

# Measures of workforce capability for future performance

Volume 1: Identifying the measures that matter most

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## Executive Summary

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# Foreword

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In the early stages of life, most evolving disciplines are surrounded by an array of terms that are hotly contested by academics; frequently we later find that, in fact these terms have the same broad intent. The evolving study and application of Workforce Reporting, Workforce Analytics, HR Lead / Lag metrics, Human Capital Reporting, Human Capital Management and Human Capital Metrics thereby all fall into the category of an 'evolving discipline'. Ultimately the terms point toward the same goal: *"the search for a practical framework of appropriate workforce measures that can be readily understood by many stakeholders when considering future investment and corporate decisions"* (Sir Paul Judge, former President of the Chartered Management Institute, 2005).

It comes as no surprise that if organisations were able to act upon reliable, transparent, predictive and widely understood workforce measures, their stakeholders would view the potential performance of those organisations more positively. If such measures were able to be applied consistently across all sectors and sizes of organisation, stakeholders and Investors might, in time and with appropriate experience, be able to 'rate' organisations through comparison and trend analysis. Human capital management professionals from HR and general management disciplines within any given organisation might then be able to display the ROI on human capital management through 'ratings' and improved performance. It is a holy grail that many have sought for years.

Perhaps this is part of the reason for the Government indicating interest in HCM Metrics at various times. Whatever the reason, the UK Government has held back from regulating to ensure the adoption of measures. 'Accounting for People' gave way more recently to the 'Operating and Financial Review' which itself has stalled. Yet individual organisations continue to show interest in evolving and using metrics due to their own desire to develop and execute 'best practice' and to show how 'People are their greatest Asset'. On the back of this interest and activity, consultants and academic groups have released proprietary HCM metrics, valuations and ratings – The Newbury Index, Saratoga, Deloitte, Accenture, Bassi, Mercer and Valuentis are but a few. Case studies are also increasingly available.

The Chartered Management Institute, Centre for Applied HR Research at Oxford Brookes University and Oracle HCM Performance Steering Group (PSG) is one such group on this quest that formed just under two years ago. Following the publication of *Getting the Basics Right (May, 2005)*, it sponsored an assessment of Investor and Director views on which human capital management measures are most likely to affect an organisation's future performance. It asked these stakeholders what metrics are currently being measured, how effectively they are being measured and which metrics have the most impact on performance. The findings are now available; the results are clear and are represented below. The most highly recommended workforce measures are, of course, extremely close to many other groups' conclusions.



Ian Smith  
Regional Senior Vice President and Managing Director, Oracle UK Region.

# Executive Summary

## Key findings from the research

- 86 per cent of Directors agree that they value their employees as key assets and 77 per cent believe that their workforce development is aligned to business goals. However, only 68 per cent measure the contribution made by employees.
- 86 per cent of Directors view the reputation of their top team as important, but only 53 per cent have measures in place. Some 64 per cent value talent management, but only 29 per cent have any measures.
- Seventy per cent of Directors agreed that the effective measurement and reporting of their organisation's HCM would improve long-term sustainability. Two-thirds also agreed that effective HCM would improve employee commitment, employer brand and competitive advantage.
- The findings show that despite stakeholders agreeing that certain metrics are important to future organisational performance, their organisations are not effectively measuring them (see Figure 1 below).

