



# HUMAN CAPITAL MANAGEMENT INSTITUTE

Presents:

## *Linking KPIs to Critical Human Capital Questions*

August 28, 2013

# ***About Human Capital Management Institute***



The Human Capital Management Institute (HCMI) was founded on the belief that organizations can and must, find better ways of measuring their investments in human capital. Our vision of the future is one in which human capital measurement and information is as integral to business decision making as financial information is today.

***We Bring Financial Discipline, Standards and Rigor to the HR Function***

## **HCMI Background:**

- Specialized in HR analysis & measurement
- Deep expertise in Workforce Analytics & Planning
- Board made up of CFOs and HR heads

## **What We Do:**

- Measure the immeasurable in human capital
- Transform workforce data into business intelligence
- Provide technology, consulting and training so HR can partner with Finance

***SOLVE Workforce Intelligence Software ♦ Strategic Consulting ♦ Training  
Best Practices ♦ Workforce Analytics and Planning ♦ Benchmarking***

# HCMI Products and Services



## SOLVE Workforce Intelligence Software

- Integrated Dashboard, Advanced Tools, Metrics, Data Blueprint and Predictive Modeling
- Automated Completion of HCFS



## HR Roadmap Design

- Step by Step Actionable Deliverables and Insights
- Map for, Systems, Data, Tools, Skills, Metrics + more



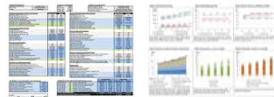
## Human Capital Financial Statements

- Human Capital Impact Statement
- Human Capital Asset Statement
- Human Capital Flow Statement



## Data Integration Blueprint

- Modular Talent Management Components
- Detailed Data Dictionary + Metric Formulas
- Key Analysis Segments and Dimensions



## Workforce Quantifier™ ROI Calculator

- ROI of Workforce Decisions
- Cost of Turnover, Workforce Cost, Cost per Hire
- Business Case for HR Interventions



## Workforce Capability Assessment

- Data and Systems Capability + Risk Analysis
- Human Capital Measurement Standards



## Job Framework Mapping

- Integrated Taxonomy 15,000+ jobs
- Map Critical Job Roles



## Human Capital Metrics Handbook

- Over 600 Metrics and Detailed Definitions
- More than 100 KPI and Best in Class Metrics
- Unique Metrics that Monetize Human Capital



## Workforce Planning

- Link Workforce and Financial Metrics
- Advanced Retirement Calculator
- Forecast Skills, Costs, Talent and Productivity



## Training and Advisory Support

- Expert, Guided, Standard and Customized
- Ongoing Advisory Support Services
- Beginning and Advanced Training



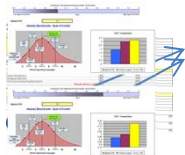
## Career Path Quantifier

- ROI of Career Path
- Build, Buy or Lease Talent Analysis



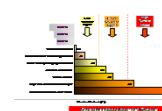
## Statistical Sales Predictor

- Predict Revenue by Economic/Workforce Factor
- Link to Economic Drivers to Workforce Metrics



## Span of Control Optimizer™ Tool

- Benchmark and Optimize Spans
- Optimize Management Layers



## Analytic Engagement Projects

- High Performer Profiles
- Engagement ROI and Sales Impact
- Turnover and Retention Driver Analysis

# *Background: Measuring Human Capital*

## *Meeting the Need: What Does it Take?*

### Workforce Measures that “Link” to Business Results

- *“ A single point of data is not enough to make a story”*
- *“ We need context to show value and explain the linkage”*

### Historical data is important, predictive data is critical

- *“ What will our workforce will look like in 5 years ?”*
- *“ Where are we going, then we’ll decide if we need to change course ?”*

### Data is not enough, analytics must show stories and insights

- *“ What are our critical workforce issues ?”*
- *“ What are our critical workforce metrics ?”*

# The Challenge of Measuring Human Capital

## Complexity of Workforce Data

- Employee/Full-Time-Equivalent (FTE)
- Jobs/Roles/Skills
- Time - Tenure
- Compensation (\$ vs. Equity)

