

# Human Capital Measurement: From Insight to Action

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## Abstract

Human capital has attracted a plethora of media and consultancy research attention but remains subject to much debate and is sporadic in implementation. Human capital represents a powerful tool for human resources professionals to continue its strategic evolution to report, track, and impact strategy and organizational performance. This article details a practical definition and application of human capital at Standard Chartered Bank to provide practical guidance for human resource professionals.

## Introduction

A world increasingly defined by worldwide economic uncertainty, global expansion and rapid technological change only serves to highlight the differentiating role of people in organizations. Competitive advantage lies in innovation, discretionary effort, thought leadership and service excellence – areas which remain unaccounted for in traditional accounting and which organizations are typically unskilled in measuring. In fact, in knowledge and service economies, people provide both the biggest value and cost to the organization.

This paper will define human capital measurement and management and explore recent interest in the subject. It will then discuss the application of human capital management at Standard Chartered Bank, focusing on its Human Capital Scorecard, to highlight the value obtained through the successful application of human capital in a global organization. This paper will identify the conceptual approach, examples of the measures applied, data reporting, and how the data is analysed and monitored. The paper will also detail the challenges faced by the Bank and the lessons learned in the implementation of a human capital strategy to provide practical guidance for human resource and other organizational professionals regardless of their starting point on the journey.

## Defining Human Capital

The roots of human capital lie in economics rather than management theory, particularly regarding the economic progression of developing countries. In terms of organizations, human capital is defined as:

*“an approach to people management that treats it as a high-level strategic issue and seeks systematically to analyse, measure and evaluate how people policies and practices create value” (Accounting for People, 2003, p.3).*

Similarly, the Chartered Institute of Personnel and Development in the United Kingdom states that, “human capital is the skill, experience and capacity to develop and innovate, that is owned by individuals” (Chartered Institute for Personnel and Development, 2006, p.6).

However, the broad nature of these definitions highlights that there are two clear parts of human capital – how the impact is *measured* and how it is subsequently *managed*. The term human capital *management* is often used interchangeably to refer to both when in fact they are complementary but fundamentally different fields. At Standard Chartered Bank, the term human capital is used to refer to the talents, skills and knowledge of employees. Human capital management concerns how these capabilities are developed and productively applied to deliver business performance and long-term strategic goals. However, human capital *measurement* focuses on the analytics deployed to measure and report on how well human capital management strategies and interventions are delivering these desired capabilities.

Human capital management has attracted an increasing interest over the last three years from not just the human resources profession, media, and consultancy research, but more recently analysts and business commentators. This interest is evidenced by the proliferation of articles and discussion on human capital in the professional press over the last three years. There is almost

unanimous support for the measurement of human capital internally and externally to the organization, yet the term remains subject to debate and its implementation varies widely. This is coupled with the preoccupation of whether human capital is a fad or the future of Human Resource Management (HRM). In reality, it does not supersede HRM, nor is it purely a measurement-based approach to HRM – they are entirely complementary.

The prevalence of human capital is set to increase as organizations become more focused on managing intangible assets, as senior management becomes more interested in the impact on bottom line results, as technology evolves and analysts and investors demand improved information relating to the management of people as a contributor to shareholder value. Standard Chartered is considered to be one of the UK's leaders in the practice of human capital measurement. Following a brief introduction to the organization, this article will detail the successful implementation of human capital and the application of data to add real strategic value.

### Standard Chartered Bank

Standard Chartered employs almost 60,000 people in 1,500 branches and offices across 56 countries and territories in Asia, Africa and the Middle East. Headquartered in London, the Bank provides consumer and wholesale banking services dating back to the 1850s. The Bank is listed on both the London and Hong Kong stock exchanges, and is a Financial Times Stock Exchange (FTSE) 25 organization by market capitalization in the UK. The Bank has doubled both revenue and headcount in the last three years and aspires to continue this momentum, both through organic growth and selective acquisitions in key growth markets.

The Bank has a clear approach to people management based on a "strengths-based" philosophy rooted in positive psychology. This involves helping employees to understand their individual talents and productively apply these talents at work so they can be the best they can be. This strengths-based approach is woven across HR processes at the Bank and has three fundamental principles guiding the approach to human resource management: (a) focus on talent for the job at all levels, by building HR tools and processes that identify, reward, and retain high performing employees; (b) help individual employees know and focus on their strengths and where necessary, manage their limitations; and (c) develop exceptional managers and leaders who practice strengths-based management approaches and who can identify and develop talent and build employee engagement.

