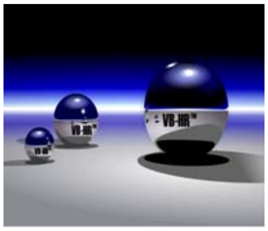

Human Capital Measurement: Why it's needed?

Nicholas J Higgins, Chief Executive Officer, VaLUENTiS Ltd

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If HR wishes to have strategic 'clout' then it has to 'do measurement' and 'do measurement' well. If it doesn't – it won't. It's simple really. Here's why.

From an organisational context, people are simultaneously assets, resources and potential liabilities. HR is a corporate function with two main enterprise objectives, assist in optimising the performance of people and assist in minimising operating risk. This is no small feat, which is why HR faces such a challenge from an organisational perspective. Neither of these objectives can be achieved without measurement.

Without it, 'optimising people performance' becomes an impossible concept to realise, with the danger of either over- or under-investment in people management practice and/or people development. Similarly, 'minimising operating risk' without measurement results in HR activity becoming a perpetual state of 'bolting stable doors' – reacting to events rather than pro-actively avoiding.

For example, lack of a focused retention strategy, which utilises a specific set of human capital (HC) metrics, leads to potential loss of talent. The impact can manifest in many ways, for example, loss of sales, poor product design, inadequate decision-making, client/customer delivery; all of which result in sub-optimal organisational performance or increased risk of an operational default such as the loss of a major client contract or wasted resource allocation.

At boardroom level HR has to present commercial arguments with commercial data, i.e. measurement which informs and impacts on managerial and, ultimately, strategic decision-making.

But there are those who advocate that HR can't, shouldn't or doesn't need to measure; that HR can be a strategic partner because it can deliver to the 'business/organisation need.' Their argument strengthens when reviewing how human capital is currently being measured (poorly). However, it is also the central weakness in the same argument.

Organisations are, in the main, still reporting HR operating metrics rather than human capital measurement, in other words a focus on the small stuff at the expense of the big stuff. Why?

First, there is a lack of measurement expertise - a discipline in itself – and one which has not been recognised to a sufficient degree within the industry. Without this expertise, HR metrics remain simple and therefore potentially irrelevant. A common HR metric such as training days per employee is a classic example of this, a metric which tells you……..training days per employee! The problem is that HR measurement is littered with spurious HR metrics. Identifying when a metric provides useful knowledge is the challenge.

Second - there is confusion around HR measurement. Most metrics generate from HR activities, which are mostly about operational efficiency relating to the HR function. Many are derived from benchmarking exercises, which themselves promulgate confusion between HR operational measurement and HC measurement.

Third – up until now, there has been no standard human capital reporting framework. Organisations should report various HCM and financial analytics in a structured format to provide meaningful intelligence and strategic insights for both internal and external stakeholders respectively.

High performing organisations utilise and manage people well. But what is 'high-performing' and what is 'well'. Only a well-constructed measurement framework can report on these and standards such as the VB-HR Rating™ are designed to assist organisations in this process.

Senior executives in organisations and people in HR must realise that the monitoring of performance and return on investment in their people, requires a degree of measurement. They cannot solely rely on 'senior relationships' or 'a seat on the board'. Winning awards is no guarantee of success, either.

Other corporate functions - Finance, Marketing and IT all have strategic measurement – why should HR be any different?

Nicholas J Higgins
Founder and Chief Executive Officer of VaLUENTiS Ltd – a leading global professional services firm providing clients with human capital management, human capital measurement, and organisational effectiveness solutions to enhance performance.
Tel: +44 20 7887 6108
E-mail: nicholas.higgins@valuentis.com

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