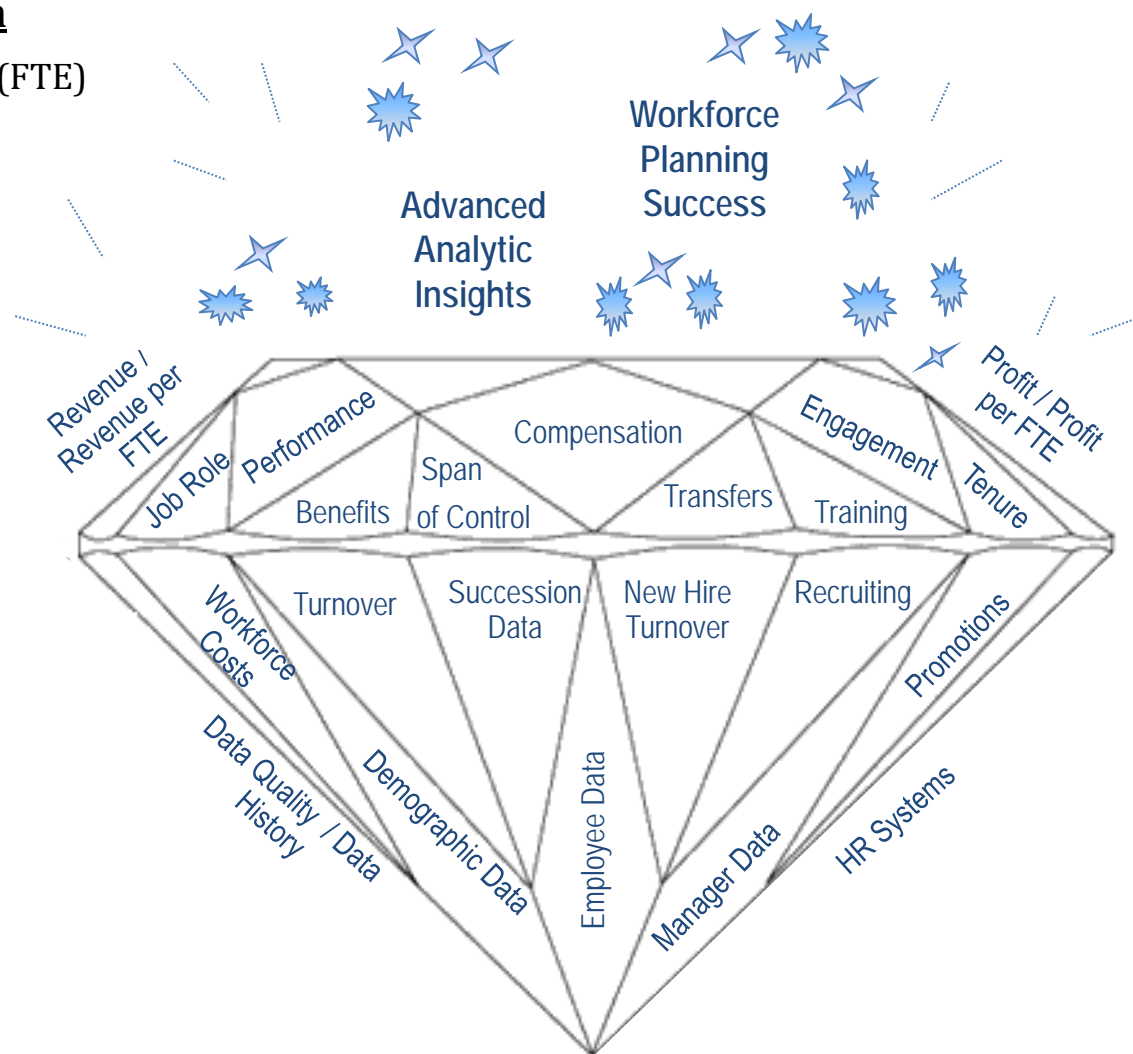
## Lack of Standards

## Frequency of Change

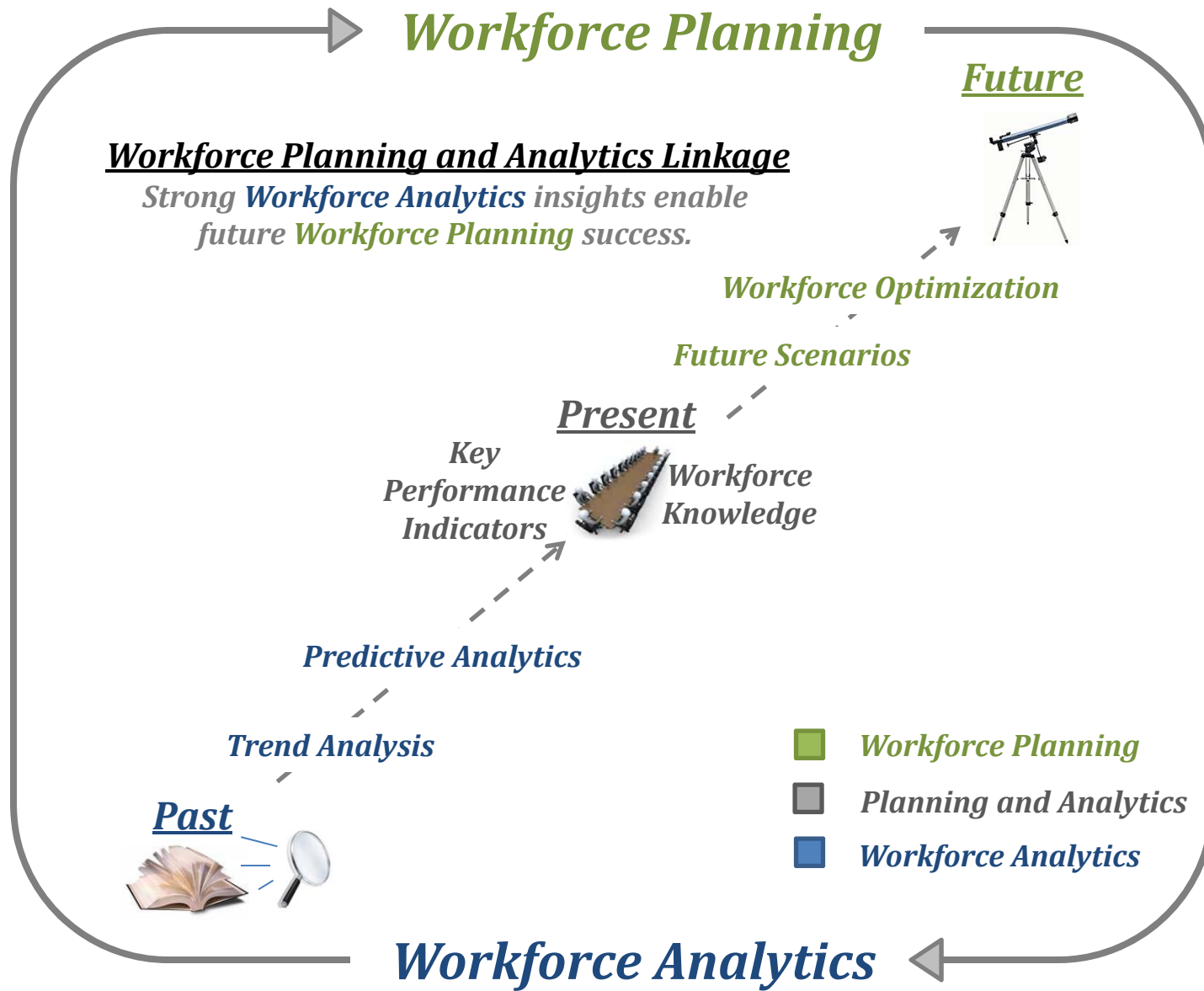
- Promotions, Transfers, Hires, Terminations
- Jobs/Roles/Skills
- Time - Tenure

