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## Human resource management — Costs metrics cluster

*Management des ressources humaines — Indicateurs de mesure des coûts*

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## Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular, the different approval criteria needed for the different types of ISO documents should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see [www.iso.org/directives](http://www.iso.org/directives)).

Attention is drawn to the possibility that some of the elements of this document may be the subject of patent rights. ISO shall not be held responsible for identifying any or all such patent rights. Details of any patent rights identified during the development of the document will be in the Introduction and/or on the ISO list of patent declarations received (see [www.iso.org/patents](http://www.iso.org/patents)).

Any trade name used in this document is information given for the convenience of users and does not constitute an endorsement.

For an explanation of the voluntary nature of standards, the meaning of ISO specific terms and expressions related to conformity assessment, as well as information about ISO's adherence to the World Trade Organization (WTO) principles in the Technical Barriers to Trade (TBT), see [www.iso.org/iso/foreword.html](http://www.iso.org/iso/foreword.html).

This document was prepared by Technical Committee ISO/TC 260, *Human resource management*.

Any feedback or questions on this document should be directed to the user's national standards body. A complete listing of these bodies can be found at [www.iso.org/members.html](http://www.iso.org/members.html).

## Introduction

ISO 30414 highlights guidelines on the following core human capital reporting areas or “clusters”:

- compliance and ethics;
- costs;
- diversity;
- leadership;
- organizational culture;
- organizational health, safety and well-being;
- productivity;
- recruitment, mobility and turnover;
- skills and capabilities;
- succession planning;
- workforce availability.

This document deals specifically with the cluster of metrics in the costs cluster. ISO 30414:2018, 4.7.3, describes workforce costs and the importance of measuring workforce costs.

The costs cluster includes the following metrics:

- total workforce costs;
- external workforce costs;
- ratio of the basic salary and remuneration;
- total costs of employment;
- cost per hire;
- recruitment costs;
- turnover costs.

This document includes the following metrics:

- total workforce costs;
- external workforce costs;
- ratio of the basic salary and remuneration;
- total costs of employment.

ISO/TS 30407 details cost per hire metric.

ISO/TS 30421<sup>1)</sup> details recruitment cost and turnover cost metrics.

NOTE Additional metrics and explanation are included in ISO 30405, ISO/TS 30410 and ISO/TS 30411.

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1) Under preparation. Stage at the time of publication: ISO/PRF TS 30421.

Where the outsourced workforce is a significant and material element of the organization's workforce costs, it can be preferable to report outsourced workforce costs separately.

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# Human resource management — Costs metrics cluster

## 1 Scope

This document describes the elements of organizational workforce costs. This document provides the formula for comparable measures for internal and external reporting.

This document also highlights issues for consideration when interpreting the cost data, especially when deciding on the appropriate intervention internally and when reporting these to external stakeholders (e.g. regulators, investors).

## 2 Normative references

There are no normative references in this document.

## 3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

ISO and IEC maintain terminological databases for use in standardization at the following addresses:

- ISO Online browsing platform: available at <https://www.iso.org/obp>
- IEC Electropedia: available at <http://www.electropedia.org/>

### 3.1

#### full-time equivalent

#### FTE

number of full-time employees needed to complete the equivalent of the total hours worked by all employees in a defined period

## 4 Total workforce costs

### 4.1 General

Workforce costs are one of the most critical factors for organizations, with a direct influence on the earnings or value proposition of an organization. Investors are interested to see the amount an organization invests in the workforce, and the return on that investment in terms of profitability, and also increasingly on non-financial and more intangible measures. The extent of reporting on total external workforce costs should be determined by the organization itself. However, there are indications of the future importance of this metric, for example in terms of digitalization. The objective of this human capital reporting area is to quantify the expenditure of an organization on people. To report the human capital costs means that human capital can be an investment and that workforce costs, which are a major influencing factor in human resource management, can be easily calculated.

Total workforce costs, also known as total labour costs, are similar to total cost of workforce and include total costs of employment, or total employee costs, and external workforce costs. Total costs of employment include all employee-related costs for the organization for a given time period. Total external workforce costs are defined as plus contingent (contract and temporary) workers directly controlled or managed by the organization. Total workforce costs cover salaries and compensation costs, benefits costs and other employee compensation or remuneration costs. [Table 1](#) gives an example of the breakdown of total workforce costs.