As with any organization, the Bank needs to anticipate and respond to the changing world in which it operates. Rigorous and robust human capital measurement

and management allows the Bank to build the people capability to deliver on these principles and achieve its aspirations.

### Standard Chartered's Approach to Human Capital Measurement

Key human capital measures are increasingly better predictors of the future performance of the organization than lag indicators, such as employee attrition or accounting measures, such as revenue. It utilizes current data and past trends to predict likely future scenarios. Although people are the *most important asset* of the organization, they are also the least predictable. Therefore, it is critical to know that resources are appropriately allocated and that investment is made in areas which make a tangible impact and this information is used to aid prioritization of strategic planning.

It is important to avoid what is easy to measure but which does not add much value. Some organizations have not progressed beyond such "gee whiz" metrics as average training days per employee. This commonly adopted measure does not inform the quality or effectiveness of the training to quantify its impact on the bottom line or whether it should even be repeated. Useful measures focus on what adds value to the business and are driven by strategy. Accordingly, the starting point at Standard Chartered was the strategic objectives of each of the business areas. A process then identified what people levers help to achieve these objectives, from which a series of questions were framed to assess how well the organization is managing these people levers. For example, how well is each business building the right people resources to deliver future growth, both from a quality and quantity perspective?

There are several different types of human capital measurement for the Bank, each having a direct link between their relative degrees of sophistication and the insights they can provide HR to be a truly strategic player.

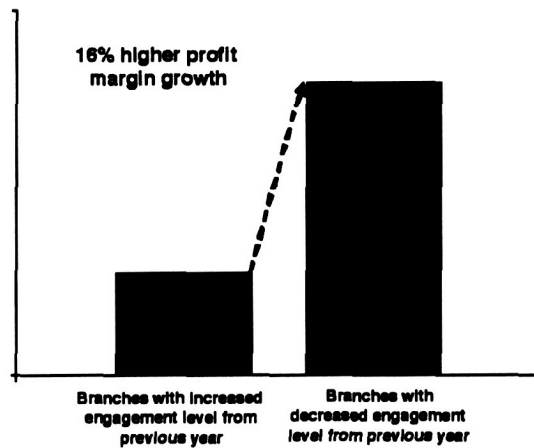
The first level of measurement is the effectiveness or impact of existing people management processes, products, and interventions that support business strategy. To do this, it is important to first understand the people levers or capabilities that underpin business performance and then build metrics which assess how well these capabilities are being developed. For example, Standard Chartered knows that its talent management processes build capability because key metrics are in place to measure whether the processes result in better ratios of high potential people and successors for key roles; whether and at what rate highly talented people progress through the organization in comparison to other populations; and how well high performing and high potential people are being retained.

The second area of focus of human capital measurement has the potential to add the most value. This is the “so what?” of human capital and illustrates the value of an integrated human capital strategy. It involves measuring elements of the people strategy which are known leading indicators of improved business performance, and quantifying their impact. An example of such an indicator is employee engagement.

Employee engagement is a concept adopted by many organizations to measure the attitudes and commitment of employees. Standard Chartered has measured employee engagement globally for six years through The Gallup Organization’s Q12 annual survey and its implementation approach consistently achieves a voluntary employee response rate of 96% or more. The Bank not only continues to experience year-on-year improvements in engagement levels but correlates the outputs of this survey with key financial and business measures to test the strength and direction of the relationship. At the Bank, research has established that employee engagement is a lead indicator of a range of desirable business outcomes – including higher profit margin and deposit growth, higher transactions per teller, and lower employee attrition. Figure 1 demonstrates that highly engaged business units outperform those with lower employee engagement in Consumer Banking branches in Hong Kong.

However, this demonstration of the impact of engagement does not inform *how* organizations can increase engagement – in other words, how to open the “black box”. The Bank has teamed the quantitative analysis described above with qualitative analysis to determine that it is managers who have a pivotal impact on team engagement. The Bank studied the most effective managers to deduce what behaviors have a material impact and are translating these into processes to select and train managers. The research found that great management is about ensuring each person has clarity about their deliverables, using the person’s strengths to position them for success, and providing positive reinforcement for doing the right things through praise and recognition. The best managers are also great story tellers. They create meaning for their people and a connection between what they do and the bigger organizational goals simply by telling stories that bring it alive in vivid language. This has been applied in the development of the Great Manager Programme, a series of just-in-time events which draw upon the themes from the research and coincide with the major interventions in the HR calendar, for example the annual performance management and compensation review.