## Lack of Analytic Skills

## Measuring the Intangible

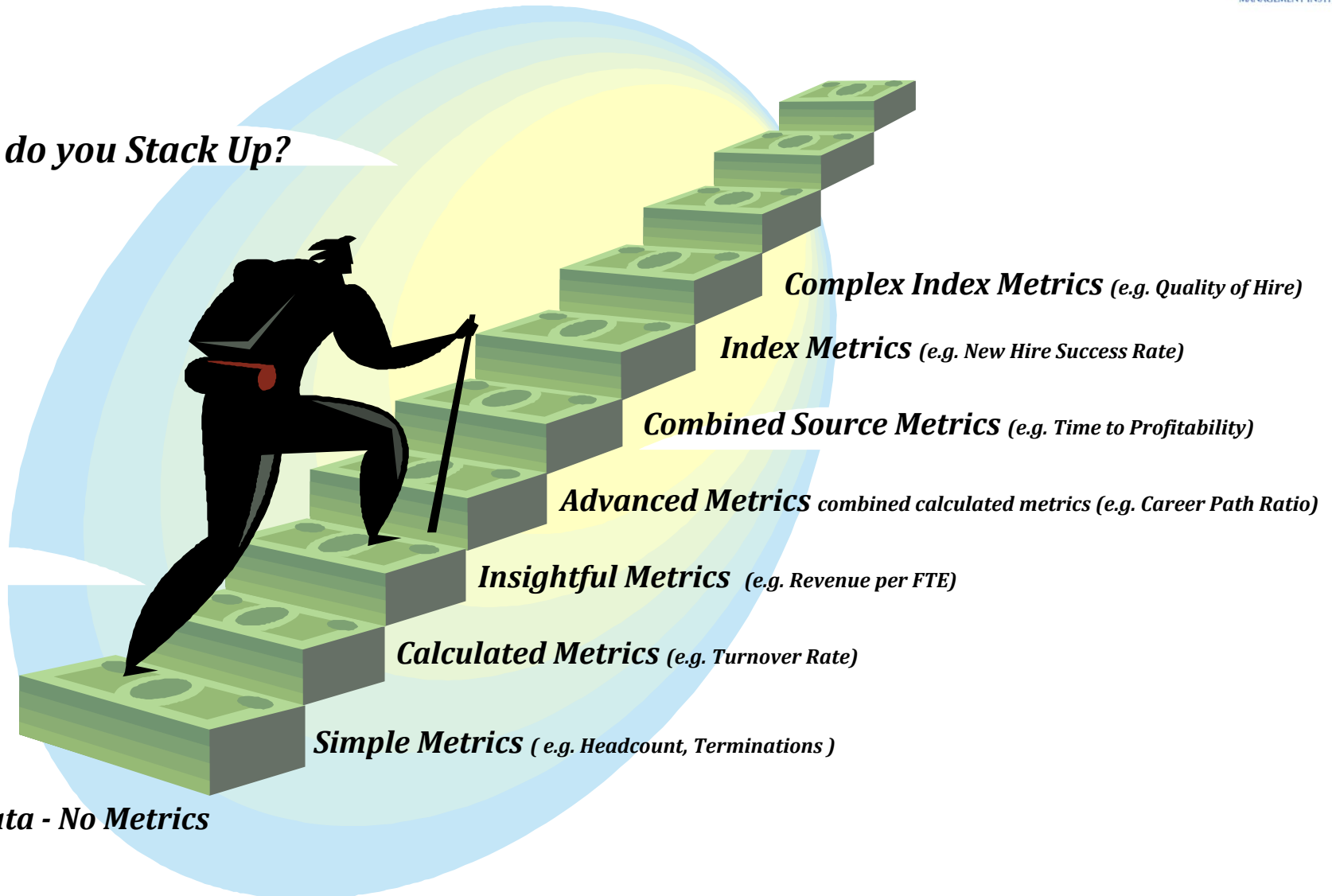


# Workforce Planning vs. Workforce Analytics



# The Metrics Journey

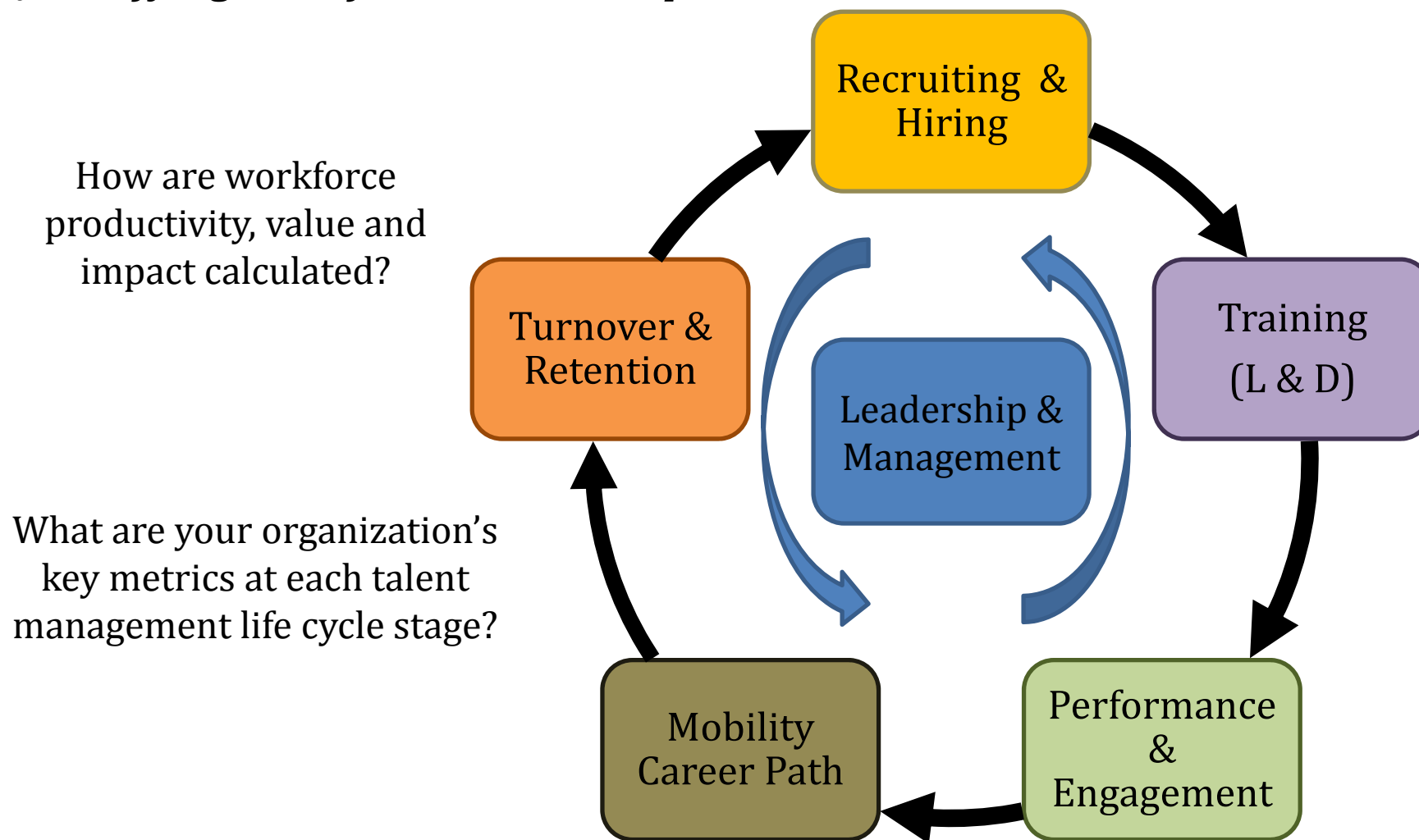
*How do you Stack Up?*





# *Metrics and the Talent Management Life Cycle*

## *Quantifying Workforce and HR Impact*



# *Linking KPIs to Critical Human Capital Questions*

# *Answering the Right Questions*

## *What If HR could answer the following:*

1. What is our workforce productivity? Is it improving? How do we rank?
2. Is it better to build, buy or rent talent? What is the right workforce cost?
3. Are leaders effectively managing human capital? Do leaders correlate to employee engagement, retention and performance?
4. What is the ROI on our training investment?

***What Workforce and Business Issues do you Face?***

# Question 1: Workforce Productivity

## **Question:**

What is our workforce productivity? Is it improving? How do we rank?

## **Metric:**

$$\text{HC ROI Ratio} = \frac{\text{Revenue} - (\text{Total Expenses} - \text{Total Cost of Workforce})}{\text{Total Cost of Workforce}}$$

## **Description:**

Net operating profit impact of each dollar invested in human capital.

## **Background:**

Organizations tracking Human Capital ROI Ratio can effectively measure the linkage of overall trends in market value over time (for publicly traded or other organizations for which a relative market value is obtainable). Ideally, this metric should be used for long term strategic predictions rather than short term measurement as market value can fluctuate dramatically due to uncontrollable events as well as industry and market changes.

