforts for the remainder of the year in order to avoid higher KPI targets the following year. This can also play out in the reverse. If it seems clear to an employee halfway through the year that they are not going to be able to reach their targets that year, the unreachable goal can be demotivating and further worsen employee productivity and sales performance.

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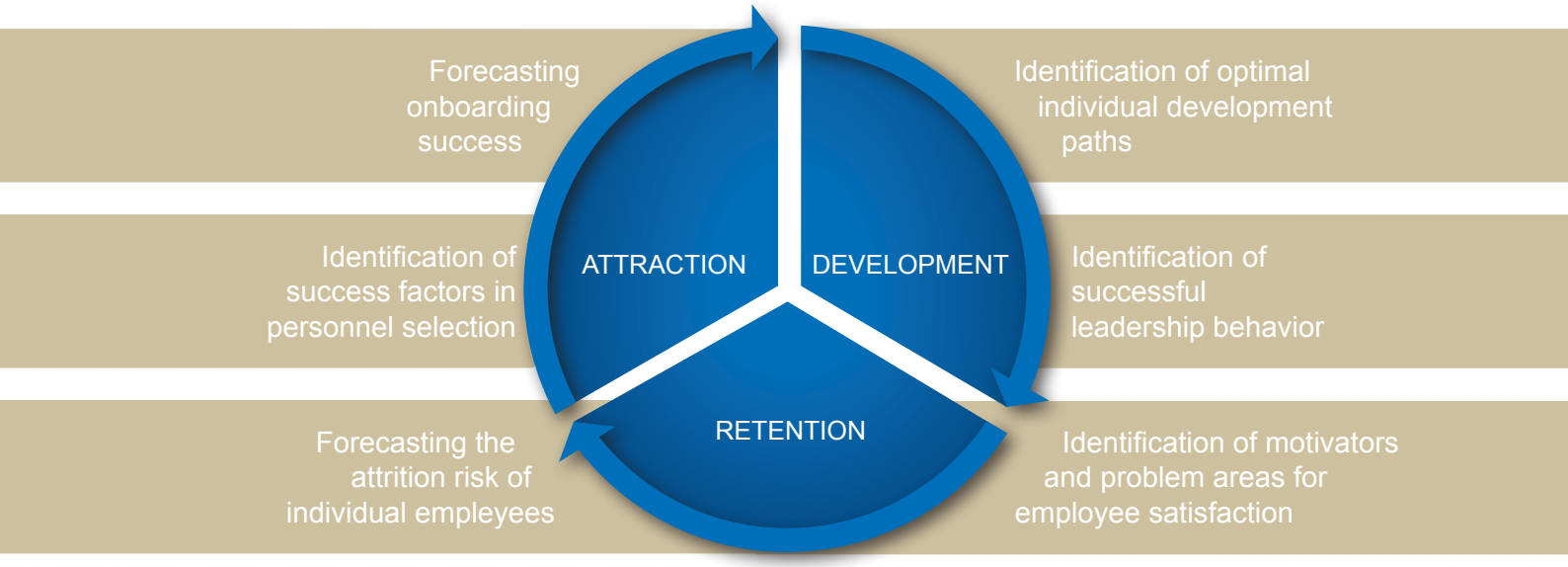
7. GOING A STEP FURTHER: PEOPLE ANALYTICS IN HR

Using HR KPIs is a good way to create value in the HR functions in the rental sector. However, KPIs are only a first step in a much broader endeavour to create value by using data-driven methods in HR. Such methods can broadly be defined as People Analytics (PA). More specifically, PA promises to help organisations understanding of their workforce as a whole or on an individual level by making data about employee attributes, behaviour and performance more accessible, interpretable and actionable. **Figure 1** gives some examples for applications of PA throughout the entire employee lifecycle.

