

Human Capital Measurement: Whom are we kidding?

Nicholas J Higgins, 25th October 2005

'Waiting for Godot'¹ and 'Fiddling whilst Rome burns'

are two well-used aphorisms that suggest, in the first instance, a tendency to wait for something that never turns up; and, in the second instance, a focus on the small stuff at the expense of the big stuff.

Both of these resonate strongly with the current state of HC/HR/people measurement (whatever you want to call it) with the exception of a notable few. *Why?*

Another week and another announcement of another working party to produce another set of HR people metrics which will undoubtedly prove to be another inevitable diversion.

Rarely in a functional or organisational environment has so much been done by so many to produce so little. *What?*

Well, let's face it, organisations (and their HR functions) are still way short in terms of reporting human capital in 'big' terms – we're still sweating the small stuff. I mentioned there are some exceptions – they're mainly in financial services and pharmaceutical sectors (but not all), but even here, despite some sophisticated analytics we're still coming up short on the overall structure and reporting format. *Why?*

Three big reasons:

1. Most of the industry groups forming previous working parties have quite rightly been drawn from HR and Finance. However, that's not enough - as you also need people who have measurement expertise, a discipline in itself, along with the other two and they're harder to come by.
2. Many HR functions spend small fortunes on internal or outsourced administration but spend a minute or no amount on measurement, preferring to 'muddle through' with internal resource. Though this is better than nothing, it means there is a danger of 'looping' – moving round and round but not forward.
3. Benchmarking, which is one narrow perspective of measurement, has become an industry itself, promulgating the confusion between HR functional, i.e. operational measurement, and HC/HR measurement.

Let me clear this one up, once and for all. **HR functional metrics are not HR measurement**, they are operational metrics that relate to the HR function.

Let me say it once more – HR functional metrics are operational and have little to do with human capital reporting. *Really?*

Total FTEs divided by HR FTEs tells you.....well...total FTEs divided by HR FTEs. It may be an indicator at 50,000 feet but that is all – it's just an 'input' metric, as we don't know what the outputs are. HR measurement is littered with spurious HR metrics exacerbated by the process of benchmarking².

Most metrics around recruitment, payroll, service delivery and other such functional activities are really about operational efficiency in HR. That is a distinctly different project from human capital measurement.

A human capital measurement project would focus on various analytics, such as, turnover, employee engagement and absenteeism, for example and combine them to provide meaningful reporting data – more strategic insights for managerial decision-making. Then there is still the issue of collation, integrity, unit definition and reporting levels to turn this into a complete version.

What the organisation needs is knowledge that impacts thinking and decision-making across the organisation that relates to performance from the individual to the organisational level – it is simply not interested in HR functional metrics unless for some reason that function is perceived to be sub-optimally performing.

Benchmarking

Let me clear another thing up. Benchmarking, like metrics, is a means to an end. Benchmarking, itself, has uses but relies on data and context to make it relevant as it normally focuses on '*the what*', whereas measurement focuses on '*the why*', '*the how*' and '*the what*'.

Too much focus on benchmarking 'inputs', as in HR, at the expense of measurement ends up focusing on the small stuff.

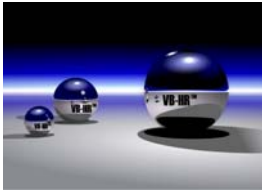
Of course, benchmarking itself assumes availability of data – which can be troublesome or challenging in its own right. Even investment in sophisticated systems will not assist unless clear rationale and strategy exist with regard to the identification and collation of specific HC-related data.

Even when measuring

Moving on from benchmarking, there are still real issues around the types of metrics reported. A classic reported HR metric such as training days per employee, tells you.....training days per employee! Wow! And here lies the problem for HR – identifying when a metric provides useful knowledge.

¹ From Samuel Beckett's tragicomedy of the same name

² For an evaluation of two hundred commonly used metrics see the VB-HR™ Rating HCM100 report 12.10.05 go to: <http://www.vbhr.com/about/index.htm>



Human Capital Measurement: Whom are we kidding?

Nicholas J Higgins, 25th October 2005

Ok – the training days was an easy one, let's pick a decent, common one that you find reported like 'Revenue per FTE'. Ah! Now we're talking – revenue is a good organisational indicator (other than for those organisations or business units that don't generate revenue, of course). Dividing this number by FTEs is good because it makes it an instant human capital metric – right? Wrong!

We're not even close on that one either, and the reason why - is that, though Revenue per FTE has been commonly used as an 'output' marker for human capital productivity - the equation being simple enough, that, unfortunately, is its drawback.

Experts in organisational performance measurement will instantly recognise its flaws. Unless all organisations/business units exhibit the same operating model with the same people cost to operating cost ratios, then this equation will be of no relevance and difficult, if not downright misleading, to use as comparator.

However, there are ways around to improve upon this as a relevant metric/comparator³. Similarly, 'costs per FTE' suffers the same severe limitations for the same reason.

These particular metrics highlight the problem with this simple approach, in that dividing any potential financial metric by an HC metric, such as the number of employees does not constitute an 'HC metric' – an example of what is termed 'denominator misappropriation'.

Looping

Conversations with organisations have detected a sense of frustration or feeling of 'looping' – a search for where to go next which has descended into a 'waiting vigil' for a solution to turn up.

The general outcry from various quarters of the HR community in response to the earlier 'Kingsmill' report⁴ and the recent OFR⁵ release earlier this year bears testament to that fact. If everybody's expectation was that a template would appear that would save everybody the trouble and expense (though comparatively very little) - they were always going to be disappointed.

Senior executives in organisations and people in HR have to realise that certain expertise needs to be brokered with a cross-industry approach based on practical and pragmatic measurement expertise, if we

are to ever get an HC Reporting framework that works well.

Moving on

It is simply time to move on; industry standards like the VB-HRTM Rating are designed to assist organisations and HR functions in providing a complete picture that reports meaningful output.

Our VB-HRTM HCM100 benchmark data showed that organisations found it difficult to achieve a consistently high standard of human capital management performance (and we expect not to find any yet – the gauntlet is well and truly thrown down!); and that 'workforce intelligence' - the pursuit of measurement whereby the organisation is able to systematically collate workforce data/metrics and has the ability to analyse, manipulate and report them - achieved the lowest score across all industries.

Therefore, from a human capital measurement perspective, if organisations and their HR functions wish to improve their performance and their return on investment in people, surely they'd want to use it or a similar instrument – *right?*

Or are we just kidding ourselves? In fact are we merely just playing out another act in a tragicomedy?

© 2005 VB-HRTM

'Value-based HR' series

Nicholas J Higgins

Founder and Chief Executive Officer of

ValUENTIS Ltd

Tel: +44 20 7887 6108

E-mail: nicholas.higgins@valuentis.com

www.valuentis.com / www.vbhr.com

ValUENTIS is the leading global professional services firm providing clients with human capital management, human capital measurement, organisational effectiveness and organisational measurement solutions to enhance performance.

As a company we define the highest professional standards in order that our clients, who include FTSE100, Euro300, and S&P500 companies, and the public sector, receive unparalleled service.

ValUENTIS' practitioners are skilled across a range of disciplines that include business performance, organisational architecture, financial economics, human capital management, strategy, and measurement.

³ See for example, page 8, in VB-HR Rating HCM100 executive summary which can be downloaded from <http://www.vbhr.com/about/index.htm>

⁴ Accounting for people report available at <http://www.accountingforpeople.gov.uk/task.htm>

⁵ The UK Operating and Financial Review available at <http://www.companieshouse.gov.uk/promotional/financialReview.shtml>