

*'Organisation performance through a human capital lens'*



# Human Capital Reporting:

The definitive framework

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Volume 1

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*Human Capital Reporting white paper series*



# Human Capital Reporting: The definitive framework

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In 2006, the authors released the white paper on Human Capital Reporting providing the first open Standard (GHCRS2006) to report human capital and the publication of the Human Capital Operating Statement, The PeopleFlow™ Statement and The HC Productivity Statement. This article is an abridged version providing readers with an opportunity to revisit the original content ahead of the new 2008 edition due out in January.

The paper sets out a rationale for reporting human capital and a subsequent framework paralleling some of the technical aspects underpinning accounting and accounting information. The paper also summarises the limitations of historical attempts, before identifying a new set of measures of human capital performance based on externally reported data, including the comparative concept of Human Capital Intensity.

The paper also goes to some length evaluating existing human capital measures highlighting the shortcomings of many of those commonly reported. These have often resulted in distorted approaches to comparing performance across organisations.

## **Human Capital Reporting: In search of the answers**

For a number of years, the question around standardised reporting of human capital based metrics externally has remained unanswered, despite a number of working party attempts. Varying formats and metric portfolios have been proffered but none has appeared to satisfy the expectation of the market in terms of gaining a critical mass of adoption.

There are a number of reasons which are dealt with in the main body of the text. The latest version, which was to have been mandated, the ASB's RS1 draft (relating to the Operating and Financial Review), contained further ideas on people related measures but were issued rather as a means of guidance. The UK's Financial Reporting Council has recently announced that much of the OFR will now form a 'best practice' guidance document which will assist companies in reporting business information.

We acknowledge that a number of organisations (based on our experience) are continuing to look to report externally-facing human capital information. Many have fiscal year-end reporting due in March 2006, and, with the withdrawal of the OFR, may find this template solution timely to adopt (at least in part).

Our analysis and subsequent reporting solution has gone back to first principles by reviewing the way in which accounting, accounting theory and associated reporting formats in use have evolved as a means of providing insight, and then relating them to the field of human capital measurement.

### **Twelve key questions**

In undertaking this analysis we asked twelve key questions:

- i. What question were/are we trying to solve?
- ii. Are we looking to establish a means of communicating information, compliance or enhancing organisation performance, or all three?
- iii. Are we looking to report organisational intent, organisational fact or both?
- iv. What kind of metrics/measures should be reported?
- v. How do these relate to the internal reporting perspective?
- vi. What challenges have been flagged and how founded were these?
- vii. Who is (are) the intended audience or recipient of this information?
- viii. What format should this take?
- ix. Is there one level of reporting or is there the need to establish progressive levels (with criteria to match) to assist organisations in development?

- x. Given a 'solution', what would be the required industry infrastructure to monitor and develop on an ongoing basis and how would this link with other established framework infrastructures?
- xi. What would be the scope in terms of standardised international reporting?
- xii. What further questions or issues remain, and what is likely to be on any agenda, going forward?

The answers and insight from these questions provided us with a logical argument from which our proposed solution is based. Given the particularly 'one track' expectation in the market (i.e. a portfolio of ratio based HR metrics) this solution may, at first sight, shock with its apparent simplicity. However, like most reporting solutions, there are multiple layers with deepening complexity. The reporting solution is underpinned by a structured framework with associated operating principles and a standardised format (at the basic level) for both private and public enterprises. It is designed to be an external facing solution, but we would stress that this should be an internal facing framework that complements other internal reporting approaches (if used).

One of the key conclusions is that the reporting of human capital related information should be contained in a separate document as we do not believe that CSRs are the most appropriate instrument to convey HC information; though we do acknowledge that this will be ultimately down to managerial choice.

We have undertaken a review of previous attempts at producing an human capital reporting (HCR) solution to provide insight as to the challenges faced. One problem with HCR, which, surprisingly, does not appear to have been stated before now, is that HCR straddles both financial accounting and management accounting. As a rule of thumb, from a reporting perspective, financial accounting is associated with external reporting whilst management accounting is associated with internal reporting.

So far, HCR attempts seem to have confused this issue which is why we believe it has been problematic to find a solution. Also, the confusion may have been compounded by the focus on forward-looking information associated with human capital and the estimation of value. This is a notoriously tricky area and we would argue that there is a need to ensure that current (historic) information is provided first, as a means of informing, just as with financial information. It does appear odd to report 'future-looking'

information only, without grounding in the present, particularly given the inherent difficulties with accurate estimation.

### **A lack of structure**

It is clear that human capital reporting lacks a generic defined structure (framework), does not have an underlying taxonomy that provides a means to understanding, and therefore undermines any attempt to produce a workable external reporting framework. From an internal perspective, individual organisations have a variety of HR scorecards and report cards together with a variety of ad hoc HR analytics that contain some common metrics. The solution we put forward is designed to complement existing internal work.

Further, our review included CIPD's proposal reveals some fundamental flaws in their proposed framework. Our review of the OFR shows it to have a similar resemblance and one would suggest that it has been influenced by the said framework. We would therefore surmise that the draft OFR suffered from the similar flaws identified and that it may be no coincidence that the final OFR version of HR related metrics was 'watered down' precisely because of the issues raised in this review.

Connected with this insight, is the problem with HR benchmarking for comparative purposes. In the past, much measurement in HR has been done through benchmarking. However, benchmarking is not measurement per se, but a process to compare metrics, normally for performance improvement reasons – which is but one output of measurement. Benchmarking is not necessarily related to reporting. We believe that this is one of the reasons why confusion exists.

One of our earlier studies looked at metrics in use and exposed the different and/or unclear definitions of many 'HR' metrics and issues particularly with regards to benchmarking itself. As a consequence, this white paper proposes, just as in accounting, that there are certain principles (and subsidiary conventions) which organisations need to adopt to provide the required levels of transparency.

### **Proposing a solution**

Our solution sees the introduction of the **'Human Capital Operating Statement'**, the

**'PeopleFlow statement'** and the **'Productivity statement'**, whilst acknowledging the possible emergence of a human capital value statement (or possibly contained within an intangible value statement) as and when a robust methodology emerges.

In coming up with our solution we asked, "What would an observer or investor of an organisation want to know from a human capital perspective?"

We have looked at the area of reporting 'sensitive information' which has been flagged as a potential constraint on reporting certain data. Our findings suggest that this is a valid question on the surface, but one which seems to have deflected from, rather than feed into a solution.

Given certain disclosure, we would suggest that the 'market' would start to apply pressure to organisations who chose not to disclose pertinent information. For listed companies, this would manifest itself in a share-price invariably trading at a discount as with any instance where expected information is withheld. Private companies may suffer in terms of valuation (if being sold) or more pertinently in attracting talent. Disclosure within the public sector should be expected, not only in that human capital is such an important component, but that tax payers demand transparency in having a right to know.

This white paper includes all the ingredients for organisations to 'grasp the nettle' of human capital reporting both internally and externally to aid their execution of intended strategy. It provides:

- A reporting taxonomy together with appropriate rationale
- A general statement of HCR principles
- A set of supporting 'standard HCR operating principles' (SHCROPs)
- Pro forma statement templates
- A model HCR template
- A proposed reporting infrastructure in terms of HCR council, board and client user panel
- An introduction to standardised ratio analysis
- A proposition to establish a wider support network focused on specialist HC.

Through our critical analysis we answered a number of key questions:

**What question were/are we trying to solve?**

The essential issue is one of reporting relevant HC information to identified 'stakeholder users'. To this end a means of providing a structured framework with principles of reporting was deemed the only way forward.

**Are we looking to establish a means of communicating information, compliance or enhancing organisation performance, or all three?**

In view of the answer to the first question, HC reporting prime purpose should be to impart information. However, through so doing, and with establishing a guiding framework plus supporting principles, there is undoubtedly a move to compliance through market pressure. We would also argue that revealing HC information as proposed will undoubtedly have a knock-on effect to organisation's management which will be positively associated with improving organisational performance.

**Are we looking to report organisational intent, organisational fact or both?**

Primarily the focus of reporting should be to report factual information through use of the proposed statements. However, there is also a perceived need to provide 'narrative' which sets out intent that can be reviewed over time which will itself provide 'market' information, in terms of execution. Also, there is a belief that HC information should also be forward-looking, which is more difficult but not impossible over time.

**What kind of metrics/measures should be reported?**

Basically, we have identified that certain base numbers need to form the external reporting template, supplemented by selected ratios where applicable. We suggest that further ratio analysis can be provided but that these do not necessarily form part of the basic HC report mandate, but are subject to management discretion.

**How do these relate to the internal reporting perspective?**

Technically, the external template should be just as applicable for internal reporting but will probably complement existing mechanisms such as HR scorecards and/or report cards. What should be of value is that the proposed structure may assist in defining what should be reported internally.

**What challenges have been flagged and how founded were these?**

We have reviewed a number of challenges ranging from barriers to reporting to the actual information provided by relevant metrics. We have found that some of these to have very little substance. Our proposed reporting statements and principles are designed to overcome the informational and metrics issues.

**Who is (are) the intended audience or recipient of this information?**

We have identified 'stakeholder users' as being investors, clients/customers, trading partners, vendors/providers, employees, industry bodies, regulators and Governments.

**What format should this take?**

We have come to the conclusion, that the practical approach would be for a HC report to be its own document. The amount of information around people and people management that is useful to an external audience deserves its own 'home'. We feel that without it human capital will continue to be less in the eye than it should. For an example of this, the HR industry should look to the CSR movement to see what effect this has had and with pretty much qualitative data. However, we do not believe that HC reporting should be part of a CSR document because fundamentally these are two different subjects regarding organisational performance. From an investment perspective, the HC report should rank above the CSR. This may unfortunately raise a perplexing question for some people.

**Is there one level of reporting or is there the need to establish progressive levels (with criteria to match) to assist organisations in development?**

We believe that fundamentally there is one basic mandate for all organisations to adhere to, but there are a further two 'stepped' levels which add flexibility to enrich the information provided. The three levels are referred to as **Standard**, **Intermediate** and **Advanced**.

**Given a 'solution', what would be the required industry infrastructure to monitor and develop on an ongoing basis and how would this link with other established framework infrastructures?**

There is no doubt that any bona fide HC reporting solution must require ongoing infrastructure to help with monitoring and development. With that in mind we have proposed a HCR Council, Board and Client user panel similar to that employed in accounting. There is scope to formalise relationships with relevant bodies (for example the HCR Council forming a subsidiary reporting body to the FRC).

**What would be the scope in terms of standardised international reporting?**

It is obvious that as accounting moves towards a more standardised accounting format, we have the ability from the human capital perspective to achieve this at the same time and thus avoid issues (to a great degree, but not all) which has plagued financial accounting. We should view this as a big positive from HR's perspective.

