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Understanding FD and HRD attitudes to valuing human capital in UK business: Today's opportunity to build tomorrow's advantage

Ceridian Quarterly HR Insight, produced in association with the FT Research Centre

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Contents

Executive Summary

By Andrew Taylor, Financial Times Employment Correspondent

Concern over skill shortages has forced the development of human resources up the management agenda but over two thirds of businesses still do not have an HR director on the board, according to research conducted by the Financial Times Research Centre.

The in-depth interviews with 50 financial and HR directors of medium and large companies, employing between 500 and 4000 staff, revealed that 8 per cent of businesses did not have an HR director at all while 62 per cent did not value them highly enough to give them a seat at the top table.

Executives were also struggling to find the best ways of measuring the effectiveness of their investment in human capital. This was despite the fact that two thirds of financial and HR directors reported that human capital issues were top of the agenda for management.

But increasing difficulties faced by employers firstly in finding the right people with the right skills, and then persuading them to stay, only partly explains this preoccupation.

Asked to rank human capital issues in order of importance, more than half of directors classed "recruiting the best people and integrating them into the organisation" as their most important task. This was followed by "keeping the right people in the business and encouraging them to progress." Almost bottom of the list was "making the most of the money you spend on payroll and benefits."

One financial director explained: "We're a people business. Key for us is that we can keep our people. There are very low entry barriers in our market place, so it's imperative that we retain and attract good people. It's our key business driver."

Another, asked why human capital issues had moved to the top of the management agenda, replied "Our business is only as good as the people in it. Although there are other important aspects such as product design, development and buying, all these functions are dependent on the quality of the people."

It has become commonplace for executives to assert that 'our people are our greatest asset.' But the tightness of the labour market and difficulties in attracting skilled staff has given an added edge to this response. One HR director, more honest than most, replied: "The past nature of our company is such that these sorts of issues were ignored. It left us with a shortage of talent and no framework where we could motivate people to produce their best results."

While recruitment and staff retention were generally recognised to be an increasingly important goal, employers revealed a variety of different methods for tackling this thorny issue. Extra money, although important, was only one option. Other recent surveys have suggested that companies are more reluctant to increase pay rates to attract staff, preferring instead to offer other benefits.

Flexible working and career development opportunities have become more important for potential employees as they seek to balance work and family responsibilities.

Incentives offered by companies questioned by the FT Research Centre include share option schemes, bonuses, health schemes, childcare vouchers and flexible working. "We have got to keep our staff and to do that we have to offer extras over and above a competitive salary. We are the number one player in the market and we intend to stay there. Good people who are the face of the company, cost more than average people – and we are prepared to pay," said one financial director.

Employers, anxious to improve competitiveness were looking beyond simple recruitment and staff retention to improve employee performance. Mentoring, succession planning, talent spotting and performance reviews featured among HR strategies.

One company explained how it had developed a broadly based mentoring system to nurture and promote existing talent within the workforce. Individual managers were expected to "mentor three young stars of the future and not just in finance," said its financial director.

Another business reported that it had developed a "talent map" to aid succession planning and performance reviews. It said: "In terms of reward it's a fairly hot topic, in particular in America, to try and get reward structures aligned with what we want people to do…one of the things that we have observed is that some of our areas where we've been weaker are really attributable to not having the right sort of people there."

Companies also recognised that organisations needed to be refreshed. While staff retention was a priority, there was also a natural rhythm to a business, with employees leaving and being replaced.

"Recruiting externally, if you bring good people in, it raises the bar. The more capable people internally react accordingly, because it brings about a benchmark. And, the more ambitious people sit up and look and take notice," said one financial director. Another responded: "It's a natural process, we bring two or three people in at the bottom and, on average, one will be left in five years time."

The relationship between corporate success and motivated workforce staff was generally recognised. This was best expressed by one HR director who said: "We've done a fair amount of research looking at the correlation between those companies making the most profits and those which have the higher employee engagement and commitment … we believe that if we look after the engagement of our employees and get the motivation and retention correct … this will seep through to the way our customers will be dealt with, the way our products are sold and this will have a direct effect on our bottom line."

The importance of staff development was reflected by the fact that 62 per cent of financial and HR directors reported that investment in human resources, excluding wages, was higher (16 per cent) or the same (46 per cent) as in other departments.

Employers have found it more difficult to devise ways of measuring the effectiveness of this investment. Directors were asked how finance departments measured productivity gains and returns on investment in human capital. Most responses suggested that either investment returns were not measured or calculated against sales.

"We do not even try to measure productivity or returns. We have not got there yet," said one financial director. Another, asked how HR departments measured their success, said: "We in finance measure staff turnover and sickness. HR try to control it."

The findings suggest that businesses have become much more aware of the need to invest in their human capital but that the role of HR director is still not regarded as a main boardroom function and that more work needs to be done to measure the effectiveness of investment in human capital.

Introduction

Research Objectives

In a knowledge-based economy, people are fast becoming the most important asset of an organisation. The term "human capital" is increasingly used to describe the value of a company's people in respect of their collective skills, experience and potential.

However, if people are regarded as assets then there is a need to develop suitable measures to objectively measure and quantify their value. There are also important issues to address including whose responsibility it is to develop and grow the value of human capital. Increasingly Human Resources and Finance must work together to demonstrate and report the contribution of human capital to the company bottom line.

The aim of this research was to understand the attitude of companies to human capital and how they are measuring and demonstrating return on investment against their spend in this area. In particular the research captured the role of the financial director in this process and sought to understand what importance they place on this issue.

We undertook 50 interviews lasting around 20 minutes with financial directors/CFOs and HR directors. All of these were undertaken in UK companies with at least 500 employees. The telephone interviews were conducted in May and June 2007.

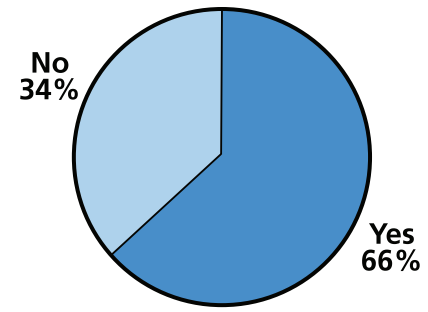
Issues and Initiatives

Human capital is top of the company agenda…

We opened up the survey by asking respondents how important they felt human capital issues were to their company. It was assumed that these issues would automatically be at the top of the personal agenda for HR directors so only financial directors were asked whether the issues were top of the agenda for both them and their company.

