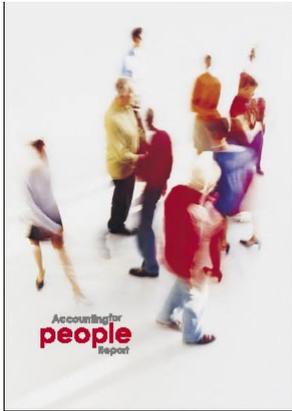


Our comment on the 'Kingsmill' Accounting for people Report published in October 2003



Introduction

We have set out below our candid assessment of the DTI's task force 'Accounting for people Report' whilst also bringing a wider perspective to the debate over human capital reporting.

One of the beneficial by-products of the taskforce has been the prominence and centre stage focus of the resulting report.

Unfortunately, general reaction to the report's output would suggest that it has 'come up short' on expectation. However, given the breadth of the subject and the remit of the taskforce, we believe that it was probably inevitable that there would not be a more definitive outcome in terms of an overall published framework.

Summary of taskforce findings

A summary of the task force's main findings and comments are as follows:

- ◆ There appeared to be widespread agreement on the need for HCM reporting
- ◆ There was a growing consensus that high performance is linked with high quality practice in such areas as recruitment, skill development and training,

remuneration, job design and organisational culture

- ◆ That good HCM reporting combines narrative with hard data
- ◆ Recognises two main arguments for reporting in that organisations have a free hand to report versus the adoption of common measures and definitions
- ◆ That any attempt to prescribe specific indicators or metrics might lead to standardised reports that fail to capture the links between HCM and performance that are critical
- ◆ They do not think that a spontaneous movement towards common reporting is likely.....

Taskforce recommendations

The task force made a number of recommendations.

It rightly recommends that HCM reporting should have a strategic focus with clear communication and understanding of the links between HCM policies, practices, business strategy and performance – no small order.

The assertion that information should be a mix of quantitative and qualitative is correct mirroring current financial reporting protocol.

This is quite important as there appears to have been a misinterpretation by HR functions in pursuing a 'scorecard-type' approach which has lacked a sufficiently structured narrative.

The task force quite rightly recommends that HCM reports present a balanced and objective view and are subject to audit, though definitions of these terms are not elaborated on.

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The report specifies the areas of HCM where information should be made available. These are:

- Size and composition of workforce
- Retention and motivation of employees
- Skills and competences necessary for success, and training to achieve these
- Remuneration and fair employment practices
- Leadership and succession planning

This in our view is inadequate. Here are our reasons why;

1. Size and composition of workforce is just base data that should be contained in any existing annual report. Further it does not necessarily satisfy the criteria earlier specified regarding HCM and linkage to performance.

2. Retention and motivation of employees is relevant but there are dangers in reporting related metrics without sufficient understanding. A number of examples contained within the report show organisations measuring satisfaction which is concerning. Also, without operating context these metrics may prove misleading.

3. 'Skills & competencies' is an area fraught with measurement irrelevance and in that it does not by itself specifically meet the HCM reporting criteria. However if presented as a measure of organisation capability risk then this could satisfy the performance link as well as displaying far more reporting relevance.

4. The area of remuneration will be

difficult purely because of the perceived sensitivity around published information and also because it is already a factor in the retention and motivation measure mentioned above. It is not clear why the Fair employment practice information should be reported other than for PC reasons.

5. 'Leadership and succession planning' is interesting choice in that this really should be covered under the corporate governance 'hat'. Also, reporting on these is more akin to process-risk audit as opposed to measures of actual performance.

Through our work with clients we have developed a measurement framework that differentiates measures or metrics through a hierarchical approach – namely, base data 'analytics'; efficiency metrics; Output or outcome metrics; and finally value-based metrics.

It is important for any HC Reporting framework to present a balanced 'mix'. Certainly for external reporting purposes these should contain more of the latter two.

The task force further recommends that HCM reporting is considered as a requisite part of the OFR (Operating and Financial Review) which is soon to become adopted in 2005. We agree wholeheartedly with this recommendation though with the proviso of our reservations regarding the actual measurement information.