# Example 1: Workforce Productivity

## Summary Human Capital Impact Statement

Revenue	Prior Year	Current Year	Variance	% Chg
Net Operating Revenue (Current Annual)	\$1,400,000,000	\$1,540,000,000	\$140,000,000	10.0%
Total Headcount (FTE)	15,000	16,400	1,400	9.3%
Revenue per FTE	\$93,333	\$93,902	\$569	0.6%
<b>Costs</b>				
Total Expenses	\$1,170,000,000	\$1,285,000,000	\$115,000,000	9.8%
Total Operating Expense	\$725,000,000	\$795,000,000	\$70,000,000	9.7%
Total Cost of Workforce (TCOW)	\$779,950,000	\$861,000,000	\$81,050,000	10.4%
TCOW Percent of Revenue	55.7%	55.9%	0.2%	0.4%
TCOW Percent of Expenses	66.7%	67.0%	0.3%	0.5%
TCOW Percent of Operating Expenses	107.6%	108.3%	0.7%	0.7%
<b>Profit</b>				
EBITDA	\$310,000,000	\$340,000,000	\$30,000,000	9.7%
Net Operating Profit	\$143,750,000	\$159,375,000	\$15,625,000	10.9%
Profit per FTE	\$9,583	\$9,718	\$135	1.4%
<b>Productivity and ROI of Human Capital</b>				
Total Market Capitalization <sup>(1)</sup>	\$2,156,250,000	\$2,390,625,000	\$234,375,000	10.9%
Average Market Capitalization Value per FTE	\$143,750	\$145,770	\$2,020	1.4%
Human Capital ROI Ratio	1.29	1.30	0.01	0.8%
Return on Human Capital Investment	18.4%	18.5%	0.1%	0.4%
<b>TOTAL WORKFORCE PRODUCTIVITY IMPACT:</b>	<b>\$34,570,000</b>	<b>\$41,294,200</b>	<b>\$6,724,200</b>	<b>19.5%</b>