FD: Would you say that human capital issues are top of the agenda for you and your company?

HRD: Would you say that human capital issues are top of the agenda for your company?



The majority of respondents (66%) felt that human capital issues were at the top of the agenda for their company. Response rates were similar amongst both financial directors and human resource directors.

Respondents were asked why they felt this way. Many respondents who thought that human capital was top of the agenda stated that it was essential to the company, particularly if the business was relationship-driven or service-based. Many respondents also felt it was because it was essential to recruit and retain good people:

> "We're a people business. Key for us is that we can keep our people. There are very low entry barriers in our marketplace, so it's imperative that we retain and attract good people. It's our key business driver." FD

> "Any company which is growing needs to make sure that they have the right resources, whether it's financial or personnel. Every company is only as good as its people." FD

> "Our business is only as good as the people in it. Although there are other important aspects such as product design, development and buying, all of these functions are dependent on the quality of the people." FD

> "Because apart from the measurements, the value of the contribution of employees to the strategic agenda becomes more and more significant, taking more and more executive time. Like a lot of companies, we're sorting out the IT, doing the process, re-engineering and getting our costs down, but actually, the added value aspect, how we track that, how we invest in that - becomes more important." HRD

> "The past nature of our company is such that these sorts of issues were ignored. It left us with a shortage of talent and no framework where we could motivate people to produce their best results." HRD

> "There are three things that are important to driving us forward. One is the opportunity, the second thing is the financial resources to support it and the third thing, and in our case the most important, is having the right people to make it happen." HRD

Respondents who felt that human capital was not top of the agenda thought that human capital issues were a high priority, just not at the very top. Business profitability was often seen as more important:

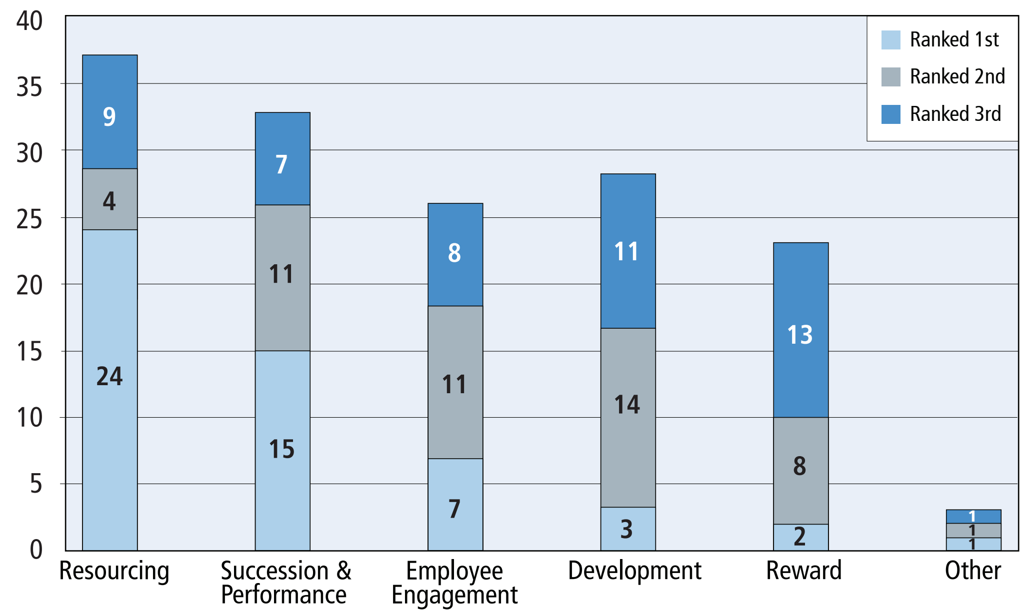
- "We've got other problems apart from struggling to recruit engineers… we have a director of HR and human capital management is his number one priority but this is a delegated problem for him." FD
- "It is towards the top. There are other issues more important now - getting new customers and expanding the business, these are top of the agenda. But we are dependent on our workforce to achieve these targets and for keeping the business going so in all, it is not far off the top." FD
- "Because competitive pressures are top of the agenda. Human capital issues are near the top at third or fourth down. Other things nearer the top are strategy and the regulatory environment." FD
- "The need to deliver against our performance criteria would probably be right at the top, so we need to make progress with this and demonstrate this progress to all our stakeholders. And of course, one of the ways in which we do that is by engaging our employees and unlocking their performance and potential, but I would be misleading you if I said it was right at the top of the tree in terms of what we're looking to do." HRD

Companies are actively investing to resolve their human capital issues…

To understand which human capital issues are regarded as the most important, respondents were asked to rank their top three from a list.

I'm going to read out to you a number of possible human capital issues within your company today. I want you to rank the top 3 in order of importance to you:

- Resourcing: recruiting the best people and integrating them into the organisation
- Succession and performance management: keeping the right people in your business and encouraging them to progress
- Employee engagement: maximising productivity and keeping people motivated
- Reward: making the most of the money you spend on payroll and benefits
- Development: investing in training and development for employees so they can add more to your business
- Other: (please specify)____________________________________



Note: One respondent ranked three issues as equal first

Almost half of the respondents ranked "Resourcing: recruiting the best people and integrating them into the organisation" (24) as the number one human capital management issue in their company today. This issue was first among both financial directors (12), and HR directors (12). "Succession and Performance: keeping the right people in your business and encouraging them to progress" (15) was also a common answer.

"Development: investing in training and development for employees so they can add more to your business" was the most second placed issue by respondents (14). This issue was particularly key to HR directors (9) and among financial directors the most common response was actually "Employee engagement: maximising productivity and keeping people motivated" (7).

When all of the rankings of 1, 2 and 3 were added together it was the issues of "Resourcing: recruiting the best people and integrating them into the organisation" (37) and "Succession and Performance: keeping the right people in your business and encouraging them to progress" (33) that were most important to the respondents in their company today.

Overall there was a spread of responses for this question with all of the different issues being ranked by a number of respondents as important. This demonstrates that all human capital issues must be looked at in context and are very much dependent on the individual company situation.

We then asked respondents what approach the company was taking to deal with these human capital issues and why.

Which initiatives are your company investing in at the moment to address these issues?

