

Andrew Mayo

3 | Measuring and reporting – the fundamental requirement for data

Andrew Mayo

It is in many ways surprising that it has taken so long for a serious interest to be taken in so-called human capital reporting, supported by people-related measures. After all, understanding the value and importance of organisational assets such as talent, high performing teams, skilled leadership (to pick just a few), in achieving results is nothing new. Research has been showing us for years how 'people make the difference' in every kind of organisation. It is well known that the market value of a commercial enterprise is generally between two and 20 times the value of the net tangible assets, as measured by the balance sheet – the difference representing the 'intangible assets'. These intangibles embrace a wide range of value-creating types of capital – including a high proportion of the people employed, the 'human capital'. And it is only people, individually and collectively, who develop, maintain and grow other valuable assets of this kind.

There are forces working both for and against the logical conclusion one might draw, that measuring, monitoring and reporting on

intangibles should be an essential part of organisational management. Not least is the fact that people are always accounted for as costs, and never as investments – whereas in truth they could be either. Because of this, reducing 'headcount' is the quickest way to show costs reducing, despite the large amounts paid out to achieve it – amounts which appear in a different accounting box called 'restructuring'.

'...people are always accounted for as costs, and never as investments – whereas in truth they could be either.'

Even the word 'synergy', supposed to be a positive word, has been hi-jacked in mergers and acquisition-speak to mean reduced costs equal fewer people. We may well know the costs that will be 'saved', but we usually have no idea of the value that will be lost. This is despite study after study demonstrating that most M&As do, in fact, lose value for their shareholders; yet the pressure to follow the same path remains – aided and abetted by the financial media and city analysts.

32 | What's the Future for Human Capital?

Measuring and reporting – the fundamental requirement for data

This one-dimensional view by financial people that the only measure relating to people is their cost is not the only problem. Many HR professionals are uncomfortable with the whole concept of more measurement. This may be philosophical – a belief that doing the right things is more important than trying to measure. Or it may be due to unease about how to go about the whole measuring process, and concern that any data may lack reliability or be misinterpreted. A very real difficulty is to make the choice of which measures will be useful and to whom. Furthermore, unless pressure comes from outside the function, it is easy to feel that there are sufficient other priorities. And especially if experience has told us that providing data to management has met with disinterest, we are not encouraged to put in a lot more effort.

'The requirement to report on intangible assets in a meaningful (rather than anodyne) manner is moving steadily forward.'

Nevertheless, there are more pressures than before to wrestle with the subject and find a solution. One of the strongest influences on change in organisations today is under the general heading of 'governance'. The requirement to report on intangible assets in a meaningful (rather than anodyne) manner is moving steadily forward. Although the recommendations of the Kingsmill report were not adopted, and some were disappointed that the Government's Operating and Financial Review lacked punch in the people

area, nevertheless a process has started.

Companies know that the requirements are likely to increase over time and that they need to get their act together. At the time of writing, Chancellor Gordon Brown surprisingly announced that the Government was going to drop the requirements for an 'OFR' – a decision greeted with much dismay in many quarters. It is unlikely to be a permanent position, since it goes against all the trends towards better corporate governance and transparency.

This, however, is not the only pressure to do something. Stimulated by the CIPD's own reports, by books on the subject, and by the desire to be more business-orientated, there are now frequent seminars and conferences on aspects of people measures. Empirical studies in banking and retail are showing intriguing and scientific correlations between people engagement and performance. In my own work, organisations as far apart as universities, public sector agencies and engineering companies are keen to get people higher up on the agenda through the right measurement framework.

Human capital reporting has to be seen as more than a chore for compliance purposes. HR's ambition should be that every manager has a human capital statement that is as important and *useful* as their regular financial statement. It is the usefulness that is the challenge, and that will depend *inter alia* on the choice and credibility of the data used.

The diversity of data requirements

This essay will focus particularly on the issue of data. When we consider the different potential audiences for people-related data, and the specific interests that they have, this is no easy question to answer.

