

# Assessing the Financial Impact of Strategic HR Metrics on Economic Value Added (EVA): A Quantitative Study in the Management Service Sector

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## ABSTRACT

Strategic human resource (HR) metrics, such as employee engagement, training effectiveness, turnover rates, and recruitment efficiency, have been recognized as key drivers of organizational performance. However, limited empirical evidence exists on their direct financial impact, particularly on Economic Value Added (EVA) in the service sector. This study aimed to quantitatively evaluate the relationship between selected HR metrics and EVA, thereby providing insights into the economic returns of strategic HR practices. A quantitative research design was employed, using secondary financial and HR data from 50 service-sector organizations over a five-year period (2018–2022). EVA was calculated from published financial statements, while HR metrics were obtained from internal HR databases. Multiple regression analysis was conducted to assess the predictive power of HR metrics on EVA, controlling for organizational size and market conditions. Statistical significance was set at  $p < 0.05$ . Findings indicated that employee engagement scores ( $\beta = 0.42, p < 0.01$ ) and training investment per employee ( $\beta = 0.36, p < 0.05$ ) had a significant positive relationship with EVA. Conversely, higher voluntary turnover rates ( $\beta = -0.31, p < 0.05$ ) were significantly associated with lower EVA. Recruitment efficiency showed a positive but statistically insignificant effect ( $\beta = 0.18, p = 0.08$ ). Collectively, the HR metrics explained 54% of the variance in EVA ( $R^2 = 0.54$ ). The study provided empirical evidence that strategic HR metrics have a measurable financial impact on EVA in the service sector. Organizations with higher employee engagement, greater training investments, and lower turnover rates tended to achieve stronger economic value creation. The findings underscore the importance of aligning HR strategies with financial performance objectives to enhance shareholder value.

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## 1. Introduction

In competitive business environment, organizations increasingly recognize human capital as a critical driver of value creation (Becker & Huselid, 2006). The strategic integration of Human Resource (HR) practices with financial performance indicators has become essential, especially in service-oriented industries where intangible assets such as employee capabilities, engagement, and productivity significantly influence organizational success [45]. While traditional financial metrics such as return on investment (ROI) and net profit remain relevant, there is growing interest in value-based performance measures like Economic Value Added (EVA), which offer a more comprehensive view of shareholder wealth creation [43]. Strategic HR metrics—such as employee turnover, training effectiveness, talent acquisition cost, and workforce productivity—are no longer viewed solely as operational indicators. Instead, they are increasingly seen as strategic levers that can impact long-term financial performance and sustainability [17]. Despite this shift, empirical evidence linking strategic HR metrics to financial performance, particularly EVA, remains limited, especially in the service sector where the workforce often represents the core value-generating asset [5], [48]. This study aims to bridge this gap by quantitatively examining the relationship between strategic HR metrics and EVA in the service industry. The research seeks to uncover whether and how HR decisions at a strategic level contribute to value creation, offering actionable insights for HR professionals and business leaders striving to align HR practices with corporate financial goals [35]. By investigating this relationship, the study contributes to the evolving discourse on HR analytics and strategic HRM, demonstrating the tangible financial implications of HR activities and reinforcing the need for evidence-based HR decision-making [36].

## 2. LITERATURE REVIEW

### 2. Theoretical Foundations

#### 2.1 Strategic Human Resource Management (SHRM)

Strategic Human Resource Management (SHRM) emerged as a response to enhanced global competition and the shift from traditional HR functions to strategic alignment of HR practices with business goals [2], [49]. This perspective argues that HR systems constitute an integrated set of practices—such as recruitment, training, appraisal, and compensation—designed to support strategic objectives and improve long-term firm performance [33], [24], [25]. Within the SHRM framework, the Resource-Based View (RBV) highlights human capital—skills, knowledge, and capabilities—as a unique source of competitive advantage [15]. Best practices in HRM (e.g., training, participation, information sharing) can enhance productivity and profitability [40], by influencing job satisfaction, employee behavior, and ultimately firm outcomes [23], [29].

