

# City limits

**City analysts still refuse to take HR metrics seriously, says Stefan Stern. What can HR do to prove its worth?**

When Denise Kingsmill's Accounting for People report was launched last year, there were high hopes for HR. Collectively, the profession crossed its fingers, wishing for a serious, rigorous look at the role effective people management can play in the success of today's organisations.

The timing of this report seemed good too. Encouraged by the Government, the Accounting Standards Board was to monitor the now almost universally compulsory operating and financial reviews [OFRs]. To be meaningful, it was generally agreed, OFRs had to include information on human capital management [HCM] as described in the Kingsmill report.

Six months on, with trade and industry secretary Patricia Hewitt confirming that HCM is to become part of the new OFR framework, and a review planned for five years' time to check on its progress, it seemed a good time to get in touch with fund managers and analysts in the City to discover how much they had already altered their approach in advance of the arrival of OFRs. The lack of seriousness with which the Square Mile is taking the report confirms what one source close to the Kingsmill committee revealed, with some exasperation, shortly after the report's publication. 'We did try to get the institutions interested in this, and set up conference calls as part of the consultation, but the response was

pathetic,' the source sighed. 'We only tended to get the converted "green" funds and Socially Responsible Investors [SRIs] interested.'

It isn't surprising that City analysts are failing to take the issue of HR metrics seriously when employers are dragging their feet over introducing meaningful measurement methods themselves. According to a recent survey by The Empower Group, half of UK FTSE 500 companies fail to

**Kingsmill tried to get City institutions interested, but the response was pathetic**

conduct regular employee measurement. Perhaps the most alarming finding is that only a third of those HRDs surveyed are totally confident that the current measures their firms use would be appropriate for reporting; a quarter admitted to having 'serious doubts'.

In its report, the management consultancy found that organisational research and analysis is still fragmented, lacking a strategic focus and without a link to the performance measurement of a company's bottom line. While staff data is found in the

HR department, customer data is in the grip of marketing and financial data under the control of the finance team. Often, questions around employee engagement, customer loyalty and profitable business units are never scrutinised together. A quarter of companies surveyed linked HR data, such as turnover and absence, to employee opinion surveys. Around 21% linked financial data to staff opinions, with 11% connecting them to business process, such as productivity.

While the Kingsmill report opted to recommend suggestions in a rather hands-off way, Andy Brown, the Empower Group's global practice leader, believes a tougher stance might be necessary. 'As pressure mounts on HR to play its part in corporate reporting, serious thought needs to be given to creating measurement standards, benchmarking and improved analysis to demonstrate return on investment,' he argues. Indeed, it cannot be the case that the logic of Accounting for People is too difficult to follow. City analysts and fund managers are usually numerate and highly educated individuals. It seems pretty clear that the way people are managed will have a direct impact on the financial performance of their employer. And yet analysts still look at information in the same way as before. Why?

'At the moment, the City still really

only cares about financial results,' says Richard Phelps, partner at the human capital benchmarking firm EP-First. 'Accounting for People is right; we need to report the people element in a more robust way. But even in the academic literature it has been very difficult to prove that you get better results by managing people better. You can show correlation, but not causation.'

Phelps believes that improved measurement and better use of data is a vital first step to winning this argument. 'There has been a lack of accounting standards in this area,' he says. 'Financial analysts know what a share price is. But revenue per employee, cost per employee – there are no accounting standards here.'

If Accounting for People has failed to shift attitudes, something else must explain the lack of interest from the City in HR management: the harsh fact that the profession has failed to convince outside audiences, never mind internal ones, that what it does really matters.

Some boards, realising that the ground is shifting under them, are turning to HR and asking for more understandable and useful data. But many HRDs simply do not know how best to help, and they can find no benchmarks in their sector to assist them.

Doubtless the City's insistence on focusing solely on revenue figures – sticking to what it knows best – is going to be a hard addiction to crack. Rowan Bradford, managing consultant at business psychologists Kaisen Consulting, says that the conventional City approach to financial analysis overlooks the vital, but hard-to-measure, question of culture. While the City, for example, applauds the takeover of Safeway by the Morrisons chain – on the grounds of market share and geographic fit – Bradford argues there are cultural mismatches between the firms that are very likely to cause problems. Safeway has a freewheeling style that is completely at odds with the strictly controlled Morrisons approach. The norms and behaviours of the two firms are com-

pletely different, and HR professionals understand this in a way the City does not and cannot. This palpable difference in understanding between the City and HR informed the results from the Accounting for People task force – it knew what it was up against, and its report was realistic about the City's current attitude to HR. 'It is fair to say that few investment analysts yet see human capital management as having sufficient predictive power on sustainable corporate performance,' the committee stated. 'But most analysts are more interested in shorter-term factors affecting the markets. Those investors who do take an interest in the longer term are coming to recognise HCM as a factor to watch.'

Toby Belson, an SRI fund manager for Morley Fund Management, suggests three questions that informed investors could be asking the firms they seek to invest in. What is the relationship between employee

City buildings, such as Lloyds, right, are impressively modern, but attitudes to HR are less so

policy and sustained business performance? How can information about HR practice and policy help investors predict corporate performance – particularly after mergers and acquisitions, recovery situations and corporate restructuring? And which HR strategies are key to building or destroying shareholder value? There is also the question of whether it's possible to track and identify these as an external observer. 'Businesses need to educate analysts on the business relevance of this type of information and metrics,' he argues. 'Reporting non-financial information cannot be cherry picking – in which only segments of performance are reported.'

So, six months on, HR's high hopes have resulted in a lack of confidence in reporting measures and frustration that more isn't being done to introduce standards with real teeth. Many HRDs still hope for a lead from the City on what human capital measures it will take notice of, and how to get management and shareholders to recognise their importance. ■