Traditional  
Productivity  
Metrics

Leading  
Productivity  
Metrics

## Human Capital ROI Ratio

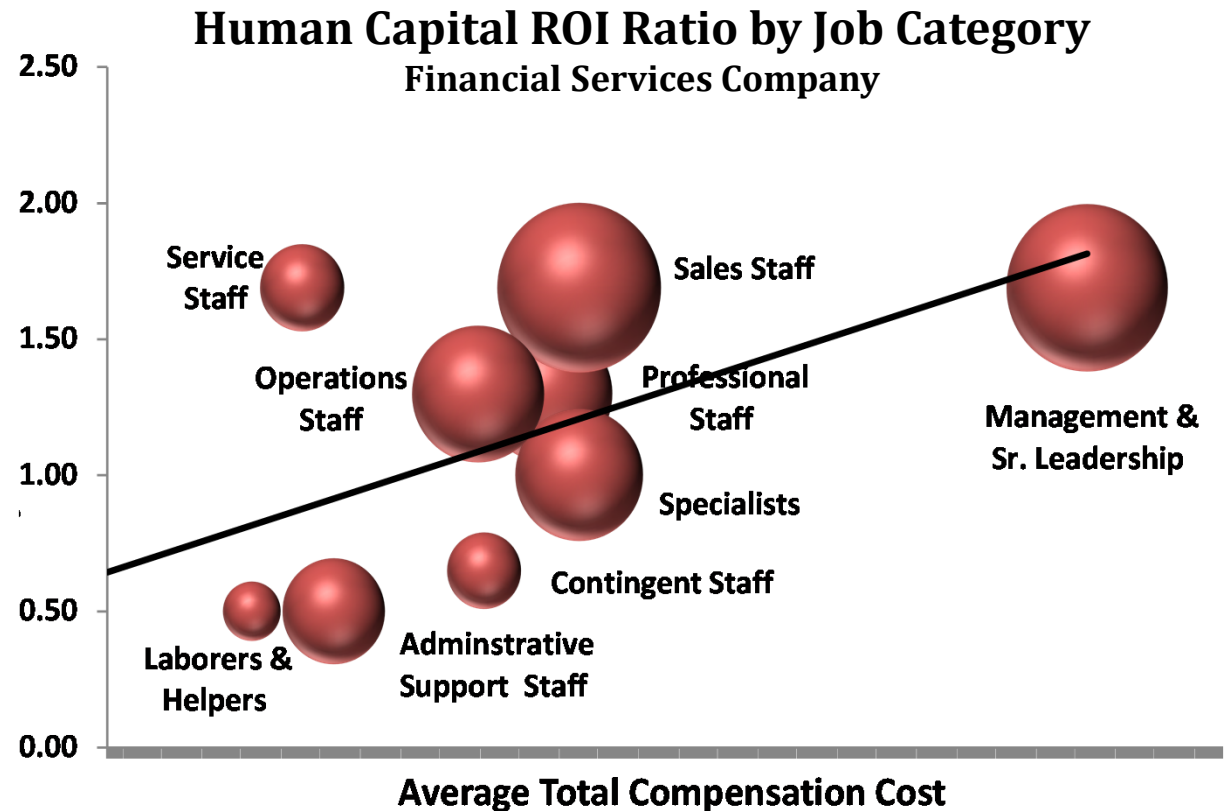
	Prior Year	Current Year	% Chg
- Management & Senior Leadership	1.59	1.47	-7.5%
- Professional Staff	1.29	1.30	0.1%
- Sales Staff	1.58	1.69	7.0%
- Specialists and Technicians	1.00	0.92	-8.0%
- Skilled Trade Staff	0.49	0.48	-2.0%
- Operations Staff	1.28	1.31	2.3%
- Service Staff	1.60	1.60	0.0%
- Administrative Staff	0.50	0.48	-4.0%
- Laborers and Helpers	0.50	0.50	0.0%
- Contingent Staff	0.98	0.99	1.0%
<b>Average Human Capital ROI Ratio <sup>(2)</sup></b>	<b>1.29</b>	<b>1.30</b>	<b>0.8%</b>

Relative Value Add  
(Productivity) by  
Job Group

# Case Study 1: Productivity by Job Category

## Questions Answered

- Which Jobs Have the Highest ROI?
- Which Jobs Create the Most Value Relative to Cost?
- Which Jobs Have the Best Opportunity for Training Investment?



## ***Question 2: Total Cost of Workforce***

### **Question:**

Is it better to build, buy or rent talent? What is the right workforce cost?

### **Metric:**

$$\textit{Total Cost of Workforce} = \text{Total Compensation Costs} + \text{Benefits Costs} + \text{Other Workforce Costs}$$

### **TCOW Includes:**

- **Employee compensation** (salaries/wages, incentives, overtime, equity and other pay)
- **Contingent temporary/contract labor** (costs)
- **Employee benefits and perks** (costs)
- **HR function cost** (e.g., recruiting, training and support)
- **Retiree or inactive workforce costs** (costs)

### **Additional Metrics for Consideration:**

Internal vs. External Compensation Cost Differential, Internal vs. External Recruiting Cost Differential

## ***Example 2: Total Cost of Workforce***

### ***The Bottom Line – Managing Workforce Costs***

- Existing cost control tools don't work (*Budget?*)
  - Status quo drives binge (hiring) / purge (layoff) cycles
  - Off-shoring/Outsourcing reduces costs but not competition
- How does TCOW control costs?
  - Set targets to budget, forecast, benchmark or improvement goals
  - Link to new hire requisitions, hiring freezes, bonus-incentive payouts
  - Benchmark business unit and organizational performance
    - *TCOW as a % of Revenue or as a % of Total Expenses*
- 1% TCOW savings at a Fortune 500™ Co. = \$30 million