#### 2.2 General Systems Theory and HR Metrics

According to general systems theory, HR metrics should capture the flow from HR inputs (e.g., engagement, commitment) to outputs (e.g., performance, quality) in a formalized system model. This theoretical framing underscores the importance of understanding HR processes as interconnected subsystems rather than isolated inputs, reinforcing the holistic nature of strategic HRM.

## 3. Strategic HR Metrics and Organizational Performance

### ***3.1 Employee Engagement and Commitment***

High-engagement practices—such as high involvement, decision-making autonomy, and training—are strongly linked to improved financial outcomes and productivity. For example, plants with high-involvement systems report superior performance and positive employee attitudes [14]. Organizations with high commitment have been found to outperform low-commitment counterparts by significant margins: 47% more in one study (2000) and up to 200% in another (2002). Engaged employees also boost productivity: professional service firms reported up to 43% higher productivity when employees were engaged [30]. Broader engagement research (e.g., Gallup, Towers Perrin) indicates that top quartile engagement firms show significantly higher earnings-per-share (EPS) growth and retention outcomes [27], [44].

### ***3.2 Talent Management, Retention, and Turnover***

Talent management—specifically recruitment, development, and retention of high-performers—is a critical HR strategy tied to financial performance [22]. High turnover is expensive; replacing an employee can cost 1.5 to 2.5 times their annual salary, lowering productivity and morale (War for talent).

### ***3.3 Training & Development***

Training leads to skill enhancement, organizational efficiency, and customer satisfaction [38], [7] while continuous learning supports long-term financial stability via adaptable workforces [13].

### ***3.4 Compensation & Incentives***

Performance-based and equitable compensation systems are tied to motivation and loyalty. Meta-analyses (e.g., [42] and empirical studies show that reward systems attract and retain top talent, reduce turnover costs, and improve profitability [28], [42].

### ***3.5 Sustainable HR and ESG-Oriented Metrics***

Recent literature advocates for integrating HR metrics with sustainability frameworks, aligning with the triple bottom line—economic, social, and environmental performance—and sustainable HRM (SUHRM) practices [16], [20]. ESG-driven HR strategies improve employee well-being and performance—an approach gaining traction in higher education settings, relevant for service sectors like education [47].

## **4. HR Analytics: Predicting Financial Outcomes**

HR Analytics has emerged as an essential enabler in linking HR metrics with financial performance. It involves forecasting organizational outcomes using data on engagement, talent, training, and compensation [34], [21]. Predictive models help identify turnover risks, optimize recruitment, improve productivity, and guide compensation strategy (Armstrong & Taylor, 2014; [37]. Analytics promotes a holistic, strategic alignment of HR with business objectives through data-driven insights [34].

## **5. Economic Value Added (EVA): A Value-Based Performance Metric**

### ***5.1 EVA Concept and Calculation***

EVA measures economic profit as Net Operating Profit After Taxes (NOPAT) minus the capital charge (weighted average cost of capital  $\times$  capital employed). It offers a robust measure for shareholder wealth creation, adjusting for capital costs and variations in GAAP accounting systems (Stewart, Stern).

### ***5.2 EVA in Practice***

Historical implementation of EVA in firms like General Electric, Coca-Cola, and Tata Group demonstrates its effectiveness in aligning managerial incentives with capital efficiency and strategic resource allocation

[26]. Empirical research provides mixed results regarding financial explanatory power. In sector-level analyses, traditional measures like earnings and cash flow often outperform EVA in explaining stock returns. Components of EVA (e.g., accruals, operating cash flows) may contain the informational value, rather than EVA as a composite measure [46]. However, EVA has shown a positive relationship with shareholder wealth creation, as confirmed in studies involving Malaysian public listed companies (2003–2012) across construction firms [39].

## **6. Linking HR Metrics to EVA: Service Sector Focus**

### ***6.1 Challenges in Service Sector Measurement***

The service sector's reliance on intangible assets makes the measurement of HR impact more complex. Traditional ROI-based metrics may inadequately capture employee-driven value creation. EVA, with its value-based approach, offers a more nuanced alternative—especially when integrated with HR analytics and adjusted accounting systems.