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Two schools of thought

There appears to be two schools of thought emerging with regard to HC Reporting. One school favours the creation of an overall body to spread HCM Reporting best practice whilst the other favours a more emergent and flexible approach, citing the fear of distracting organisations from the underlying analysis if forced down the former route.

It seems that the over-riding debate on HC/HCM Reporting centres around a trade-off between two extremities – on the one hand, promoting unregulated self-reporting that may be viewed as irrelevant for comparative or informational purposes, whilst on the other, advocating a common reporting framework that results in 'plain vanilla' metrics that become meaningless for the same reason.

The flaw within the taskforce remit

We would point out however that there is a much broader point here.

We argue that the whole focus of the taskforce report is flawed and that this is one of the fundamental reasons for the lack of a resulting definitive HC Reporting framework. It is simply that there is insufficient internal organisational reporting to derive any meaningful conclusions.

The taskforce's remit is in many ways 'a cart before the horse' in that it has focused on external reporting before prescribing any internal reporting frameworks.

We would advocate that the organisation, or HR for that matter, needs to construct an internal reporting framework first as a prelude to external reporting.

Indeed our work with clients naturally defaults to this approach.

We believe that it is only through this way that a recognisable pattern of measures emerges that eventually leads to an overall external reporting framework.

Thus we advocate a 'third way' that through internal focus organisations develop a framework for HCM reporting and that utilising professional services firms such as ourselves and other bodies a move towards a standard external reporting framework will emerge.

Our own experience with organisations we have come into contact with suggests various reactions to the whole area of HR measurement and human capital reporting. We have identified four main types. They are:

Leaders - these organisations are developing an internal reporting framework as a prelude to external reporting in the absence of any 'market' framework. They are also going further by constructing HC models and linking disparate metrics to produce insightful analysis.

Learners - these organisations have shown interest in human capital reporting and are currently engaged in understanding HR measurement and its value.

Listeners - these organisations have conducted some initial market research, engaged in discussion, but have yet to action an HR measurement mandate

Laggards - these organisations are not aware of the task force report nor do they show any inclination to develop HR measures

This model suggests a typical market distribution of adoption and reflects a natural evolution. It is important to point out that no particular sector dominates any of the 'types'.

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Final comments

There have been a number of negative comments surrounding the whole debate of human capital reporting.

One of the more prominent arguments asserts that HC measures are just too inherently difficult to report accurately or meaningfully across organisations from different industries and/or sectors. Unfavourable comparisons with financial reporting are often quoted.

Our response categorically refutes this argument for one simple reason. This argument seems to conveniently ignore the fact that accounting has been around for some 500 years and that financial reporting still suffers from cross-company/ industry comparative issues.

In fact it is such a large issue that a whole industry is dedicated to its interpretation. So why is HC reporting any different?

The answer is it's not. We suspect that behind this viewpoint are some self-serving hidden agendas.

As a final comment we would like to highlight a few of our own observations with respect to the broader aspects of HC reporting and HR functional responsibility. These are:

- HR still needs to focus on internal reporting as a precursor to external reporting and its associated additional stakeholder population.
- Despite investment and sophistication in technology, experience suggests that issues of data integrity and availability, metric definition and measurement understanding within HR are still issues to be resolved.

- Board representation of HR is still thin, despite a general perception that HR has gained more 'strategic' accountability and this obviously influences the drive for HC reporting within companies
- There is increasing complexity for HR, not only in terms of areas such as employment law, but also in terms of HCM integration requirements which demand a more 'reporting-type' focus
- There is more of a polarised spectrum in the field of HCM practice across industries which reflects an increasingly sophisticated market
- There is a need to derive value models of human capital management practice and of human capital itself

Despite the often spouted 'demise of HR', the function is continuing to thrive. The challenge isn't about HR surviving - it's about HR creating its own future. Human Capital Management reporting provides a platform in order to achieve this.

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