### What further questions or issues remain, and what is likely to be on any agenda, going forward?

Essentially, we see four main areas of development.

1. The challenge and/or ability to report additional HC management practices, such as talent management, workforce competencies/capabilities, leadership etc in a standardised and meaningful format. Rating instruments<sup>1</sup> already exist that can measure these in an index format or as part of a larger instrument.
2. The big challenge to provide information on human capital value as a reportable template. We remain guarded in terms of how easy this is to achieve. We believe that the answer may lie in being part of a larger intangibles value statement<sup>2</sup>.
3. The continued development of definitions and selection of the various HR measurement conventions as already identified. The field of human capital management is complex and dynamic, similar if not more so than Finance, and, therefore attention needs constant monitoring to ensure relevance and completeness.
4. We believe that there will be a need to naturally review the narrative component to reporting. References to diversity, equal opportunities and work-life balance may, in fact and over time, become transitory. We think that reporting these areas will in future become less relevant, not because they are not important, but that they will have become embedded in organisational practice and that reference to these may in fact become synonymous with an inherent organisational problem. Thus, the HR profession needs to be aware of this going forward as organisations are constantly looking to differentiate in terms of their employer brand.

### Summary overview - HC Reporting Solution

We have put forward an HC reporting template which contains a number of reporting components as shown in the table above. To recognise the variety of organisations and their particular focus, we have proposed three levels, **'Standard'**, **'Intermediate'** and **'Advanced'**, with a progressive incorporation of reporting components with an allowance built in for anticipated future developments. The reporting solution is designed in such a way as to provide organisations with a progressive level in HC reporting, containing three classes: 'Standard', 'Intermediate' and 'Advanced'. The difference between the levels is one of comprehensiveness with the 'Standard' level providing, what is considered, an acceptable level of disclosure.

Level of HC reporting	Part of existing document	Separate dedicated HC Report	HC Policies	HC Initiatives	Company practice specifics	HCO Statement	PeopleFlow statement	Productivity statement	KPIs	Segmental analysis	Enhanced ratio reporting	Additional HC domain reporting	VB-HR™ Rating or equivalent	VB-HR™ Rating narrative	HC Value statement
Standard	☐	☐	☑	☑	☑	☑	☑	☑	☑	☑	☐	☐	-	-	-
Intermediate	-	☑	☑	☑	☑	☑	☑	☑	☑	☑	☐	☐	☑	☐	-
Advanced	-	☑	☑	☑	☑	☑	☑	☑	☑	☑	☑	☐	☑	☑	☐

- ☐ Optional
- ☑ Mandatory
- Not applicable

The three levels are designed to provide organisations with flexible options given their intent to publish human capital related information.

<sup>1</sup> VaLUENTIS VB-HR™ Rating – go to [www.vbhr.com](http://www.vbhr.com)

<sup>2</sup> See for example VaLUENTIS Value-based Enterprise Performance white paper due to be published shortly

### Explanation of terms

**HC Policies:** Narrative providing overview of organisational human capital related policies

**HC Initiatives:** Narrative providing details of human capital initiatives carried out during the respective time period together with any planned initiatives for the new fiscal year.

**Company practice specifics:** Organisations may choose to supplement the above two narratives with more example case-study type narrative on people.

**Human Capital Operating Statement:** Reporting template including overall organisational financial and people related numbers together with notes to provide further explanatory detail. (See Appendix I for example template).

**PeopleFlow Statement:** Reporting template including information on the overall people dynamics of the organisation during the specified time period together with notes to provide further explanatory detail. (See Appendix II for example template).

**HC Productivity Statement:** Reporting template including information on overall people productivity within the organisation during the specified time period together with notes to provide further explanatory detail. (See Appendix III for example template).

**KPIs:** A section including both numbers and narrative around specific KPIs that the organisation wishes to report. This is particularly appropriate for public sector organisations. The objective here is to provide more performance related data to enrich that contained within the three operating statements.

**Segmental analysis:** This follows normal financial accounting policies (e.g. SSAP25/IAS14) in terms of providing appropriate breakdown of numbers (disaggregation), together with narrative, into respective operating segments as dictated by the organisation (i.e. region/country, group/business unit, body/ directorate etc).

**Enhanced ratio analysis:** This section provides further performance related information through use of standard HC ratios, together with cautionary and explanatory notes. This is entirely optional to the organisation at Standard and Intermediate levels but becomes mandatory at 'Advanced' level.

**Additional HC domain reporting:** This section is entirely optional in that organisations are left to report additional elements of HC management practice such as talent management, capability, leadership etc. Over time, some of these elements may develop and become part of standardised reporting but the issue will be as to whether there will be wide acceptance of organisations wishing to report these.

**HC/HCM Rating:** The emergence of Rating

systems<sup>3</sup> that measure organisational performance of human capital management provides organisations with a ready-made construct to report. We expect that this will become a significant area of reporting due to wide stakeholder interest, as it is a means of differentiation in the market-place across and within industry. This becomes mandatory for 'Intermediate' and 'Advanced' levels of reporting.

**HC/HCM Rating narrative:** The Rating described above can be reported in graphical format only. The narrative provides further insight into the Rating and though optional for 'Intermediate' reporting, it becomes mandatory at the 'Advanced' level.

**HC Value statement:** Provision is made here for the possibility of organisations producing a value-based statement relating to human capital (or as part of some wider intangible value statement). Current designs are still very much experimental, though certain HC modelling analytic projects contain linkage to value generation. Whether these can be fully developed or whether organisations wish to report these remains to be seen.

We anticipate that organisations may at first require some external assistance with preparation (or indeed outsource) the process and we expect the market to provide accordingly<sup>4</sup>.

### Learning from previous attempts

In writing this white paper, we felt it necessary to review both past and current work in this area, and, through structured critique analysis challenge the arguments and associated outputs to provide insight that would potentially assist in any evolving solution. To this end we reviewed the following relevant publications:

Reports/Documents	Author
Accounting for People	DTI task force
Human Capital: External Reporting Framework– The Change Agenda	CIPD
Reporting Standard 1: Operating and Financial Review	ASB
Various organisational reporting formats related to human capital	Confidential selection

Also, as a means of grounding these studies, we

<sup>3</sup> For example, VaLUENTIS VB-HR™ Rating – see www.vbhr.com

<sup>4</sup> see for example VaLUENTIS Corporate HCR Solutions.



reviewed common benchmarking measures in use and those published by providers to provide an insight into current reporting practice (various sources). As we have stated earlier, in our critical analysis we asked twelve key questions:

- What question were/are we trying to solve?
- Are we looking to establish a means of communicating information, compliance or enhancing organisation performance, or all three?
- Are we looking to report organisational intent, organisational fact or both?
- What kind of metrics/measures should be reported?
- How do these relate to the internal reporting perspective?
- What challenges have been flagged and how founded were these?
- Who is (are) the intended audience or recipient of this information?
- What format should this take?
- Is there one level of reporting or is there the need to establish progressive levels (with criteria to match) to assist organisations in development?
- Given a 'solution', what would be the required industry infrastructure to monitor and develop on an ongoing basis and how would this link with other established framework infrastructures?
- What would be the scope in terms of standardised international reporting?
- What further questions or issues remain, and what is likely to be on any agenda, going forward?

### **Accounting for People (DTI task force – published 2003)**

The remit of the Accounting for People report was specified as follows<sup>5</sup>:

- Look at the performance measures currently used to assess investment in human capital
- Consider best practice in human capital reporting and the performance measures that are most useful to stakeholders
- Establish and champion the business case for producing such reports
- Produce a final advisory report.

This stated remit does not include the establishment of any reporting framework, but rather suggests a review of whether any such framework would have any relevance. The description of the final report as 'advisory' further implies that any recommendations arising would not necessarily be seen as legally binding or definitive.

Report recommendations included the following (text excerpted from main report):

1. Reports on HCM should have a strategic focus... should be balanced and objective, following a process that is susceptible to review by auditors... provide information in a form that enables comparison over time and uses commonly accepted definitions where available and appropriate
2. OFRs or reports with similar aims, should include within them information on HCM within the organisation, or explain why it is not material
3. The Standards Board invite leading employers... to develop guidelines on key indicators and definitions
4. The Government consult with... stakeholders on the introduction of a programme to aid the dissemination of best practice on HCM and HCM reporting
5. The Standards Board is charged with monitoring the extent and depth of HCM reporting in OFRs, reporting to the Industry Secretary within two years of its formation.

Subsequent reaction from the HR community at these recommendations and what was perceived as their subsequent dilution in the OFR legislation (now due to be repealed)<sup>6</sup> suggested some gap in expectations between the remit of Accounting for People and HR practitioner hopes for a standardised approach towards reporting.

Despite the perceived failure to establish a common framework and/or approach, the Accounting for People report is still one of the more comprehensive reviews of human capital management in the UK, which highlighted good practice approaches and acknowledged some of the complexities in this area.

The Accounting for People report presents a series of organisational case studies in its Conclusions section, as a means of showcasing particular approaches.

Review of these case studies (see table below) suggests that these advocate a range of effective approaches towards human capital management, drawn from multiple sectors.

However, this review also highlights that the focus of the case studies is generally focused on human capital management as opposed to measurement and reporting, thus providing limited insight from this perspective.

<sup>5</sup> As set out in the Accounting for People consultation paper

<sup>6</sup> For example, 'HR sidelined as Government ignores importance of people measurement' *Personnel Today*, 08 February 2005

Organisation	Case study theme	HCM perspective	Measurement perspective
BAT	Managing career progression	Illustrates how the organisation operates an internal process	Case does not relate to measurement
BP	Measuring employee satisfaction	Illustrates how BP utilises a satisfaction survey	Case relates to internal measurement, unrelated to external reporting
FirstGroup	Targeting turnover	Illustrates the potential impact of HC modelling/analytics	Case relates to internal rather than external reporting
HM Treasury	Improving efficiency through better communication	Illustrates beneficial impact of a change in the working environment	Case does not quantify impact of specific changes and does not relate to external reporting
KPMG	Values as a key indicator of organisational health	Illustrates how a survey can monitor adherence to organisational values	Case relates to internal measurement, rather than external aspects
National Probation Service	Managing people initiatives	Illustrates an approach towards implementing an HR strategy	Unrelated
Pearson	Monitoring diversity	Illustrates the application of a specific policy	Case relates to a particular aspect of an internal measure
ScottishPower	Building a high performance culture	Illustrates internal process operation	Case relates at most to internal reporting
Standard Chartered	Employee engagement and business performance	Illustrates linkage between survey findings and apparent organisational outcomes	Case relates to internal HC modelling/analytics, rather than external reporting
UNIFI	Building capability	Illustrates effective linkage in development approaches	Case does not relate to measurement
Unilever UK	Sample report	Illustrates an approach towards internal summarising/reporting of HR initiatives	Limited measurement, insights predominantly focused on internal presentation

### Barriers to reporting

The Taskforce report highlighted some positive HCM practices as well as providing the opportunity to review potential barriers to reporting. Through a 2<sup>nd</sup> year MBA project conducted at London Business School<sup>7</sup>, the Taskforce identified four factors seen to inhibit external reporting amongst FTSE 250 organisations. These are set out overleaf with our commentary added: we note that the number of organisations identifying each barrier is not indicated, making it difficult to assess their prevalence. [Note: The report itself is particularly light in terms of quantitative data despite the carrying out of a survey based questionnaire – no reason is given as to this non-use of data].

