Benchmark Human Capital for Bottom-Line Results

By Jenny Cromie
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Most companies wouldn't think of investing in an expensive piece of equipment without first investigating the cost, anticipated effect on the bottom line, and estimated cost of maintenance. But ironically, many companies spend less time investigating costs related to human capital—often a company's largest expense and most important resource—than they do when evaluating whether to purchase an expensive piece of equipment.

This is the observation of Jeffrey Daum, a licensed psychologist and president of Competency Management Inc., a Las Vegas-based company that provides HR and other consulting services to organizations.

Companies spend a lot of money on their human capital, but "rarely have an idea of what's going to be the measure of doing the job properly," Daum said. Many HR departments fail to benchmark human capital or benchmark effectively.

"It's still a really weak link in most organizations," he said. "You don't need an elaborate system, you just need a system. Otherwise, it's like shooting at a target and never knowing how you did … but you keep shooting anyway."

Jack J. Phillips agrees that benchmarking is crucial to an organization's success. Phillips is founder of the ROI Institute and ROI Methodology, as well as the author and editor of more than 30 books including ***Investing In Your Company's Human Capital: Strategies to Avoid Spending Too Little—or Too Much.*** According to Phillips, benchmarking is key in helping a company evaluate how effective human capital expenditures are related to its long- and short-term goals.

"Benchmarking is fundamental—we have to do it," Phillips said. "Benchmarking is critical for the HR manager these days."

The tracking system used for benchmarking can be as simple as an Excel spreadsheet, Daum said. But before deciding on a tracking system, you have to know what kind of data you're going to track and what you're planning on doing with it once it's collected.

This article was previously published in *Great Lakes HR Now Newsletter*, March 28, 2007

"You shouldn't start looking at the tools until you know what you want to measure and what you're going to do with the information," he said. "The tool's not going to solve your problem. In fact, it can make it a lot worse."

There are many companies that have spent half a million dollars on software and then spend another half million trying to get it to work for their organization, Daum said.

For benchmarking human capital, companies should track key data such as turnover, time to proficiency/break-even point, rate of training acquisition, and employee performance, he said.

Turnover can be very costly to an organization, Daum said. Depending on the position, it can cost 25 to 150 percent of an employee's annual salary. But it's important when tracking turnover rates to break down the figures according to job families and whether they are classified as management or non-management positions.

By isolating data according to positions and management levels, organizations can more quickly identify what's causing the high turnover rate, he said. For example, tracking this type of information can reveal that a company is recruiting the wrong type of individual for a position or that a job description inaccurately describes the actual position. Turnover rates also can indicate that a recruiter is pitching the wrong information to candidates who then develop job expectations that don't match the reality of the job, prompting them to leave the organization.

Once an employee is hired, it's important to track how long it takes for that employee to reach proficiency—in other words, how long it takes for the company to break even on its investment in that employee, Daum said. If the person is a good match, their manager should be able to inform how long it should take to train the employee so that HR can track the individual's progress.

Benchmarking human capital also should include data showing effectiveness of training programs with pre- and post-measures, he said. And performance of individual employees also should be tracked.

"You can't expect improvement unless you provide meaningful feedback," Daum said, adding that many companies lack an effective performance appraisal system.

By benchmarking human capital, companies can then decide how much to invest in human capital and whether spending is too much or too little based on the company's direction and goals, Phillips said.

In his book***, Investing in Your Company's Human Capital***, Phillips discusses the five most common investment strategies: avoid investment altogether by outsourcing and contracting, invest the minimum, invest with the rest based on what other organizations are doing, invest until it hurts, and invest as long as there's a payoff. Selecting the wrong investment strategy for an organization can result in failure of company initiatives, and in extreme cases, failure of a business itself.

This article was previously published in *Great Lakes HR Now Newsletter*, March 28, 2007

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In addition to tracking human capital internally, companies can gain a lot of valuable information by comparing their data to others in the industry, Phillips said. There are many companies offering benchmarking services that will compile data in a report for a company, adding information about how they compare to other companies in the same industry and of the same size.

Surveying employees to determine satisfaction and engagement levels is also helpful in benchmarking and can help inform strategies related to curbing high turnover and low productivity, he said.

“High turnover shows that you have a problem,” Phillips said.

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