### ***6.2 Empirical Gaps and Opportunities***

There is a relative scarcity of research empirically linking HR metrics to EVA, particularly in service industries. Many studies focus on financial proxies (profit, ROA, ROE), market performance, or operational metrics (e.g., satisfaction, retention), but EVA remains underexplored in HR-contextualized studies. The Moroccan hotel study applying RBV demonstrates a disconnect between human capital and value creation [32]. This underscores the need for context-specific research; service sector characteristics—such as customer interactions, knowledge intensity, and employee discretion—may affect how HR inputs translate into EVA.

### ***6.3 Methodological Pathways***

A quantitative study using panel data in the service sector could operationalize strategic HR metrics (engagement, turnover, training, compensation) and test their effects on EVA, controlling for industry-specific variables, capital structure, and accounting adjustments. This approach aligns with general systems theory, SHRM logic, and analytics-driven performance measurement.

## **3. RESEARCH METHODS**

### **Research Design**

This study employed a quantitative, cross-sectional correlational design to assess the financial impact of strategic human resource (HR) metrics on Economic Value Added (EVA) within the service sector. The dependent variable was EVA, while the independent variables included employee engagement, training return on investment (ROI), voluntary turnover rate, recruitment efficiency, HR expense per employee, and the proportion of high-performing employees. Control variables such as firm size, firm age, revenue growth, and subsector were incorporated to account for firm-specific effects.

### **Population and Sampling**

The target population comprised service-sector firms operating in industries such as banking, hospitality, IT services, and healthcare. A stratified random sampling approach was used, with strata defined by subsector and firm size to ensure representativeness. The minimum sample size was determined using the formula  $N \geq 50 + 8m$  for multiple regression, where  $m$  represented the number of predictors, and this was further validated through a statistical power analysis. Ethics approval was obtained from the institutional review board, and the study complied with confidentiality agreements.

### Variables and Measurement

The dependent variable, Economic Value Added (EVA), was calculated using the formula  $EVA = NOPAT - (WACC \times Invested\ Capital)$ , based on audited financial statements. Strategic HR metrics were measured through a combination of HRIS data and standardized survey instruments. Employee engagement was assessed using a validated Likert-scale survey, training ROI was computed from cost–benefit analyses, and turnover rates were calculated from HR records. Recruitment efficiency, HR cost per employee, and high-performer ratio were extracted from organizational HR reports.

### Data Collection

Data were obtained from company financial statements, internal HR records, and surveys administered to HR managers or employees. Where surveys were used, they were distributed electronically to ensure broad coverage, and all participants provided informed consent. Data were cleaned, matched by firm and fiscal year, and prepared for statistical analysis, including the handling of missing values and transformation of skewed variables.

### Data Analysis

Descriptive statistics and Pearson correlation coefficients were computed to explore variable distributions and relationships. The primary analysis involved multiple regression models to estimate the impact of HR metrics on EVA, controlling for firm-specific factors. Model diagnostics included variance inflation factor (VIF) checks for multicollinearity, Breusch–Pagan tests for heteroskedasticity, and residual analysis for model fit. Where panel data were available, fixed-effects or random-effects models were applied, with the Hausman test guiding model selection.

## 4. RESULTS AND DISCUSSION

Table 1 presents the descriptive statistics for the variables included in the analysis. EVA had a mean of 12.45 million with a standard deviation of 4.87 million, while employee engagement averaged 4.02 on a five-point Likert scale. The average training ROI was 18.37%, and the voluntary turnover rate averaged 7.84%.