### Higher profit margin increase



### Lower employee attrition

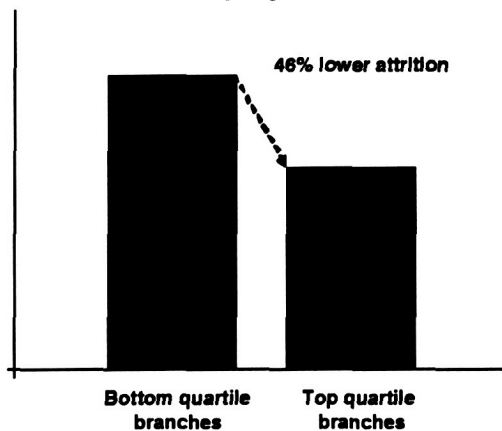


Figure 1. The impact of highly engaged branches in Hong Kong

This forms an important message in the application of human capital; unless the information is translated into action to influence the lead indicators of performance, it remains simply interesting data. Therefore, there is more to human capital measurement than tracking what the available data allows; it is about transforming data into relevant *action*. The centerpiece of human capital information at Standard Chartered is the Human Capital Scorecard.

### The Human Capital Scorecard

The Balanced Scorecard technique is one way in which human capital measurement could be reported to senior management. The tool is well documented (Kaplan & Norton, 2004; Mayo, 2005) and most organizations are adept at reporting financial data, customer satisfaction, and process efficiency measures. The final quadrant of the Balanced Scorecard – people – is often the most difficult to quantify and often focuses on training and development only.



Using comparable, standardized, and robust data provided through the capability of the global PeopleSoft management information system and a single global HR Shared Service Centre, Standard Chartered is able to provide deeper insights into people issues to enhance business decision-making through its Human Capital Scorecards (HCS). Introduced in 2005, an HCS is produced for each business unit and country in the Bank. The scorecard provides consistent people measures to help each area of the Bank to (a) plan resourcing to meet growth aspirations, (b) identify and explore key issues, for example, attrition, (c) inform business decisions by evaluating risks and prioritizing focus, (d) monitor progress on strategic imperatives, for example, Diversity and Inclusion, and (e) track trends over time

The scorecard contains measures which are designed to answer key questions regarding the effectiveness of people processes and their impact on business performance. At the Bank, particularly pertinent questions included capacity for growth, talent mobility across the organization, and retaining talented employees. The HCS ensures holistic data generation, analysis and reporting which provide standardized and high quality data to the business. The Bank has deliberately avoided reporting on data that is readily available but fails to address key strategic business questions. It is the configuration, integrated analysis of the metrics and use of the information which adds value.

The HCS is produced quarterly and annually consisting of core lead and lag indicators of performance, supplemented by "seasonal" measures dictated by the people management calendar, for example, the performance management and compensation review. Figure 2 illustrates the categories of measures which feature in each quarterly scorecard. In total, 60 scorecards are produced

across the Bank. An internally-developed automated process enables the Bank to produce forty dynamic slides from the raw data of almost 60,000 employees in less than 40 seconds. These standard measures provide the ability to compare data across the business and speak a consistent language.

The Human Capital Scorecard provides detailed insights into how well the Bank is managing people capability and provides early warning signals of areas that need to be improved before they become major challenges. It also gives HR the ability to constructively challenge the business in a way that they may not have had the confidence in the past. The scorecard enables the business and HR together to make better decisions, such as how quickly talent should be moved around the business.

### So What?

Back to the "so what" question mentioned previously. There are numerous examples of how the Human Capital Scorecard and analysis have provided rigor and data quality to processes and interventions which have made a quantifiable difference to business performance. Several are discussed below.