### Commercial confidentiality or sensitivity of the information

It is not clear from the research precisely what data was deemed to fall within this category, nor what is identified as being particularly sensitive. It is important to set this comment in the context that UK annual reports contain detailed

information on Director remuneration, and average salary levels can be easily derived from reported data. Degrees of sensitivity are not defined, nor is the issue of whom sensitivity affects. Furthermore, were HC reporting to become common-place, with generally accepted definitions or principles, the argument around sensitivity would be removed, as all organisations would be subject to the same requirement.

### Lack of time and resources

This is not a valid reason connected with the proposition for human capital reporting, only a barrier to carrying it out. Without further substantiation, this comment appears to be a smokescreen implying that reporting is not seen as a priority either within the HR function or (less likely) within the organisation.

### Seeing no value in such reporting

In light of increased levels of stakeholder interest in HC reporting (and in the very existence of the Accounting for People taskforce), this suggests an internal rather than external view of reporting amongst respondents. However, given that traditional HR measurement approaches (including benchmarking) have not sufficiently established underlying reporting frameworks,

7 "Human Capital Measurement and Reporting: A British Perspective", MBA 2<sup>nd</sup> Year Project, Foong, K., Yorston, R., Gratton, S. London Business School, 2003.

principles or guidance to address external reporting; this barrier implies a low level of awareness amongst respondents regarding the benefits of HC reporting and measurement in general.

### **The absence of clear guidance and universal practice**

This barrier suggests reluctance amongst organisations to innovate in this area without clear external guidance and widespread adoption of any approaches.

In conclusion, the identified barriers would appear to relate more to scepticism of the value of current reporting approaches, rather than explicit concerns around external reporting. This implies that, given the right guidance and a convincing demonstration of the transparency and value of reporting approaches, barriers would reduce.

### **Critique of the report**

Review of the final report shows that the Accounting for People Taskforce acts as a strong advocate for effective human capital management (HCM) practices and associated operational measurement, but that two key elements are substantively lacking from the final report:

- The clear differentiation between approaches towards internal and external reporting (i.e. operational versus informational), leading to insufficient challenge or questioning around the relevance of traditional metrics approaches
- Any establishment of principles or detailed guidance in support of the development of standard external reporting approaches.

Accordingly, the report, whilst strong on the identification of the challenges faced in attempting to adapt existing metrics approaches, is less than forthcoming in putting forward solutions. Given the growing negative perception since publication, three questions arise:

1. Though this outcome meets the report's original remit, in light of the context of the OFR, was the scope of the report sufficiently broad in the first instance?
2. Were the expectations of the broader HR stakeholder community effectively managed, in light of the subsequent reaction since publication?
3. More fundamentally, why did it take a recommendation of another earlier report<sup>8</sup> to galvanise the HR community into

action, rather than be generated from within organisations/ HR community?

The Taskforce acknowledged the challenges posed to the introduction of any standardised approach, identifying an inherent tension in providing organisations with the flexibility to select from measures relevant to their sector and specific organisational model, whilst ensuring common measures and definitions to ensure rigour and accountability:

*"There is no single set of HCM practices widely accepted as 'best practice', nor agreement on a set of universally relevant metrics."*

*"There are cogent reasons to encourage consistency of approach: it could improve comparability and reliability and provide a common framework that companies might find helpful."*

We would agree with the Taskforce on both points, but would suggest that a solution exists that can address these two conflicting statements.

Traditional HR/HCM measurement approaches and metrics (e.g. training spend per employee, absenteeism, HR FTEs: total FTEs) present ratios or percentages, relying heavily on context for their interpretation. It is this reporting format, so widespread in the industry, which gives rise to the issues identified above.

By mirroring the approach adopted in financial reporting, of presenting baseline figures or data from which these ratios or percentages are derived, the question of whether metrics are 'universally relevant' is no longer an issue. Through careful selection of the baseline information to be reported, an external stakeholder may or may not choose to derive a selection of ratios (as is the case in financial analysis).

Similarly, through the establishment of detailed guidance, operating principles and a reporting template (with accompanying notes to clarify content), a common framework is possible that provides consistency across sectors. The establishment of a Standards Board (a measure put forward by the Taskforce) will similarly provide credibility to any framework.

We believe that this approach (which is broadly supported by the comments made by ACCA in their response to consultation) will lead to the adoption of a cross-industry standard towards human capital reporting that will meet the needs of organisations and stakeholders. It is worth noting several points in ACCA's initial consultation response:

*"In supporting the objectives of the Task Force, however, we should stress that the aim of disclosure should not simply be to demonstrate*

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8 Women's Employment and Pay Review, Denise Kingsmill 2001

*"value added" by "human capital". The aim should also be to formalise, and if necessary regulate for, an important area of corporate accountability.*

*We do not believe that significant progress has been made in the area of applying financial valuations to human resources. For the time being at least, the focus of attention should be on identifying HCM metrics which are of relevance to the wider stakeholder community.*

*We encourage the Task Force to provide guidance which will have the effect of integrating the corporate HR function more closely into the strategic planning and finance functions.*

*We also call on the Task Force to explore the links between reporting on human capital and the well-established and rapidly growing practice of triple bottom line reporting - especially the approach to sustainability reporting pioneered by the Global Reporting Initiative. To approach HCM issues only through the lens of the annual report and accounts package is to take too narrow a view of the importance of this issue. ACCA response"<sup>9</sup>*

Therefore, it would seem that the Accounting for People taskforce focus may have unfortunately diverted by seeking to ascribe value contribution to effective HCM practices. This objective, we believe, to be a huge leap from current human capital measurement to achieve in one go, even where a defined HCM reporting framework was established.

The financial community provides an appropriate comparison that sets this ambition in context. Despite the existence of established principles, accounting frameworks, analytical techniques and ratio analysis, the multiple interpretations of value current amongst financial analysts (e.g. EVA™, free cash flow, EBITDA) suggest that this concept is not a straightforward one to define.

Accordingly, to attempt to define this within the Accounting for People remit without the establishment of, at the very least, generally accepted operating principles, would be unlikely to yield a robust solution.

We note that the ACCA response (quoted above) to the original consultation supports this viewpoint, advising in particular on the development of formalised approaches and identification of relevant reporting frameworks that align HR more closely with finance.

### **Human Capital: External Reporting Framework – The Change Agenda (CIPD)**

In 2003, the Chartered Institute for Personnel and Development (CIPD) published a series of principles and metrics in the form of a human

capital external reporting framework<sup>10</sup>. On reviewing this document, a range of concerns emerge regarding the applicability of the proposed framework.

#### **Overview**

Five stated principles underpin the framework:

- *The reporting requirement should add value to the decision-making undertaken by stakeholder groups in respect of human capital, with value added exceeding the costs of information gathered*
- *Balance the advantages of comparability across the population of firms with the need for flexibility to reflect particular contexts*
- *Provide information on possible institutional barriers to the effective development and utilisation of human capital within firms*
- *Reflect the dynamic and context-dependent nature of human capital*
- *Be future-oriented to highlight the contribution of human capital to future performance.*

The external reporting framework itself is set out in four areas, each of which contains narrative, primary indicators and secondary indicators, for the workforce as a whole and a separate section for 'Management and leadership'. The four 'activity areas' are:

- Acquisition and retention
- Learning and development
- Human capital management
- Performance.

#### **Comments re principles**

Linking any of the stated principles with an external reporting framework is not straightforward, to the extent that, a somewhat confused perspective emerges.

The first principle, on the one hand, does acknowledge an external focus for the reporting framework, but then introduces a concept that though potentially relevant is extremely hard to define other than conceptually.

The second principle appears, on the surface, to be a legitimate rationale. However, there is a danger that, without a robust framework in place to refer to, this may become an obstacle to a standardised reporting template, particularly with regard to any external requirement (i.e. there is nothing to compare and contrast flexibility against).

The third principle is potentially invalid given the context in it relates more to potential outcomes that have not happened or are at best

<sup>9</sup> Comments from ACCA to the DTI consultation, Accounting for People, July 2003

<sup>10</sup> Human capital external reporting framework: the change agenda, CIPD, 2003

unsubstantiated, rather than events/transactions that are being reported. This would seem to be inconsistent with the objective. Given executive concerns around 'safe-harbour' provisions relating to statements made in external reports, it is unlikely that this principle will find practical application.

The fourth principle isn't. This statement is assumptive in nature which does not lend itself comfortably with a stated aim, s it does not necessarily relate to all cases. The statement is to diffuse to provide meaningful guidance.

Whilst acknowledging the fervour to report human capital as a lead-type portfolio of metrics, the fifth principle further raises questions around the intended nature of the external framework. If meant for inclusion in an Annual Report, it would follow that any such framework should focus on a

retrospective presentation of known outcomes.

Therefore, the principles appear to undermine, or at least render more opaque, the rationale for the introduction of the proposed framework. Additionally, they fail to provide any operating principles or specific guidance in the construction of the framework, apparently relating to an underlying 'philosophy' providing limited implementation support or guidance.

### External reporting framework

Review of the human capital external reporting framework identifies a range of significant concerns relating to its application or provision of insight. Detailed review is set out in the table below, which includes proposed primary indicators (omitting secondary ones).