Examples of People Analytics



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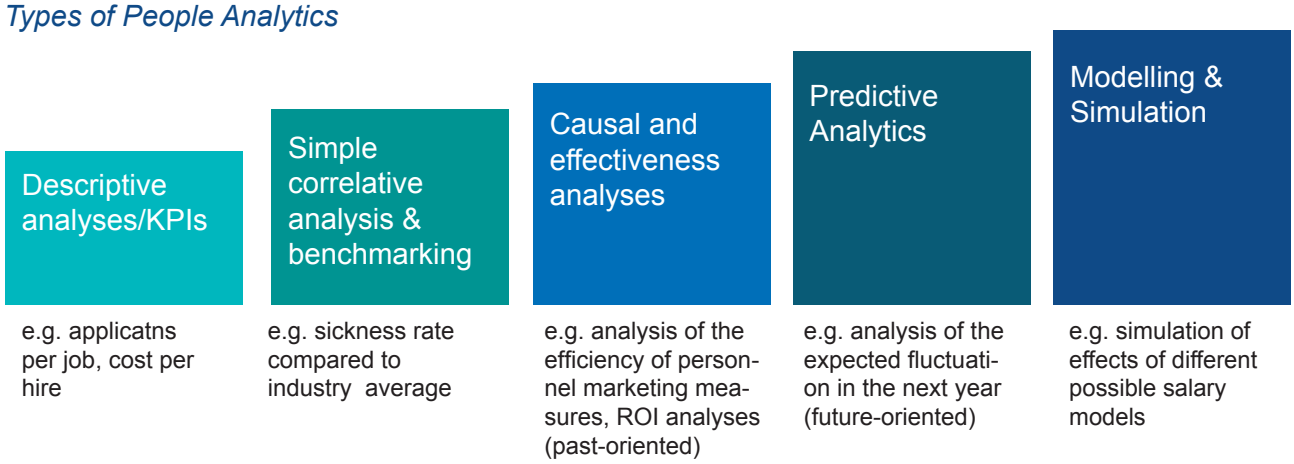
7. GOING A STEP FURTHER: PEOPLE ANALYTICS IN HR

Applications of PA not only range throughout the whole employee lifecycle, but also vary in their complexity and scope. **Figure 2** gives an overview of the different types of PA. KPIs and descriptive analysis can be seen as a first step in PA. Analysis of correlations (a statistical measure for the relationship between two variables, e.g., a certain KPI and financial performance) and benchmarking (e.g., within the ERA) can be a next step. Adding further complexity and sophistication, causal and effectiveness analysis give more insight into the value created by certain HR policies and tools. Predictive analytics are a further step in PA. Here, the focus is on making forecasts about the future states of human capital in a company (e.g., the number of likely employee resignations in the next month). The last type of PA is the application of insights and statistical models to create simulations to give HR and the management a better understanding of the implications of certain decisions relating to the workforce.

Types of People Analytics



As mentioned above, KPIs can create value for companies. It is also therefore straightforward that comparing the performance of one's own HR function with other companies' HR functions via benchmarking (for example within the ERA) can also be of value to companies in the rental industry. However, do more complex analyses (e.g., predictive analytics, like forecasting attrition risk) also add enough value to justify the effort? Preliminary results from studies in various industries suggest that companies using PA have better functioning HR departments, executives in these companies are more satisfied with HR, and these companies show an overall better financial performance. Current studies do not offer a definite answer on the question of how strong the direct impact of PA on these results is. Nevertheless, it is apparent that there is a link between PA and operational excellence.

So, what is the adoption rate of PA? Surprisingly, studies show that the adoption rate is currently only around 15% throughout different countries and industries. This leaves plenty of opportunities for early adopters to gain a competitive advantage. The best-known illustration of this is certainly the strategy of the baseball club Oakland Athletics described by Michael Lewis in his bestselling book and movie Moneyball. The club based its selection of new players on novel KPIs identified by statistical models of baseball players' performance called „Sabermetrics", while all other clubs relied on traditional intuitive (but empirically unproven) KPIs. This strategy enabled Oakland Athletics to build a highly competitive team on a relatively low budget.

