A review of

*The ROI of Human Capital*

by Jac Fitz-Enz,

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Rating: 9

(The Official Ayers Rating Scale goes from 1-10. Anything lower than 6 is thrown out. This produces a net five point scale from 6-10.)

If you've been awake at some point in the last several years, then you must have heard one or both of these comments: "People are an organization's most important asset." "Things have changed, and now it's information rather than equipment that offers a competitive advantage." Perhaps you heard them about *your* own organization. Perhaps you even said them *yourself*.

Jac Fitz-Enz sets out to make the case for both of these comments. He does so in two interesting and complementary fashions. On one hand he offers an array of formulae which should appeal even to the truly quantoid among us. He points out that "sales per employee" is misleading when you have a high percentage of people *other* than ordinary full-time employees (FTEs). He offers accessible schemes for calculating instead such metrics as Human Capital Revenue Factor: take the total revenue and divide it by the number of full-time *and* part-time *and* contingent labor hours. He suggests that this is better than "sales per employee" but still too simple.

On the other hand, Fitz-Enz offers a much more humanistic and value-based case. Yes, you can quantify the ROI, but even if you couldn't, you should *still* treat people as valuable assets. Why? "I believe that the companies that learn how to turn on the information- and intelligence-gathering capability that lies dormant in most employees will dominate the future. And the ROI of human capital in those firms will be astronomical. They will be able to produce much more per person. They will be opening new product lines faster, creating new markets while competitors are reworking old ones, and continually improving life for customers and employees. When that is achieved, management will truly be leveraging the potential of its human capital."

He suggests that we can learn from the most effective companies. They engage in the practices of planning, staffing, compensation, benefits, and development. They also add a sixth which differentiates the best from the rest: retention. It isn't that most companies do a *bad* job of managing retention, he writes. They don't do any job *at all*. Is retention really all that important? you might ask. Shouldn't we look to increased use of "contract" workers or "temporary" workers for flexibility? He quotes Jeffrey Pfeffer, an outspoken Stanford professor, describing the contradiction between a staff which offers "competitive advantage" and a staff with a larger contingent component:

> "If competitive success is achieved through people – if the workforce is, indeed, an increasingly important source of competitive advantage – then it is important to build a workforce that has the ability to achieve competitive success and that cannot be readily

> duplicated by others. Somewhat ironically, the recent trend toward using temporary help, part-timers, and contract workers, particularly when such workers are used in the core activities, flies in the face of the changing basis of competitive success."

Then Fitz-Enz then offers his comments on this contradiction:
"Logically, he has a point. However, no matter its logic and validity, economics will rule, as it always does. So long as executives don't know how to measure the economic value of people, they will continue to treat them as an expense, not as a value-generating force, and to believe that they are saving money by using a large percentage of contingent workers."

Fitz-Enz also points out that this kind of light-weight thinking about serious issues leads to increasing susceptibility to management panaceas. "Another fallacy about trends is perpetrated when people correctly discover a directionality in events but then assume that something else moving in parallel must be the cause or the effect. Mixing correlation with causality is the stuff of the naïve, of charlatans, and of demagogues. Politicians, religious fanatics, and consultants are masters at this." Just because you read it in an airline magazine does not make it true!

Suppose that you accept his ideas. How can you move your organization forward? How can you leverage your human capital more effectively? Fitz-Enz proposes eleven principles near the end, recapping the arguments occurring throughout the book. For example,

*Principle 1: People Plus Information Drives The Knowledge Economy*
*Principle 6: Coincidence May Look Like Correlation But Is Often Just Coincidence*
*Principle 10: The Key Is To Supervise, And The Supervisor Is The Key*

The support for principle 10 comes from his organization having done hundreds of "exit interviews" for large organizations. His conclusions match those we read in *First, Break All the Rules*: if you have a retention problem, then you have a management problem. "The findings revealed that employees who responded most positively worked in the higher-performing organizations. … opinions differed by work unit rather than by company. This implies that the local environment is more important than the corporate culture, structure, or policies. The point hidden in here is that the supervisor is the key."

Bottom-line? If you want to have get the most out of the people, then pay attention to the people who serve as supervisors and managers.