Key findings and conclusions
July 2014

Managing the value of your talent
A new framework for human capital measurement
CIPD
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UK Commission for Employment and Skills (UKCES)
The UK Commission for Employment and Skills (UKCES) is a social partnership, working with industry and government to help achieve better outcomes in how people get into work and how businesses succeed through the skills and talents of their people.

Investors in People (IIP)
Investors in People was formed in 1991 to help organisations realise their people’s potential. IIP is a trusted advisor on people management, with business of all sizes and sectors meeting the Investors in People Standards.

Chartered Management Institute (CMI)
CMI is the only chartered professional body in the UK dedicated to promoting the highest standards of management and leadership excellence. With a member community of over 100,000, CMI has been providing forward-thinking advice and support for more than 60 years, and continues to give managers and leaders, and the organisations they work in, the tools they need to improve their performance and make an impact. For more information, please visit www.managers.org.uk

Chartered Institute of Management Accountants (CIMA)
CIMA, founded in 1919, is the world’s leading and largest professional body of management accountants, with over 218,000 members and students operating in 177 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations.
For more information about CIMA, please visit www.cimaglobal.com

RSA
The RSA, an enlightenment organisation committed to finding innovative practical solutions to today’s social challenges. Through its ideas, research and 27,000-strong Fellowship it seeks to understand and enhance human capability so we can close the gap between today’s reality and people’s hopes for a better world.

Author
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Key findings and conclusions

Managing the value of your talent builds on the many years of research on demonstrating and understanding human capital value and metrics and draws on more than 60 interviews across the HR and finance functions of over 40 organisations. Three key objectives have guided the development of this research:

- to better understand how developing and managing people releases and drives value through exploration of existing best practice, drawing on a range of case studies across different sectors and sizes of organisation
- to define much more clearly the basic people metrics and to promote agreement and consistency in how such measures are used
- to develop a broad framework against which executives, employees, the investment community and other stakeholders can assess how businesses of all kinds are developing their people and organisations to enable sustained and higher levels of performance.

Main findings
The way in which we understand the value of our talent is transforming. Driven by the increasing recognition of the role people play in delivering the strategic challenges leaders set for their organisations, new levels of scrutiny are being applied to the capacity of organisations to secure optimised and sustained value from their people. Contrary to popular opinion, people have always been a top-table issue. But a new agenda of transparency and reporting is emerging and, with it, our research suggests, five new challenges which business leaders need to address.

First, although leaders have long understood the value of their people, wider stakeholders have become increasingly concerned with establishing the extent to which executives enable their people to succeed. People have always been material in the financial sense. The agenda is now turning to establishing just how material.

Second, driven by the clamour for enhanced transparency and a greater understanding of and accountability for the performance of their businesses, leaders are being increasingly required to offer much greater insight into the strategic imperatives of their organisation and the value drivers underpinning supporting business models. HR leaders, CFOs and other members of the finance community interviewed for this research, place people – or human capital – at the heart of such an integrated understanding of the capacity of businesses to deliver sustained value-creation through their people.

Third, with new levels of reporting come new challenges to business leaders for establishing and articulating the performance of their people. This in turn emphasises the increasing need for greater collaboration between HR, finance and strategy communities. As a result business requires more common language, measures, and insights on the people and organisation, to understand how and where value is created and the related investments and initiatives which most drive sustainable business performance.

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Fourth, wider stakeholders – be they investors, customers, current employees, potential employees or regulators – require a greater line of sight through to an organisation’s relationship with its people. This includes gaining understanding of cultures and behaviours critical to both sustainable performance and to risk, to how organisations are building resilient and diverse workforces for the future, and to critical elements of social responsibility. Recent evidence suggests those organisations that meet these requirements achieve lower costs of capital and, perhaps more importantly, build competitive advantage through the superior employee value propositions they can offer existing and potential recruits in the intensifying war for talent.