Activity area	Primary indicators	External reporting limitations
Acquisition and retention	<ul style="list-style-type: none"> <li>Average number of vacancies as a percentage of total workforce per month/year</li> <li>Ratio of internal to external recruitment for job vacancies</li> <li>Salaries and benefit costs – breakdown by full-time and temporary worker costs</li> <li>Average length of time taken to fill vacancies</li> <li>Staff turnover – averages for different levels of management and employees</li> <li>Composition of board and executive team – age, sex, race and experience</li> <li>Numbers covered and size of relevant 'talent pools'</li> <li>Percentage of senior managers recruited internally/externally</li> <li>Percentage of variable pay at senior levels</li> </ul>	<ul style="list-style-type: none"> <li>No clear rationale for reporting, with use of highly-context specific metrics (e.g. internal/external recruitment).</li> <li>Selection focuses on aggregate operational process data (e.g. time to fill vacancy) rather than any insight into organisational mechanics.</li> <li>Management data can be derived from existing Annual Report.</li> </ul>
Learning & development	<ul style="list-style-type: none"> <li>Off-the-job training days/FTE</li> <li>Expenditure on off-the-job training</li> <li>Expenditure on workplace learning</li> <li>Management development spend per manager</li> <li>Average number of days' training per year per manager</li> </ul>	<ul style="list-style-type: none"> <li>Unclear breakdown on costs.</li> <li>Focus on internal HR measures which are context specific.</li> </ul>
Human capital management	<ul style="list-style-type: none"> <li>HR spend per employee</li> <li>Percentage of employees covered by formal HR policies</li> <li>Days per year spend resourcing top-team development</li> </ul>	<ul style="list-style-type: none"> <li>HR spend per employee is specific to particular operating models.</li> <li>Unclear what external insight can be gained from other indicators.</li> </ul>
Performance	<ul style="list-style-type: none"> <li>Market capitalisation per employee</li> <li>Revenue per employee</li> <li>Profit per employee</li> <li>Value-added per employee</li> <li>Sales per employee</li> <li>Percentage flow of human capital in and out of the organisation</li> </ul>	<ul style="list-style-type: none"> <li>Duplicates ratios that can be derived from the Annual Report but does specify the limitations of these metrics.</li> <li>Assumes direct linkage between employee numbers and market performance without allowing for differing operating models.</li> <li>Limited application to public sector.</li> </ul>

### Conclusion

This review suggests that the proposed external

reporting framework as put forward, and despite its proposal to include narrative and quantitative data, bears more resemblance to an internal HR scorecard than an external reporting tool.

The underlying basis for construction of the framework appears rather confused due to the nature of the stated principles, the lack of an underlying sense of inclusion and the omission of certain key outcome measures (e.g. absenteeism, health & safety data) that are typically seen as useful to external stakeholders.

Moreover, the use of process efficiency measures (which are sub-organisational context specific), and the limited use of the baseline data that underlies them, poses significant challenges for any external comparison. This implies that the framework in the format presented would provide limited insight to an external interpreter.

This evaluation accordingly raises significant questions around whether this framework is capable of fully meeting its stated first principle of providing value to those receiving it.

### A review of the (now defunct) Reporting Standard 1: Operating and Financial Review (ASB)

The Operating and Financial Review (OFR) evolved in response to a 2001 review of UK company law that identified a need for enhanced transparency and accountability in corporate reporting, and with a requirement to align UK reporting with the Accounts Modernisation Directive, adopted by the EU in 2003.

The stated intention in developing the OFR as a reporting standard was:

*"[to provide] greater transparency: to improve the quality, usefulness and relevance of information provided by quoted companies, thus improving the understanding of the business and its prospects"<sup>11</sup>.*

In 2004 the Accounting Standards Board (ASB) issued an Exposure Draft of a Reporting Standard on the OFR. In early 2005, regulations to implement the OFR came into force, requiring companies reporting from April 2006 to include an OFR within their accounts. The ASB's finalised Reporting Standard was released in May 2005<sup>12</sup>.

At the CBI conference in November 2005, the Chancellor, Gordon Brown, announced his decision to scrap the OFR, leading a degree of current uncertainty amongst organisations around appropriate reporting on human capital management matters. It appears that organisations with imminent reporting deadlines are likely to include some form of OFR on a voluntary basis.

### Intention and reporting requirements

The OFR was intended to provide information to assist investors in assessing the strategies

<sup>11</sup> Draft regulations on the Operating and Financial Review and Directors Report, DTI, May 2004, p. 65  
<sup>12</sup> Reporting Standard 1: Operating and Financial Review, Accounting Standards Board, 2005

adopted by the organisation, and the potential for those strategies to succeed. The ASB's reporting standard, issued in May 2005, set out the following reporting requirements.

*"The OFR shall include information about:*

- *Environmental matters (including the impact of the business of the entity on the environment)*
- *The entity's employees*
- *Social and community issues*
- *Persons with whom the entity has contractual or other arrangements which are essential to the business of the entity*
- *Receipts from, and returns to, members of the entity in respect of shares held by them;*
- *All other matters the directors consider to be relevant."*

This list of reporting aspects immediately suggests that employees are seen as one category amongst several to be reviewed. Therefore this reinforces the view that the emphasis of the OFR is not focused on developing a substantive human capital reporting framework, but rather on providing a qualitative assessment on the organisation and its policies (as implied by its stated aim of complementing and supplementing the financial statements). Thus, from a HC reporting standpoint, expectation for the OFR to provide an answer may be misplaced.

### Specific guidance

Whilst the broad scope of the OFR already indicates a limited degree of ambition towards establishing human capital reporting as a core discipline, review of the Guidance notes weakens this remit still further.

Whilst we acknowledge the correct recognition in the notes that employees are both a resource and a risk for organisations, the guidance provided does not seem to address this adequately. Rather than seeking to establish any 'core' platform for human capital reporting, the Guidance notes explicitly move away from advocating a standard approach, stating that "the employee matters that will be of concern for directors will vary from entity to entity".

Accordingly, a series of reporting measures are identified that the Guidance suggests "may be helpful." These are set out below.

HCM category	Reporting measures identified
Employee health & safety	<ul style="list-style-type: none"> <li>• <i>RIDDOR</i></li> <li>• <i>Lost days to injury</i></li> <li>• <i>Levels of occupational related diseases in the workforce</i></li> </ul>

	<ul style="list-style-type: none"> <li>• <i>Compliance levels with working hours directives</i></li> </ul>
Recruitment and retention	<ul style="list-style-type: none"> <li>• <i>Employee turnover</i></li> <li>• <i>Retention rates</i></li> <li>• <i>Remuneration policies</i></li> <li>• <i>Number of applicants per post</i></li> <li>• <i>Offer/acceptance statistics</i></li> <li>• <i>Level of skills shortages</i></li> </ul>
Training and development	<ul style="list-style-type: none"> <li>• <i>Hours spent on training</i></li> <li>• <i>Number of courses taken</i></li> <li>• <i>Leadership/career development</i></li> </ul>
Morale/motivation	<ul style="list-style-type: none"> <li>• <i>Employee feedback results</i></li> <li>• <i>Absence rates</i></li> <li>• <i>Levels of employee engagement</i></li> </ul>
Workforce performance and profile	<ul style="list-style-type: none"> <li>• <i>Employee productivity</i></li> <li>• <i>Revenue/profit per employee</i></li> <li>• <i>Diversity</i></li> <li>• <i>Number of professionally qualified employees</i></li> </ul>

These HCM categories (which appear to bear significant resemblance to that put forward by the CIPD) fail to suggest a comprehensive underlying framework that defines relevant aspects of human capital management.

Despite this limitation, the OFR successfully identifies certain key outcome measures, e.g. turnover, employee engagement, absenteeism.

However, even if these were to form a mandated component to the report, the measures require significant organisational context and the provision of baseline, underlying data to allow for any degree of comparison across organisations.

### Conclusion

In summary, were the OFR to be re-established as a mandatory report, those seeking the establishment of a rigorous comparative framework for human capital reporting are likely to remain disappointed. Although acknowledging the importance of reporting on aspects of human capital, the OFR does not provide human capital reporting with sufficient structure or rationale. It also fails to provide specific operating statements and insight into specific metrics/measures and their linkage to organisational outcomes.

Of further comment, the OFR resemblance to the CIPD framework, reviewed in the prior section (3.3), would suggest that the draft version was potentially influenced by this framework and suffered from similar flaws. It may be no coincidence that the final OFR version was 'watered down' precisely because of the issues raised in this review.

### Published organisational reporting documents related to human capital (various sources)

UK organisations typically include some aspects of HCM reporting to greater or lesser degrees within their published financial statements, with both qualitative and quantitative presentation of information. These take the form as discrete 'People reports' or are incorporated within Corporate Responsibility/CSR reports. Research by London Business School<sup>13</sup> identified that the most frequently internally/externally-reported measures in FTSE companies were (in descending order of frequency):

- Employee turnover
- Employee satisfaction survey scores
- Absenteeism statistics
- Profit per full-time employee
- Performance reviews
- Remuneration analysis
- Training (spend or days) per employee
- Employee diversity
- Revenue per employee
- Staff headcount analysis.

Accordingly we have reviewed a sample of Annual Reports and Corporate Responsibility Reports (see Appendix IV) produced by a number of organisations generally identified as leaders in the field of human capital management, as a means of assessing current practice. The purpose of this review has not been to comment on the approaches of a specific organisation, but rather to gain insight into current approaches.

Organisations reviewed have ranged from 1,000 to 150,000 employees, and are drawn, with one exception, from FTSE100 constituents. The table overleaf summarises the structure of Corporate Social Responsibility Reports (and equivalent) identified, along with key HCM indicators quantified (excluding assessment of qualitative comment).

Two key findings emerge from this review:

1. There is no evidence of a standard approach towards Corporate Social Responsibility reporting, with a wide range of topics included and apparently high levels of discretion around content. Even where external assurance statements are included, these do not focus on human capital aspects or appear to lay down significant guidance principles, focusing more on verifying reported information.
2. With some notable exceptions, human capital related baseline data reported focuses on workforce composition and

<sup>13</sup> "Human Capital Measurement and Reporting: A British Perspective, MBA 2<sup>nd</sup> Year Project", Foong, K., Yorston, R., Gratton, S. London Business School, 2003.

health & safety. Even with qualitative commentary, this provides limited insight from an external stakeholder perspective and suggests the need for a standard reporting format and set of guidelines.

This suggests that the CSR document is unlikely to provide a sufficient vehicle for effective and insightful human capital reporting, with the majority of organisations reviewed utilising it for qualitative commentary focusing on environmental and community aspects.

In order to raise the profile of human capital reporting, therefore, and establish a set of commonly-reported baseline data suitable for external analysis and comparison, we recommend the adoption of a standard human capital operating statement, with underlying pro-forma templates and guidance notes.

### Taxonomy of reporting metrics for comparative purposes

One of the challenges that organisations, and their HR functions, face is a structure to identify the different categories within a wide range of reported HC metrics. From a human capital perspective, measurement would look to focus on:

- Return on resource
- Management of resource
- Utilisation of resource
- Related operational process/activity data.

