The Bridgespan Group

Measuring the ROI of Human Capital Management

An Interview with James Shepard

James Shepard, CEO and Co-founder, AchieveMission

When James Shepard thinks about human capital management, he thinks about having the right people, in the right roles, working on the right priorities—all in a way that maximizes their contributions today and over time by developing them for future success.

This belief is at the core of what Shepard and his team at AchieveMission do, which is working with nonprofits to implement leadership development and human capital management practices that will help them achieve greater impact. In this Q&A, Shepard discusses human capital management and how organizations can make the argument for implementing stronger practices through the lens of measuring their return on investment—essentially producing more mission for less cost.

What are the trends in the sector that are driving increased concern about the ROI of human capital management?

James Shepard: First, we're seeing a greater focus on accountability and outcomes that drives a thirst for producing more measurable impact at lower costs, something investments in human capital management can deliver. Second, we're seeing increased availability of venture and growth capital from firms like New Profit and Edna McConnell Clark, and government initiatives like the Social Innovation Fund. Their fast-growing grantees have urgent human capital needs and often find that human capital is actually their greatest obstacle to successfully scaling. Third, organizations such as Compass Point and Bridgespan have produced reports that have brought renewed attention to the sector's leadership deficit and the importance of strong leadership to mission success. And, fourth, is that we're seeing interesting solutions bubble up in response to all of this. Our organization is one, but others include the Flexible Leadership Awards from Haas Junior and the White House Initiative on Nonprofit Leadership.

How can a leader convince others that an investment in good talent management leads to a positive ROI?

Shepard: Well, first I would structure the argument in its clearest terms: "Investing in human capital management and leadership will allow us to get more mission for fewer dollars."

Now you need to convince others that you can deliver on that promise. So, the second way is to share research that demonstrates the connection. For example, there are reports that show that schools with stronger human capital management capabilities produce significantly higher academic results. There are studies showing that corporations with stronger human capital management capabilities produce higher revenue and stronger financial results. (See achievemission.org for a list of these studies.)

If you need more, the third way is to bring it closer to home. You likely have peers that have made investments in talent management and have seen the returns. They can tell you stories and share studies and examples that the decision makers in your organization might trust. (See achievemission.org for a list of case studies.) Another good way is to seek out nonprofits that have directors or VPs of talent or chief talent officers.

Fourth, we also have found it powerful to include the executive director and senior leadership team in a relatively low-cost human capital management project where they can see a quick and intuitively clear impact. A project we have found particularly useful in this way is to conduct a talent review and build a succession pipeline. (See Chapter 2: Understanding Your Future Needs from Bridgespan's guide *Nonprofit Leadership Development: What's Your "Plan A" for Growing Future Leaders?* for a description of how to do this.)

What are some examples of how good talent management translates into tangible ROIs?

Shepard: There are lots, but let's look at three. First, stronger human capital management leads to enhanced revenue generation. How? Well, outstanding fundraisers significantly outperform the average, and, if you have turnover in a development role, it can take the new director of development a year or more to be fully productive. So, do a better job of recruiting, developing, supporting, and retaining your revenue producers, and you'll produce significantly stronger revenues for relatively small additional cost.

Second, stronger human capital management reduces operating costs.In a typical organization we find that people are spending 15 to 20 percent of their time on tasks that don't support the organization's highest priorities. That's almost like watching 15 to 20 percent of your workforce walk out the door each day. Implementing a strong performance management system can align everyone's goals with the organization's strategy, establish a culture of accountability, and boost organizational productivity.

Third, stronger human capital management can increase organizational stability. It does this in a few ways, but let's look at just one. Recruiting leaders from outside an organization is inherently risky: such leaders stumble far more often than qualified internally developed candidates. And nonprofits recruit executive leaders at double the rate you will find in the corporate sector. Strong strategic human capital management approaches can dramatically strengthen succession pipelines, reduce the need for new external candidates, and lower the likelihood of an unfortunate hiring mistake.

Where can a nonprofit start in its efforts to measure ROI?

Shepard: The key is to start simple and think in terms of a logic model. The first thing to measure is the immediate process outcomes of your investment. For example, stronger recruiting processes should result in faster times to hire and a higher percentage of your first choice candidates accepting your offers. Another example: stronger leadership development approaches should result in your employees with the greatest leadership potential having development plans specifically designed to prepare them to succeed existing leaders. You can measure that, too. But don't stop there.

The next thing to measure is the impact of improved processes on the leadership and organization. In our example, we would expect stronger recruiting and stronger leadership development programs to produce a stronger team—in fact they better produce a measurably better team. How can you measure that? Do a survey of the staff: do they think the organization has the leaders it needs to achieve your strategy and mission? You can also measure how many of your leaders have at least one internal or external successor identified who could be ready in a year.

And then you can measure the impact on the organization's ability to achieve its strategy: what percentage of the organization's highest priority goals are achieved each year? Are your program measures improving? Is your financial profile stronger? This is the ultimate measure of success.

For each human capital management process you should be able to find two to three measures at each stage: process, leadership and organization, and strategy.

What type of barriers do leaders face in measuring human capital management ROI?

Shepard: The biggest obstacle tends to be that it often requires a change in the hearts and minds of the whole team. For example, a nonprofit that makes recruiting a strategic priority might find that people in the organization feel that time spent on recruiting takes away from doing their "real" jobs. To improve recruiting you first need to *really* convince people that time spent recruiting well is actually the best way to help the organization achieve its mission. Without that emotional buy-in you won't get the results you're seeking. There are a dozen ways that the culture and perceptions of staff and board need to change to really embed stronger human capital management approaches into an organization.

We typically tell leadership teams three things to think about how to overcome those barriers. First, an ED needs to ask, "Am I ready to lead this change by example?" Second, really think through how you will guide the organization through the change. You will need to convince people that the way you manage talent and the human capital management processes you have today will not allow the organization to achieve what you want to achieve, and that the new approaches will better enable the organization to achieve its mission. There are good change models, such as from Kotter and Interaction Associates. Use them. And, the third is to accept that the changes will take years. An organization can only change as quickly as each person can change and learn new skills.

With the right capabilities, all of these obstacles are reliably overcome. The key is to get help since there are good solutions out there. Recruit a senior HR leader onto your board and have them provide a few hours of free consulting a month. Recruit an Encore Fellow who is a senior human capital management professional. Apply to the Taproot Foundation for a free strategic HR grant. To be transparent I led the establishment of that practice as COO at Taproot years ago. Hiring a director of talent also can help. Read up on best practices on our site at achievemission.org. And, let me know how things are going! We will help anyway we can.

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