

# Human Capital Measurement: A Challenge for the CLO

*Jack J. Phillips, Ph.D.*

A recent study conducted by the human capital practice at Deloitte & Touche in the United Kingdom made an interesting conclusion: there is much confusion about what to measure and monitor in the human capital arena. This comes as no surprise to those individuals who are struggling with this issue. Clearly, things are changing and traditional measures have been replaced with newer ones and the role of the chief learning officer in human capital measurement has never been more important.

Recently we have worked with several major consulting and benchmarking organizations, including Deloitte Human Capital and Conference Board to determine the most common human capital measures, combining recent studies with the practices of larger organizations. Table 1 shows the most common human capital measures from combined studies and practice.

First Tier Human Capital Measures	
▪ Innovation and Creativity	▪ HR Investment
▪ Employee Satisfaction/ Attitudes	▪ Experience
▪ Organizational Commitment/ Engagement	▪ Learning
▪ Turnover/Retention	▪ Competencies
▪ Tenure	▪ Educational Level
	▪ Leadership Productivity

Table 1 The Most Common Human Capital Measures

Table 2 (the second tier measures) shows the next most common human capital measures. A quick conclusion is that the measures in the second tier were tracked in the 80s, with the possible exception of work life balance and job creation. When the first tier measures are considered, many new additions appear on the

measurement horizon. Innovation, leadership, and competence are pushing out some of the older measures of absenteeism, grievances, and compensation. This is not to imply that the second tier measures are not important, but it is the first tier measures that seem to make the most difference in organizations these days. That's where the chief learning officer's role is critical. The CLO has direct involvement in, if not total responsibility for, all of the first tier measures. Essentially, the chief learning officer is in the middle of the human capital measurement movement.

This article explores how each first tier measure is developed and some of the key issues about the measure. The challenge is to increase the accuracy and efficiency of measurement and develop more common measures that can be compared with benchmarking efforts.

Second Tier Human Capital Measures	
▪ Workforce Profile	▪ Health and Safety
▪ Work Life Balance	▪ Labor Management Relations
▪ Compensation/Total Operating Costs	▪ Absenteeism
▪ Employee Benefits/Total Operating Costs	▪ Employee Ownership
▪ Job Creation	▪ Variable Compensation
▪ Recruitment Success	▪ Workforce Age

Table 2 The Next Most Common Human Capital Measures

## **Innovation and Creativity**

For high growth organizations, particularly in the technology area, innovation is a critical issue. Innovation is both easy and difficult to measure. It is easy to measure outcomes in areas such as copyrights, patents, inventions, and employee suggestions. It is more difficult to measure the creative spirit of employees. An employee suggestion or idea system, where employees are rewarded for their ideas if they are approved and implemented, is a longtime measure of the innovative and creative processes. Tracking suggestion rates and comparing them with other organizations is an important benchmarking item for innovation and creative capability. Other measures, such as the number of new projects, products, and processes, can be monitored and measured in some way. Some organizations will actually measure the creative capability of employees using inventories and instruments. Still others add creativity and innovation questions to employee satisfaction surveys. Comparing scores over time reflects the degree to which employees are improving innovativeness and creativity in the workplace.

## **Employee Satisfaction and Attitude**

Another important item monitored by most organizations is employee satisfaction. Using feedback surveys, employers monitor the degree to which the employees are satisfied with the employer, policies, the work environment, supervision and leadership, the actual work itself, as well as many other factors. Sometimes a composite rating is developed to reflect an overall satisfaction value or index value for the organization, division, department, or region.

A classical relationship exists with employee satisfaction, recruitment and retention. Firms with excellent satisfaction ratings are often attractive to potential employees. The ratings become a subtle recruitment tool.

“Employers of Choice” and “Best Places to Work,” for example, often have high levels of job satisfaction ratings. Employee satisfaction and turnover are usually related and this helps to tackle the retention issue that is projected to be critical in the future. Employee satisfaction has taken on new meanings in connection with customer service as research projects are beginning to show a correlation between employee satisfaction scores and customer satisfaction scores.

## **Organizational Commitment/Engagement**

In recent years, organizational commitment (OC) or engagement measures have complemented or replaced employee satisfaction measures. OC measures go beyond employee satisfaction and include the extent to which the employees identify with organizational goals, mission, philosophy, value, policies, and practices. The concept of involvement and becoming engaged in the organization is the key issue because OC correlates with productivity and other performance improvement measures. Employee satisfaction does not always correlate with improvements in productivity. As organizational commitment scores – taken on a standard index – improve, a corresponding improvement in productivity should develop.

