Business professor examines why firms don't use human capital data

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Many businesses say their most valued assets are their people. But just about anyone who's had a job can tell you that's not always the case. A University of Kansas business professor has co-written a white paper examining one reason that businesses are reluctant to use human capital, or workforce data, in their decisions: Capital markets tend not to reward businesses for workforce excellence.

Clint Chadwick, professor of strategy and human resource management, wrote the paper published by the Chartered Institute of Personnel Development, or CIPD, in London. The paper, co-written by Achim Krausert of Warwick Business School, features interviews with investment analysts at financial firms to find out whether they use workforce data, what sort of workforce data they prefer and what factors may prevent them from considering such data. They found most analysts don't rely on workforce data outside of a few select categories, largely because it's hard to get, doing things differently is not incentivized, and firms tend to not want to give away their secrets.

Research has long shown that happy employees tend to be more productive. Firms that have low turnover rates, high employee satisfaction and other measures of workforce excellence often have an advantage over their competitors, Chadwick said, and could benefit from sharing that information with investors.

"Results have shown us that how you manage people as a firm has long-term effects on profitability," said Chadwick, who is also the school's area director for management and entrepreneurship. "Yet we've found that investors aren't using those data to evaluate potential investments when it would be in their interests to do so. So why the disconnect? We said, 'Why don't we directly ask the people whose business it is to advise investment decisions?'"

The interviews revealed that the main reason analysts don't consider detailed workforce data is because it is often difficult to obtain. There are several factors driving that difficulty, primarily that there are few laws requiring companies to disclose human capital data. When they aren't required to do so, firms don't voluntarily make that information available so as not to give away industry secrets or simply because they don't want to invest the time and financial resources to complete such reporting, Chadwick said.

Even when data is available, interviewees said they tend to focus mostly on issues like governance, the perceived quality of top management and executive compensation. Basic workforce data such as numbers of employees, median pay and turnover rates are sometimes used and sometimes ignored. More detailed information such as workforce job satisfaction is rarely sought or utilized by analysts.

The research found that tradition also stands in the way of workforce data capitalization. Such data hasn't traditionally been relied upon, and analysts can see using workforce data as risky. In a heavily results-oriented field such as stock analysis, there is less risk involved in being wrong if you made the same kinds of recommendations as competeing analysts and all were wrong, a phenomenon called "herding." The authors make several recommendations for steps that businesses and policymakers could take to make workforce data easier for investors to access, understand and use.

- Businesses should take the lead in reporting workforce information more readily to their external stakeholders
- Businesses should work with their leadership and human resources teams to define management quality and communicate this to their key stakeholders
- Both the investment and regulation communities should explore the standardization of human capital information
- Investors should look to improve their understanding of workforce issues and human capital data.

"We therefore conclude that workforce issues are emerging from being a niche concept to something more central and critical to investment practice for many investors," the authors wrote. "With this there is increasing scope for new engagement practices and improved dialogue on workforce issues using people data."

One thing businesses have in common is looking for competitive advantages. Those who can demonstrate they have satisfied employees, low turnover rates and other workforce factors in their favor would do well to share that information.

"It's in their self-interest to put it out there and say, 'This is what we're good at,'" Chadwick said. "Successful workforce management is really valuable and really difficult. If they're really good at it, they should publicize it, and not just as a brief throwaway comment in the annual report. If you can back it up, it can give you an edge in the capital market."

More information: Investor perspectives: people data and reporting: www.cipd.co.uk/knowledge/strat … nvestors-people-data

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