All respondents were able to talk about the initiatives engaged in by their company to address these human capital issues. That the financial, as well as HR directors were able to discuss these in depth, and that such a range of human capital initiatives were being implemented, shows the inherent importance of human capital to all companies.

Common themes to responses included training programmes, systems of recruitment, and salary and reward structures:

- "The way we go about motivating people is by engaging them. People are allowed to engage with their part of the business. Delegated responsibility is important. Freedom is given to allow this to happen… We find this approach highly motivational. We offer share option schemes, bonuses, health schemes, childcare vouchers, flexible working." FD
- "We've got a very active incentive scheme (financial/yearly bonus) to keep staff motivated. We give them enough resources to allow them to grow their business, i.e. we give them the cash if needed. Continual networking by senior execs to recruit best people. Mentor system - we assign new talent to mentors." FD
- "We have spent a considerable period of time entering into an engagement programme to set detailed individual performance targets for each function and employee, aligned with a reward structure. We have, with employee help, developed and reinforced a corporate culture based on high level performance across everything we do." FD
- "All top management in the business do succession management and do it very seriously. A lot of mentoring goes on to support that. (I) mentor three young stars of the future and not just in finance... Employee engagement is down to selling the brand internally. Part of the communication manager's role is to sell the company internally on things like flexible benefits." FD
- "They're mainly internal ones - we've got something going on called 'talent map' towards succession planning and performance review. In terms of reward, it's a fairly hot topic (particularly in America), to try and get reward structures aligned with what we want people to do. Resourcing is just kind of a general issue anyway, because one of the things we've observed is that some of our areas where we've been weaker are really attributable to not having the right sort of people there." FD

- "Embarking on a three-year vision to become an 'employer of choice'. Part of an overall six-stranded strategy of which 'people strategy' is one of those strands… We've done a fair amount of research looking at the correlation between those companies making the most profits and those which have the higher employee engagement and commitment… we believe that if we look after the engagement of our employees and get the motivation and retention correct - this will seep through to the way our customers will be dealt with, the way our products are sold, and this will have a direct effect on our bottom line." HRD

Why are you investing in these initiatives?

Asking respondents why their companies had invested in these particular human capital initiatives again attracted a wide range of answers. Many responses centred around initiatives aiming to attract and retain the best people and to improve the performance of the business:

- "A motivated and engaged workforce who are working for the greater benefit of the business and all heading in the right direction." FD
- "We have got to keep our staff and to do that we have to offer extras over and above a competitive salary. We are the number one player in the market and we intend to stay there. Good people who are the face of the company cost more than average people - we are prepared to pay." FD
- "The company has changed over the last 10 years and realises more that the company is only as good as its employees. They want to retain the best people and employ the best people and to be attractive to those looking at the organisation." FD
- "We don't want to lose our key staff, our people are our competitive edge, we essentially want to nourish them and ensure that they're here for the long term… We're a service company, a financial services company, and what you're essentially buying is the promise of future investment returns or that you'll get your customer query answered in an efficient and effective manner. A lot of our focus is around capability, being competent… and rewarding those opportunities to excel and go beyond. One of our value sets is pushing beyond boundaries, so you need to align your people strategies/people policies in order to do that." HRD

Respondents were then asked how they address the difficult issue of retaining existing workforce knowledge and experience while encouraging the introduction and development of new employees.

Employee turnover can be a good thing…

How do you achieve a balance between keeping the people and skills that you currently have versus refreshing the organisation with new talent?

Respondents expressed contrasting views regarding this issue. Some felt that this was a natural process and thus that little active intervention was needed to manage this. Others thought that the solution was to develop and offer opportunity to existing staff. Several respondents suggested that bringing in people was a positive step as they could offer the company something new:

- "We don't really. We are a young organisation age-wise, so there is a reasonable amount of churn. People move on after five or six years. We're happy with that." FD
- "It's a natural process, we bring two to three people in at the bottom and on average, one will be left in five years' time." FD
- "Our people tend to stay with us. We set them challenges and targets to encourage them and reward accordingly. If they are not happy they leave and we recruit. We do look more carefully now at the people we take on to ensure that they fit and can do the job. For some of our more senior posts we actively look outside our industry for people with experience who can bring something new to us." FD
- "Recruiting externally. If you bring good people in it 'raises the bar'. The more capable people internally react accordingly because it brings about a benchmark, and the more ambitious people sit up and look and take notice, i.e. we can see what success looks like and we want that." FD
- "It really sorts itself out, provided that managers are prepared to stand up and be counted in terms of rewarding the people that perform rather than rewarding longevity in itself." FD
- "It's a difficult one. The complexities of the business have to be understood. Staff need to be "turned over" after three years or they get stale in the role. The trick is not to lose those required and to stimulate that resource by moving it around." HRD
- "By identifying a 'key talent group', i.e. some employees are more important/valuable than others. We're not doing it as a 'one size fits all' policy - we're very much doing it as a risk-based management tool, which then looks and discriminates against certain kinds of roles… the basis of the key talent group are those roles which are either strategically important or are going to take us to our next strategic level." HRD

Responsibility for Human Capital

Responsibility for human capital falls much wider than just HR…

Who has responsibility for developing "human capital as an asset"?

Respondents were asked to select the different positions in their company who had responsibility for developing human capital as an asset. Respondents were allowed to choose multiple positions. Overall, people felt that it was the responsibility of the HR director (26).

