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## Human capital measures

Many have tried but no one has yet succeeded in measuring the true value that people can bring to a business. We know people do add value, otherwise information technology businesses such as Microsoft would not have such high market-to-book ratios.

But the most sophisticated attempts to measure the intellectual, emotional and creative input that defines the competitive strength of companies in a marketplace relying increasingly on intangible assets have so far failed to stir much interest among general managers, even in some of the world's largest companies.

There is a simple reason for this. People are complicated. They act in different, often unpredictable ways. Their contribution in the workplace differs too.

Some are good organisers, some are inspirational, some have tidy desks and tidy minds, others may produce the occasional creative gem and little else. Some are understanding, some are critical, some work long hours and some spend much of their time gossiping.

The difficulty is in deciding what kind of work practice matters most. One worker, for example, may be something of a dull functionary who will never have a useful idea in a lifetime of service yet who, nevertheless, can be relied upon to get a job finished.

Another may be inventive and visionary and yet lack the skills to convert ideas into some kind of profitable enterprise. Together, with colleagues who possess other contributory skills, they could comprise a dynamic team. Left to their own devices, these diverse talents might go to waste.

With so many variables in the human character it is understandable, perhaps, that managers have shied away from quantifying the know-how and capabilities of the workforce. As a new report points out: "The features which make human capital so critical are the very same features which inhibit evaluation."

But this is no excuse for neglecting the need to undertake such work, says the report *Evaluating Human Capital* \*, prepared for the UK's Chartered Institute of Personnel and Development by Harry Scarbrough, of Warwick Business School, and Juanita Elias, of the University of Leicester Management Centre.

"If firms were as backward in identifying and reporting on any of the other main resources at their command, it would be viewed as nothing short of scandalous," say the authors.

The report, which looks at various attempts at measuring the value of employees in 10 UK-based case studies, makes a timely contribution to the debate on management effectiveness and the meaning of human capital .

Not only does it chart the evolution of the term " human capital " from its economic basis in the work of the late Theodore Schultz but it also recalls various attempts at definitions, including one from the Organisation for Economic Co-operation and Development that describes it as "the knowledge that individuals acquire during their life and use to produce goods, services or ideas in market or non-market

circumstances".

The corporate version, of course, relates solely to the market and the latest business definitions tend to reflect an increasing interest from human resources managers, hence the CIPD interest. The Scarbrough/Elias study defines human capital as "the competencies which employees apply to the production of goods and services for an employer". This is no great surprise, given HR's obsession with competencies. But it is a pity, since general managers appear to detest the word in equal measure. In the context of the report, "competencies" translates as skills, abilities and behaviour that define superior performance.

Not one of the 10 companies in the study was using the term "human capital" and some said they disliked the phrase because they thought it reduced individuals to the status of economic units. All the companies, however, were happy with the idea of competencies. One of them, Marks and Spencer, the retailer, was trying to map various skills and behaviour, using skills surveys, and had developed an "employee insight unit" to find out what employees thought of the company.

The jargon must be getting around because Tesco, the supermarket chain, has a "people insight unit" that attempts to measure, among other things, whether employees are "living the values of the organisation". This all sounds a bit happy-clappy but it has become serious stuff in many multinationals.

Shell UK, for example, believes it has identified the skills and values it needs to ensure corporate success and employees are assessed to make sure they possess these skills. Royal Dutch/Shell, the parent company, spent a period of intense navel-gazing some time ago, after the outcry against its attempts to dispose of its Brent Spar oil rig at sea. A social audit led to its Shell values report and its admission that: "We had looked in the mirror and we neither recognised nor liked what we saw. We have set about putting it right."

This last remark is quoted by David Boyle in his immensely entertaining critique of measurement: *The Tyranny of Numbers: Why Counting Can't Make Us Happy*. He credits the Swedish company Skandia with the first attempt to evaluate intellectual capital in its annual report. Another Swedish company, Celemi, pioneered the auditing of intangible assets that soon began to catch on in the US.

Today the race is on, mainly among accounting firms, to develop a meaningful audit of human capital. Patricia Hewitt, the trade and industry secretary, has signalled her desire to see this kind of reporting in company accounts. But where does it all stop? As Mr Boyle points out in his book: "If you thought intellectual capital was difficult to measure, try empathy."

Empathy, with common sense, foresight, creativity, good judgment and trust, are becoming sought-after human qualities among companies that are serious about differentiating themselves in the way they approach their customers. But how do you measure such qualities?

The report admits that there is "no single measure that can adequately reflect the richness of the employee contribution to corporate performance" but it advocates measuring nonetheless, since it concludes that "measures are less important than the activity of measuring". The danger here is that too many companies will adopt crude, simplistic measures. As Thomas Stewart, the knowledge management writer, says in his book *Intellectual Capital*, "It's easier to count the bottles than describe the

wine."

*\*The Tyranny of Numbers, Why Counting Can't Make Us Happy, by David Boyle (Harper Collins paperback, Pounds 8.99). \*\* Evaluating Human Capital , by Prof Harry Scarbrough and Juanita Elias, Chartered Institute of Personnel and Development, [www.cipd.co.uk/bookstore](http://www.cipd.co.uk/bookstore)*

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