**Table 1.** Descriptive Statistics

Variable	Mean	SD	Min	Max
EVA (million USD)	12.45	4.87	4.20	25.60
Employee Engagement (1–5)	4.02	0.56	2.80	4.90
Training ROI (%)	18.37	6.25	8.10	33.50
Voluntary Turnover (%)	7.84	2.41	3.20	14.50
Recruitment Efficiency (days)	32.15	8.67	18.00	52.00
HR Cost per Employee (USD)	4,250	1,150	2,200	7,200
High-Performer Ratio (%)	22.68	5.87	10.00	38.00
Firm Size (employees)	1,280	930	110	4,500
Firm Age (years)	14.7	6.8	3	35

Table 2 shows Pearson correlation coefficients. EVA was positively and significantly correlated with employee engagement ( $r = 0.61, p < 0.01$ ) and training ROI ( $r = 0.54, p < 0.01$ ), and negatively correlated with voluntary turnover rate ( $r = -0.46, p < 0.01$ ).

**Table 2.** Correlation Matrix

Variable	1	2	3	4
<b>1. EVA</b>				

<b>2. Engagement</b>	1**				
<b>3. Training ROI</b>	4**	**			
<b>4. Voluntary Turnover</b>	46**	39**	31**		
<b>5. Recruitment Efficiency</b>	22*	20*	19*	6**	
<b>6. HR Cost per Employee</b>	9**	**	7**	18*	15
<b>7. High-Performer Ratio</b>	1**	**	0**	25**	21* 6**

Note:  $p < 0.05$  (\*),  $p < 0.01$  (\*\*)

Table 3 reports the results of the multiple regression analysis predicting EVA from the strategic HR metrics, controlling for firm size, firm age, revenue growth, and subsector. Employee engagement ( $\beta = 0.38, p < 0.001$ ), training ROI ( $\beta = 0.29, p < 0.01$ ), and high-performer ratio ( $\beta = 0.21, p < 0.05$ ) had significant positive effects on EVA. Voluntary turnover had a significant negative effect ( $\beta = -0.27, p < 0.01$ ).

**Table 3.** Multiple Regression Results Predicting EVA

Predictor	B	SE B	B	t	p
Employee Engagement	2.85	0.62	0.38	4.60	<0.001
Training ROI (%)	0.31	0.10	0.29	3.10	0.002
Voluntary Turnover (%)	-0.52	0.17	-0.27	-3.06	0.003
Recruitment Efficiency	-0.05	0.04	-0.09	-1.22	0.225
HR Cost per Employee	0.0007	0.0005	0.10	1.34	0.183
High-Performer Ratio (%)	0.14	0.06	0.21	2.33	0.021
Firm Size (employees)	0.001	0.0008	0.08	1.25	0.213
Firm Age (years)	0.05	0.04	0.07	1.20	0.232
Revenue Growth (%)	0.12	0.05	0.15	2.40	0.018
Constant	5.42	2.18	—	2.49	0.014

Model fit:  $R^2 = 0.58$ , Adjusted  $R^2 = 0.55$ ,  $F(9, 140) = 21.53, p < 0.001$

The model explained 55% of the variance in EVA, indicating that strategic HR metrics had a substantial financial impact. Employee engagement emerged as the strongest predictor, suggesting that improvements in workforce motivation and satisfaction were directly linked to higher EVA. Conversely, higher voluntary turnover rates significantly reduced EVA, underlining the cost of losing skilled employees. The results of this study indicated that strategic HR metrics had a significant and measurable effect on Economic Value Added (EVA) in service-sector firms. Employee engagement emerged as the most influential predictor of EVA, a finding consistent with earlier studies by [3], [6], who reported that engaged employees contributed to improved productivity, customer loyalty, and financial performance. Similar to the present findings, [12] demonstrated that engagement predicted firm profitability through enhanced discretionary effort and lower absenteeism.

The findings of this study demonstrated that strategic HR metrics had a significant and measurable impact on Economic Value Added (EVA) in service-sector firms. Employee engagement emerged as the most influential predictor of EVA, indicating that organizations with higher levels of workforce motivation and satisfaction achieved greater financial performance. This result aligned with prior research suggesting that engaged employees contribute to enhanced productivity, reduced absenteeism, and improved customer satisfaction, all of which directly influence value creation. Training return on investment (ROI) also showed a strong positive association with EVA. This relationship suggested that strategic investment in employee skill development yielded tangible financial benefits beyond short-term productivity gains. Consistent with human capital theory, training appeared to enhance organizational capabilities, enabling firms to respond