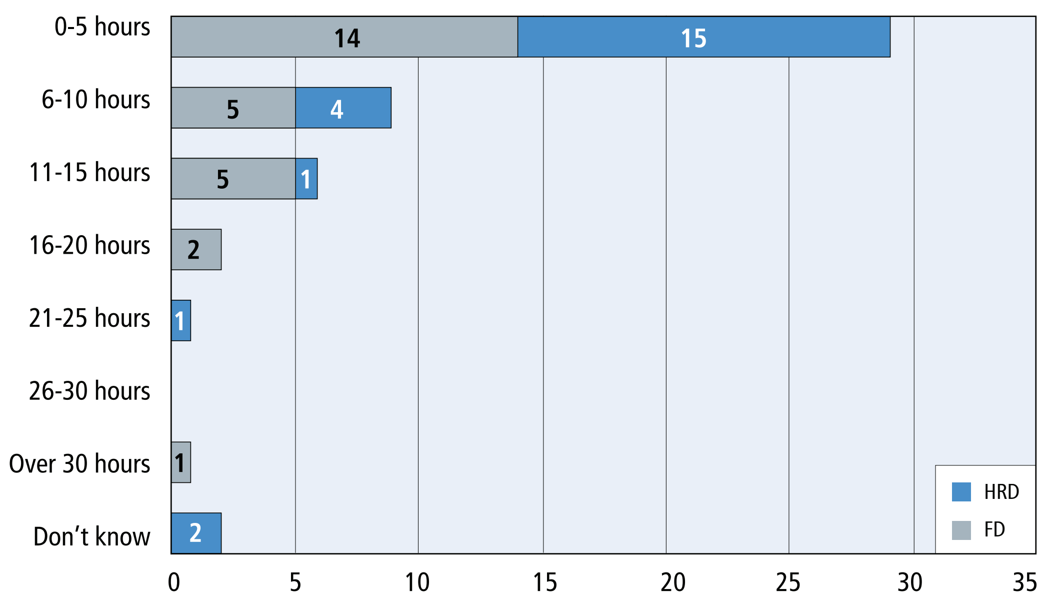
When broken down into the job type of the respondent, the HR directors and financial directors had different views on this subject. While more HR directors thought that it was their responsibility (14), the financial directors seemed to view it as being the responsibility of a wider range of senior positions with similar numbers stating the HR director (12), the Board (13) and the CEO (12).

The high number of "other" responses (24) showed the range of views from all respondents as to where this responsibility falls. These answers included it being the responsibility of line managers, (6) everyone (3), other directors (3) and other managers (3).

In order to understand what impact human capital has beyond the human resources department and in the wider company context, it was key to find out how much time is spent on these issues.

FD: On average, how many hours a week do you as a Financial Director / Chief Financial Officer spend on human capital issues?

HRD: On average, how many hours a week would you say your Financial Director / Chief Financial Officer spends on human capital issues?

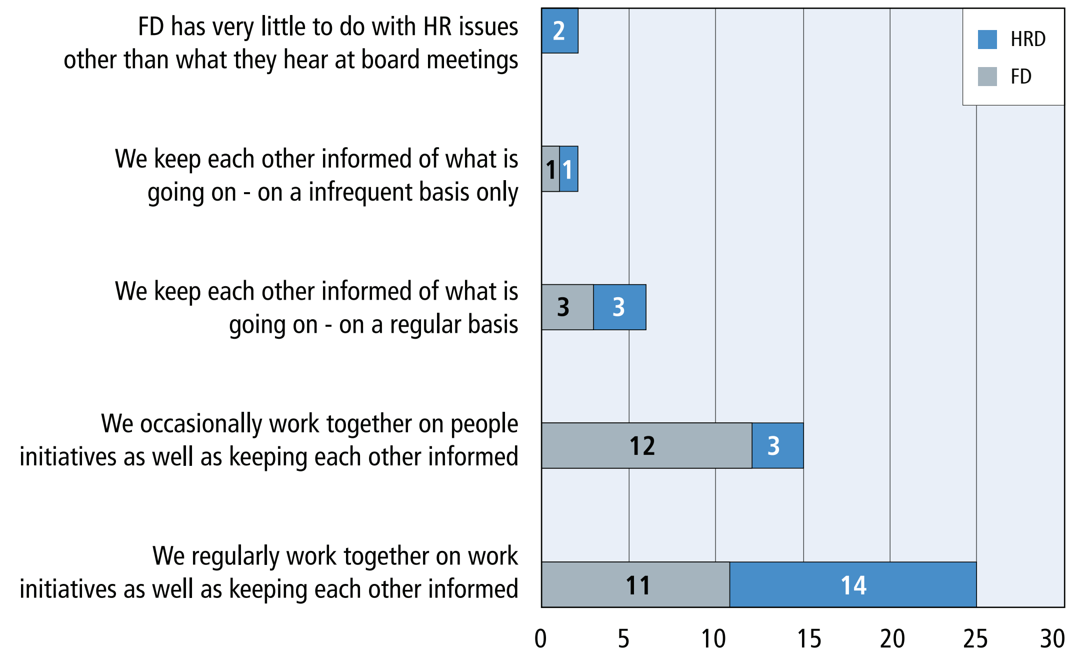


The majority of respondents (29) felt that they or their financial director spent up to five hours a week on human capital issues. Around half of the financial directors (13) felt that they spent longer than five hours a week on these matters. The financial directors were better placed to give a more accurate account of their time than the estimates of the HR directors.

We then tried to ascertain the nature of the relationship between HR and finance.

FD: Which of the following best describes your relationship with HR?

HRD: Which of the following best describes HR's relationship with your Financial Director?

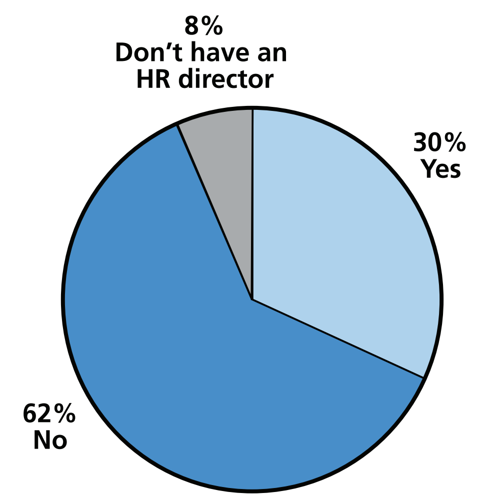


Most respondents (25) felt that the financial director and HR regularly worked together and kept each other informed. HR directors thought that this relationship was closer than financial directors and while most HR directors felt that they regularly worked together (14), almost equal numbers of financial directors thought that they regularly (11) and occasionally (12) worked together on people initiatives with HR. Interestingly the only two respondents who felt that the financial director had very little to do with HR issues were both HR directors.

Perhaps a key indicator of how highly a company rates human capital as an asset is the inclusion of the human resources director on the company board

Is the HR director a member of the board?

Only a third of the respondents' companies (15) had the HR director as a member of the board. Four of the companies did not even have an HR director position at all. It is interesting that whilst human capital issues evidently feature on the agenda of senior management, HR directors are not yet represented at that level.

