



Why and How to Measure Human Capital ROI

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Understanding your ROI helps, no matter what you're investing in— and more likely than not, human capital is your number one investment. But do you know how to measure it?

Human Capital ROI or “HCROI” provides an HR metric that can measure the financial value added by your workforce in relation to the money you spend on salaries and benefits. Put another way, it consolidates everything to do with people management and performance tracking into one easy metric.

You might be wondering if this metric is really worth calculating. After all, you already have plenty of other metrics to keep track of. However, the HCROI offers something unique. More specifically, it allows you to compare your business to your competitors’ and directly supports your business planning initiatives.

It goes without saying: the most successful businesses obtain, retain, and manage the best possible people for their workforce. Since this is the case, it makes sense to have a baseline metric that can easily leverage workforce analytics to fine-tune your business strategy..

Benefits of Using Human Capital ROI

Human Capital ROI helps to analyze which factors help or hinder the profitability and productivity of your organization. If there's a problem, HCROI is bound to not only pick it up but identify which area of your operation is devaluing your overall return on investment. That can include organizational factors on a systematic or procedural level, as well as personal factors.

Additionally, using HCROI can help:

- Identify whether or not you're hiring and retaining the right candidates as part of your operation
- Determine whether or not your workers have received optimal training and skills development
- Enable you to place employees in the best possible environments and roles for individual and operational success
- Identify whether the right leadership support and managerial guidance are available to employees

Now that you understand the benefits of using HCROI, you're probably curious how best to calculate it for your own business. It's easier than you think.

**Human Capital
ROI is an HR metric
that can measure
the financial value
added by your
workforce.**

Human Capital ROI

How to Calculate Human Capital ROI

Human Capital ROI shows the financial value individually or collectively contributed by your employees. In fact, it's often termed the ultimate productivity measurement. The formula for calculating HC ROI is:

$$\text{HCROI} = \frac{[(\text{Revenue}) - (\text{Human Capital Cost})]}{(\text{Human Capital Cost})}$$

To be clear, Human Capital cost includes things like salaries, software, onboarding, training, etc.

Be sure to include extra compensation and monetary benefits spent on FTEs and temporary, contracted, and part-time employees. The more data you have to add, the more accurate your calculation of HCROI will be.

Here's an example: Company X's revenue after deducting the appropriate costs (such as capital costs, depreciation, operating expenses, etc.) are \$250,000. Their Human Capital Expenses (comprised of employee benefits and compensation) is \$95,000. If we apply the above formula:

$$\text{HCROI} = \frac{(\$250,000 - \$95,000)}{\$95,000} = 1.63$$
$$1.63 = 163\%$$

This means that for every single dollar spent you receive \$1.63. This is your Human Capital Return on Investment.

In part two of this series, we will discuss how best to obtain this data and how to act on it, as well as tips for executing optimizing plans based on this metric insight. If you're ready to take your workforce to the next level, HCROI is the key to laying the groundwork.

Go Further with EPAY's Workforce Analytics

EPAY's Workforce and HR Analytics are equipped to give you complete visibility into your labor force. Our latest workforce platform offers

detailed reporting and analysis capabilities around your workforce, recruiting, turnover, time labor management, management, and workforce productivity data. Plus, with our advanced dashboard and customization features, you'll be able to pull reports simply by asking your browser a question.

Using HR Analytics, for example, you could quickly identify things like 'terminations and hires by hiring source', 'voluntary reasons for departure', 'turnover rate', or 'total new hire salaries by supervisor' to better identify weaknesses in your business operation.

Turning HCROI into Consistent, Leverageable Data

At this point, you're probably wondering how to turn this metric into tangible, beneficial action. In order to capitalize on HCROI data, you need to determine how you are going to regularly monitor and record this data, how you are going to cross-reference it with other workforce metrics, and how to best visualize and communicate this information to your workforce's advantage.

It probably goes without saying: manual data records are becoming a thing of the past. If you are still depending on manual data records and calculations, transitioning to some sort of cloud-based software platform will not only increase the accuracy of your data, but the analytics around that data. Without the ability to measure and track your HCROI's progress accurately, you'll be left guessing just how well your operation's results truly are from a human capital standpoint.

When upgrading to HR software, choose a workforce management platform that cannot only record and distribute workforce data with optimal accuracy and speed, but which can work directly with WPID or your analytics tools to optimize, combine, and compare your results to better identify weaknesses and strengths within your workforce and operational procedures.

Turning HCROI into Action

Once data-driven reports are in place, how can you better focus your HCROI efforts to improve your return on investment? Use. The. Data.

HCROI can be run on an individual employee and company-wide level. Once you run the numbers and can identify employees or teams with high levels of productivity and positive returns on investment, consider:

- Acknowledging and rewarding individuals or teams with the highest productivity achievements
- Modeling your training off the habits of top performing workers or turning top performers into managers/trainers
- Providing incentives tied to gross profit amounts on a company-wide level
- Communicating profits or improved production on a company-wide basis: the more aware of the individual or group value they add to the company, the more your employees will be conscious and invested in their contribution to improving those numbers

Taking your HCROI efforts a step further, specifically by examining less productive areas, will allow you to shift the balance towards productivity with speed and accuracy. Once you're able to compare your return on investment regularly throughout various levels within your business, you'll have more power to promote top performers and more efficient practices than ever before.

Some additional tips for improving HCROI include:

- Remaining consistent in executing changes
- Telling people what's expected of them
- Providing employees with the resources necessary to do their job

- Fitting people into the right jobs
- Recognizing the contributions of all individuals
- Caring about employees as people
- Mentoring the development of your workers
- Listening to employees and showing them the importance of their work
- Pairing committed workers with committed coworkers
- Providing opportunities for advancement

The basic idea behind using HCROI is to always be able to trace linkages between the process of improvement and your enterprise goals. If there is a connection, then there is potential, measurable value to reap.

HR Analytics

EPAY's HR Analytics are equipped to give you complete visibility into your labor force. Our latest workforce platform offers detailed reporting and analysis capabilities regarding your workforce, your recruiting efforts, turnover rates, time labor management, and productivity data. Plus, with our advanced dashboard and customization features, you'll be able to pull reports simply by keying a question into your browser.

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Check out our on-demand webinar, "[Workforce Reporting & Dashboards](#)" to see how much of an impact investing in analytics software could make on your bottom line. Ready to see these powerful analytics in action? [Contact us for a live demo](#) or [check out our 2-minute tour today](#).