The Strategic Planning Agenda (SPA) is an in-depth annual review by each business and function head with the group chief executive to review their respective people plans and how these plans support the delivery of business strategy. The SPA is underpinned by the data and analytics in the Human Capital Scorecard which bestows rigor to the people discussions enabling the Bank to better optimize its investment in people. The discussions form the people agenda for the following year for which they are all accountable

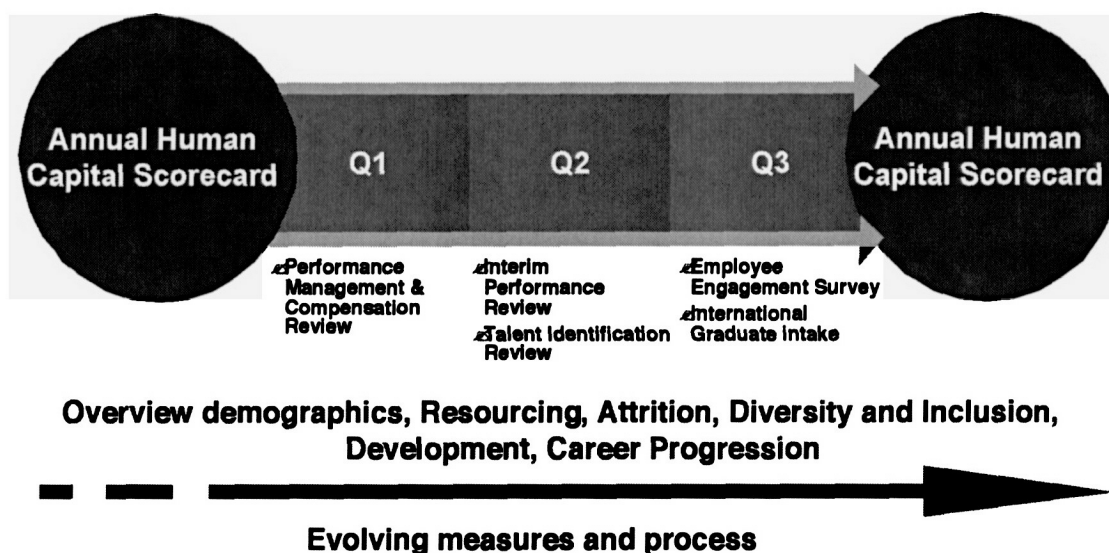


Figure 2. The Human Capital Scorecard calendar

The Human Capital Scorecard is also able to provide robust assurance measures when analyzing the success of new HR initiatives. Induction, Resourcing, and Diversity and Inclusion are prime examples.

*Induction.* The Human Capital Scorecard identified an issue of a relatively high rate of employees leaving within a year of joining the Bank. As a result, induction became a priority for HR in 2006 and a group-wide induction process was launched. New hire turnover is now one of the key success measures for the re-development of the global induction process. The measures form part of the Human Capital Scorecard and are tracked on a quarterly basis by each business function and country as well as the board of directors.

*Resourcing.* The Bank saw a net employee growth rate of 16% in 2006. Considering this substantial rate of growth, the Bank is currently reviewing the end-to-end resourcing process across the Bank. The success of this work will be measured over time using key human capital measures, such as net growth in headcount by business, joiners, attrition and transfers by business function and band, and the composition of new joiners in terms of performance and potential.

*Diversity and Inclusion (D&I).* Although inherently diverse in nature, D&I is a strategic imperative for the Bank. An integrated strategy has been developed to further enhance diversity and a baseline of key diversity measures forms the Diversity and Inclusion Scorecard which is part of the Human Capital Scorecard. The D&I Scorecard focuses on gender and nationality, reflecting the strands of diversity on which senior management has agreed as their initial focus. This allows for diagnosis and understanding of the key barriers and enablers affecting Diversity and Inclusion across the Bank as well as tracking trends and is coupled with qualitative analysis to understand the root cause of any issues.

### Challenges and Key Learnings

Other challenges faced while implementing the approach to human capital measurement include measures, accuracy, technology, and HR skills.

*Measures.* The Bank has strongly resisted reporting what is easy to measure but adds little value. The same applies to measures where the validity of the data cannot be guaranteed, as this would cast doubt on the validity of the scorecard overall.

*Accuracy.* As the data on the Bank's management information system data relies on employee and manager self-service, there are sometimes challenges with the accuracy of the data. However, the Bank made the decision to use the Scorecard as a catalyst and incentive to encourage managers and employees to ensure their data is up to date.