All of these categories can contain numbers, ratios or indices and by themselves will not sufficiently differentiate for the purposes of reporting. Thus, a further approach is needed to help with classification to assist in guiding the selection and balance of a portfolio of measures – the HC metrics hierarchy.

Most organisations have confused benchmarking (which is a process used in improvement methodologies) with measurement - which is used to assess performance and/or provide decision-making capability. As will be shown, most benchmarking related to human capital that has been conducted in organisations/HR functions is limited or inappropriate and questions should be asked about the validity and nature of much of the approach so far.

### HC Metrics hierarchy

This framework was developed to help organisations, and their HR functions, differentiate the various portfolio of metrics that were being calculated/reported internally. Its original intent was to assist in identification and understanding, but we believe that this model can be used to examine external reporting parameters and help to explain some of the issues currently with benchmarking. The reporting levels, as seen in

the diagram to the right, are:

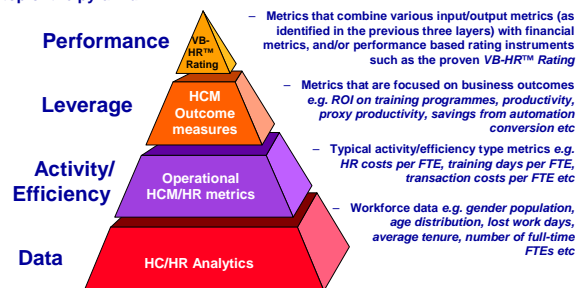
- Level 4** - Performance related
- Level 3** - Leverage (outcome) related
- Level 2** - Activity/efficiency related
- Level 1** - Data related

### HC Metrics hierarchy diagram

It is important to note that the definition of 'importance' here relates to the degree of measurement information, not the individual information itself, i.e. average tenure may itself be an important piece of data, but is limited as to the information given without further context or combination with other data.

'There are essentially four categories of HR measures: performance-related, leverage (outcome) related, operational activity/efficiency-related and data.'

Human Capital Reporting ideally consists of a portfolio of metrics across the different categories, with increasing organisational importance towards the top of the pyramid'



VB-HR™ Rating Metric Hierarchy ©VaLUENTIS Ltd

As with any model, there are some limitations, as certain metrics can be interpreted as occupying more than one category, dependent upon the perspective taken. This in itself is revealing and is further evidence of one of the model's original design intentions.

### Specificity of HC metrics

Previous attempts at constructing reporting frameworks appear to have had difficulty in resolving two main factors: limited clarity on the organisational specificity of a given metric, and the use of ratios as opposed to 'raw' numbers (which gives rise to issues around definitions, further undermining comparability).

The specificity of a metric assesses to the degree with which it relates to a measure that is more or less generic (i.e. allowing a wide range of useful comparison) or specific to organisations (i.e. allowing a limited range of useful comparison).

An example of a metric that is relatively generic is 'human capital intensity' (people costs as a proportion of operating costs), as this provides a cross-industry comparison.

A retail organisation may have a relatively low human capital intensity, whilst a government department might have a relatively high human



capital intensity: this comparison provides insight into their respective operating models.

An example of a metric that is relatively *specific* is 'training days per FTE', which is an input metric. Although this may look superficially comparable, it cannot operate as a generic, or even cross-organisational comparison, unless two companies have similar operating models and similar training course application. Therefore this metric may be potentially of some use *within* an organisation, but does not lend itself to comparison across organisations or external benchmarking.

We categorise degree of specificity for comparative purposes across five organisational levels: sub-operation unit, business unit, group, sector and x-sector (see table right).

### Degrees of specificity by organisational level

To provide a method of evaluating comparability and therefore usefulness of HC metrics, we have combined the metrics hierarchy with the level of organisational analysis to produce a measurement comparability matrix, shown below.

### Measurement comparability matrix

MEASUREMENT LEVEL	LEVEL OF ORGANISATIONAL ANALYSIS				
	X-SECTOR	SECTOR	GROUP	BUSINESS UNIT/DIRECTORATE	SUB-OPERATING UNIT
Performance related	👍	👍	👍	👍	👍
Leverage (outcome) related	✓?	✓?	✓?	✓?	✓?
Activity/efficiency related	🚫	🚫	🚫	✓?	👍
Data (on own)	👎	👎	👎	👍	👍👍
Data (combining with other data)	👍	👍	👍	👍👍	👍👍

#### Key: Level of Comparability

- 👍👍 Yes, to a large degree
- 👍 Yes, to some degree
- ✓? Yes - but depends on measure and context
- 👎 Limited
- 🚫 No

<b>Sub-operation</b>	Metrics may yield insight only at the level of a specific process, segment (function) or role, and therefore are highly contextual in nature. These can be insightful within an organisation but are not appropriate for external
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#### Business unit

comparison, as their context limits comparability. **Note:** HR functions are quite often benchmarked (see below under sector) but suffer the potential limitations.

Metrics yield insight only within a particular organisation (or individual business unit) as differing operating models (i.e. people utilisation and resourcing) render external comparison redundant, despite potential application within the organisation or business unit. Thus an understanding of business operating models is an important precursor to comparability. Even internal comparison of business units will require certain adjustments or modifications.

#### Group

Metrics can yield insight at an aggregated group level for certain metrics. However, if respective business units have different operating models, group to group comparisons may be meaningless. (Common issue with multiple business unit organisations which occupy different market spaces – banking is a good illustration)

#### Sector

Metrics yield insight across organisations (and/or business units) within a given sector. HR functions are quite often benchmarked at sector (and x-sector) level. Though some insight may be gained, the potential for the apples and pears conundrum looms large and thus limitations are high towards meaningful comparison.

#### X-sector

Metrics yield insight across organisations (and/or business units with similar operating units) using multiple sector comparison. It is possible that business units with similar operating models and sub-operating unit items such as similar job roles may be compared but extreme care must be taken to ensure 'like with like' comparatives.

An interesting picture emerges which accounts for why benchmarking in HR is particularly difficult to carry out to provide meaningful comparison. The activity-efficiency measures (which form the majority of current HR metrics) are problematically difficult for comparative purposes other than at business unit level or below, and even then requiring a degree of context.

Compare this with the relative use of data, when combined with other data performance-related and leverage-related (such as that contained in the HCR Statements) which would suggest a more positive outcome.

Certain ratio analysis is also useful but needs to be leverage/ performance-based unless it is to suffer the same limitations.

In the next section we provide an evaluation of common metrics used in terms of suitability for

benchmarking comparison.

### Common benchmarking measures in use (various sources)

The following evaluation of typically-utilised HR/HCM metrics is excerpted from a more comprehensive analysis previously published in the HCM100 benchmark report.<sup>14</sup>

A series of metrics/baseline data commonly used for internal and external reporting are identified. These are presented according to their HR functional area (i.e. type of activity). Each metric is then evaluated in terms of its domain (Financial, Human Capital, Human Capital Management, HR-Functional); comparability rating (High, Medium, Low) and VB-HR™ Level Indicator (i.e. where the metric maps on the metrics hierarchy or pyramid presented previously in this section).

On the basis of these scores, an overall star rating is awarded, from four stars (indicating a highly meaningful metric for reporting purposes) to one star (indicating limited relevance for reporting purposes). This review demonstrates that the majority of metrics receive an overall ranking of one or two stars. In the case of one star metrics, this tends to result from a high degree of organisational specificity, reducing relevance from an external perspective.

'Percentage managers and professionals' may be relevant within the organisation at the sub-operating unit level (given potential insight into aspects of the workforce composition), but will not provide an external assessor with insight. Similarly, organisational-specific baseline data will typically be identified as a one star metric, as the information provides extremely limited external insight. Examples include total training hours, graduate recruitment rate.

Two star metrics typically relate to ratios, e.g. Absence cost per FTE, average compensation (with the inference that this is derived from compensation costs per FTE or employee). Whilst these provide information on efficiency (particularly relating to costs or process cycle time), their relevance is either more skewed towards an internal than external perspective, or can be limited through use of a flawed or unstable denominator. For example, Profit per FTE is subject to a variety of definitions of 'profit' and has dependency on the organisational model and other external considerations, limiting its robustness from an external comparison perspective.

A limited number of three star metrics is identified, where data relates to particular HCM outcome measures and/or permits a high degree

of comparison. For example, FTE days is derived from a combination of resourcing and HCM policy factors, permitting a high degree of comparison against different organisations.

Equally, turnover rates tend to result from a combination of resourcing, performance management and other organisational factors (e.g. local management), providing a high potential for external insight, particularly where baseline data is provided in support of a specific ratio. Baseline cost data is identified as a three star metric as it provides, with the correct comparative context, considerable external insight.

For example, a comparison of health & safety preventative costs across a sector will identify where a given organisation is potentially over-investing in prevention, or runs a greater perceived safety risk.

Below area selection of commonly benchmarked metrics which have been evaluated against criteria (i) Comparability – low, medium or high; (ii) The HC metrics hierarchy levels; and (iii) an overall rating with four stars being the highest and one the lowest.

### Productivity/HR Support

Metric	Domain	Comparability rating	VB-HR ind	Overall rating
Revenue per FTE	Financial	Low	3	★★
Cost per FTE	Financial	Low	2	★★
Profit per FTE	Financial	Low	3	★★
Wealth creation per FTE	Financial	Low	3	★★
Human Investment Ratio	Financial	Low	2	★★
Ratio of compensation to revenue	Financial	Low	2	★★
Operating costs per FTE	Financial	Low	2	★★
Net operating costs /total costs	Financial	Low	2	★★
Cost of goods sold/total costs	Financial	Med	2	★★
Corporate HQ costs to total costs	Financial	Low	2	★★
Total productivity	Financial	Med	2	★★
Ratio of HR employees to total FTEs	Internal	Low	2	★★
HR department costs over total costs	Financial	Med*	2	★★
HR department costs per FTE	Financial	Med*	2	★★
HR department costs per Headcount	Financial	Med*	2	★★
HR average remuneration	Financial	Med*	2	★★
New product revenue per FTE	Financial	Low	3	★★
R&D investment rate	Financial	Low	2	★
% Managers & Professionals	HC	Low	1	★

### Resourcing

<sup>14</sup> See VB-HR™ Rating – HCM100 Benchmark Report, www.vbhr.com

Metric	Domain	Comparability rating	VB+HR ind	Overall rating
External job offer acceptance rate/offer to acceptance ratio	HCM	High*	2	★★★
Overall turnover rate/resignation rate/retention rate/involuntary turnover rate	HCM	Low	3	★★★
Cost per external hire by job family/level	Financial	Med	1	★★
Graduate cost per hire	Financial	Low	2	★★
Graduate starting compensation	Financial	Low	1	★
External recruitment/addition rate	HCM	Low	1	★
Graduate recruitment rate	HCM	Low	1	★
External replacement rate	HCM	Low	1	★
Time to accept	HCM	Low	1	★