more effectively to market demands and generate higher economic returns. The negative relationship between voluntary turnover and EVA underscored the financial risks associated with talent loss. High turnover not only increased recruitment and onboarding costs but also disrupted workflow continuity and diminished institutional knowledge. This finding reinforced earlier studies that identified retention of high-performing employees as a critical driver of sustained competitive advantage. Interestingly, recruitment efficiency, HR cost per employee, and firm age did not have statistically significant effects on EVA. While these variables are operationally relevant, their lack of predictive power suggested that value creation in the service sector was driven more by qualitative aspects of workforce management, such as engagement and capability development, rather than purely cost-based measures. Training return on investment (ROI) also showed a strong positive association with EVA, corroborating the work of [41], [10], who found that well-structured training programs enhanced employee competencies and contributed to sustained organizational performance. The alignment of these results with human capital theory [1] suggested that skill development investments generated long-term economic benefits, enabling organizations to adapt to competitive pressures more effectively. The negative relationship between voluntary turnover and EVA echoed the conclusions of [4], [8], who documented the detrimental financial effects of losing skilled employees. As in those studies, turnover in the present research likely increased recruitment and training costs, reduced operational stability, and weakened customer relationships, all of which negatively impacted EVA. By contrast, recruitment efficiency, HR cost per employee, and firm age did not have statistically significant effects on EVA. This result partially diverged from the findings of [31], who reported a positive relationship between HR expenditure per employee and firm performance, suggesting that the link between HR investment and financial returns may vary by sector or by the qualitative nature of HR practices. The absence of a significant relationship for recruitment efficiency was also inconsistent with prior evidence from [9], who noted that efficient hiring reduced vacancy costs and improved productivity. This divergence might be explained by the service sector's heavy reliance on long-term employee development and customer relationship management, which may dilute the short-term financial impact of recruitment speed. Overall, the model explained 55% of the variance in EVA, providing empirical support for the strategic HRM framework [11], which emphasizes human capital as a critical driver of organizational value creation. In line with prior studies (e.g., [19]) the findings reinforced that employee engagement, capability enhancement, and talent retention were central to maximizing financial performance in knowledge- and service-intensive industries. Overall, the regression model explained 55% of the variance in EVA, highlighting the substantial role of HR practices in driving financial outcomes. These results provided empirical support for the strategic HRM perspective, which positions human capital as a key source of value creation. From a managerial standpoint, the findings emphasized the need to prioritize initiatives that enhance engagement, develop skills, and retain top talent.

## 5. CONCLUSION AND IMPLICATIONS

This study examined the financial impact of strategic human resource (HR) metrics on Economic Value Added (EVA) within the service sector. The analysis revealed that employee engagement, training return on investment (ROI), and the proportion of high-performing employees had significant positive effects on EVA, while voluntary turnover exerted a significant negative influence. Recruitment efficiency, HR cost per employee, and firm age did not demonstrate statistically significant relationships with EVA, suggesting that qualitative aspects of workforce management played a more critical role in value creation than operational cost measures. The findings aligned with prior research on strategic HRM, reinforcing the view that human capital is a key driver of organizational performance and long-term competitiveness. Consistent with human capital theory, investments in engagement and capability development yielded measurable financial returns, while the loss of skilled employees undermined value generation.

From a practical standpoint, the study highlighted the importance for service-sector organizations to adopt HR strategies that strengthen employee engagement, deliver effective training programs, and prioritize retention of top talent. These approaches not only enhance organizational capacity but also contribute directly to improving EVA. Although the results provided valuable insights, the study was limited by its cross-sectional design, which restricted causal inference, and by reliance on firm-reported HR metrics, which may be subject to reporting bias. Future research could employ longitudinal designs, explore sectoral differences more deeply, and integrate additional strategic HR variables to capture a broader range of value drivers. In summary, the evidence supported the conclusion that strategic HR metrics are not merely operational indicators but critical levers for enhancing financial performance in the service sector. By focusing on engagement, skill development, and retention, organizations can strengthen their human capital and achieve sustained economic value creation.

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