**Table 1 — Reporting on total workforce costs**

Workforce costs	Prior year USD	Current year USD	Percentage change
Employee salary	464 000 000	510 000 000	9,9
Bonus and incentive	70 000 000	75 000 000	7,1
Benefits	150 000 000	170 000 000	13,3
Other compensation	1000 000	1000 000	0,0
<b>Total costs of employment</b>	<b>685 000 000</b>	<b>756 000 000</b>	<b>10,4</b>
External workforce costs	45 000 000	54 000 000	20
<b>Total workforce costs</b>	<b>1 415 000 000</b>	<b>1 566 000 000</b>	<b>10,7</b>

NOTE See [Clause 5](#) for external workforce costs formula and [Clause 7](#) for total costs of employment formula.

## 4.2 Purpose

Internal and external human capital reporting is key to demonstrating how the organization values its people and the sustainable value proposition it offers to various stakeholders.

This metric is a key indicator of the financial value given by an organization to managing, maintaining and developing its workforce. Total workforce costs include total costs of employees, i.e. total costs of employment and total costs related to external workforce costs.

This is a comprehensive metric which includes total compensation and other workforce costs, which sum to the total workforce costs.

The relative workforce makeup, such as global workforce distribution, education, experience, job level, pay practices and more, has a profound effect on total workforce costs. Across industries, total workforce costs or total labour costs can vary dramatically; however, within a given industry, total workforce costs can be a highly valuable historical and predictive indicator of performance and therefore an excellent metric for industry-level benchmarking.

## 4.3 Formula

Total workforce costs = total employee compensation costs + total employee benefits costs + external workforce costs

Total workforce costs are also calculated as total external workforce costs + total costs of employment.

## 4.4 How to use

Total workforce costs are optimized when analysed by relative position impact, performance level, profitability, productivity, employee engagement, tenure and mobility. When used with such measures, total workforce costs are a predictor of increasing or decreasing trends in employee performance and productivity, turnover and engagement, correlated between certain job roles and workforce groups.

## 4.5 Intended users

The intended users for the above metric are:

Internal users

- other human resource service lines;
- executive team;

- line management;
- union delegates (if applicable);
- finance;
- legal.

#### External users

- investors;
- financial analysts;
- unions (if applicable);
- media;
- industry groups (benchmarking activities).

### 4.6 Contextual factors

Many factors can have a significant impact on the measurement outcome. There can be instances when results are less than expected or indicate a deteriorating situation; further investigation can find positive indicators of improvement.

When considering the context supporting the metric results, consider:

- full-time equivalent (FTE) and headcount at each measurement point, i.e. has the FTE or headcount grown or shrunk significantly enough to change the perspective and meaning of the metric results?
- current activities the organization is undertaking;
  - increased production or product expansion;
  - reorganizations;
  - current activities in educating the workforce;
- cultural shifts, both positive and negative;
- generational perspectives;
- social change or awareness leading to increases in publicity or reporting;
- industry expectation;
- economic factors;
  - downturns;
  - upturns.

### 4.7 Predictive factors

Predictive factors include measuring total workforce costs as a percentage of total revenue or total operating expenses, i.e. the larger the percentage of total organizational expenses that are represented by total workforce costs or total cost of workforce, the greater the impact that changes in key employee and workforce variables have on the organization. For certain industries and organizations with a large percentage of total expenses cost as workforce costs, there is a correspondingly greater potential value creation or destruction potential possible in effective talent management.

## 5 Total external workforce costs

### 5.1 General

Because organizations need to respond to changes in the external and economic context in a more agile and flexible way the traditional workforce structure that features permanent employment is increasingly challenged, resulting in changes to workforce structure systems and costs. External workforce costs in relation to internal workforce costs show the dependency of organizations on an external workforce. External workforce costs are also considered in total costs of employment.

The metric ‘external workforce costs’ includes, for instance, the expenses for contractors, consultants, temporary workers and gig workers. It is defined as the sum of external workforce-related expenses, for example temporary worker invoices, agency fees, independent contractor costs and consultant costs.