Table 3, below, looks at the varying reasons for being interested in people-related data, and how the characteristics of suitable data vary according to the different needs

Table 3 | Reasons for interest in, and characteristics of, people-related data

Stakeholder	What they need data for	Characteristics of the data
Investors	To be reassured of a sound future for the company through its management and human capability.	At enterprise/global level. Focused on the future.
Analysts	To make comparisons with other similar companies or against 'expectations'.	At enterprise/global level. Focused on the future and the present. Following standard methodologies to provide sound inter-company comparisons.
Journalists	To make comparisons, not just with other companies, but also over time.	At enterprise/global level. Following standard methodologies to provide sound inter-company comparisons.
Governments	To ensure compliance.	At enterprise/global level.
Benchmark clubs	to share agreed data in order to understand and learn best practice.	At regional/country level. Mutually agreed standards of data definition.
Senior management	To make internal comparisons between units, and set targets.	At business unit/department level. Standardised framework and data definition.
Other managers	To make good people decisions.	Relevant to local needs. Correlated with performance parameters.

34 | What's the Future for Human Capital?

Measuring and reporting – the fundamental requirement for data

Stakeholder	What they need data for	Characteristics of the data
HR function	To measure effectiveness and value added.	Service levels and process effectiveness.
Finance function	To audit return on investments.	Standard methodology for Roi, and definitions for calculating 'returns'.
Trade unions	To keep checks on management.	Data requirements defined by areas of concern, including political.
Employees	Any data referring to them personally.	Individual information and assessments.

This table shows a considerable diversity in the types and levels of data needed to satisfy all the players.

The first obvious differentiation is in the levels of data. At the enterprise level, which is the level of concern of statutory bodies, companies have volunteered for many years to have sections about their people, particularly where they had initiatives and programmes that would place them in a favourable view. There have been very few examples of actually showing figures, such as employee satisfaction, and those have not been sustained. Whereas some companies report business results by operating division, any sections on people have tended to take a consolidated perspective.

When it comes to data at this level, it is sometimes said that 'the average is the enemy of the truth'. In

other words, the more consolidated data becomes the less meaning it has, because of the variations it hides. A global figure for attrition or for satisfaction tells us little on its own, and it is doubtful whether companies will want to volunteer data broken down by unit. A further problem is the difficulty that some organisations would have in collecting many types of data, given geographical and ownership complexities – and the empowerment that local operations may have in choosing their own methodologies.

Another dichotomy arises from the continual tension between standardisation and relevance. Thus, senior management would generally like units and teams to measure the same things, so that they can get comparisons between them. With statistical data such as headcount breakdown and attrition this is not a problem, and people can work to standard data and ratio definitions. But

when we start to look at motivation and engagement, for example, the factors that make a difference are very local. The trend is to move away from, or at best supplement, the one-size-fits-all employee survey with localised and more frequent 'pulse surveys'.

Different types of people-related data

One source of confusion for HR functions is the unhelpful concept of a 'basket of measures' – a mixed collection of measures that are all people-related in some way, but which are unconnected to any other business measures or logic. To some extent this has been fuelled by the otherwise excellent 'balanced scorecard' approach to performance management – where HR has been asked for some 'people' measures. (Actually the designers of the scorecard talked about a 'learning and innovation' quadrant, rather than 'people', – a much more difficult area for measurement but arguably more strategic.) So they have responded with what they have, whether they are the real drivers of performance or not.

Here are seven different types of people-related data:

- **Workforce statistics.** This includes various breakdowns of our human capital – by job type, grade, gender, location, ethnic origin and so on. If we take an inclusive view of human capital it will also include temporary, subcontract and consultant resources.

This category may also include various ratios and trends of attrition (plus reasons), absenteeism (plus reasons), increases/decreases in certain employee groups, and so on.

- **Financial ratios relating to people and productivity.** This set of data relates business results to the people producing them. There are many different formulae available. The commonest in use is probably sales /head, although revenue divided by total compensation of all human capital deployed has more meaning.

Particularly useful are ratios of *added value* in its financial definition, namely the wealth created through the efforts of the enterprise and its people. This is the difference between the revenues generated and the cost of bought-in goods and services. This figure can be related to labour costs – probably the best ratio of overall productivity – or to sales.

Ratios using profits are not so helpful, since profit is somewhat of a judgement at the end of the day and many factors contribute to it. For organisations that do not have revenues, measures of the strategic outcomes for that organisation are needed, in order to be compared with people measures.

It is important to bring these outcome measures as low down in the organisation as we can. This may be dictated by the way the

36 | What's the Future for Human Capital?

Measuring and reporting – the fundamental requirement for data

financial system works and the levels of budgeting. It is also challenging in many functions, especially those in support rather than in the front line, to find credible and useful productivity measures. These should be built around the 'added value to stakeholders'; preferably external but, if this is not possible, internal.