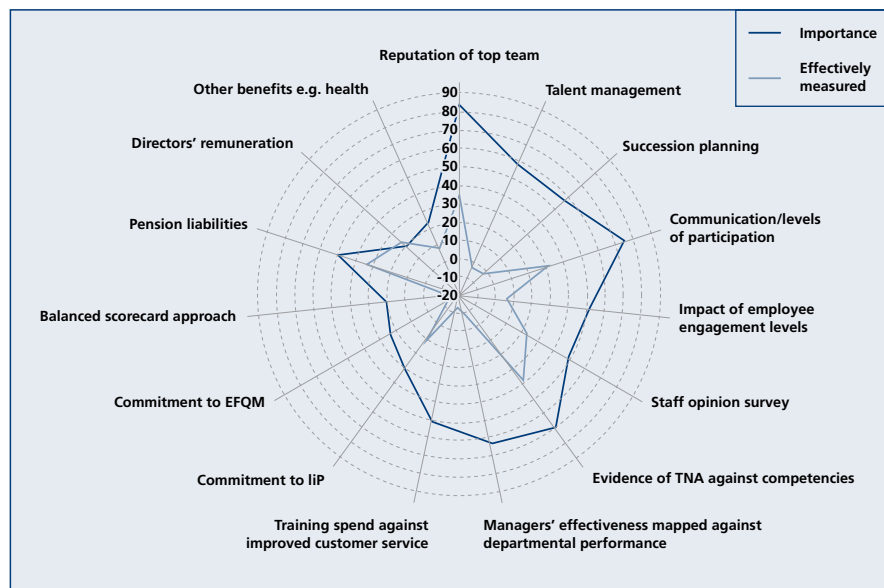


Figure 1: gap between importance and measurement of key metrics

- Amongst Investors a self-fulfilling prophecy appears to be at work. Investors currently take little account of workforce metrics because there is little or no evidence of comparability, consistency or predictability in their presentation. Yet the Investors we interviewed believed that if HCM metrics were delivered on a dependable basis, they would be valuable when assessing organisational performance.

## Conclusions

- There is almost universal belief within organisations from all sectors and among key stakeholders that consistent HCM and Workforce Metrics would be of value.
- There is a clear gap between what people think should be measured and what is currently being measured by most organisations.
- Investors would use such data if delivered on a reliable basis that enabled intelligent comparison.
- There is considerable agreement on a range of metrics that would be of value. Directors, stakeholders and Investors agreed that there are five key areas of HCM that are most likely to affect the future performance of organisations:
  - Leadership
  - Employee motivation
  - Training and development
  - Performance improvement
  - Pay and reward structures
- There is confusion around what metrics should be used for what type of analysis. A three-tier model of different levels of metrics provides a useful framework for understanding the value and application of workforce and HCM measures:
- **Basic Measures:** Quantitative data and employee profile statistics
- **Standard Comparable Analytic Measures:** Comparable quantitative data indicating contribution to performance
- **Strategic Measures of Workforce Capability:** Capable of reflecting alignment of workforce capability to business strategy. Not comparable and depends on organisation's life cycle and strategic context.

### A Human Capital Metrics Framework

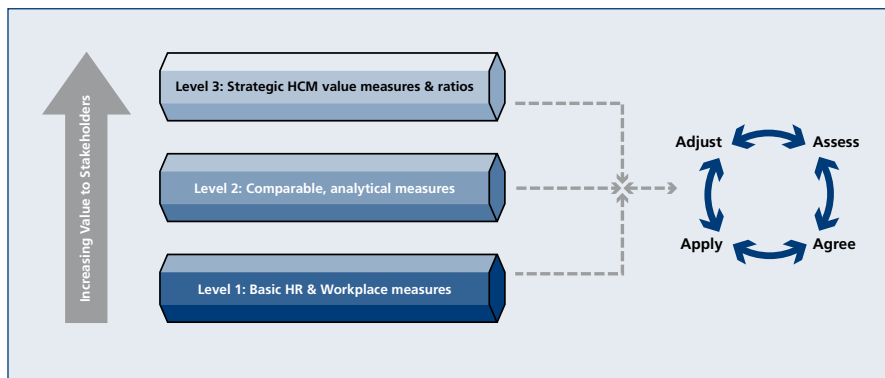


Figure 2: the three-level Human Capital Metrics Framework

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**Recommendation** ***“A Human Capital Reporting Forum will drive consistency in reporting through trialling and applying shared standards”***

Building on the need identified within this latest research for much greater consistency in our understanding and reporting of human capital and its management within organisations, the Chartered Management Institute is proposing to work with Oracle and others to bring together an employer-led Human Capital Reporting Forum. This would build on the work of the HCM Performance Steering Group and offer a valuable vehicle through which reliability, consistency and predictability could be established. We will propose to this Forum that the three tier approach along with any other emerging industry standards are assessed when considering the application of a shared framework for metrics.

It is intended that members of this Forum, who are committed to the development of strategic workforce measures, will over time commit to the practical application of comparable standards and practices within their own organisations.



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