### Training & Development

Metric	Domain	Comparability rating	VB+HR ind	Overall rating
FTEs per Training & Development FTE/Training function FTE/Line Trainer/FTE	HR-F	Low	2	★★
Training costs/total compensation	Financial	Low	2	★
Training cost per hour	Financial	Low	2	★
Total hours of training per employee (in-house, external)	HR-F	Med	2	★

### Performance Management & Reward

Metric	Domain	Comparability rating	VB+HR ind	Overall rating
Executive stability ratio	HC	Low	3	★★
Average remuneration	Financial	Med	1	★★
Average compensation	Financial	Med	1	★★
Average benefits	Financial	Low	1	★★
Total benefits over total compensation	Financial	Low	1	★
Variable compensation rate	Financial	Low	1	★
Rate of incentive premium/attendance premium	Financial	Low	1	★
Ratio of highly incentivised workforce	HC	Low	1	★

### Employee Relations, Health & Safety, Payroll

Metric	Domain	Comparability rating	VB+HR ind	Overall rating
Number of grievances/grievance rate	HCM	Low	3	★★★
Staff suggestion rate	HC	Low	1	★★
Staff suggestion success	HC	Low	3	★★
Absence rate	HCM	Med*	3	★★★
Absence cost per FTE	Financial	Med	2	★★
Casual Absence cost per FTE	Financial	Med	2	★★
Lost time occurrence per 1,000 FTEs	HCM	High	1	★★
Total H&S costs per FTE	Financial	Low	2	★
Payroll expense per employee	Financial	Low	1	★
Costs per payslip	Financial	Low	2	★

The illustrations show, many of the metrics possessing low comparability and overall ratings.

### Baseline data

Metric	Domain	Comparability rating	VB+HR ind	Overall rating
Total costs	Financial	High	1	★★★
FTE workdays	HCM	High	1	★★★
Workdays lost	HCM	High	1	★★★
Casual absent days	HCM	High	1	★★★
Total OH&S costs	Financial	High	1	★★★
External recruiting costs	Financial	High	1	★★★
Training costs	Financial	High	1	★★★
HR department costs	Financial	High	1	★★★
HR outsource costs	Financial	High	1	★★★
Overall FTE (full-time equivalent)	HC	Low	1	★★
Total HR FTE	HR-F	Low	1	★★
Headcount – Executive Directors	HC	Low	1	★★
Headcount – employees with less than 2 years service	HC	Low	1	★★
Outsource costs	Financial	Low	1	★★
Staff with a degree or professional qualification	HC	Low	1	★
Total terminations	HCM	Low	1	★
Involuntary terminations	HCM	Low	1	★
Dismissals	HCM	Low	1	★
External recruits	HC	Low	1	★
External replacements	HC	Low	1	★
Job offers extended	HCM	Low	1	★
Job offers accepted	HCM	Low	1	★

This analysis suggests that few typically-reported metrics are suited to external reporting or comparison (which accounts for the difficulties organisations have faced in measuring human

capital management and addressing related aspects of internal reporting).

Equally, the analysis suggests that the HC Reporting framework includes all the metrics identified as cross-sector or super-sector.

### **Definitional pitfalls**

A key feature of the HC Reporting framework is its reliance on presenting 'raw' data. This has two significant benefits over 'traditional' reporting approaches:

- Presents underlying information rather than percentages or ratios
- Provides unambiguous definitions.

Traditional approaches suffer from the twin drawbacks that this approach addresses, leading to issues around comparability and specificity that the HC Reporting framework addresses. We have reviewed a range of traditional approaches towards measuring Absenteeism and Turnover to illustrate these drawbacks.

### **Illustrated examples**

#### **(i) Absenteeism – review of traditional approaches**

Monitoring absenteeism should identify the degree to which employees are not available for productive work. Different reporting definitions for absenteeism exist, including the following:

- Hours absent/Total hours available
- Working days lost/Working days total
- Frequency<sup>2</sup> x Duration of absence ('Bradford factor')
- Workdays lost/employee
- Number of staff on leave/month or year
- Total number of workdays each employee has been absent whether paid or not
- Number of absence spells/month or year.

This range of definitions causes a number of issues:

- Clarity. The definition of a lost workday can be subjective: sickness absence is one generally identified aspect, but definitions can also include industrial action, compassionate leave, and authorised leave.
- Metric variation. A number of organisations we have spoken to report multiple absenteeism measures, including lost time in days, lost time as a proportion of total time, frequency rate and average duration per employee. This suggests both that no single standard is accepted, and that comparability of metrics will be limited.
- Sensitivity. If an employee arrives two hours late for work, this would be identified as absence if the organisation is monitoring hours worked, but less likely to be registered, or not registered if the

organisation monitors at the level of the day or half-day

- Data quality. Related to the hourly vs. daily approach is the access to and quality of related information. A system that relies on the individual or the line manager contacting the HR department is less likely to provide high levels of reliability of reporting versus an approach that relies on automated time and attendance monitoring.

In light of the number of ratios utilised and the variety of ways in which organisations are reporting, any definition that reports 'base' information (as opposed to a ratio, which is derived from multiple data-points) will assist in bringing a further level of clarity.

Additionally, further categorisation into days lost through a standard range of sources will provide greater insight to organisations internally, as well as enhanced transparency externally. For this reason, the HC Reporting<sup>®</sup> framework sets out standardised causes, allowing comparability and insight generation.

#### **(ii) Turnover- review of traditional approaches**

Turnover is intended to identify the proportion of people who leave an organisation in a specified timeframe (usually a year) and categorise them by rationale for departure. Differing definitions have been identified:

- Number of leavers in the year as a percentage of the number of staff in post at the end of the previous year
- Termination or resignation divided by number of staff at beginning of fiscal year
- Number of open positions compared to the total number of budgeted positions
- Headcount of core employee terminations for whatever reason

This range of definitions causes a number of issues:

- Basis for calculation. Unlike absenteeism, where any increase in levels reduces productivity, it is unclear what the 'right' level of turnover should be by category of employee: any single metric utilised will therefore only generate limited insight.
- Relevance. 'Open positions' are not uniquely related to staff turnover and may result from organisational changes, secondments or leaves of absence.
- Limited reporting insight. Limited visibility on underlying rationale for staff departing, even within the categories of 'voluntary' and 'involuntary', provides limited comparability.

Accordingly any approach which tracks and accounts for movements in employee levels throughout the year utilising 'base' information (like the PeopleFlow® Statement) will both allow for the generation of specific ratios whilst providing significantly enhanced reporting capability and insight within and outside the organisation regarding the people dynamic.

### **The emergence of a human capital reporting framework**

Financial accounting for organisations basically centres on three main statements: the profit & loss statement, the cashflow statement and balance sheet. The market focuses on a fourth dimension – value, which requires analysis and interpretation (with a whole industry dedicated towards it, due to the complexities of modern day accounting).

The increasing complexity of organisations, whether through scale, reach and/or operating models, has required more internal focus on reporting – the management accounting side. Over the last decade there has been increasing use of scorecard-type solutions to assist in measuring performance, some measures which have begun to appear in annual reports, supplementing the main statements.

In essence, the underlying reason is mainly down to the 'market' (investors) requiring information which provides further insight, particularly on 'intangible' items that are not contained within the three main accounting statements (but are not necessarily value-related either).

The operating review/business law reviews were to bridge that gap (from UK perspective). However, there was difficulty in structuring the human capital element.

Financial accounts provide baseline numbers in a simple format, i.e. numbers added or subtracted to arrive at certain **key measures**, such as gross profit, profit before tax, EBIT etc. The cashflow statement and balance sheet are presented in similar manner.

To assist in understanding, a notes section is provided to each line item to provide explanation regarding convention or principles used to calculate things, such as depreciation, inventory, or whether certain spend is classified as an asset or expense etc.

This baseline data may be supplemented by ratio analysis, such as ROA, EPS, interest cover etc, but it is important to note the essential difference – one is baseline data, the other is analysis.

Nowadays, there are more advanced market-based analyses which link economic value as well as a variety of evaluative tools that aid interpretation or decision-making.

It is interesting to note that HC information

currently reported (with the exception of people costs) falls short on the informative dimension. To compound the matter solutions offered (including those in the late OFR) have been mainly ratio based but without any logical rationale.

Thus, we put forward that any proposed solution for HC reporting must be based on:

1. A set of reporting principles,
2. Possess standardised reporting templates containing 'numbers' (which may or may not be supplemented by ratio analysis).
3. Have a set of operating principles to form guidelines in drafting definitions of the various reported HC data to avoid issues associated with problematic measurement.

### **HCR - Statement of General Principles**

In order to provide a framework for reporting, we have published a set of overarching 'HCR Principles' which describe the basis for reporting. They have some similarity to those published by the Accounting Standards Board which underpin financial accounting, due in the main that (i) there are certain irrelevances for HR, and (ii) acknowledging that there are still some inherent issues with regard to their content.

These general 'HCR Principles' are supplemented by Standard HCR Operating Principles (SHCROPs) which provide more detail in terms of reporting guidance. The Principles are:

1. Objective of Human Capital Reporting
2. The Reporting Entity
3. Presentation of human capital related information
4. Qualitative characteristics of human capital related information
5. Measurement in human capital related statements
6. Recognition of human capital related information

#### **1 Objective of Human Capital Reporting**

The objective of human capital reporting is to provide information about the related performance of managing people and their contribution to the business or enterprise, which is useful to a wide range of 'stakeholder users' assessing management practice and its ability to make economic decisions.

Human capital reporting should acknowledge that people are simultaneously assets, resources and liabilities and as such reporting information needs to reflect this.

Information provided to stakeholders needs to represent a true and fair picture of organisational performance related to human capital, which is useful to them in evaluating the organisation's current and future (where possible) ability to derive economic value.

## 2 The reporting entity

An organisation (entity) should report HC information that is related to its boundary of control – i.e. that which is controlled by the entity and that in certain circumstances is indirectly within its control. This may have particular implications for some areas of operations in terms of human capital ownership.

## 3 Presentation of human capital related information

In relation to Principle 1 – The objective of Human Capital Reporting, in order to meet the needs of potential information users, the following primary statements should be published:

- Regarding human capital performance related information through the use of a **Human Capital Operating Statement**
- Regarding the flow of people through the organisation over the period being reported through the use of a **PeopleFlow statement**
- Regarding the people related input and output sides of the productivity equation through the use of a **Productivity statement**

All statements should be supported with explanatory narrative (notes) sufficient to enable the reader to understand the context and special circumstances surrounding certain items of information.