Total external workforce costs are the total cost of wages compensation and any benefits offered for contingent (temporary and contract) workers. The costs are calculated and reported commonly on a historical basis. When reporting on a regular periodic basis, such as quarterly, costs should be reported using actual totals, but also it is recommended that these are measured and reported on a full year annualized basis using current or the most recent actual costs. This metric includes all wages and remuneration paid to external workers, such as hourly wages, salaries, overtime bonuses, incentives, shift differential, special and other pay types.

### 5.2 Purpose

Internal and external human capital reporting is key to demonstrating how the organization values its people and also to the sustainable value proposition it offers to various stakeholders.

Total external workforce costs are highly recommended for internal and external reporting by large organizations and SMEs. Subcomponents of external workforce costs, such as total cost of temporary workforce – temporary workforce cost – and total cost of contractor workforce – contractor workforce cost – also recommended and indeed necessary in order to calculate and report external workforce costs.

### 5.3 Formula

External workforce costs = total cost of contingent workforce including temporary workers + total cost of contract workers

The calculation of total external workforce costs should be consistent over time and can align with the financial year or the annual budgeting cycle. For example, the point in time for calculation can be at the end of each measurement period, such as the end of month 1, the end of quarter 2 or end-of-year totals.

Once established, the reporting should include comparisons of previous periods with the current period and past years with the current year. Three-to-five years is a typical comparison period. This measurement period will allow for trends to be established and further allow an organization to better manage expectations and outcomes by establishing targets for future comparison. [Table 2](#) gives an example of such a comparison.

If for any reason an organization decides on another measurement point, utilization of the preferred measurement point should be consistent and documented.

**Table 2 — Six-month analysis and comparative of a breakdown of total external workforce costs**

Description	6 months to 30-06-2020	Comparative 2019 as at 30-06-2019	Comparative 2018 as at 30-06-2018	Comparative 2017 as at 30-06-2017
	000 USD	000 USD	000 USD	000 USD
Independent contractors	300	280	400	200
Contingent workers	600	560	600	400

Table 2 (continued)

Description	6 months to 30-06-2020 000 USD	Comparative 2019 as at 30-06-2019 000 USD	Comparative 2018 as at 30-06-2018 000 USD	Comparative 2017 as at 30-06-2017 000 USD
Temporary workers	420	360	440	300
Outsourced workforce costs	600	560	500	450
Total external workforce costs	1 920	1 760	1 940	1 350

#### 5.4 How to use

Those organizations using total external workforce cost can leverage it as an operational and often strategic measurement tool to better manage their total cost of workforce, total operating expenses and workforce productivity while working toward optimizing organizational productivity and flexibility.

#### 5.5 Intended users

The intended users for the above metric are:

Internal users

- other human resource service lines;
- executive team;
- line management;
- union delegates (if applicable);
- finance;
- legal.

External users

- investors;
- financial analysts;
- unions (If applicable);
- media;
- industry groups (benchmarking activities).

#### 5.6 Contextual factors

Many factors can have a significant impact on the measurement outcome. There can be instances when results are less than expected or indicate a deteriorating situation; further investigation can find positive indicators of improvement.

When considering the context supporting the metric results, consider:

- FTE and headcount at each measurement point, i.e. has the FTE or headcount grown or shrunk significantly enough to change the perspective and meaning of the metric results?
- current activities the organization is undertaking;
  - increased production or product expansion;

- reorganizations;
- current activities in educating the workforce;
- cultural shifts, both positive and negative;
- generational perspectives;
- social change or awareness leading to increases in publicity or reporting;
- industry expectation;
- economic factors;
  - downturns;
  - upturns.

## 5.7 Predictive factors

Those organizations measuring and analysing total external workforce cost can uncover a strong relationship with the mix and types of positions that the organization uses for contingent labour and the related metric total workforce costs. When included as part of the total workforce costs in time series and across differing job families or categories, total external workforce costs can be a leading source of select job roles, talent skills and job types across the organization.

## 6 Ratio of basic salary and remuneration

### 6.1 General

The average salary and remuneration within identified categories of the workforce as defined by the organization should be reported as a ratio based on FTE.