#### **Example: Business Case for Total Cost of Workforce**

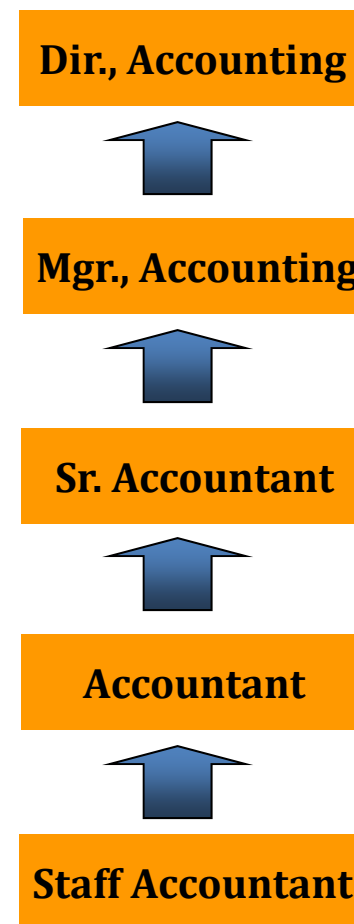
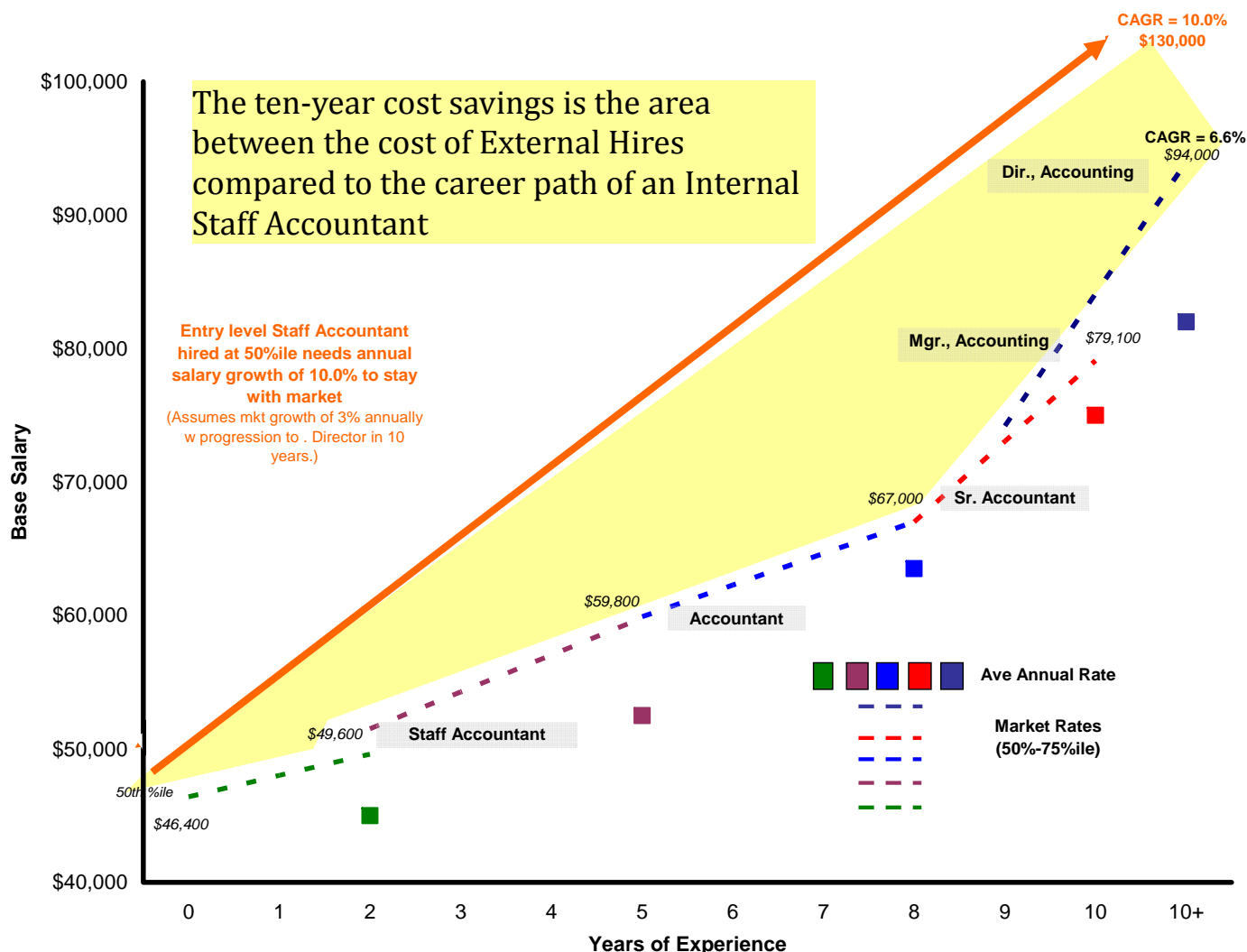
An organization with 100,000 employees at the end of 2011 and 100,000 employees at the end of 2012 would appear to have effectively controlled workforce cost by managing total workforce headcount.

However, due to increases in benefits, wages, and changes in the workforce such as bonuses, promotions, and mix of jobs hired, organizations with flat headcount growth can easily (and often do) experience 10% or greater increases in Total Cost of Workforce.



# Case Study 2: Total Cost of Workforce

## Career Paths: Employees are Assets to be Developed



CAGR: Compound Annual Growth Rate

## *Question 3: Leadership Effectiveness*

### **Question:**

Are leaders effectively managing human capital? Do leaders correlate to employee engagement, retention and performance?

