The Return on Human Capital Investment

This essay is a book review of Jac Fitz-Enz, *The ROI of Human Capital: Measuring the Economic Value of Employee Performance*, second edition, American Management Association, 2009. This book is a follow-up of its first edition published in 2000 in which the author’s primary contribution is the addition of two new chapters: one updating the previous edition and another summarizing the key principles. The table of contents identifies eleven chapters in which the title for each chapter uses an action term. These expressions are both enticing and interesting and lure the reader into discovering the “how” of the contents of the book.

This book addresses the current debate in corporate America in the area of Human Capital Management. The issue is: can the human component of the work environment have a measurable return on investment? The author suggests that the three elements of structure (the corporate organization), humans (the employees), and relational elements (customer-to-employee interactions) are the valuable tools in addressing human capital management. It would be thought that the specific audience for this text would be the Human Resource Specialist. However, the text is really addressed to corporate management, believing that they set the vision and that human resources carry it out.

The main argument of Fitz-Enz is measuring the value of people as part of the corporate profit model. This Return on Investment (ROI) concept is very well developed in chapter ten of the text. The preceding chapters, however, do lay essential foundational information. Much appreciated in this text is the thesis that the return on investment of the employees is measured not only economically but spiritually as well. It was of interest to me that Fitz-Enz specifically used the word spiritual to describe the motivation of the employee and their humanity elements.

At first brush, I thought the text would be compartmentalizing the human elements purely into economic numbers. Though there is much of this in the text, there is the recognition that humans are very complex. The primary strength of the book’s argument is the introduction of The New Human Capital Management Model. This model is developed in both scope and sequence throughout the text. Underlying the main argument is the relatively new phenomenon of the on-demand business model. This model is based upon the speed of communication that is available in the business world and the need to provide future predictions rather than past accounting of the company’s efforts.

The unique contribution to the field of human resources management is primarily found in chapter ten, in which a rather sophisticated performance matrix is discussed. This chapter is
particularly useful in the presentation of the Human Capital Management Model. The various illustrations and figures are very helpful in assisting the corporate executive or Human Resources professional in applying the principles presented in the text. The Performance or Predictive Matrix represents Fitz-Enz most important contribution. An additional contribution that is unique to this work is the author’s suggestion of new strategies such as restructuring, outsourcing, contingent workers, and merging are new tools to enhance the human capital return on investment. Fitz-Enz is most noted for his contributions to the measurement of Human Resources and that is a real focus of his work in this text, as well as his greatest contribution to the field.

The application of the contents of this text clearly speaks to large corporations but even small business would find some of its examples and certainly its models and tools, helpful. Overall, this text was very well written with each chapter starting with an interesting and meaningful quote and concluding with a well written summary section. Each chapter had a multitude of headings and subheadings, with key point bulleted and various insights boxed. There were few case studies, but those that existed were most interesting. A valuable feature of the book is its illustrations. Throughout almost all chapters were an abundance of charts, tables, figures, and diagrams. These were excellent tools in visually illustrating and reinforcing the complexity of the narrative. These illustrations were useful and provided a good break from the narrative. This book was certainly worthwhile and chapter eleven, the last chapter, provided an excellent summary of the key principles developed throughout the text. Keeping with the economics and spirituality component of the text, chapter eleven ends with matrices of the human condition.

In conclusion, the overall strengths of this text, for me, were the basis that human capital could be understood by the use of hard data and that a multitude of scorecards, matrices, models, and measuring tools have been developed and can be used at a far more sophisticated level than in previous generations. The very concept of measuring the economic value of the employee is this author’s unique contribution. And I repeat that I appreciate his element of humanity as he deals with the hard data element. There seems to be one minor weakness in the text and that is the unfortunate use that the author makes of references British Petroleum as one of the successful case illustrations. With the recent environmental meltdown and the staggering need for corporate responsibility, the author might want to consider removing BP as an example.