- *The value of people.* This is generally an undeveloped area. Although there are formulae to express this financially, they are not in widespread use. The most useful expression of value is an index of the key qualities (such as experience, knowledge and skills, competencies and attitudes, values, potential, mobility) that make a person valuable. The factors used cannot be one-size-fits-all as they vary with each value-producing group. One of the earliest Scandinavian publishers of people data used academic qualifications as an expression of its human capital strength; however, it is more complex than that. This area is going to be subjective – starting with a person's manager, but perhaps bringing in other perceptions from people who work with the individual concerned.
- *The engagement of people.* We have learnt that employee satisfaction does not necessarily imply that we have the more desirable *engagement*, or commitment to the organisation's objectives and, as referred to above, many organisations are using short and frequent surveys to track this. We need to have measures, both of the level of engagement *and* the factors that influence it one way or the other.
- *The efficiency of the HR function.* This is not to do with the human capital in general, but is included here because it is often mixed up in the 'baskets' of measures referred to earlier. Here we refer to *service levels* and cost ratios in providing HR services, and to *internal HR processes*. We could also argue here for measures of value added from the function. However, the other six categories of data – all influenced by HR's interventions and activities – reflect the value added by HR professionals.
- *The effectiveness of people processes.* These are processes generally designed and overseen by the HR function, but deployed by managers. Measures of processes – such as appraisal, recruitment, succession planning, training – include rates of participation, efficiency (time required to go through the process) and effectiveness (achieving the outcome). Such measures are often seriously lacking. Each process should include the data collection that is necessary to check that its purpose is being fulfilled.
- *The investment in one-off initiatives and programmes.* This is about ensuring and assessing a suitable return in the benefits and outcomes from specific initiatives from the costs incurred. Data here should be specially

defined and prepared to suit the needs of the initiative. For example, if we have a cultural change programme, we need one-off instruments to measure progress, uniquely designed for their purpose. Note here that returns will not all be measured in financial terms – they cannot be. But all outcomes should be measurable.

For most organisations, data is generally available for the first two categories above. Unfortunately, one often finds that seriously useful data such as the *reasons* for people leaving or being absent (key indicators of engagement) are not well-classified or even to be found at all. In public sector organisations, relating people and outcomes are often much undeveloped, despite the plethora of government-imposed targets.

For the remaining five categories, a deliberate strategy is needed to define the measurement framework needed.

Some data is easier to obtain than others. That which is generated through existing IT systems (Finance, HRIS) is the most accessible. Other data requires planning, design and maybe investment to set it up and provide continuity. Once-off data collection (like the opinion survey not repeated for three years) has little value. There needs to be an integrated plan for what is needed, not some once-off initiatives. This is one benefit of a requirement for public reporting – it is needed every year.

Dangers in data collection

Even finance people have to cope with the difficulties of apparently sound data not being quite what it appears. This is particularly true of estimates and forecasts where people play political games, providing the information that they believe is wanted. We have seen many scandals in recent years where financial data has been misrepresented, even though founded in some kind of truth. There is a distinction between data that is indisputable and that which is open to interpretation. Whatever data framework we have, it is important to understand into which category each set of numbers fits.

'In general, data about what has already happened – both in terms of results or behaviours – is more useful than predictive or perceptual data.'

In general, data about what has already happened – both in terms of results or behaviours – is more useful than predictive or perceptual data.

Any data that relies on questions and perceptions is subject to a number of biases. The wording of questions is very influential. Professional questionnaire designers ask questions in different ways in order to attempt to confirm answers. The politics of the question can make a difference. If I know my manager will receive (or not receive) a bonus based on what I say, this could influence me

38 | What's the Future for Human Capital?

Measuring and reporting – the fundamental requirement for data

one way or another. If I am asked my reason for leaving, or being absent, I may provide an answer which will be more acceptable than the true reason.

Putting data in context

Most data in business has little meaning if it is unrelated to anything else. It is true that we can look at a balance sheet – a photograph in time – and calculate ratios that give us a signal of healthiness or otherwise. But the value of these ratios increases enormously as we compare them with other similar organisations or with the progress over time.

People-related data will go up and down over time for many reasons. It is not the kind of data that will show continuous improvement on all fronts, and one might be rightly concerned about interpretation by people who did not know all the facts behind the numbers. What is important, though, is to understand the trends that are going on – what is increasing and what is decreasing.

It is, therefore, important to standardise on data definitions and to avoid changing these before a reasonable trend has been established.

