

Employee Development and Organizational Performance – Can the Connection Be Measured?

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Organizations spend more than \$56 billion (yes billion with a “B”) on training and development each year in the U.S. alone. Because employee costs often exceed 40 percent of a business’s overall expenses, measuring the ROI in human capital is absolutely essential. As Jac Fitz-enz argues in the first chapter of his book “*The ROI of Human Capital*”, “In short, if we don’t know how to measure our primary value-producing asset, we can’t manage it.” What is it that business owners and senior managers hope will result from their investment in employee and organization development? Well, one would hope that training and development results in more skilled and satisfied employees, fewer errors, higher employee confidence and increased retention. But even more importantly, don’t we want employees to successfully apply this new learning to improve workplace performance? Wouldn’t it be great if we can determine that this investment results in improved overall organizational performance? But how do we know that there is a connection between these things, and how can this connection be measured?

We’ve found that measuring the impact of employee and organization development efforts is a critical step in ensuring a sufficient return on investments in development activity. Here are a few critical metrics that we recommend for our clients when it comes to measuring the impact of employee and organization development activity:

Development Quality: A fundamental purpose of development is to have candidates ready to fill critical positions in the organization as they are vacated. We suggest that the following metric to measure development quality and the effectiveness of the organization to prepare employees to take on new responsibilities.

Development Quality = % of vacancies filled internally with qualified people / % of vacancies desired to fill internally

Capacity to Meet Potential Needs: There is substantial cost to an organization that has not developed its people in advance of the roles they are to assume. This capacity metric is designed to assess an organization’s ability to meet future needs for innovation, problem solving and growth through its human capital. This is a measurement of the organization’s bench strength of competency.

Capacity to Meet Potential Needs = % of key positions with at least 1 internal person (in addition to incumbent) qualified for the position / % key positions desired to fill internally

Human Capital Value Added: Originally proposed by Jac Fitz-enz, this metric is a great way for organizations to measure the value of their human capital development investments. This measurement is designed to measure the broad impact that employees, and the way they are developed, has on the financial value of an organization.

Human Capital Value Added = revenues minus expenses (except for cost of employee pay and benefits) / # of full time employees