
PwC Saratoga: Metric of the Month

*Welcome to the ‘**metric of the month**’ programme for the Asia Pacific Human Capital Analytics community! The PwC Saratoga Asia Pacific Centre of Excellence in Singapore has started this initiative for all business professionals across Asia Pacific, who are interested in building human capital insights and thrive on data-based decision making.*

We appreciate that this will be one among the thousands of documents you will read in the course of your professional activity every month. So, we are keeping it simple!

One metric each month

Through this programme, we will provide you with one metric each month along with definitions, and most importantly, notes on interpretation of insights that the metric can deliver to your organisation

Learning from each other

We are happy to hear your stories on how HR data and insights are helping you drive workforce success. If you want to share your experiences or have any feedback on how we can make this programme better, please write to:

Pamela McGill – Director – PwC People & Change

at: pamela.mcgill@vn.pwc.com

Mobile: 0909 668 290

Or

Vu Thi Le Lan – Associate Director – PwC People & Change

at: vu.thi.le.lan@vn.pwc.com

Mobile: 0966 633 816

Saratoga Metric of the Month

The metric of the month is: **Human Capital Return on Investment (HCROI)**

Metric Group: **Productivity**

$$\text{HCROI} = \frac{\text{Revenue} - (\text{Costs} - (\text{Compensation} + \text{Benefits}))}{\text{Compensation} + \text{Benefits}}$$

Revenue is the total monetary value generated from the sale of goods and services, together with any other income credited to the organisation via transfer price revenues, subsidy or grant.

Costs includes the costs of goods and services produced or purchased for resale, direct labour and materials, transfer price of goods purchased from within the organisation, operating expenses and overheads including any corporate recharges, financial expenses (depreciation, amortization and interest) and changes in provisions for bad and doubtful debts. Generally calculated as the difference between revenue and profit before tax.

Compensation is the gross cost to the employer of all salaries and wages, the variable elements, performance related pay (bonuses, commissions, profit-share etc) and attendance related pay (overtime, shift allowances, standby etc) and national insurance/social security.

Benefits includes all other reward components e.g. pensions, healthcare, cars, stock options, professional fees, childcare, lifestyle benefits, subsidised products/services etc.

Interpretation:

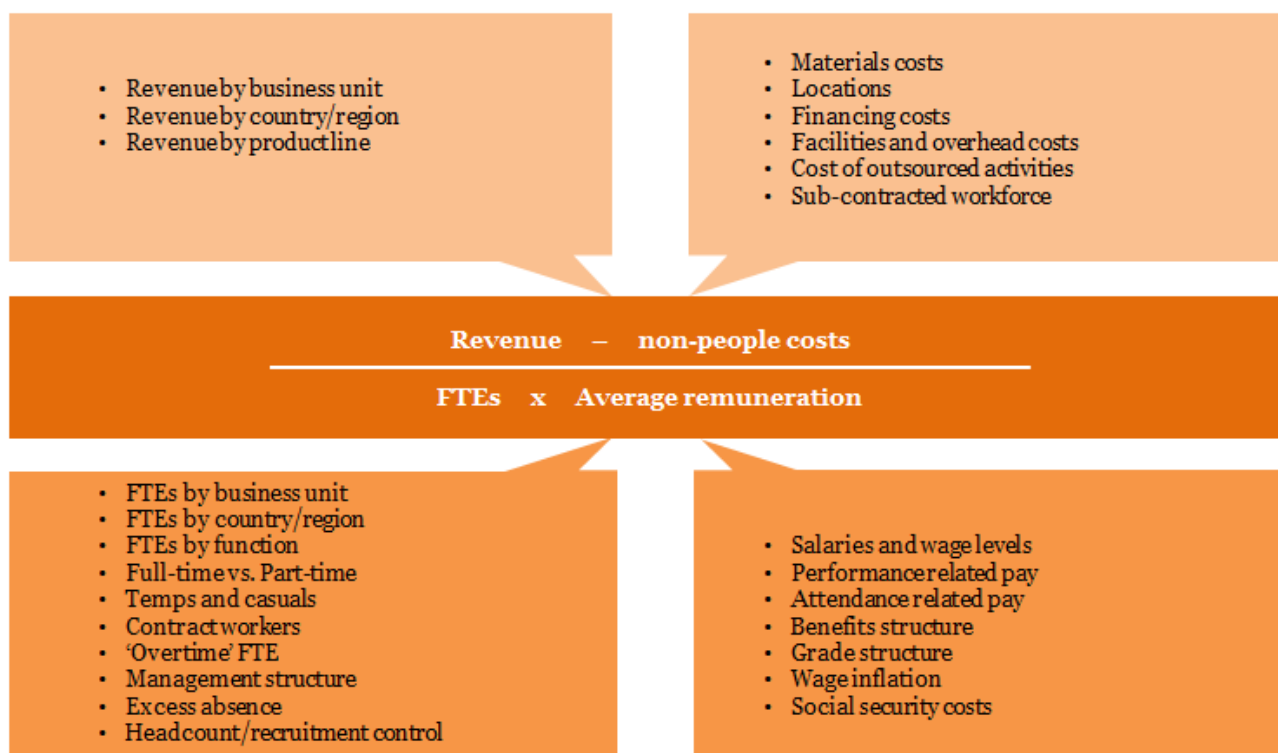
- Also calculated as $(\text{Profit} + \text{Wages})/\text{Wages}$ - Human Capital ROI describes the return to the organisation for every unit of expenditure on employees - most usefully expressed in the format shown on the next page.
- Profit is assumed to be a guiding principal for most organisations, indeed a core KPI, and it underpins the Human Capital ROI calculation. However, demands to “Improve profit!” are of little assistance in determining how to achieve this from a human capital management perspective. Human Capital ROI has greater value in combining all of the primary business drivers where improvements can be targeted. Positive impact is achieved under the following conditions:
 - Revenue improvement
 - Non-people cost efficiencies.
 - Improved alignment of remuneration payments
 - Better controlling the number of FTEs employed.

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Interpretation (cont'd):

- In reality, all of these factors move in combination, but it is exactly these interdependencies that are often overlooked in using linear metrics such as Revenue or Profit per FTE. Human capital ROI captures the necessarily dynamic nature of sustainable profit i.e. bottom-line performance improvement in combination with a managed investment in people. For example, revenue improvement alone is not sufficient to guarantee growth in Human Capital ROI – simple inflationary increases in the remuneration charge can offset any revenue gains in this ratio. Equally, any reduction in workforce size can quickly be negated in Human Capital ROI terms by remuneration increases for the remaining workforce. In essence, Human Capital ROI highlights the true nature of ‘doing more with less’.



- Human Capital ROI is valuable when applied as a predictive ‘lead’ metric, to project recent trends, model forecasted headcount or revenues and in the development of improvement scenarios. As a ratio Human Capital ROI is not positively affected by inflation and there can be no expectation of steadily improving figures over time as might be the case with revenue measures. To achieve growth in Human Capital ROI requires increasing profit performance in conjunction with a managed investment in people.

Have feedback for us?

*We would love to hear from you. Please join us at the ‘**Asia Pacific HR Analytics Forum**’ on [LinkedIn](#) to exchange your views and tell us how you are using HR measurements to drive workforce success in your organisation.*