



Why are Human Capital Metrics so Important?

People are arguably one of the most valuable resources in an organization, and thus it is important to understand the return on investing in human capital via Human Resources (HR) and Organizational Development (OD) initiatives. It is critical for companies to know the return on their investment for OD and HR initiatives but frequently companies struggle to see the return in true dollar figures.

It may be common knowledge among human resource professionals that human capital- the traits (such as intelligence and energy) that people bring to a job, their ability to learn (aptitude, creativity, and so on), and their motivation to share information and knowledge (team spirit and goal orientation) - is any organization's most important asset. The ROI of Human Capital is arguably the most cost-effective and long term value in an organization according to Jac Fitz-enz.

Because companies spend so much of their budgeted dollars on OD/HR initiatives, it is crucial that we are able to measure the added value. We need to know that we are getting a return on our investment, but how can we calculate it?

There are two options to attempt to adequately measure ROI:

1. Stop trying to measure ROI traditionally. (E.g. The problem = 10k for a service = an *assumed* 25k in return), the more traditional and less rigorous way.

Or

2. Calculate the cost of initiatives, and then determine the variables that will be impacted by the initiative, then calculate the estimated return based on that impact or change. (E.g. 10k for a service = increased retention).

Example: Attrition in 2004 was 15% at the Director Level and above. Post-initiative attrition was 12% at Director Level and above. Attrition at the Director Level and above costs the company \$650,000 at 15%. After the initiative, the attrition rate at the Director Level and above was 3% less or \$450,000 in net cost to the company. Thus, the initiative has an ROI of \$200,000 in net savings on a \$10,000 investment.

In summary: The focus of future efforts in strategic Human Capital Management ought to be to further explore options for measuring ROI that incorporate these influencers in an effort to see value added through various success metrics.