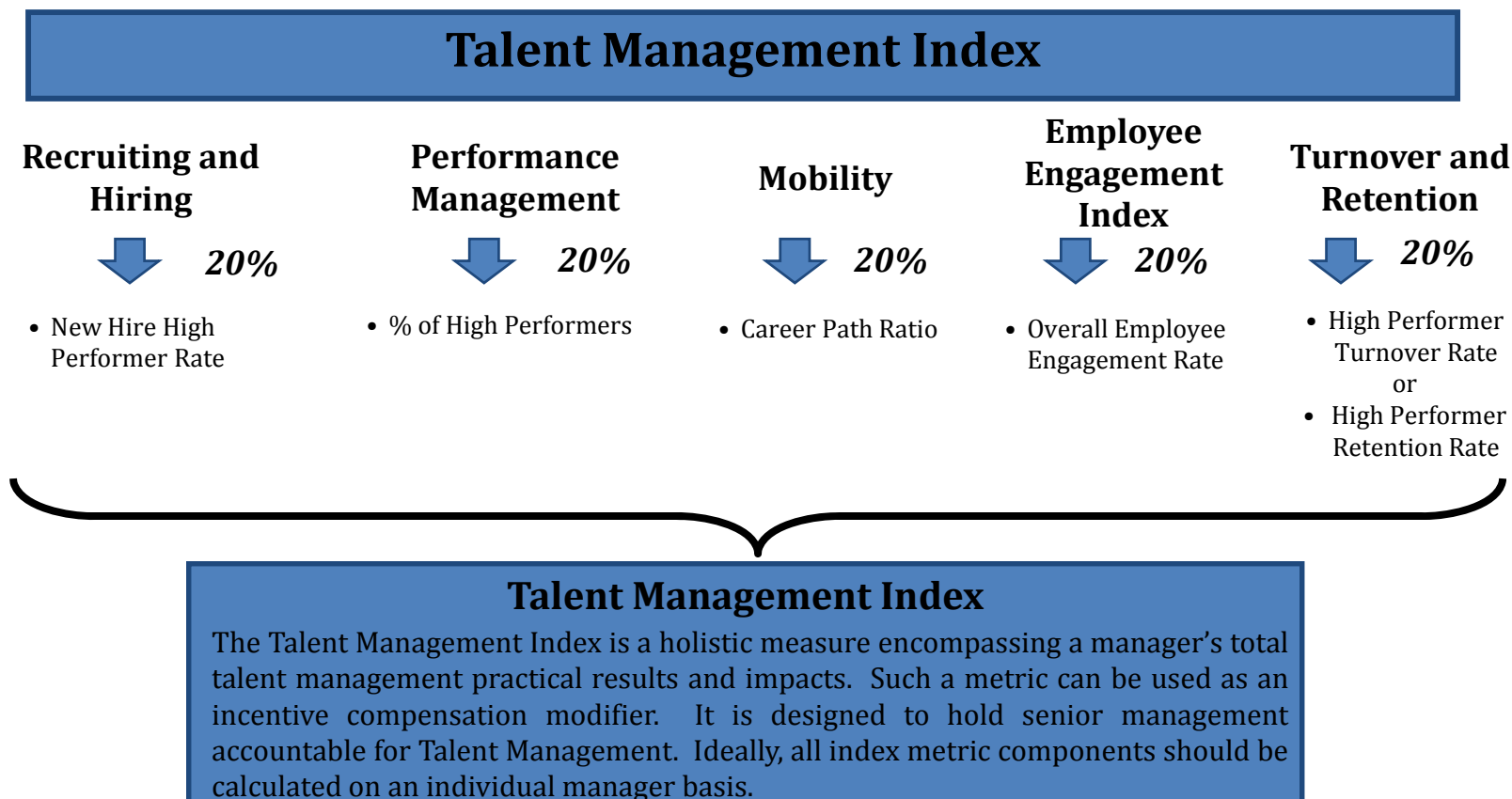
### **Metric:**

*Talent Management Index* = Combination of select key metrics, weighed by importance and impact to the organization

### **Background:**

- A holistic measure encompassing a manager's total talent management practical results and impacts
- Designed to hold senior management accountable for talent management
- Ideally, index metric components should be calculated on an individual manager basis

# Example 3: Leadership Effectiveness



# Case Study 3: Leadership Effectiveness

Can you quantify which of your managers are more effective at managing talent?

## Manager A

- Exceeds business goals
- Hires exp'd employees
- No training
- High turnover
- Low mobility
- Mixed performance
- Low Engagement

## Manager B

- Exceeds business goals
- Hires junior employees
- Trains team personally
- Low turnover
- More transfers/promotions
- High employee performance
- High engagement



- Manager Quality is a key component of employee turnover
- Cohort analysis is segmenting by high and low turnover managers
- Result: Spotting managers with turnover disproportionate to workforce size

<i>Management Group</i>	<i>Percent of Managers</i>	<i>Percent of Turnover</i>
Low Turnover	30%	10%
High Turnover	34%	81%
New Manager*	22%	8%
1 Employee**	14%	1%

## *Question 4: ROI of Training*

### **Question:**

What is the ROI on our training investment?

### **Metric:**

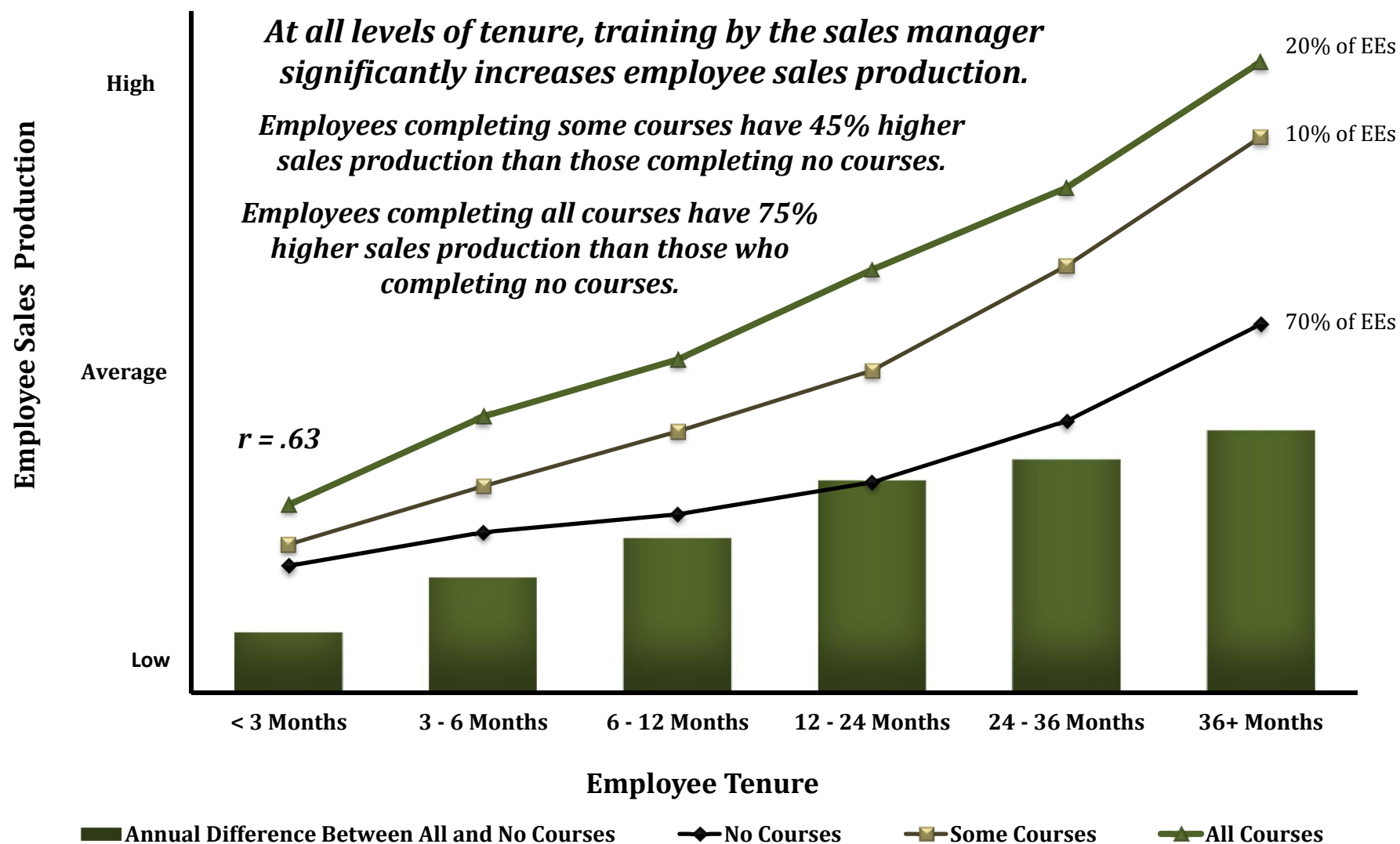
$$\text{Training Performance Differential} = \frac{\text{Total Productivity, Output or Performance After Training}}{\text{Total Productivity, Output or Performance Before Training}}$$

### **Background:**

- Not all training is created equal!
- Focus on critical roles and workforce groups such as sales, operations, customer service, and management
- Measure impact of performance, engagement, productivity and retention

# Case Study 4: ROI of Training

## Retail Sales



## *Case Study 4: ROI of Training*

### *Retail Sales*

#### Key Findings:

- At all levels of tenure, Sales positions completing some or all company courses have higher production than those that have not.
- Positions with >3 years of tenure completing all company courses produce over **\$250,000 USD more revenue annually** than those with similar tenure and no training.
- Courses completed does not correlate with tenure; many tenured sales people have not completed company courses.
- Sales Reps that complete some/all modules are more likely to be from certain locations. Training results in the most \$ benefit at these locations versus others.