*Technology.* The Bank has automated the production of the Human Capital Scorecard. However the ultimate aim is to deliver the capability to line managers' desktops to allow them to drill-down within trends and conduct "what if" scenarios. The ability to compare data trends, such as attrition, at a micro level will help to make managers more accountable for key people measures.

*HR Skills.* One of the more significant challenges relating to human capital relates to the skills and inclination of HR practitioners to apply human capital metrics. Measurement capability requires skills not usually associated with HR – analytical, evaluative, and data-rational with knowledge of statistical techniques. Perhaps as a profession HR should not be unduly concerned about where the necessary skills originate as these can be conscripted from elsewhere (such as consultants, statisticians or other parts of the organization). On the contrary, efforts should be made to ensure that HR understands the data, is able to facilitate dialogue with their business managers, and attribute actions to the metrics. The Bank has allocated a great deal of time to helping HR managers to interpret the data trends and highlight key issues within the context of their business area.

### Conclusion

Standard Chartered is aware that its approach to human capital is constantly evolving, the future challenge being to provide accurate data and information in real time to managers across the Bank. Human capital in any organization is likely to be an evolving process but has the potential to provide data-driven insights which can help to drive the strategy of the organization. Although some may perceive it as another HR fad adopted in an attempt to represent the HR function's transition to be more strategic, the role of HR should be to transform data into meaningful information and action.

Finally, it is important to note that the Bank is not unduly concerned that sharing information about its approach to human capital potentially allows other organizations to imitate their practices and processes. Linked to the configurational mode of theorizing, human capital is entirely context-dependent and is therefore not easily imitable. Organizations also require different human capital measures as different business models or strategic priorities place differing degrees of importance on particular measures and levers to drive performance. Accordingly, Standard Chartered is comfortable taking this opportunity to share their human capital approach and processes with the hope that they will provide practical guidance to HR professionals and others to benefit from this important area of focus.

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## Authors' Reflection

The People Strategy and Product Management (PSPM) team for Standard Chartered Bank is responsible for the development, implementation and evolution of the Bank's key people management products and processes to drive performance across the Bank. Located within Group Human Resources, the team operates alongside global organization effectiveness teams providing strategic support to global businesses and local HR teams who support managers in each market. The HR Shared Service Centre (HR SSC) administers the Bank's global management information system (MIS), policy and product management and extensive data analysis to allow the consistent adoption of policies and processes across the Bank.

A small team within PSPM began the journey to implement a global human capital reporting structure in 2005. The global MIS system and the Banker's inherent analytical and data-driven nature provided a significant advantage. The prototype Human Capital Scorecard was presented to the Bank's top sixty senior managers with whom facilitated conversations were held to determine how the Scorecard might be adopted within their business areas. As a result of this early engagement, the interest and demand for robust and consistent data became insatiable.

In partnership with the business leaders, we faced a number of challenges on this journey, specifically related to growth through acquisition. These challenges included data housed in disparate systems, inorganic headcount increases, and an evolving organisational structure. In addition, the matrix structure of the Bank made it difficult to report data in a meaningful way. In fact it remains a challenge to ensure business teams use the data to proactively plan the people agenda as opposed to retrospective review.

Key learnings from the implementation of a global human capital measurement strategy include:

1. The non-adoption of people data is easily blamed on a lack of data integrity. However, data reliability will not improve without action to resolve the underlying issues. The Human Capital Scorecard acts as a catalyst and incentive to drive managers to take accountability for data.
2. The diagnostic power of people measures is often lost as it can be tempting to suppress or manipulate data to result in HR being the custodians of the processes. This prevents senior and line managers from taking accountability of data trends, such as high attrition.
3. Outsourcing, shared service centres and HR technology solutions have allowed space for a more strategic HR role. The Bank allocated significant time for HR teams to facilitate discussions with their businesses, by working through the measures and calculations including highlighting any data anomalies.
4. As a non-revenue generating function, obtaining funding for an unproven area such as human capital measurement can be a challenge. We have proven that it is possible to implement an automated reporting solution at a negligible cost.

## Authors' Bios

Debbie Whitaker was recently appointed the Head of Sustainability at Standard Chartered Bank based in the United Kingdom. Previously Group Head, People Product Management, Debbie graduated from London School of Economics and holds a Postgraduate Diploma in Personnel Management and a Masters in Human Resource Management. She is a Fellow of the Chartered Institute of Personnel and Development.

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