Lastly, our research again highlights the challenges inherent in capturing and understanding human capital data. Beyond the core quantitative metrics, which themselves are not consistently defined, a lot of human capital data is qualitative and subjective. It is the combination of hard and soft data that together can provide useful insights into what drives value, organisational culture and people risk. It is the art of the executive to consider and use that data to improve how investments in people are made to support sustainable performance.

The Valuing your Talent Framework
What has been clear for a long time and was strongly emphasised through the research is the lack of consistency with which human capital data is collected, analysed or reported. Despite a significant body of research and government initiatives such as the Accounting for People review in 2002, which all point to the need for better insight and reporting, there remains a real gap. With the context of change and uncertainty and demand for more insight on people as noted, we have to progress this agenda.

There is a strong consensus among interviewees that developing and evolving a framework for human capital reporting would help to address this, by building consensus on the range of metrics and dimensions of human capital measures, and developing more of a common language and thesaurus.

The framework (see Figure 1) that has evolved through the research is a start point from which to shape the debate and hopefully create some momentum. It reflects the collective views of leaders from the HR and finance community, as well as experts from the major accountancy firms, consultancies and researchers in this space.

The framework has also been designed to dovetail with the increasingly influential and global Integrated Reporting Initiative (IR), which provides a format for organisations to report on how their strategy, governance, performance and prospects lead to the creation of value in the short, medium and long term. The Valuing your Talent framework incorporates the same articulation of the business model used by the IR Initiative, comprising the inputs, business activities, outputs and outcomes.

While we have erred on the side of seeking generic categories which will appeal to most organisations, the metrics populating the framework are indicative as opposed to prescriptive. We would expect these to evolve and improve as others add to them, but over time to arrive at common definitions and perspectives. Organisations will want to prioritise what they focus on and measure within the framework the concepts

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The Valuing your Talent Framework

The Managing the value of your talent report includes, in the appendix, definitions of indicative metrics for the various boxes and levels of the framework.

SUSTAINABLE BUSINESS PERFORMANCE
- Strategic execution
- Innovation
- Risk management
- Stakeholder focus
- Corporate responsibility and governance

OUTCOMES measure the quality of outputs and the resulting impact at business level from the combination of inputs and activities.

OUTCOMES
- Leadership capability
- Workforce capability
- Workforce performance
- Diversity
- Engagement & well-being

OUTPUTS add measurable value to the organisation and are the result of effective human capital management activities.

OUTPUTS
- Recruitment & retention
- Performance management
- Learning & competency development
- Organisation development & design
- Reward & recognition
- Workforce & succession planning
- Employee relations & voice

ACTIVITIES convert the human capital input level into higher level outputs through human capital processes and activities.

ACTIVITIES
- Workforce composition
- Pay & benefits
- Skills, qualifications & competencies
- Regulatory compliance

INPUTS are the basic components of human capital resources and fundamental data about the workforce.

INPUTS
- Workforce composition
- Pay & benefits
- Skills, qualifications & competencies
- Regulatory compliance
that they regard as material to their own strategy, business model and associated people-based metrics.

The onus is very much on understanding the journey that organisations are currently travelling – and the role leaders play in shaping it – in terms of both the maturity of data and the analytics which rest on it. Boardrooms will gain here an insight not just into where they might locate the maturity of their own human capital analytical techniques and its direction of travel but, crucially, they also get to see what ‘good’ looks like.

What should organisations report?
While the Valuing your Talent Framework is designed to help define a common framework for the range of human capital information and measures that organisations might use, we also wanted to promote further discussion on what might be critical common metrics for more consistent external reporting. Based on a wide range of input, including from members of the investment community, four primary human capital measures were identified which we believe organisations should report externally in their annual reports.

