



E M S L I E *analytics*

Accounting for people in business

Measuring Human Capital Essential Human Capital KPIs

In the 21st century it is seen as imperative that any organisation measures its human capital. In so doing it is essential for the organisation to select the human capital metrics (or key performance indicators) which are relevant to that organisation and which will provide an insight into the human capital contribution to the achievement of its corporate goals. On that basis, there is no one-size-fits-all list of metrics common to all organisations and all situations. However, many years of experience in guiding organisations in their selection of appropriate people measures has produced a list of measures which are relevant to the vast majority of organisations employing substantial numbers of people.

The senior executives of any organisation choosing not to adopt and use these measures should be challenging themselves: why are these critical dimensions of business performance not being measured, and, in their absence, what alternative measures of people contribution are in place?

These human capital measures fall into three categories:

- 1. Top Level Organisational Effectiveness Measures**
- 2. People Process Measures**
- 3. Measures of HR Function Performance**

The measures which every organisation should monitor on an ongoing basis are presented under each heading:

1. Top Level Organisational Effectiveness Measures

HUMAN INVESTMENT RATIO/HUMAN CAPITAL RETURN ON INVESTMENT – a measure of human capital added value

DATA REQUIREMENTS – total revenue, total non-people costs, no. of FTEs, total remuneration costs.

REVENUE PER FTE – a measure of people contribution to sales revenue

DATA REQUIREMENTS – total revenue, no. of FTEs

COSTS PER FTE – a measure of people contribution to total costs

DATA REQUIREMENTS – total costs, no. of FTEs

PROFIT (INCOME) PER FTE - a measure of people contribution to profit/income

DATA REQUIREMENTS – total profit (income), no. of FTEs

REMUNERATION AS % OF A) REVENUE, AND/OR B) TOTAL COSTS – a measure of the labour cost contribution to the performance of the organisation either in cost or revenue terms

DATA REQUIREMENTS – total remuneration costs, total revenue, total costs.



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2. People Process Measures

ABSENCE RATE - all absence expressed as % of available time

DATA REQUIREMENTS – all absence days, FTE workdays

RESIGNATION RATE – a measure of non-planned attrition – a high cost element

DATA REQUIREMENTS – no. of voluntary leavers, headcount

SUB MEASURES – **Resignation rate by length of service**

COST PER HIRE – a measure of the costs of bringing people into the organisation

DATA REQUIREMENTS – no. of hires, cost of recruitment

ACCEPTANCE RATE – an initial measure of the success of resourcing process

DATA REQUIREMENTS – no. of offers, no. of offers accepted

NB: The above three metrics are of interest in themselves but when analysed together provide a rich diagnosis of retention success.

3. Measures of HR Function Performance

NB: Never to be viewed in isolation but rather in relation to human capital performance shown in the metrics in 1. above.

HR DEPARTMENT COSTS PER FTE – a measure of the cost effectiveness of the HR function

DATA REQUIREMENTS – total HR department costs, total FTEs

FTEs PER HR DEPARTMENT FTE – a measure of the performance effectiveness of the HR function

DATA REQUIREMENTS – total HR FTEs, total FTEs

The above listing offers the bare minimum of human capital reporting measures. There are many other possibilities. For each of the above metrics, and any others adopted, an essential requirement of the value-adding human capital measurement process is that the data elements are clearly and unambiguously defined and the data drawn from various sources within the organisation (and potentially from outwith), is accurate and consistent - an objective easily stated, but, in most organisations, delivered with difficulty.