While the low adoption rate offers companies in the rental industry excellent opportunities when implementing PA, it also raises the question as to why so few companies have adopted PA thus far. The following section will therefore focus on the topics of how to implement PA and which traps to avoid.

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7. GOING A STEP FURTHER: PEOPLE ANALYTICS IN HR

Implementing People Analytics

When thinking about the implementation of PA, software solutions come to mind first. Indeed, many IT companies offer PA solutions and advertise them heavily. The overall market can be segmented into different groups: One group is comprised of the enterprise software companies who offer PA as part of their HRM solutions (e.g., Oracle or SAP). IT companies with strong analytics solutions such as IBM or SAS, for example, also offer PA solutions. Microsoft, with its wide range of IT offerings, covers both of these groups. Specialised analytics companies such as Alteryx, Tableau and OneModel also offer PA capabilities. Specialised HRM- (e.g., Workday) and CRM- (e.g., Salesforce) software companies also compete in this market. Recently, a host of dedicated start-ups have also entered the fray by offering cloud solutions for specific HR issues that can be easily implemented in internal workflows. HireVue, for example, offers artificial intelligence (AI)-enabled candidate assessments that help companies to screen suitable candidates online. Aside from all of these software companies, big consulting and accounting firms (e.g., Accenture, Deloitte, KPMG and PWC) and a host of smaller and more specialised consultancies offer PA services. Interestingly, most of these products and services have moved to cloud-based solutions in the last couple of years (as in the wider IT market). Using cloud solutions that do not require dedicated on-premise IT infrastructure and in-house support should make PA offerings more accessible to small- and medium-sized companies, but also often raise data protection issues.

Despite this variety of offerings, many companies still seem unconvinced of the services and products offered. In a recent study in Germany, the lack of suitable IT solutions was cited as the second most important reason after data protection issues for not implementing PA. However, prior studies have shown that companies that have already successfully implemented PA did not wait for the IT systems to evolve, but instead implemented PA functionalities incrementally. This seems to be a sensible strategy since this builds up trust on the executive level in HR's PA competencies, which in turn makes bigger investments in IT infrastructure more likely. The lack of know-how regarding PA in companies, and especially in HR functions, were cited as the next most frequent reasons for not implementing PA in companies in the aforementioned study. This highlights the need to gain new analytical competencies in HR functions and also work in more interdisciplinary team structures with Controlling, Finance and IT.

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7. GOING A STEP FURTHER: PEOPLE ANALYTICS IN HR

Overall, some lessons about implementing PA can already be drawn:

- HR departments with no PA yet overestimate the resistance of executives. If anything, executives appreciate the work of HR more in companies that already have implemented PA.

- Insufficient IT solutions should not hinder PA ambitions. Successful PA implementers find workarounds and incrementally build up PA capabilities and expand IT solutions gradually.

- Many companies currently lack the analytical skills to implement PA. Companies should therefore expand their analytical skillset via training of existing staff, recruiting and combining capabilities from IT, Finance and HR in interdisciplinary teams. Consulting companies and freelance specialists might help to initially build up capabilities and momentum.

- Data protection is a serious issue in PA. However, companies who have not yet implemented PA rate this problem's complexity higher than companies who have already implemented PA.

- Companies should collect data about HR processes and employees' behaviour in ways that allow easy access and deployment in analytical processes. Using cloud-based solutions might be an answer for some companies (but surely not for all).

- PA can involve complex statistical and mathematical modelling. But this is not always necessary in the beginning. Many important issues can be dealt with using relatively simple tools in standard office software. Beginning with such solutions builds up capabilities and trust in PA at the same time.

- Many companies focus their PA efforts on topics for which they have abundant data (e.g., HR administration), and not on topics that are most important to the company's overall performance (e.g., recruiting). Such a strategic misalignment of effort makes PA less effective. Companies should therefore strive to identify HR processes with high business impact and develop PA solutions for these processes first, even if this means collecting new data.