1 While many talk of the paradox of the value of people not appearing as an asset on a company’s balance sheet, this issue remains for the future and is fraught with challenge and complexity. The harsher reality is that people cannot even make it onto a company’s profit and loss statements. Many companies simply do not publish information on the total costs of their labour. This is incongruous to the growing need for enhanced transparency. Moreover, increasingly important discussions over the capacity of some firms to obtain a greater return than others on their investment in people cannot take place when we do not have the denominator with which to work out the ‘people equations’ (that is, common definitions of headcount measures). Valuing your Talent sets out examples as to how organisations can meet the call for transparency, giving wider stakeholders important insights into the level of investment made by organisations in their talent.

2 The extent to which employees remain in or leave the organisation provides an important lens on the ‘operational momentum’ of the business under scrutiny. We set out the ways in which organisations can report their employee ‘churn’ and three-year rolling average recruitment costs.

3 Winning the war for talent is one thing; what organisations do next to continue winning the war for retaining their talent requires a greater line of sight for stakeholders into the scale of investment made in the development of talent. We set out how organisations can report a three-year rolling average for their training and development costs.

4 Given the growing materiality of people, we need a clearer line of sight to the ongoing nature of the relationship between organisations and their people. Building on the growing evidence base relating the positive relationship between the financial performance of organisations with the extent to which they engage their
employees, we set out how employers can report on the three-year rolling average of their annual staff engagement surveys.

Taken together these four indicators provide a basis for the ongoing analysis of the level of investment made by organisations in their people. They allow external stakeholders more opportunity to assess the extent to which leaders are sustainably managing their human capital and, ultimately, the achieved return on people employed. See Table 1 below.

We believe organisations should begin by voluntarily reporting on an annual basis on these four indicators to enhance transparency and to demonstrate the sustainability of their talent base in the near, medium, and long term.

We would also expect other metrics to evolve that should be consistently reported which will help to provide further transparency, for example, on the demographic profile of an organisation’s workforce and its use of contingent labour. This will help all stakeholders understand, for example, how diverse the organisation is, fairness and equality on pay or promotion, engagement of young people and promotion of vocational education. These are all important policy themes and we will need better and more consistent reporting on these kinds of metrics to help understand progress.

**What next?**

The Valuing your Talent Framework and our research work to date marks the end of the beginning. From the outset we were committed to bringing together different communities of interest, including finance, HR, risk, business, regulatory, investor, academic and consultant, in an open and collaborative way to share thinking and build momentum for a common direction, and we are committed to continuing on this course.

Over the coming months we want to raise awareness of the Valuing your Talent Framework, to encourage interested parties from different communities to examine, challenge, add to and refine the framework, the example metrics, and respective experiences, and to road-test it in a range of different organisations. We want to continue to build the body of knowledge and experience, to develop training content and tools to build understanding and capability, and to improve practice. This is a longer-term journey that the UKCES, IIP, the CIPD, CIMA, the CMI and the RSA are committed to and want to continue to work together on and to engage others. We believe it is central to efforts to increase investment in people, improve how skills are utilised and people are managed and developed, and to help create more productive, sustainable and better businesses for the future.

### Table 1: The four levels of investment into human capital

<table>
<thead>
<tr>
<th>Metric</th>
<th>Level</th>
<th>Business Model Value Driver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on People Employed</td>
<td>Outcomes</td>
<td>Outcomes measure the quality of outputs and the resulting impact at business level from the combination of inputs and activities</td>
</tr>
<tr>
<td>1 Employee Engagement Survey Score</td>
<td>Outputs</td>
<td>Outputs add measurable value to the organisation and are the result of effective human capital management activities</td>
</tr>
<tr>
<td>2 Recruitment costs</td>
<td>Activities</td>
<td>Activities convert the human capital input level into higher level outputs through human capital processes and activities</td>
</tr>
<tr>
<td>3 Training and development costs</td>
<td>Activities</td>
<td>Activities convert the human capital input level into higher level outputs through human capital processes and activities</td>
</tr>
<tr>
<td>4 Staff Compensation and Benefits Costs</td>
<td>Inputs</td>
<td>Inputs are the basic components of human capital resources and fundamental data about the workforce. (e.g., financial, human or manufactured capitals)</td>
</tr>
</tbody>
</table>