This narrative may extend to the reporting of

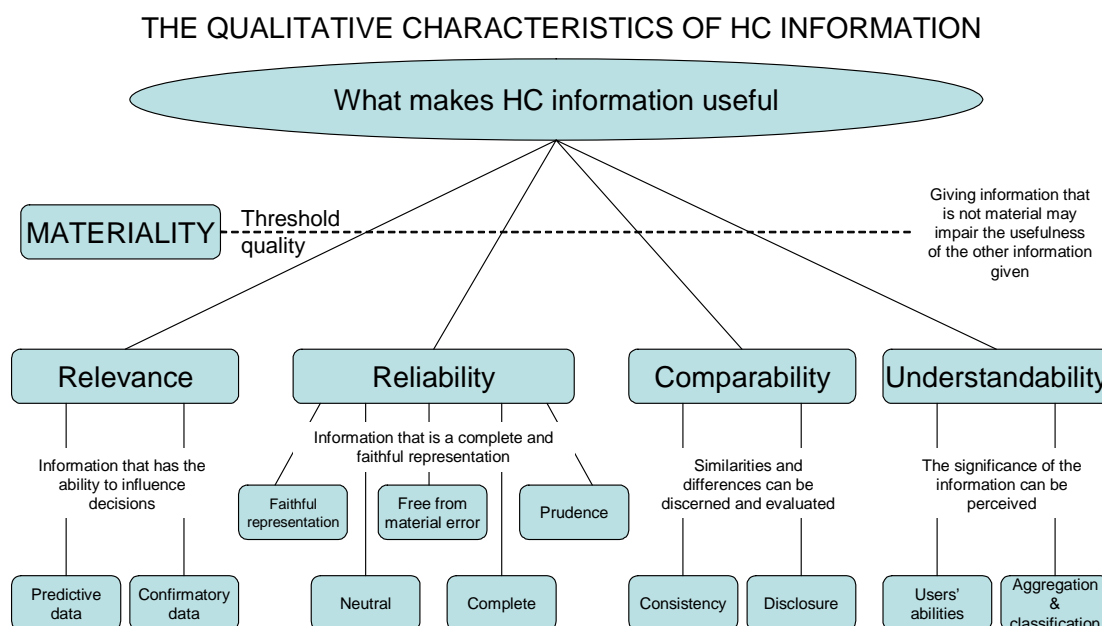
general organisational information regarding HC policies in force, certain current and/or intended HC initiatives, plus other information deemed appropriate by management. Anticipation is also made for a fourth statement – the human capital value statement, which may emerge over time.

There are four key primary qualitative characteristics that make the HC reporting framework, involving the three core statements, useful to users. These quality characteristics of information are adapted from those used in financial accounting. They are *Relevance*, *Reliability*, *Comparability* and *Understandability*. Each possesses further attributes as shown in the diagram below.

## 4 Qualitative characteristics of human capital related information

**Materiality** is the threshold for disclosure, in that information is material if its mis-statement or omission is likely to influence the decisions or opinions of stakeholder users.

- **Relevance.** The information provided should be relevant, i.e. be up to date and current and be actually used by or influences the reader. Relevant information should enable evaluation of both past and potential future events, together with confirming or otherwise previous predictions/outcomes.
- **Reliability.** The reader must have faith in the information provided and it must be free from material error and represent faithfully what it is supposed to represent. Also, this



Source: Adapted from ASB Statement of Principles for Financial Reporting 1999, p34

information should have a neutral tone, i.e. free from deliberate or systematic bias. This also applies to the completeness of information given. Given the general uncertainty of organisational performance, a degree of caution (prudence) should accompany reported HC information

- **Comparability.** There is particular emphasis on consistency. This insists that the information must be comparable across three dimensions: (i) from period to period and relate to like items within the same period; (ii) within the entity, in terms of business units, Directorates etc; and, (iii) between organisations. The disclosure of HC operating principles/policies is necessary to assess consistency, and variations thereof. Thus there should be sufficient disclosure to enable meaningful comparison to take place, thus HC measurement definition becomes important.
- **Understandability.** This concept insists that the information being provided by the reporting entity be presented in such a way that it is as understandable as possible to the user. However, this does not mean that it is so simple that the information being provided becomes meaningless. In that regard disclosure assumes that 'stakeholder users' have a reasonable business and organisational knowledge and a willingness to study the information provided with reasonable diligence.

## 5 Measurement in human capital related statements

As stated in the last principle the concept of measurement and measurement convention with regard to human capital metrics and information is highly important in terms of providing a basis for material information. Thus measurement issues involve:

- Selecting an appropriate measurement basis/convention
- Determining or estimating the related quantitative data
- Revising this data where appropriate

Organisations, when making their choice, should be guided by the objectives of the human capital statements and the nature of the information being provided.

## 6 Recognition in HC related information

The recognition process has the following stages:

- (a) Initial recognition, which is where a people transaction is recorded in the HCOS and PeopleFlow statements for the first time;
- (b) Subsequent re-measurement, which involves changing the recorded number already recognised and stated in the HCOS and PeopleFlow statements;

(c) De-recognition, which is where a people transaction that was until then recognised ceases to be recognised.

This next section accordingly sets out the presentation of the HC reporting framework and guidance notes on the development of the Human capital operating statement, PeopleFlow<sup>®</sup> Statement and HC Productivity statement.

## HC Reporting Framework

### The Human Capital Operating Statement

The HCOS contains some base information containing revenues (or budget for public sector organisations) and costs, notably people costs. For informative purposes we have included several key ratios as part of this baseline data.

The metric 'Revenue per FTE' is provided here for calculative purposes. In our VB-HR<sup>™</sup> Rating HCM100 report of 2005 we illustrated how Revenue per FTE is a highly contentious and incomparable metric if not adjusted (**see inset below**).

#### Example - adopted financial metric

*Revenue per FTE* has been commonly used as an 'output' marker for human capital productivity. The equation is simple enough, but that is its drawback. Experts in organisational performance will instantly recognise its flaws. Unless all organisations exhibit the same operating model with the same people cost to operating cost ratio, then this equation will be of no relevance. However, what may be of value is to adjust the revenue per FTE figure to take account of the people cost/operating cost ratio (what we term human capital intensity) to give a more relative comparison. Even then this figure is only a 'proxy' as organisation operating models that generate revenue contain a multiplicity of inputs. Similarly, 'costs per FTE' suffers the same severe limitations for the same reason. [These particular metrics highlight the problem with simplicity, in that dividing any potential financial metric by the number of employees does not necessarily constitute an 'HR metric' – an example of 'denominator misappropriation']<sup>15</sup>.

In the HCOS the metric is adjusted to take account of the people contribution factor (i.e. percentage applied equal to people cost percentage of total operating costs – referred to as human capital intensity (HCI). The resulting metric is referred to as HCIR per FTE. This provides a far greater measure of comparison by taking account of organisational operating models.

Ancillary people costs (PC<sub>A</sub>) are costs related to the support of people within the organisation, i.e. those costs that support/develop people or people practice include items such as training & development, health & safety, the HR function and other related costs.

Reporting these already requires use of cost

<sup>15</sup> Source: VaLUENTIS VB-HR<sup>™</sup> Rating HCM 100 Benchmark Report, 2005, p16

absorption or allocation as no standard template is used from organisation to organisation and some costs may require estimation due to the fact that no individual collation of a specific people related cost exists. The HC Leverage is actually a performance related measure which provides, for the first time, a fused financial/HC related metric that is meaningful for comparative purposes<sup>16</sup>. This metric (ratio) is simply the HCIR per FTE divided by the PC<sub>A</sub> per FTE to provide a true return ratio on people.

**The PeopleFlow® Statement**

This statement is similar to the accounting cashflow statement in that it charts the movement of people as opposed to cash and therefore underlying dynamic of the organisation.

Thus, the organisation reports starting and ending FTE numbers; with the appropriate numbers charting recruited and exited people across several common categories. Compiling this statement provides a real eye-opening experience to the people dynamic of the business, and which has the propensity to present real insightful information prior to any further ratio analysis.

**The HC Productivity Statement**

This statement provided some insight into the productivity of the organisation by following a similar addition and subtraction methodology to chart resource input, subsequent loss, and an eventual productivity ratio that provides very useful insight. At this point, there is a suggested extension to the productivity statement with the inclusion of metrics such as an Employee Engagement Index and Employer brand index

which are both related to productivity. The data provided in these three statements, we believe is core reportable data that all organisations should provide. During the period up to the publication of the OFR paper, there were particular murmurings regarding sensitive data around human capital. Having carefully scrutinised the various data categories we do not believe that concerns over sensitivity can be used as a reason not to report this data. In fact, we believe the opposite to be true that those organisations reluctant to release this data face a charge of being less than open with the market and will most likely suffer a discount to any market price just as in other cases where transparency is not observed.

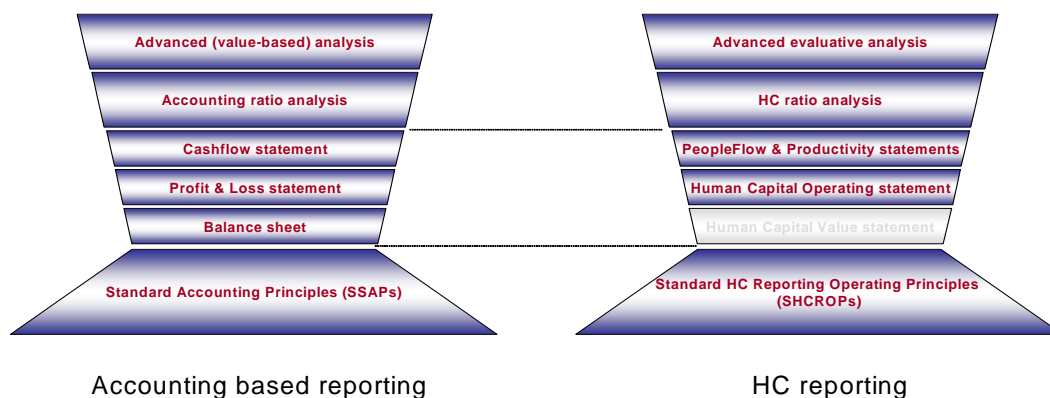
This type of obfuscation will also raise questions regarding management conduct and will certainly undermine any marketing attempts that are regularly used in corporate reporting.

**Human Capital Value Statement**

Those observant amongst you will have spotted that there is no equivalent human capital balance sheet. We believe that there is currently no methodology sophisticated enough to provide a HC value statement though we would expect this to appear at some point in the future (we are, for example, currently conducting our own research into enterprise intangibles). As we stated in our VB-HR™ Rating HCM100 report, we believe that previous attempts, particularly linking shareholder value have been at best misguided. Most have been based on the premise of one piece of academic research which is ultimately flawed. We are optimistic though that a pro forma intangible value statement of some kind will develop which

will include elements of human capital.