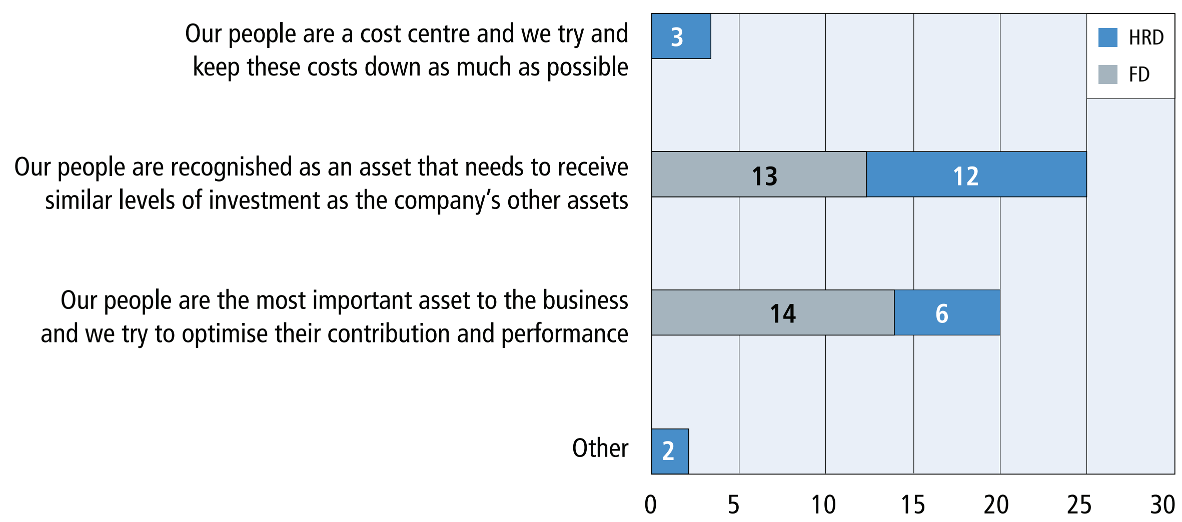


Spend on Human Capital

We were interested not only in how financial directors view human capital, but also as to whether they were prepared to actively develop and increase the value of it through financial spend and commitment.

FD: Which most closely describes your attitude to money spent on your people in terms of recruitment, training & development and wages?

HRD: Which most closely describes your Financial Director's attitude to money spent on your people in terms of recruitment, training & development and wages

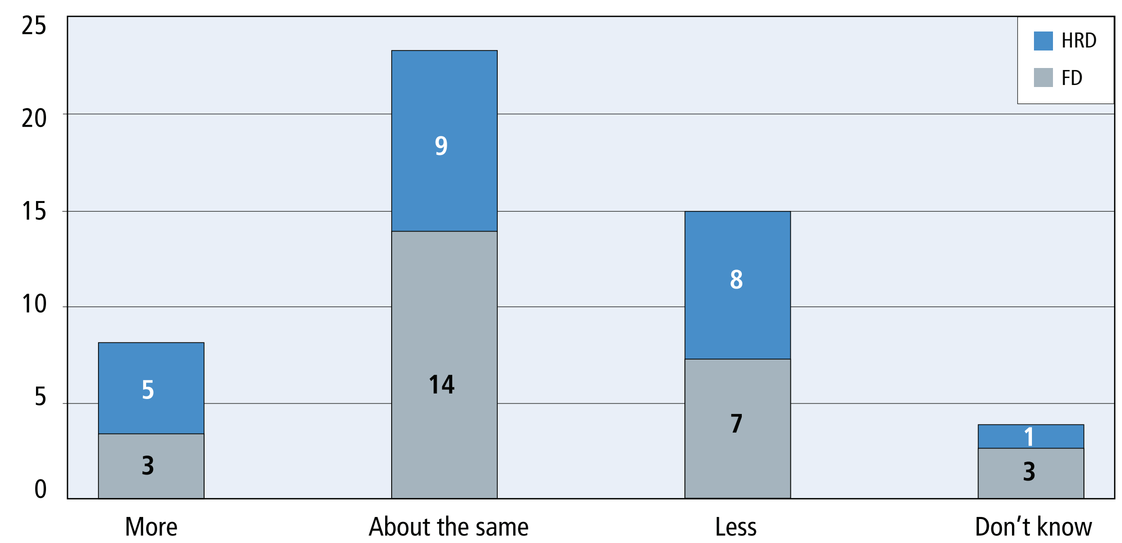


In relation to money spent, most respondents felt that the financial director either viewed the workforce as requiring similar levels of investment to other company assets (25) or more investment as the most important asset to the business (20).

Interestingly half of the financial directors answered that their people were the most important asset (14). This contrasted with only six HR directors feeling that their financial director had this attitude indicating a difference in opinion over the rationale for spend in this area. The only three respondents to answer that their financial director viewed people as a cost centre which needed to be kept down were all HR directors

The Human Resources Team

Excluding wages, how does investment in HR compare to that in other departments?

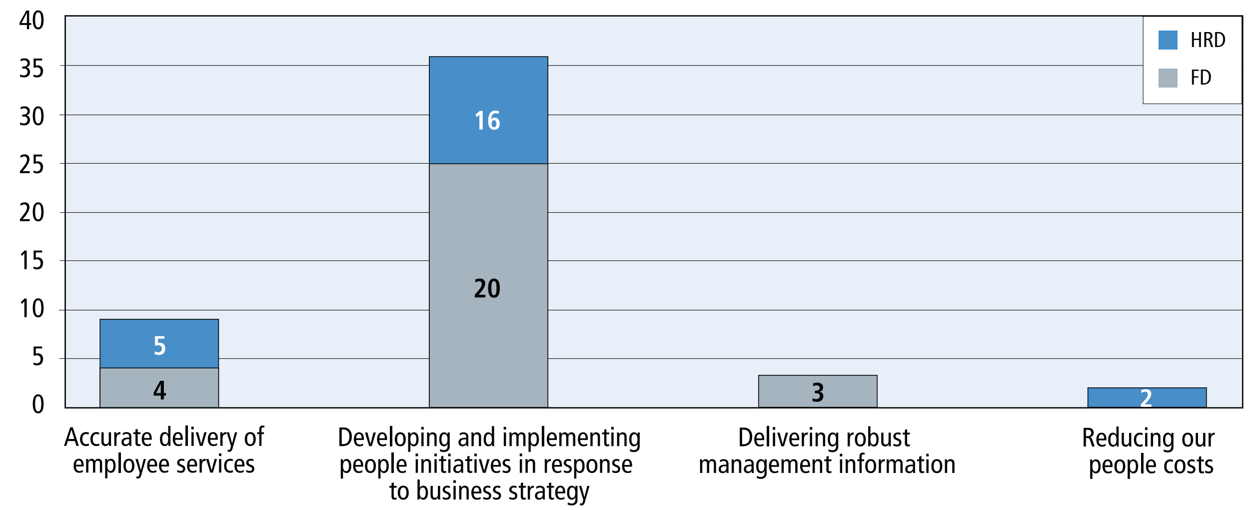


Almost half of the respondents (23) felt that the investment in HR in their company was similar to that in other departments. A number of respondents (15) felt that the investment in HR was actually less, which suggests that different companies prioritise spend on different departments.

