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Human resource management — Workforce productivity metrics cluster

Management des ressources humaines — Indicateurs de mesure de la productivité de la main-d'œuvre

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Foreword

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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).

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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.

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.

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.

ISO 30414:2018, 4.7.8, describes productivity in organizations.

The following metrics are included in this document:

a) earnings before interest and taxes (EBIT), revenue, turnover, profit per employee

   — for-profit organizations;

   — non-government organizations (NGOs).

b) human capital return on investment (RoI).

This document describes the following components for each of the above metrics:

— description;

— purpose;

— formula;

— how to use;

— intended user(s);

— contextual factors;

— predictive factors.

It is recognized that employees, as well as workforce representatives, work councils and labour union representatives, where they exist, can be consulted on issues of productivity and its measurement.

Human resource management — Workforce productivity metrics cluster

1 Scope

This document describes the elements of workforce productivity metrics cluster. This document provides the formula for comparable measures for internal and external reporting.

This document also highlights issues to be considered when interpreting the productivity data, especially when deciding on the appropriate intervention internally and when reporting this to external stakeholders (e.g. regulators, investors).

2 Normative references

There are no normative references in this document.

3 Terms and definitions

No terms and definitions are listed in this document.

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/

4 EBIT, revenue, turnover, profit per employee: for-profit organizations

4.1 General

Productivity ratios per employee, such as revenue or profit per employee, are commonly used to compare the productivity of an organization in the market. These ratios can be used as a simple metric for cost reduction and control or the implementation of a system of performance-based compensation. A historical analysis of this ratio can offer important information about the development of the organization's success or the success of the chosen strategy. This analysis provides the opportunity to monitor value added by employees depending on the organization's growth. Applicability of those values can differ by context, e.g. size, country, age of the organization or business sector. For government organizations no productivity metrics are recommended because of the difficulties in measuring, but some other indicators such as satisfaction of users or quality of services can apply.

4.2 Purpose

Productivity ratios focus attention on the profitable productivity performance of the organization and the direction and comparison of that performance.

4.3 Formula

EBIT is a measure of a firm's profit that includes all expenses except interest and income tax expenses. It is a measure of an organization's ability to produce income on its operations in a given period (e.g. a year).

$$\text{EBIT per employee} = \frac{\text{revenues} - \text{expenses (e. g. cost of goods sold, selling and administrative expenses)}}{\text{total number of employees}}$$

NOTE 1 Some organizations prefer to use full-time equivalent (FTE) in place of number of employees.

NOTE 2 If the number of contingents is large, some organizations prefer a calculation including the contingent workforce.

Once established, the reporting should include the comparison 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. A measurement period based on the budgeted projections and reporting schedules is typical.

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

Table 1 — EBIT per employee and human capital RoI

	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
EBIT per employee (euros)	150 000	120 000	140 000	120 000
Human capital RoI	0,475	0,45	0,44	0,30

4.4 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 head count at each measurement point, i.e. significant growth or shrinkage of FTE, 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.

4.5 Predictive factors

When forecasting potential improvements or deterioration in the current situation, organizations can look to the future known and anticipated events and consider:

— planned organization structural or workforce changes;

— upcoming work, function or product changes;

— acquisitions;

— economic factors

  — downturns;

  — upturns.

— workforce awareness and education;

— political, social, environmental and legislative dynamics;

— industry sector impacts.

5 EBIT, revenue, turnover, profit per employee: Non-government organizations (NGOs) and not-for-profit organizations

5.1 General

The impact of workforce in NGOs and not-for-profit organizations is measured by the services or people supported, the budget and the percentage of programmes implemented.

5.2 Purpose

To measure workforce and organization effectiveness.

5.3 Examples of productivity metrics for NGOs and not-for-profit organizations

The following metrics can be used for NGOs in place of EBIT per employee:

— annual budget;

— percentage of funding deployed;

— percentage of headcount and salary costs of administration staff to fieldworkers;

— number of field workers (where appropriate);

— percentage of training days of utilization days per annum (year);

— number of projects realized or mature state of work per employee with impact on individuals (10 > 100 people);

— number of projects realized or mature state of work per employee with impact on individuals (100 > 1 000 people);

— number of projects realized or mature state of work per employee with impact on individuals (>1 000 people).

5.4 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 count at each measurement point, i.e. significant growth or shrinkage of FTE, 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 reporting;

— industry expectation;

— economic factors

  — downturns;

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5.5 Predictive factors

When forecasting potential improvements or deterioration in the current situation, organizations can look to the future known and anticipated events and consider:

— planned organization structural or workforce changes;

— upcoming work, function or product changes;

— acquisitions;

— economic factors

  — downturns;

  — upturns.

— workforce awareness and education;

— political, social, environmental and legislative dynamics;

— industry sector impacts.

6 Human capital RoI

6.1 General

Human capital RoI means the amount returned for every dollar or euro spent (e.g. employment costs) on human capital. It shows the ratio of income or revenues to employment costs.

This metric is not typically tracked by organizations.

Organizations tracking human capital RoI ratio can effectively measure the linkage of overall or large-scale workforce changes to trends in the organization's market value over time (for publicly traded or other organizations for which a relative market value is obtainable).

NOTE This metric is optimally used for long-term strategic predictions rather than short-term measurement since organizational market values can fluctuate dramatically due to uncontrollable events, as well as industry and market changes.

Human capital ROI ratio is optimized when analysed by employee productivity, performance, turnover and future, or projected, workforce changes in support of optimizing overall market capitalization, along with value provided per FTE employee or worker.

6.2 Purpose

The human capital RoI ratio shows how effectively the investment in human capital is supporting the organization’s goals.

6.3 Formula

According to the concept, human capital RoI is defined as follows:

[Revenue – (total expenses – total cost of workforce)]/total workforce costs – 1.

Total workforce costs calculation is also known as total cost of workforce (TCOW).

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

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

NOTE Some countries or industries use slightly different definitions for total cost of workforce.

Once established, the reporting should include the comparison 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. A measurement period based on the budgeted projections and reporting schedules is typical.

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

6.4 Example

Revenue: 4,5 million; expenses (operating costs): 3,75 million; labour costs (pay + benefits): 1,5 million; calculation: human capital RoI = {[4 500 000 – (3 750 000 – 1 500 000)]/1 500 000} – 1 = 0,5 = 50 %.

For every dollar or euro invested, the organization receives back the original dollar or euro and 50 cents of pre-tax profit. This is described as a 50 % return. The larger the percentage returns the more effectively your investment in people is working. Given that organizational workforce costs can be anywhere from 25 % to 60 % of overall costs, this measure will gain increasing focus for determining how well this investment is being utilized.

A reporting example is highlighted in Table 1.

6.5 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 count at each measurement point, i.e. significant growth or shrinkage of FTE, 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 reporting;
- industry expectation;
- economic factors
  - downturns;
  - upturns.

6.6 Predictive factors

When forecasting potential improvements or deterioration in the current situation, organizations can look to the future known and anticipated events and consider:

- planned organization structural or workforce changes;
- upcoming work, function or product changes;
- acquisitions;
- economic factors
  - downturns;
  - upturns.
- workforce awareness and education;
- political, social, environmental and legislative dynamics;
- industry sector impacts.

7 Additional measures for consideration

7.1 General

The following metric and formula can be used in conjunction with those described previously in this document.