**Human Capital Reporting:  
Drawing a parallel from accounting based reporting**



<sup>16</sup> see HC Performance model, VB-HR™ RatingHCM100 report



## (i) The Human Capital Operating Statement

Draft evaluation of HCOS qualitative characteristics	Relevance	Reliability	Comparability	Understandability
<b>OPERATING INCOME</b>				
Revenue (£000s)	★★★★★	★★★★★	★★★★★	★★★★★
FTEs	★★★★★	★★★★★	★★★★★	★★★★★
Revenue per FTE	★★★★★	★★★★★	★★	★★★★★
<b>OPERATING COSTS</b>				
Total operating costs	★★★★★	★★★★★	★★★★★	★★★★★
People costs	★★★★★	★★★★★	★★★★★	★★★★★
Human Capital Intensity (HCI)	★★★★★	★★★★★	★★★★★	★★★★★
<b>OPERATING INCOME ATTRIBUTABLE TO HC (HCIR per FTE)</b>	★★★★★	★★★★★	★★★★★	★★★★★
<b>ANCILLARY PEOPLE COSTS (APC)</b>				
Training & Development costs	★★★★★	★★★	★★★	★★★★★
Recruitment costs	★★★★★	★★★	★★★	★★★★★
Health & Safety costs	★★★★★	★★★	★★★	★★★★★
HR functional and related costs	★★★★★	★★★	★★★	★★★★★
Outplacement costs	★★★★★	★★★	★★★	★★★★★
Contractor/agent costs	★★★★★	★★★	★★★	★★★★★
<b>Total</b>	★★★★★	★★★★★	★★★★★	★★★★★
<b>HC LEVERAGE (HCIR/APC) per FTE</b>	★★★★★	★★★★★	★★★★★	★★★★★
<b>EMPLOYEE ENGAGEMENT INDEX</b>	★★★	★★★	★★★★★ <sup>17</sup>	★★★★★
Employee survey response rate	★★★	★★★	★★★★★	★★★★★
<b>EMPLOYER BRAND INDEX</b>	★★★	★★★	★★★	★★★★★
<b>HUMAN CAPITAL MANAGEMENT INDEX (for example)</b>				
VB-HR™ Rating	★★★★★	★★★★★	★★★★★	★★★
HC Performance	★★★★★	★★★★★	★★★★★	★★★★★

We have used a five star ranking process to evaluate the statement components in terms of their qualitative characteristics. Five star award suggests that it meets fully the characteristic whilst one star suggests that it does not. Three stars suggests an average score, suggesting limitations.

<sup>17</sup> if similar meaningful measurement convention used

## (ii) The PeopleFlow® Statement

Draft evaluation of The PeopleFlow Statement qualitative characteristics	Relevance	Reliability	Comparability	Understandability
<b>STAFFING</b>				
No of full-time staff at start of year	★★★★★	★★★★★	★★★★★	★★★★★
Number of part-time staff at start of year (FTE eqv)	★★★★★	★★★★★	★★★★★	★★★★★
Number of other at start of year (FTE eqv)	★★★★★	★★★★★	★★★★★	★★★★★
<b>Full time equivalents (FTEs) at start of year</b>	★★★★★	★★★★★	★★★★★	★★★★★
<b>STAFFING MOVEMENT</b>				
Number of FTEs recruited in period (+)	★★★★★	★★★★★	★★★	★★★★★
Number of acquisitioned FTEs during period (+)	★★★★★	★★★★★	★★★	★★★★★
Number of voluntary leavers (FTE) in period (-)	★★★★★	★★★	★★★	★★★★★
Number of FTEs made redundant or outplaced in period (-)	★★★★★	★★★★★	★★★	★★★★★
Number of FTE retirements in period (-)	★★★★★	★★★★★	★★★	★★★★★
Number of FTEs outsourced in period (-)	★★★★★	★★★★★	★★★	★★★★★
<b>Full time equivalents (FTEs) at end of year</b>	★★★★★	★★★★★	★★★★★	★★★★★
<b>STAFFING MISCELLANEOUS</b>				
Employee share ownership (%)	★★★★★	★★★★★	★★★★★	★★★★★
Mean tenure (years)	★★★★★	★★★★★	★★★★★	★★★★★
Mean age of workforce (years)	★★★★★	★★★★★	★★★★★	★★★★★
Retirement population	★★★★★	★★★★★	★★★★★	★★★★★
Retirement population (% workforce)	★★★★★	★★★★★	★★★★★	★★★★★

We have used a five star ranking process to evaluate the statement components in terms of their qualitative characteristics. Five star award suggests that it meets fully the characteristic whilst one star suggests that it does not. Three stars suggests an average score, suggesting limitations.

### (iii) The HC Productivity Statement

Draft evaluation of The HC Productivity Statement qualitative characteristics	Relevance	Reliability	Comparability	Understandability
<b>CONTRACTED RESOURCE</b>				
Total number of FTE days contracted in year	★★★★★	★★★★★	★★★★★	★★★★★
Total number of FTE vacation days taken in year	★★★★★	★★★★★	★★★★★	★★★★★
<b>TOTAL NUMBER OF CONTRACTED FTE DAYS AVAILABLE</b>	★★★★★	★★★★★	★★★★★	★★★★★
<b>WORK RESOURCE ADJUSTMENT</b>				
FTE days gained through recorded overtime work (+)	★★★★★	★★★ <sup>18</sup>	★★★★★	★★★★★
FTE days lost to illness (-)	★★★★★	★★★★★	★★★★★	★★★★★
FTE days lost to work-related illness/injury (-)	★★★★★	★★★★★	★★★★★	★★★★★
FTE days lost to industrial action (-)	★★★★★	★★★★★	★★★★★	★★★★★
FTE days recorded as lost under miscellaneous (-)	★★★★★	★★★★★	★★★	★★★★★
<b>ACTUAL NUMBER OF CONTRACTED FTE DAYS WORKED</b>	★★★★★	★★★★★	★★★★★	★★★★★
<b>PRODUCTIVITY</b>				
HCI*Revenue per FTE day (optimal)	★★★★★	★★★★★	★★★★★	★★★★★
HCI*Revenue per FTE day (actual)	★★★★★	★★★★★	★★★★★	★★★★★
HCI*Revenue per FTE day differential	★★★★★	★★★★★	★★★★★	★★★★★

We have used a five star ranking process to evaluate the statement components in terms of their qualitative characteristics. Five star award suggests that it meets fully the characteristic whilst one star suggests that it does not. Three stars suggests an average score, suggesting limitations.

<sup>18</sup> We have recognised that there will be undoubtedly unrecorded over-time which will potentially manifest itself in higher productivity when comparisons are made

## Ratio Analysis

The three HC Operating statements contain a selection of ratios which stakeholder users will find of most use.

### Base Analysis

#### Revenue per FTE

Used only for reference and calculative purposes due to its unreliability for comparative purposes.

#### HCI \*R per FTE

Operating income attributable to human capital element. Provides a more consistent comparative measure by relating people cost model with revenue generation.

#### HC Leverage

= HCI \*R per FTE/APC (ancillary people costs)

First measure that fuses financial data with HR data to produce a realistic comparative measure of return on people.

#### HCI \*Revenue per FTE day (actual)

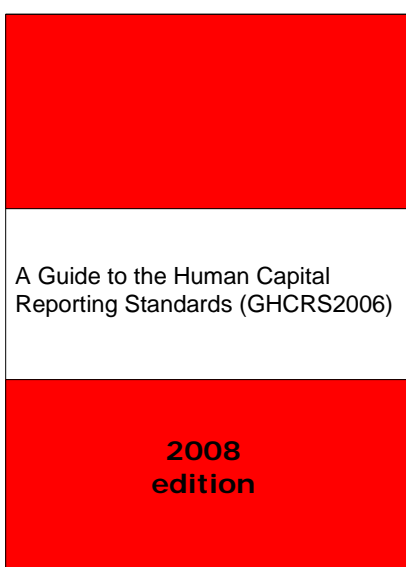
Actual productivity related ratio that combines data from HCOS and HC Productivity statements

#### HCI \*Revenue per FTE day (optimal or synthetic)

Productivity related ratio that combines data from HCOS and HC Productivity statements, similar to above but calculates by adjusting for contracted days lost during period. This will be a higher number, since actual reported number already incorporates this.

#### HCI \*Revenue per FTE day (differential)

The difference between optimal (synthetic) and actual to reflect potential revenue dissipation through lost HC productivity



In January 2006, VaLUENTiS published open source Human Capital Reporting Standards, the first time in industry history.

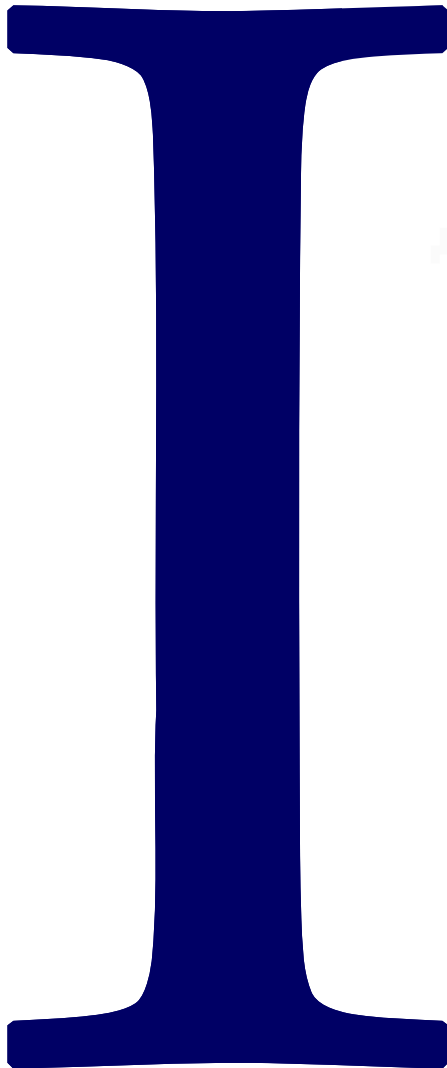
The Standards provide an overall framework and define standard HC operating principles ('SHCROPs'), and reporting templates which include the HC Operating Statement, PeopleFlow™ and HC Productivity Statements. The Standards have received acclaim from various quarters, including the accountancy and HR professions.

A number of organisations have begun to adapt part or all of the framework. The second edition is soon to be published having undergone an annual revision process.

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