We then determined whether the financial director saw the priority of the human resources team to be in the delivery of services, cost savings or strategy.

FD: Which of the following is the most important to you in terms of deliverables from your HR team?

HRD: Which of the following is the most important to your Financial Director in terms of deliverables from your HR team?



More than two-thirds of respondents (36) answered that the financial director's priority for the human resources department was developing and implementing people initiatives in response to business strategy. Nine respondents felt that the priority was accurate delivery of employee services. Only a few respondents felt that their financial director's priority for HR was for delivering management information (3) and reducing people costs (2) suggesting that financial directors are more interested in the operational aspect of HR rather than just the reporting of it in terms of numbers and cost.

For human capital to be a meaningful value there must be systems in place to demonstrate its contribution to the company. The respondents were asked a series of questions designed to ascertain how human capital is measured and reported on. The first of these questions asked about how returns on investment in this area were shown.

Measurement

The value of human capital is difficult to measure...

FD: How do you measure productivity or returns on investment in terms of human capital?

HRD: How does your finance department measure productivity or returns on investment in terms of human capital?

Interestingly many companies did not measure this at all (14). Others looked at turnover and revenue as indicators (14). This combined with the wide range of other answers given demonstrates how difficult it is to find appropriate tools to measure returns on investment in terms of human capital:

- "We do not even try to measure productivity or returns. We have not got there yet." FD
- "We don't do measurements because the costs of people are a relatively small cost compared to the business. However their impact is very high." FD
- "As part of the development programme which started this year, the company is looking at means by which to measure productivity relating to profit per employee. In addition, profit relating to pay is the second main area I measure. So it's profit per pound (£) of pay rather than revenue per pound of pay." FD
- "With difficulty. We apply a contribution approach to our business, i.e. allocate the cost of the people to the activity they're engaged in. We monitor the variable revenue coming in from that activity against the cost of that activity." FD
- "The HR department provides the finance department as well as the executive with a people score card which contains Key Performance Indicators (KPIs) with financial and non-financial data and Key Risk Indicators (KRIs). It's not always about performance, it's about the risk you're taking, the opportunity cost of not doing something is as important as performance of the business." HRD
- "He does not. Time spent on measuring productivity and return is not justified." HRD

We then asked how the human resources team demonstrated its worth to the business.

How does your HR team show that it is having a positive effect on the bottom line?

This question again attracted a wide range of detailed answers from respondents. Grouping the responses into themes a number of respondents felt that HR did not directly show their effect on the bottom line. Interestingly out of thirteen such answers eleven were from financial directors and their comments suggested that they saw HR as being more of a support function rather than a direct contributor to the company profits. This combined with the other broad range of responses such as labour turnover, recruitment and financials again shows how there is no consensus over measurement in this area:

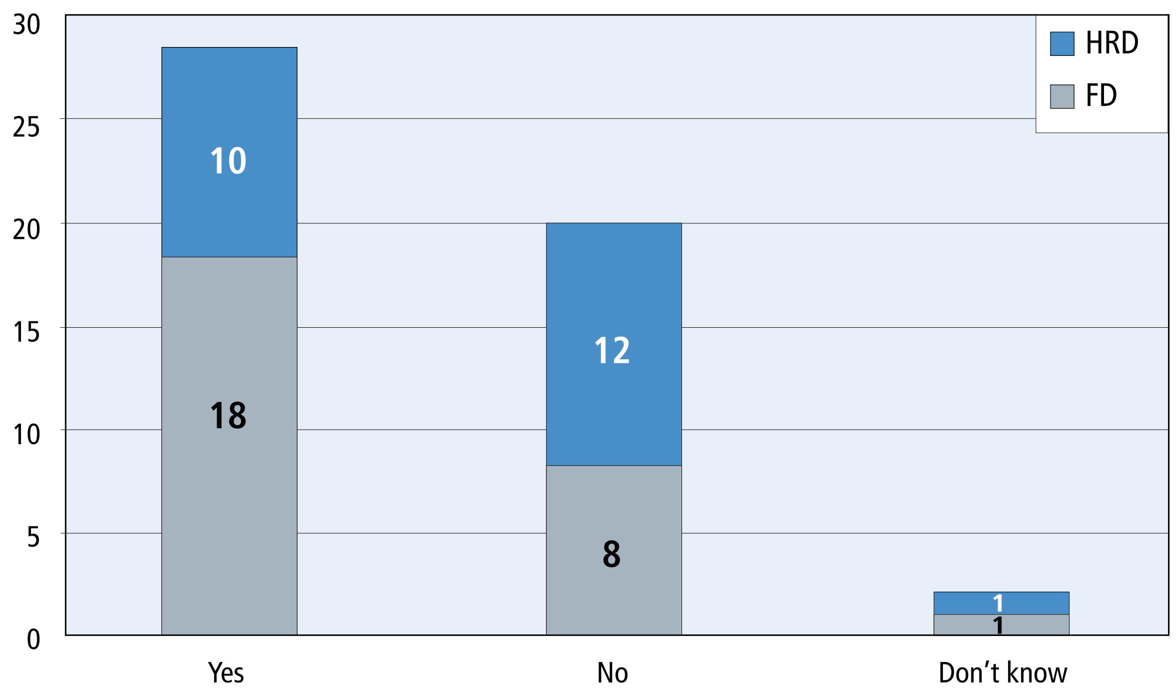
- "It doesn't - the HR function is one of support only – its role is almost to assist the CEO and myself in managing the human resources." FD
- "We in Finance measure staff turnover and sickness; HR try to control it. HR is involved with interviews and appointments. HR are always available to give advice when requested. The department ensures all employment legislation is complied with." FD
- "No news is good news. They share or flag up issues. They support the business by recruiting appropriate people and support the operating people in terms of personal problems, e.g. in difficulties of recruitment or discipline HR give support to us and them." FD
- "Not through metrics or a balanced score card. So not formally. They have objectives that they're expected to achieve, e.g. filling positions, retention, succession planning, but not bottom-line orientated metrics." FD
- "It does not. We are not required to. I feel all these measurements and returns are obsessions with a large number of HR fraternity. We measure our business by profitability." HRD
- "By contribution to the strategic agenda and debate and providing adequate 'MI' and risk information that permits an assessment of performance. So what we look at is the cost of doing things and not doing things. And HR provides this as any other department would - it's the same." HRD
- "By cost effectiveness. My remit is to reduce expenses as a cost centre. I am focused on reducing costs of recruitment and exiting the company. We produce factual information on what we have done. We monitor our effectiveness in keeping costs down. We monitor sickness and absenteeism by return to work interviews." HRD
- "We have to be accountable next to those measures - it depends probably on what the focus is, so earlier this year the focus was on absenteeism stats and we very closely monitored the improvement in attendance and put a direct pound and pence measure next to that to know, by investing additional time and resource in the managing of absence, what the business has saved against the turnover without that investment. So there are a number of initiatives that we both report on a regular basis and are measured on, with regards to HR involvement, HR input." HRD

