**Evaluating Human Capital and the Human Resources Function**

The following are sample metrics used to evaluate effectiveness and ROI of Human Capital and Human Resources programs. While there are many ways to measure effectiveness, it will be important to identify the metrics that connect Human Capital Management to 7 Oil’s organizational strategy. The metrics must support the goals and objectives of the company and produce actionable data through analysis.

HR metrics can drive business success by providing strategic insights into how effective your Human Capital Strategy is in meeting business goals. When measured effectively, HR data can equip leadership with powerful insights into how to better manage labor costs within the business, along with helping to identify inefficiencies in workforce planning and processes. It allows you to assess and project workforce costs and productivity more accurately, while revealing how HR initiatives impact company financials.

As you evaluate which HR metrics are meaningful to you in driving business goals, it is important to be intentional with tracking data. The HR data should add value and articulate useful information efficiently.

Sample HR Metrics

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| **Metric** | **Definition** | **Impact** | **Formula or Information Needed** | **Targets or Analysis**  *Noted targets show best practice, however desired targets and metrics must align with organizational strategy, goals, and objectives.* |
| **Human Capital Return On Investment (HCROI)** | Strategic HR metric that reflects the financial value added by the workforce as a result of the money spent on employees. | Strong predictor of future company performance; popular among institutional investors. | Total Revenues - Expenses (excluding staff costs) / Total Cost of Workforce (TCoW) | >1:1 indicates positive return on investment. |
| **HR Expense to Operating Expense Ratio** | Total HR expenses as a percentage of total operating expenses for a fiscal year. | Useful for fiscal budgeting, demonstrates investment into HR function. | Total HR Expenses / Total Operating Expenses  (Includes outsourcing expenses) | Average: 2.9% |
| **Productivity** | Describes the relationship between real output and the amount of labor time involved in its production. | Useful for identifying problem areas, utilizing resources effectively, identifying unnecessary steps/processes. | Revenue / Labor Hour  Output (e.g. items produced) / Inputs (# of units, e.g. hours worked) | To be determined based on company goals and targets. |
| **Revenue Per Employee** | Measures how much money each employee generates for the company. | Higher revenue per employee is generally linked to a more productive company. It measures how efficiently your company is utilizing employees. | Revenue per employee = total revenue / total number of employees | This is a very industry-specific metric, so it is important to compare with similar companies. |
| **Cost Per Employee** | Employee’s total compensation plus any additional expenses the business accrues as a result of hiring and employing that person. | More accurate number of the true cost of each employee. | Salary/pay, employment taxes, workers’ compensation, insurance needed for work performed, employee benefits, other overhead. | Cost is typically 1.25 to 1.4 times the salary, but up to 2.7 times depending on criteria used for measurement. |
| **Cost Per Hire** | Reflects average costs (internal and external) incurred during the hiring process. Must factor in quality of hires when analyzing this metric. | Serves as the foundation for the creation of your recruitment budget. | CPH = (internal recruiting costs + external recruiting costs) / total number of hires in a time period.  Requires all the costs associated with searching for qualified candidates, conducting interviews, and hiring, e.g.:   * Relocation * Interviewer pay * HR department operating expenses * External recruiting costs | Helps establish recruitment budget and projections, however should be combined with evaluating quality of hires. |
| **Training Efficiency** | Reflects time to see impact of training program on performance or independence. | Demonstrates how quickly there is measurable impact from a training program. | Example: Time to independence for new task/skill | Should target what efficiency outcomes are important to business goals. |
| **Training Cost Per Employee** | Cost of all training associated costs by employee. | Training is an investment.  Companies that offer comprehensive training have 218% higher income per employee and enjoy a 24% higher profit margin. | Training cost per employee = cost of training / number of employees | 2020 Training Industry Report:  (Across all industries)  Organizations with 100-999 employees spent about $1,678 per employee. Organizations with 1,000-9,999 employees spent about $581 per employee, and companies with 10,000 employees or more spent $924 per employee on training. Companies with fewer than 100 employees were not surveyed. |
| **Training Return on Investment** | Measures the efficiency or profitability of the money you put into training. | Usually linked to greater revenue and business impact. Many companies do not track TROI on all training programs, instead only tracking this metric for the top 5% most impactful training programs. | Training Return on Investment = (Return of Benefit – Investment Cost) / Investment Cost x 100  Tracking employee performance will be important for this metric. This would also require information on the KPIs impacted by training e.g.:   * Increase in customer satisfaction & sales, which increases net profit * Workers’ compensation incident rate | >1:1 indicates positive return on investment. |
| **Voluntary Turnover Rate** | Measures rate that employees choose to leave the company. | Turnover is expensive, and it is important to identify drivers of turnover and address the sources. | # of Employees that Voluntarily Left / Average # of Employees | <10% *total* turnover |