19 October 2010

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By e-mail to Narrativereporting@bis.gsi.gov.uk

Dear Ms Leavens

The Chartered Management Institute welcomes the opportunity to respond to the consultation on the future of narrative reporting, and our particular focus is on how businesses would benefit from a practical framework of appropriate workforce measures that could be readily understood by many stakeholders when considering future investment and corporate investment decisions.

The overall stated purpose of the statutory reporting framework is to help boards consider material issues facing the business so they can determine the right strategy for long term company success in the interests of company members. Social and environmental issues should be central to these discussions where they are relevant to a company's strategy and long term success. It is within the social issues, that employee information is reported upon. However, within the consultation document, there is very little discussion on the broader importance of reporting on human capital. Given that in today's knowledge-intensive economy as much as 80 per cent of a company's worth is tied to human capital (Grossman, 2005), we believe that the review of narrative reporting provides a new opportunity to review relevant measures of workforce capability that matter most to future performance.

We are not seeking a prescriptive approach to human capital management reporting, but believe that in developing future implementation guidance, there will be an opportunity to include forward-looking workforce indicators that offer strategic value to business planning.

One of the enduring challenges of understanding human capital, including the investments in skills development, has been to have consistent and comparable data and metrics. For further background, please see CMI's research report "Measures of workforce capability for future performance: identifying the measures that matter most" (July 2006). There is no agreed upon framework for measurement of human capital (unlike all other forms of ‘capital’), very few consistent practices, and yet everyone recognises the importance of people, of talent and skills, of motivation and alignment in executing business strategy. Today more than ever, we need data to better understand the people side of business so that business leaders can better understand the issues, the needs for investment and the potential business outcomes or rationale.

To provide the drive to better understand how organisations actually compare on key measures of their workforces and the resulting performance outcomes is challenging. Previous attempts such as the Accounting for People initiative led by Denise Kingsmill have highlighted the need, but also the inconsistencies of practice and difficulties of agreeing on even key high level metrics, and ultimately were not included within the previous Business Review.

Since then, the pressure has grown from all stakeholders to get more data and insight on workforces, their demographics and how they perform, ROI on investments in people, and even attempts to value intangibles like human capital in a meaningful way. Despite the large volumes of data that are generated in the HR systems of most organisations, getting consistent measures that provide real insight and being able to make some links to meaningful outcomes, challenges many businesses. Recent surveys such as by the Corporate Leadership Council indicate that 60% of HR executives say better aligning metrics to their corporate strategy is their top priority, and 84% say that spend on HR metrics is going to grow over the next 5 years. More critically, business leaders and external stakeholders such as financial analysts, given the current financial environment, are pushing for more data and insight on what is typically the largest business cost – the loaded cost of employment – and arguably the greatest value driver of a business. The reality is that there is no simplistic causal model or relationship between investments in people and HR or talent management practices, and the outcomes in terms of business performance. That does not mean that measurement related to outcomes cannot be done, but it needs to be done in a pragmatic way where there is a series of measures that are clearly aligned to the strategic business drivers without seeking direct cause and effect connections between each individual measure.

Employee information within the current Business Review

The development of new implementation guidance could provide a valuable opportunity to build in the strategic value of HCM. Within the current ASB guidance, the only two examples given are how to measure employee morale and employee health and safety. Both of these are well-established measures and both are looking at the respective "risk" factors of high employee turnover and lost time through injury. The guidance does not share progressive thinking and developments in HCMR that focus on future value creation through seeking competitive advantage through the deployment and development of employees. This is a major anomaly given that the stated purpose of the Business Review is to be forward-looking.

There are no references to how investment in employee development, talent management, succession planning or building workforce capacity can impact on future performance. Indeed, simple statistics such as hours spent on training and number of courses taken are meaningless unless their impact is evaluated in the business context. Furthermore, there is no reference to job design, performance-based compensation, objective appraisal systems, diversity and equal opportunities, employee support (such as healthcare and health promotion): all aspects of people management that can help engage employees and impact on long term performance. The focus of the draft implementation guidance is very much in lag indicators rather lead indicators. This entirely misses the purpose of helping investors assess the future impact of various people management strategies.

Current developments toward a practical framework for HCM

CMI is currently working with Business in the Community (BITC) to help make progress towards the better alignment of key workforce metrics and frameworks for measurement. We are working with the CMI's advisory board of leading employers and organisations represented on the BITC Talent and Skills leadership team. There is also the opportunity to include some further people measures as part of the Corporate Responsibility Index process with BITC and this is being evaluated. This work will also be engaging with key academics and/or benchmarking groups working in this space.

We will also be having further discussions with UKCES, the CBI, and CIPD all of whom have insight and interest and can help to support this agenda in specific ways. Part of the purpose of these discussions will be to seek alignment and collective support/investment in proposing metrics and frameworks.

Other ‘stakeholder’ groups such as financial analysts could bring further support at the right time. Ultimately other forums will need to be considered if any agreed set of measures were to gain the widest level of support and become more required reporting – e.g. Accounting Standards bodies.

Conclusion

In view of the potential role that a future OFR could play in raising the standard of people management in companies, the CMI/BITC Working Group would very much welcome the opportunity to contribute to the future development of narrative reporting in respect to human capital management reporting.

Building on our work to date, we do not subscribe to the view that there should be a single set of reporting metrics, but we do have evidence of the process by which good HCM reporting combines narrative and hard data about the aspects of people management that most affect business performance. We would welcome the opportunity to share with BIS the development of our progressive thinking on better people management to provide real value to employers, employees, shareholders and potential investors.

Yours sincerely

Petra Wilton
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