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7. GOING A STEP FURTHER: PEOPLE ANALYTICS IN HR

Summary

Using HR KPIs is a good way to create value for companies as a whole. However, using KPIs is only a starting point in the more challenging, but also more rewarding, journey of implementing PA. The current lack of appropriate IT solutions and analytical competencies in many companies has resulted in a relatively low adoption rate of PA. For members of the ERA, this creates the opportunity for a competitive advantage compared to other companies and industries. The positive experiences of successful implementers of PA should strongly encourage companies in the rental industry to implement PA solutions.

End Text:
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8. CASE STUDY

We spoke with the Head of Human Resources of a large rental company about the KPIS used during the different phases of employment in her organisation. She indicated that the biggest challenge in a international cooperation which operates across Europe is alignment and agreement upon the KPIs across international departments so that the data remains meaningful and objective. Although KPIs are tracked internally using Excel spreadsheets, she ensures that the work is completed on group-wide software used in every country to help encourage alignment between international entities.

The KPIs used by the interviewed company in the recruitment phase are:

- Leads per job offer can indicate how well the employer brand is perceived by candidates and the overall appeal of working for the company.
- Time to reply to an application offers an insight into the efficiency of the HR team. Taking too long to reply to candidates could result in talented applicants being hired elsewhere.
- Time to close an open position is again indicative of the efficiency of the HR team, and also offers insight into whether the recruitment strategy Is attracting the right candidates.
- Candidate cancellation during the recruitment process can highlight any issues with the overall recruitment process which may dissuade candidates from continuing with employment.

The KPIs used during the onboarding process are:

- Drop-out rate can highlight any issues with the overall onboarding process which may dissuade candidates from continuing with employment. A high drop-out rate can also indicate that candidates who are not serious about the position are being selected.
- Standardised polls are carried out to get new employees‘ feedback on the onboarding process via both quantitative and qualitative data.

The KPIs used for their regular employees vary more widely, but are generally divided into three categories:

- Performance KPIs, otherwise known as ‚Success Planning‘. These KPIs are agreed upon between employees and their line managers and relate to their individual performance and productivity. These KPIs typically relate to sales, budget alignment, tumover and lead generation; but are obviously dependent on which department the employee works in.
- Health 8 Safety KPIs, such as accidents in the workplace and sick days, am strategically important to consider. These KPIs are often indicative of how well the workplace processes are designed and carried out, and the rate of sick leave can be very useful in assessing which teams within the company potentially require more manpower and attention.
- Operational KPIs are significant when monitoring the greater overall trends of the organisation. They track employee turnover, both in terms of the numerical rate over a given time period and the reasons for employees leaving. The overall trends shown by weekly analysis of the performance KPIs can also direct the operational focus of the organisation as a whole.

When asked about the use of predictive analytics the interviewed manager stated that they had previously tried to use them, but it had proved challenging to attain the necessary data. Speaking of other challenges in the organisation, she emphasised the volume of manual work involved and how an integrative software solution suited to the organisation‘s needs would be of great benefit. She also mentioned the importance of collecting data on employee satisfaction throughout their employment, not just at the onboarding process or after they have decided to leave. The HR Manager believes this, in turn, would positively impact the retention rate of employees, a key to the companies future success.

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9. CONCLUSION

HR managers now seem to recognise more than ever that having the right team of people executing company strategy is a key factor in determining a company's success. In fact, the largest organisations and enterprises across the world regularly discuss how important it is to hire and retain the right talent, and this ability is now often regarded as one of the greatest predictors of organisational success. By using the KPIs outlined in this report during the relevant phases of employment, companies can understand whether they are accomplishing their HR objectives in a way that is aligned with their recruitment strategy. Ideally, organisations need to be tracking KPIs across several different domains (i.e. operational KPIs, performance KPIs) on both an individual and department basis in order to have a solid perception of where they are at, which can in time direct them towards where they want to be.

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