## *Next Steps*



# Metrics Linking Financial Results to Human Capital



## Productivity/Value Creation Impact

		Low	Medium	High
<b>Link to Financial Results</b>	<b>High</b>	<ul style="list-style-type: none"> <li>Open Position Lost Revenue or Production per Day<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>Market Capitalization value per FTE<sup>2</sup></li> <li>Management Span of Control</li> </ul>	<ul style="list-style-type: none"> <li>High Performer Productivity Differential</li> <li>Ave Training Performance Differential per Employee</li> <li>Employee Engagement Revenue Linkage</li> <li>Quality of Hire Index</li> <li>Profit per FTE<sup>2</sup></li> <li>TCOW<sup>1</sup> per FTE<sup>2</sup></li> <li>Human Capital ROI Ratio</li> </ul>
		<ul style="list-style-type: none"> <li>Internal vs. External Hire Compensation Differential<sup>4</sup></li> <li>Ave Replacement Hire Compensation Cost Differential</li> </ul>	<ul style="list-style-type: none"> <li>TCOW<sup>1</sup> % of Revenue</li> <li>TCOW<sup>1</sup> % of Expenses</li> <li>Revenue per FTE<sup>2</sup></li> <li>Average Cost of Turnover</li> <li>Training Investment per FTE<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>Return on Human Capital Investment</li> <li>Employee Engagement Index</li> <li>Talent Management Index</li> <li>Training Effectiveness Index</li> <li>High Performer Turnover Rate</li> </ul>
	<b>Low</b>	<ul style="list-style-type: none"> <li>Job Tenure</li> <li>Time to Fill</li> <li>Cost per Hire</li> </ul>	<ul style="list-style-type: none"> <li>Career Path Ratio</li> </ul>	<ul style="list-style-type: none"> <li>Managerial Bench Strength</li> <li>Experience &amp; Education Index</li> <li>Avg Internal vs. External Cost per Hire Differential</li> </ul>

(1.) TCOW = Total Cost of Workforce

(2.) FTE = Full Time Equivalent Workforce

(3.) Listed in Human Capital Financial Statements as Average Lost Revenue or Production per Day per Position

(4.) Listed in Human Capital Metrics handbook as Internal vs. External Hire Compensation Difference

# Workforce Analytics Business Case ROI Examples

	15% Productivity Gain: Output Up, Costs Down (\$55.0 Billion Package Delivery Co.)		<b>\$1.1 Billion Annual</b>
	5% Reduction in Cost of Workforce (TCOW) ( <i>Fortune</i> <sup>™</sup> 30 Technology Company)		<b>\$650 Million Annual</b>
	Profile to Hire Sales Stars with Superior Predictive Metrics (\$1.0 Billion Bank)		<b>\$264 Million Annual</b> \$1.1 million per Salesperson
	ROI of Sales Training (\$2.0 Billion Retail Co.)		<b>\$250 Million Annual</b> \$250k per Salesperson
	Employee Engagement Service Level Revenue Impact (\$1.0 Billion Public Airline)		<b>\$96 Million Annual</b> \$5 per flight premium
	40% Voluntary Turnover Reduction (Midsized Public Financial Services Co.)		<b>\$12 Million Annual</b>
	ROI of internal vs. external hires (Public Bank)		<b>\$6 Million Annual</b>

# ***SOLVE** Workforce Intelligence Software*

# SOLVE Methodology Overview

## 1 Foundation

*(Data Integration)*

Data Integration  
Blueprint

Workforce Standards

Primary Systems

Secondary Systems

External Databases

**SOLVE** Wizard

*EE Level Data and Dimensions,  
Configured for Organization  
Specific Drivers and Analysis.*

## 2 Dashboards

*(Basic User Suite)*

Talent Management Dashboards

Workforce  
Overview

Recruiting  
and Hiring

Performance  
and  
Engagement

Productivity

Turnover

Management

Mobility

Human Capital  
Financial  
Statements

Workforce  
ROI and  
Career Path

*Filter Analysis and Reporting, Compare  
Scenarios by Workforce Group, Position, Region,  
Location, Location, Business Unit and More.*

## 3 Advanced Toolset

*(Power User Suite)*

Workforce  
Planning

Workforce ROI  
Calculator

Human Capital  
Financial  
Statements

Career Path  
Quantifier

Scenario  
Manager  
Advanced Index  
Metrics

Location  
Optimization  
  
(In Development)

*Build Scenarios, Detailed Analysis and  
Modeling for Workforce Groups,  
Positions, Regions, Countries,  
Locations, Business Units and More.*

## 4 Outputs

Question Driven  
Analytics and  
Planning

Actionable  
Workforce  
Insights

Predictive  
Financial and  
Workforce  
Modeling

Workforce  
Linkage to  
Business Results

Quantify  
Workforce  
Productivity and  
ROI

# What you Get with *SOLVE*

## CEO/COO



- Workforce Productivity
- ROI of the Workforce

## CFO



- Human Capital Financial Statements
- Tools to Control Workforce Cost

## CIO



- Automatic HR Data Warehouse
- Data Integration Blueprint

## CHRO



- Integrated Talent Mgmt Scorecard
- HR Power Tools (i.e. ROI Calculator)

## HR Function Leads



- HR Talent Management Dashboards
- Workforce and HR KPI Metrics

# *Question and Answer*

## ***Contact Information:***

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[Training](#)    [Human Capital Metrics Handbook](#)    [Thought Leadership](#)

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