### 6.2 Purpose

Internal and external human capital reporting is key to demonstrating how the organization values its people and to the sustainable value proposition it offers to various stakeholders. This metric helps to establish if an organization is implementing an equal opportunities policy.

### 6.3 Formula

Ratio of average salary and remuneration = 
$$\frac{\text{average total compensation of all employees}}{\text{annual total compensation of defined category or individuals}}$$

The calculation of ratio of average salary and remuneration should be consistent over time and can align with the financial year or the annual budgeting cycle. For example, the point in time for calculation can be at the end of each measurement period, such as the end of month 1, the end of quarter 2 or the end-of-year totals.

Once established, the reporting should include comparisons of previous periods with the current period and past years with the current year. Three-to-five years is a typical comparison period. This measurement period will allow for trends to be established and further allow an organization to better manage expectations and outcomes by establishing targets for future comparison. [Table 3](#) gives an example of such a comparison.

If for any reason an organization decides on another measurement point, utilization of the preferred measurement point should be consistent and articulated.

**Table 3 — Six-month analysis and comparative of a breakdown of ratio of average salary and remuneration for executive staff**

Defined category	6 months to 30-06-2020 headcount	Comparative 2019 as at 30-06-2019 headcount	Comparative 2018 as at 30-06-2018 headcount	Comparative 2017 as at 30-06-2017 headcount
	000	000	000	000
Executive staff	140	130	120	100
Average total compensation of all employees	70	65	65	60
Ratio for executive staff	0,5:1	0,5:1	0,54:1	0,6:1

## 6.4 How to use

### 6.4.1 General

Antecedent = average total compensation of all employees

Consequent = annual total compensation of defined category

### 6.4.2 Alternative metric for consideration

Antecedent = average annual total compensation of defined category

Consequent = average total compensation of all employees

### 6.4.3 Alternate formula

Ratio of average salary and remuneration = average annual total compensation of defined category or individuals/average total compensation of all employees

Using the example in [Table 3](#) the ratio would equal 2:1.

## 6.5 Contextual factors

This metric helps to establish if an organization is implementing an equal opportunities policy.

Many factors can have a significant impact on the measurement outcome. There can be instances when results are less than expected or indicate a deteriorating situation; further investigation can find positive indicators of improvement.

When considering the context supporting the metric results, consider:

- FTE and headcount at each measurement point, i.e. has the FTE or headcount grown or shrunk significantly enough to change the perspective and meaning of the metric results?
- current activities the organization is undertaking;
  - increased production or product expansion;
  - reorganizations;
  - current activities in educating the workforce;
- cultural shifts, both positive and negative;
- generational perspectives;
- social change or awareness leading to increases in publicity or reporting;

- industry expectation;
- economic factors;
  - downturns;
  - upturns.

**6.6 Predictive factors**

None.

**7 Total costs of employment**

**7.1 General**

Total costs of employment are also known as total employee labour costs.

Total costs of employment include total wages and compensation costs in addition to employee benefit costs and other directly related employment costs for a given time period. [Table 4](#) gives an example of a breakdown of total cost of employment.

**Table 4 — Reporting on total costs of employment**

Workforce costs	Prior year USD	Current year USD	Percentage change
Employee salary	464 000 000	510 000 000	9,9
Bonus and incentive	70 000 000	75 000 000	7,1
Benefits	150 000 000	170 000 000	13,3
Other compensation	1 000 000	1 000 000	0,0
<b>Total costs of employment</b>	<b>685 000 000</b>	<b>756 000 000</b>	<b>10,4</b>

**7.2 Purpose**

Internal and external human capital reporting is key to demonstrating how the organization values its people and the sustainable value proposition it offers to various stakeholders.

**7.3 Formula**

Total costs of employment = total employee compensation costs + total employee benefit costs + other costs of employment

**7.4 How to use**

The use of total costs of employment can be optimized by segmenting the workforce and comparing costs based on those segments such as position, performance level, profitability, productivity, employee engagement level, tenure and mobility. When used with such measures, total workforce costs can be a predictor of increasing or decreasing trends in employee performance and productivity, turnover and engagement when correlated between certain job roles and workforce groups.

**7.5 Contextual factors**

This is a comprehensive metric which includes total compensation benefits and other employee-related costs which sum to the total costs of employment, also known as total employee labour cost.