Having determined what systems were in place to measure the value of human capital, financial directors were then asked how confident they were reporting on these indicators.

Mixed views over whether the financial director can report accurately on human capital…

FD: With regard to human capital, do you have confidence in your ability to report accurately on key performance Indicators (KPI's), i.e. cost of attrition, cost per hire, cost of absence, churn rate, etc?

HRD: With regards to human capital, would you say that your financial director has the necessary information to be able to report accurately on KPI's, i.e. cost of attrition, cost per hire, cost of absence, churn rate, etc?



Over half of respondents (28) thought that they or their financial director had the right information to report accurately on human capital performance indicators. Interestingly the different functions had contrasting views on this issue and financial directors were more confident (18) than the human resource directors (10) on their ability to report accurately on these indicators. To explore why respondents felt this way we asked them to qualify their choice.

Those who have confidence in the financial director to report accurately on human capital KPI's

Respondents were confident as reporting mechanisms were in place and key indicators agreed to provide the financial director with accurate information:

- "We have made a real effort to get our arms around reporting on KPI's and get in control of measurement and assessment." FD
- "Because we have all the reporting mechanisms in place. All board meetings report on HR initiatives and HR data or KPI's. All levels of the company do this, company group and subsidiary boards." FD
- "Cornerstone of our strategy for the coming years - people are our greatest asset. This has been reflected in the level of investment in the last 3 years. It's an area (KPI's) in our business of significant focus." FD
- "Because the inputs are there. We have a standard monthly report which comes to the management board. Those KPI's have been agreed that we want to have from the HR team and we can extract them easily." FD
- "Because he gets that every month… It's a standard part of our information suite. The important thing for me is that we don't do business numbers and people numbers, we have what we call a business report where paragraph nine, for example, will have that people data in there. And it's done on an actual as well as a trend basis - and we bring into that, scorecard, benchmark data where we have it - so he will not only see churn rate, he will see what that is compared to the industry, the national average." HRD

Those who do not have confidence in the financial director to report accurately on human capital KPI's

Respondents felt that either they or their financial director could not report accurately on human capital indicators as either the systems were not in place or the data produced was not accurate:

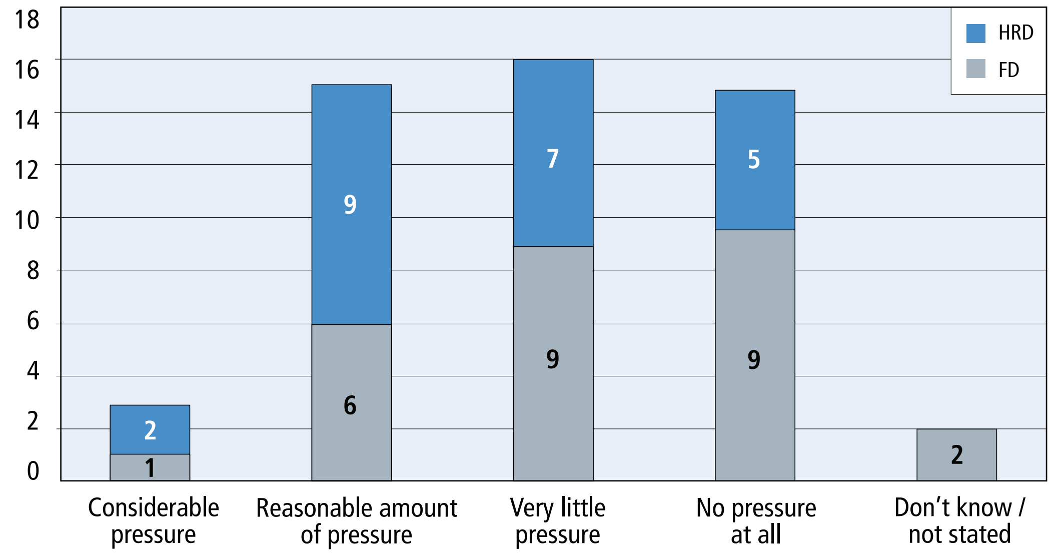
- "They have KPI reporting in terms of actual data reporting in terms of holidays and absence, otherwise it's weak. They have KPI's in the system but the actual data input is not that accurate." FD
- "Because I've never met an HR department that can report accurately on anything!" FD
- "There hasn't been a focus on this. There needs to be a change. We need to recognise these real, albeit hidden, costs associated with human capital. Not been recognised in the past so invisible." FD
- "Our systems are not sophisticated enough to deliver in an accurate, consistent way. High global growth means the quality of our inform

Lastly, perhaps as a final measure of the importance of human capital to other senior decision makers within the company, we questioned the financial director on what pressure they were under to report on human capital KPI's. HR directors were also asked about what pressure they thought the financial director was under though it should be noted that they may not always be aware of all the reporting obligations associated with this position.

Still little pressure on the financial director to quantify the value of human capital…

FD: What pressure is on you from board level colleagues to deliver regular reporting on relevant human capital KPI's?

HRD: What pressure on the Financial Director are you aware of from board level colleagues to deliver regular reporting on relevant human capital KPI's?