In addition to the timeline of data, it begins to have real meaning when *connected* to other data. By way of example, three models developed in the last 15 years illustrate this.

1 **The Balanced Scorecard** recognised that the prime outcome of an organisation (financial,

for a commercial organisation) depended on achieving other indicators, too. Their model looked for measures which were both 'lead' and 'lag' indicators, influencing one another, in the four areas of finance, customers, internal efficiency and learning/innovation. This model has proved immensely popular and a majority of large organisations deploy it in some form.

2 **The Employee–Customer-Profit Chain** has a logic which explicitly links employee satisfaction to customer satisfaction and to profitability. It has been particularly applied in retail and banking, where comparisons between stores/branches are useful and easy to make.

3 **The Human Capital Monitor** works with specific groups in an organisation who share common characteristics and outputs. It links together key qualities which comprise the value of the people themselves, measures of and influences on engagement, and business results. This approach has proved its worth in a variety of organisations, private and public, and particularly for groups of people at the front line.

When we look for data on processes, it is important to distinguish between quantity and quality. Thus, we may have 80 per cent of appraisals completed, but what are they achieving? So, here, impact measures must be linked with activity measures.

Progress that has been made

It is only three to four years since this issue has been taken seriously by HR functions.

We can make the following observations on what has been happening.

- ❑ There have been several think tanks, such as the Corporate Leadership Council, set up with leading companies to try and define the measures that could be used. These have been supplemented by proposals and advice from consultancies and bodies such as the CIPD.
- ❑ The concept of employee engagement has supplanted 'satisfaction' and led to more frequent surveys of employee feelings in many organisations – increasing the data available.
- ❑ Slowly but surely the large HRIS systems – such as Oracle, SAP and Peoplesoft – are penetrating organisations. They provide a substantial platform for data reporting, and are often supplemented by niche IT systems (such as succession planning) which further enhance data availability.
- ❑ Rigorous in-company research has taken place in looking for links between engagement and performance, especially in banks and retail organisations. Results have been encouraging and helped direct managerial action
- ❑ Many organisations are just concerned with data at the top level – 'what to report'. If our only concern is compliance we miss the opportunities of human capital management, which is a rigorous data-based approach to managing the value chains of which people are the foundation.
- ❑ In parallel with the 'business partner' movement in HR transformation, there has been some education of HR professionals in business understanding.
- ❑ HR is beginning to step aside from the accountant's shadow, and recognise that there is more to life than the simplistic bottom line. Much of what HR is doing is about the future, and it is a positive future that encourages investors and lifts the share value. HR must identify and build the 'strategic outcomes' that make up the cause and effect map that leads to long-term sustainability.

Conclusion

Although progress is being made and interest increasing, it is still slow. The pressure from senior management is generally weak, and HR is often understandably cautious about pushing forward an initiative that puts itself more clearly in the spotlight. The withdrawal of the OFR requirements (hopefully temporary) will remove the pressure on many even further.

40 | What's the Future for Human Capital?

Measuring and reporting – the fundamental requirement for data

Whatever we provide, at the end of the day, the key test is 'did the audience for which this data was intended find it useful for their purpose?' at whatever level it is provided. HR must look outwards to set up its framework, involving management and others, and not deciding these measures unilaterally.

Those HR professionals, advisers and institutions believing in the value of a coherent, integrated approach to measuring, monitoring and reporting need to continue to make the case. They should do this to governments, to sister institutions such as those in accounting and in general management, and to financial analysts who need to know which questions to ask.

What is human capital management? Surely it is using the meaning of 'capital' as 'value creating'; not seeing people as mere resources or headcount. Anyone who believes in the essential difference that the right people make in the right place with the right skills at the right time – must strive to get them on the map of performance and business management indicators. It may well result in some discomfiting findings – but the process will only enhance the credibility of the function as true business partners.

References

Fitz-Enz, Jac (2000). *The ROI of Human Capital*. New York: Amacom.

Heskett, J. L., Sasser, W., Earl Jnr and Schlesinger, L. A. (1997). *The Service Profit Chain*. New York: The Free Press.

Kaplan, Robert S. and Norton, David P. (1996). *The Balanced Scorecard*. Boston, MA: HBS Press.

Kaplan, Robert S. and Norton, David P. (2000). *The Strategy-focused Organisation*. Cambridge, MA: Harvard Business School Press.

Mayo, Andrew J. (2001). *The Human Value of the Enterprise – Valuing People as Assets*. London: Nicholas Brealey.

