



## Human Capital Measurement: Challenges and Opportunities for HR

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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 in the human capital arena. That comes as no surprise to those practitioners struggling with the issue.

We have worked with several major consulting and benchmarking organizations, including the Deloitte Human Capital and Conference Board, to determine the most common human capital measures. They include:

- innovation and creativity;
- employee satisfaction/attitudes;
- organizational commitment/engagement;
- turnover/retention;
- tenure;
- HR investment;
- experience;
- learning;
- competencies;
- educational level;
- leadership; and
- productivity.

Those first-tier measures, such as innovation, leadership, and competence, are now pushing out some of the older measures of absenteeism, grievances, and compensation. The HR function has direct involvement in, if not total responsibility for, all first-tier measures described below.

### Innovation and Creativity

For high-growth organizations, particularly in the technology area, innovation is critical. An employee suggestion system, in which employees are rewarded for their ideas if they are approved and implemented, is a longtime measure of innovation and creative capability. While it's easy to measure outcomes in areas such as employee suggestions, copyrights, patents, and inventions, it's often more difficult to measure the creative spirit of employees.

### Employee Satisfaction and Attitude

Employee satisfaction measures are usually captured using surveys in which employers assess the degree to which employees are satisfied with organizational policies, the work environment, supervision and leadership, and the actual work itself, among other factors. Sometimes composite rat-

ings are developed to reflect an overall satisfaction index for the organization, division, department, or region.

A classic relationship exists with employee satisfaction, recruitment, and retention. In addition, 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 gone beyond employee satisfaction to include the extent to which the employees identify with organizational goals, missions, philosophies, values, policies, and practices. The concept of engagement is a key issue because OC correlates with productivity and other performance improvement measures.

### Turnover/Retention

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 HR attention. Impact studies showing the effect of turnover reduction sometimes generate return on investment (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. Tenure is defined as an average service of employees, often measured in years. It is tracked with key job groups in which more tenure is needed or in areas where expertise is critical to the organizational success.

### HR Investment

Investment in the HR department is another key measure of how much an organization is willing to invest in the HR staff who analyze, coordinate, develop, and implement programs to improve human capital. Learning and development expenditures are usually included here. In one major study, the HR investment (divided by operating expense) had a significant correlation with gross productivity (revenue per employee) and profitability (operating income per employee) in 72 organizations. This was the first major study to demonstrate that correlation (Phillips, 1996).

### 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

With the development of knowledge sharing and knowledge management, measuring learning takes on new dimensions as organizations attempt to harness, share, and distribute knowledge. At the micro level, a learning measure captures skill and knowledge gained from formal learning activities, using testing, simulation, or demonstration. Informal self-assessment, team assessment, and facilitator assessment are also used. Many organizations roll up those measures to include comprehensive learning measurement for the entire organization across all learning programs.

## 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.

## Educational Level

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

## Leadership

One of the most common ways to measure and capture overall leadership behavior change is with the 360-degree feedback process. Measuring the impact of specific leadership development programs is another measurement approach, which has shown a high payoff with ROI values, often in the range of 200 to 500 percent (Phillips, Stone, and Phillips, 2001). Routine feedback programs can also be used to collect data from employees about the perceived 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

Clearly, traditional measures have been replaced with newer ones, and the role of the HR professional in human capital measurement has never been more important. HR is in the best position to drive human capital measurements in their

## Second-Tier Human Capital Measures

While these measure didn't make the first tier, they are still important to your employees:

- workforce profile;
- work/life balance;
- compensation/total operating costs;
- employee benefits/total operating costs;
- job creation;
- recruitment success;
- health and safety;
- labor management relations;
- absenteeism;
- employee ownership;
- variable compensation; and
- workforce age.

organization. The challenge is to increase the accuracy and efficiency of measurement and develop measures that can be compared with HR benchmarking efforts.

*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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*Dr. Jack Phillips, a renowned expert on measurement and evaluation, provides consulting services for Fortune 500 companies around the world. Phillips is the author of multiple books and more than 100 articles on measurement, including Show Me the Money: How to Determine ROI in People, Projects, and Programs (Berrett-Koehler, 2007), The Value of Learning (Pfeiffer, 2007), How to Build a Successful Consulting Practice (McGraw-Hill, 2006), and Investing in Your Company's Human Capital: Strategies to Avoid Spending Too Much or Too Little (Amacom, 2005). Meeting News has named Phillips one of the 25 most influential people in the meetings and events industry, based on his work on ROI for the industry.*