## **Turnover/Retention**

One of the greatest threats to intellectual capital drain is the unwanted departure of employees with high levels of expertise and knowledge. Fueled in part by low unemployment rates in North America and industrialized countries, retention has become a strategic issue and the survival of some firms depends on low turnover rates for key job groups. Most forecasts show that retention will be a more critical issue in the next decade

Not only is turnover compared to historical rates but is often compared to best practice firms. Turnover is usually defined as the number of employees leaving in a month divided by the average number of employees in the month. A more appropriate measure would be to include only turnover considered to be avoidable, usually referring to employees who voluntarily leave or those whose departure could have been prevented.

Specific turnover reduction and retention strategies now command much of the attention and focus of HR managers and CLOs. The solutions are varied, and opportunities are tremendous. Impact studies showing the effect of turnover reduction sometimes generate ROI values in the 200 to 1,000 percent range (Phillips, 2003).

### **Tenure**

Along with employee turnover comes the focus on tenure, or employee longevity. In recent years, employee loyalty has eroded significantly, affecting employee tenure for key job groups. Tenure is defined as an average service of employees, often measured in years. It is tracked with key job groups where more tenure is needed or in areas where expertise is critical to the success of the organization.

### **Experience**

Along with tenure is the experience in a particular functional area, product line, or process. Experience levels are often measured as the average number of years in an area. In some cases it may be the number of years in a particular job category.

### **Learning**

Learning is critical to organizational growth, transformation, and success. Many organizations are striving to become learning organizations where there are a variety of opportunities for employees to learn new

skills, tasks, and processes. Some organizations attempt to measure learning by the investment in learning, the number of hours of learning, or the number of learning and development programs offered. While the numbers are important as a reflection of the commitment to learning, they do not represent results. Other measures are needed.

Measures of learning are easily developed at the micro level but are often difficult and vague at the macro level. A learning measurement at the micro level is a measure of new skills and knowledge in formal learning activities, using testing, simulation, or demonstration. Sometimes a more informal process, such as self-assessment, team assessment, and facilitator assessment is appropriate. Many organizations measure the amount of learning using consistent scales and rolling up the measures to include comprehensive learning measurement for the entire organization across all learning programs.

With the development of knowledge sharing and knowledge management, measuring learning takes on new dimensions as organizations attempt to harness, share, and distribute knowledge. The success of these programs must be measured based on their impact on the organization.

### **Competencies.**

Organizations are interested in developing key competencies in particular areas such as the core mission, key product lines, and critical processes. Core competencies are often identified and implemented in specific job groups. Competencies are usually measured with self-assessments from individual employees, as well as assessments from the immediate manager. In some cases, other inputs may be necessary to measure competency development.

## **Educational Level**

In the knowledge economy, education is critical, and many organizations track the educational level as an important human capital measure. The measure is usually the years of formal education.

## **HR Investment**

The investment in the human resources department is another key measure, which shows how much an organization is willing to invest in the HR staff that spends most of their time analyzing, coordinating, developing, and implementing programs to improve human capital. The learning and development expenditures are usually included in this measure. In theory, the larger the HR department expense, the more productive the organization. In one major study, the HR investment (divided by operating expense) had a significant correlation with gross productivity (revenue for employee) and profitability (operating income per employee) in 72 organizations. This was the first major study to demonstrate this correlation (Phillips, 1996).

## **Leadership**

Perhaps the most difficult measure is leadership, yet leadership can make the difference in the success or failure of an organization. Without appropriate leadership behavior throughout the organization, the other resources can be misapplied or wasted.

One of the most common ways to measure leadership is the 360-degree feedback. Here, a prescribed set of leadership behaviors desired in an organization is assessed by different sources to provide a composite of the overall leadership capability. The sources often come from the immediate manager of the leader, a colleague in the same area, the employees under the direct influence of the leader, internal or external customers, and through a self-assessment.

These assessments come from different directions forming a 360-degree circle. The measure is basically an observation captured in a survey, often reported electronically. This 360-degree feedback has been growing rapidly in the United States, Europe, and Asia as an important way to capture overall leadership behavior change.

Measuring the impact of specific leadership development programs is another approach to measurement. Many of these programs develop a high payoff with ROI values often in the range of 200 to 500 percent (Phillips, Stone, and Phillips, 2001). This is primarily because of the multiplicative effect as leaders are developed, and a change of behavior influences important measures in the leader's team.

Still, other organizations attempt to measure the success of leadership on routine feedback programs. For example, in the annual satisfaction or commitment survey, employees are asked to indicate the effectiveness of various leaders ranging from their immediate leader to the top executive.

## **Productivity**

Productivity as an organization-level measure is output per employee such as production per employee, revenue per employee, or income per employee.

## **Summary**

In summary, the field of human capital measurement is a daunting and challenging one. The CLO is in the best position to take the lead to drive human capital measurements in the organization. The traditional measures have been replaced by softer, more difficult to measure items, but, at the same time, representing those issues that can make a significant difference in the growth and success of the organization in the future.

*Note: Portions of this material were taken from the author's casebook, Measuring Intellectual Capital published by the American Society for Training and Development, Alexandria, VA, 2002.*

## References

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