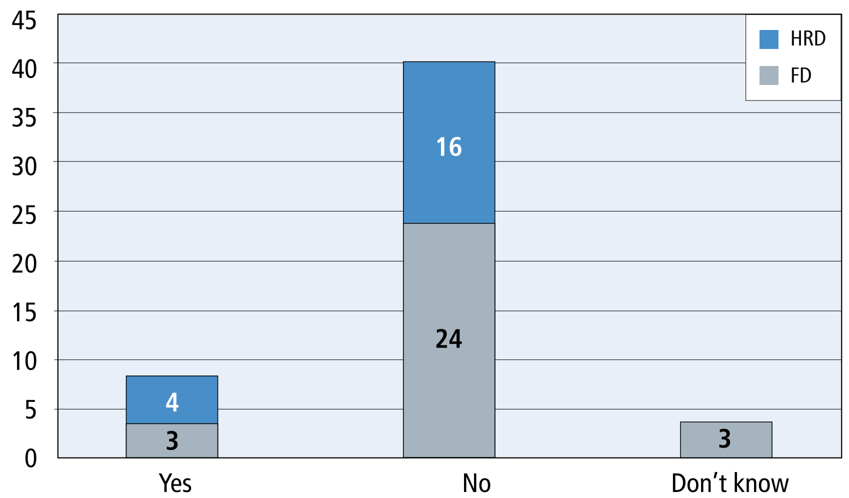


There were mixed views over how much pressure financial directors are under to deliver regular reporting on human capital key performance indicators. Overall the most common view was that there was very little pressure (16) perhaps explaining the earlier responses of why the HR team do not have to demonstrate in numbers their effect on the bottom line and why better measurement systems are not in place. Interestingly while most financial directors felt under very little (9) or no pressure (9) to report on human capital KPI's, human resource directors felt that there was more obligation on their financial director with a number suggesting that there was a reasonable amount of pressure (9).

FD: And is there also pressure from shareholders and investors to deliver regular reporting for the same reason?

HRD: And would you say there is also pressure from shareholders and investors to deliver regular reporting for the same reason?

Nearly all respondents (40) felt that there was no additional pressure from shareholders and investors on the financial director to deliver reporting on key human capital key performance indicators.



Conclusion

The results have demonstrated that human capital is becoming an ever more important issue for financial directors as they recognise both the value and cost of it as an asset to the company's bottom line. However work is still needed to develop appropriate indicators of human capital value and of suitable systems to measure it. Many financial directors still view human resources as a support function and so demand little hard data to demonstrate returns on investment and performance. Until the importance of human capital is recognised by the board and shareholders, with corresponding pressure for regular reporting, then systems of measurement for the value of human capital may be slow to change.

Research Methodology

We undertook 50 interviews lasting around 20 minutes with financial directors / chief financial officers and human resources directors. In particular, the survey aimed to capture the views of financial directors towards human capital and their involvement in the development and reporting of this measure. Human resources directors were also interviewed so that we might capture wider views and perceptions about the importance of human capital to the financial director and the company.

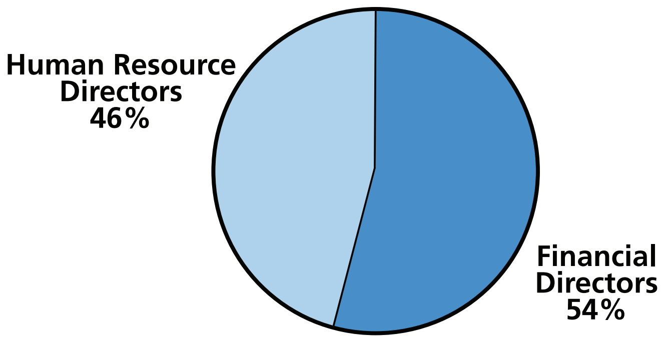
The interviews were conducted among UK firms with more than 500 employees. The telephone interviews were conducted in May and June 2007 by consultant-level interviewers.

Financial directors and HR directors were given slightly different versions of the questionnaire. The financial directors' version aimed to capture their views on the value and reporting of human capital while the HR version aimed to capture their perceptions of the value of human capital to the financial director and the wider company.

Below is the breakdown by job type of respondents and the employment size of companies:

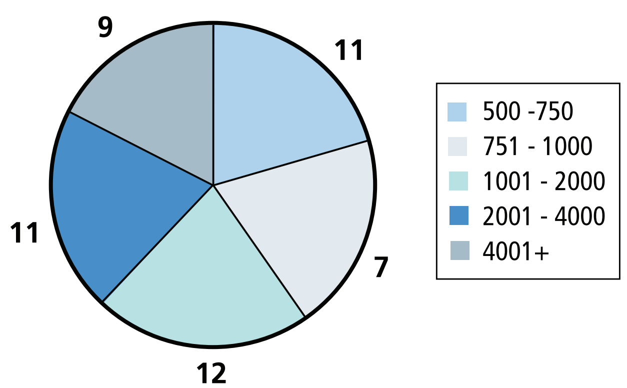
Job Type

Roughly half of the respondents were from Human Resources and half from Finance.



Employment Size

Respondents were from UK companies with over 500 employees. There was a fairly even distribution of companies across different employment bands ranging from 500 employees to over 4,000.



Participating Companies

Some of the respondents who took part agreed that we could list their firms as participants. The table below shows the names of these firms.

Adams Pork Products Ltd
BAE Systems Surface Fleet Solutions
Bellway PLC
Biotechnology & Biological Sciences Research Council
Cairn Energy PLC
Chrysalis Group PLC
Coda PLC
DFDS Tor Line PLC
Drax Group PLC
F&C Asset Management PLC
FKI PLC
French Connection Group PLC
GSH Group PLC
Hiscox PLC
Informa PLC
Inspicio PLC
JS&P Towry Law Group
Linde Material Handling UK Ltd
Liverpool Victoria Friendly Society
Majestic Wine PLC
Marston's PLC
Oce (UK) Ltd
Parkwood Holdings PLC
Pentland Brand PLC
Provident Financial PLC
Psion PLC
Quantum Clothing
Ryder PLC
Scottish & Newcastle UK Ltd
Skandia Life Assurance Co Ltd
Smallbone PLC
South East Water Ltd
Spice PLC
Spring Group PLC
St Ives PLC
The Sanctuary Group
WSP Group PLC
XAAR PLC