

Human Capital as an Asset:

An Accounting Framework to
Reset the Value of Talent in the
New World of Work

In collaboration with Willis Towers Watson



The COVID-19 pandemic has accelerated a shift to new ways of working, prompting companies to reimagine how, where and by whom work gets done. This shift was already under way with the technological changes of the Fourth Industrial Revolution. As companies look to reset for the new world of work that emerges from the pandemic, they would benefit from an approach that values talent as a key asset that contributes to an organization's sustained value creation. This calls for the development of a new human capital accounting framework, which would enable a company's board and management to track how their investment in people is augmenting the firm's human capital, and support the delivery of better outcomes for the business, the workforce and the wider community.

This report, a collaboration between Willis Towers Watson and the World Economic Forum, seeks to provide such a framework. It is an important component of the Forum's HR 4.0 initiative, an approach to shaping people strategies in the Great Reset to collectively build a more fair, sustainable and resilient future.

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The coronavirus pandemic is a defining moment for leaders as they reset the workforce, restore stability and strive to achieve growth in a sustainable manner that benefits all stakeholders. Actions to protect, preserve and sustain human capital value will be important for an organization's reputation and ability to chart a resilient path forward.

The crisis, with its highly disruptive effects on people and work, also presents an opportunity to take bold measures to shape a workforce ready to deliver value to the organization, and to economy and society at large, as it navigates new realities. At this pivotal moment, organizations should seek to work towards a more holistic approach to valuing the workforce and the return on human capital investment.



Workforce principles

The following principles were developed jointly by **Willis Towers Watson and the World Economic Forum** earlier in the COVID-19 crisis to help organizations shape a responsible initial course of action in managing their workforces in changed circumstances. They can also help guide employers to plan and implement an ethical and sustainable reset of their people strategies as they emerge into the “new normal”.

- **See this crisis as a defining leadership moment – and continue delivering the best possible outcomes for all stakeholders.** Effective leaders ensure the organization stays true to its purpose, values and culture. They are transparent, empathetic and create trust, and their behaviour helps calm and support employees who may feel stressed and anxious.
- **Adopt an agile and continuous learning mindset.** The uncharted waters of this crisis demand agility and innovation to ensure responses are being recalibrated to a changing set of circumstances.
- **Understand the perspectives of all stakeholders (e.g. employees, shareholders, customers, suppliers, unions, healthcare providers, community) and engage them in decision-making.** Maintain awareness of the shifting needs and priorities of all stakeholders and the evolving state of competitive and innovative practices.
- **Focus on the intersection of employee and company well-being.** Cost pressures place significant stress on leaders to meet the needs of shareholders at a time when the well-being of employees, particularly the most vulnerable, is being seriously threatened. But the risks to – and benefits of – employee well-being and company well-being are highly aligned.
- **Make decisions and take actions that consider medium-term needs and longer-term business objectives.** Organizations should avoid engaging in short-term actions that may compromise the longer-term sustainability of the business.

Having a robust framework for measuring and accounting for human capital would support a principled approach to workforce management (see box: Workforce principles). Such a framework would enable a company to monitor and assess the return on its investments in its employees – in the same way as it measures returns on financial and intellectual capital; however, given the intangible nature of strong corporate culture, stakeholder leadership and employee well-being, companies have struggled to quantify the contribution of their human capital assets.

Human capital metrics – the current state of play

Human capital can be a company's greatest asset; it can make or break the business strategy and is a key differentiator. A company's intangible assets, including human capital and culture, are now estimated to comprise on average 52% of a company's market value¹.

Chairs or chief executive officers often cite "people" or "talent" as a top priority; however, even if companies now typically recognize the importance of people, the frameworks needed for human capital management have been lagging. The human capital agenda needs to be part of board-level decision-making, integrating human capital metrics with financial and operational measurements².

From the shareholders' perspective, organizations should have similar levels of emphasis and transparency regarding investment in, and returns from, human capital.

Efforts to introduce robust measures of human capital into financial reporting have accelerated in recent years as there is clear and growing market interest in understanding how companies manage and measure human capital to uphold the principles of stakeholder capitalism³. Such work to date, however, often lacks specificity, context and comparability.

Four major groups are driving these efforts:

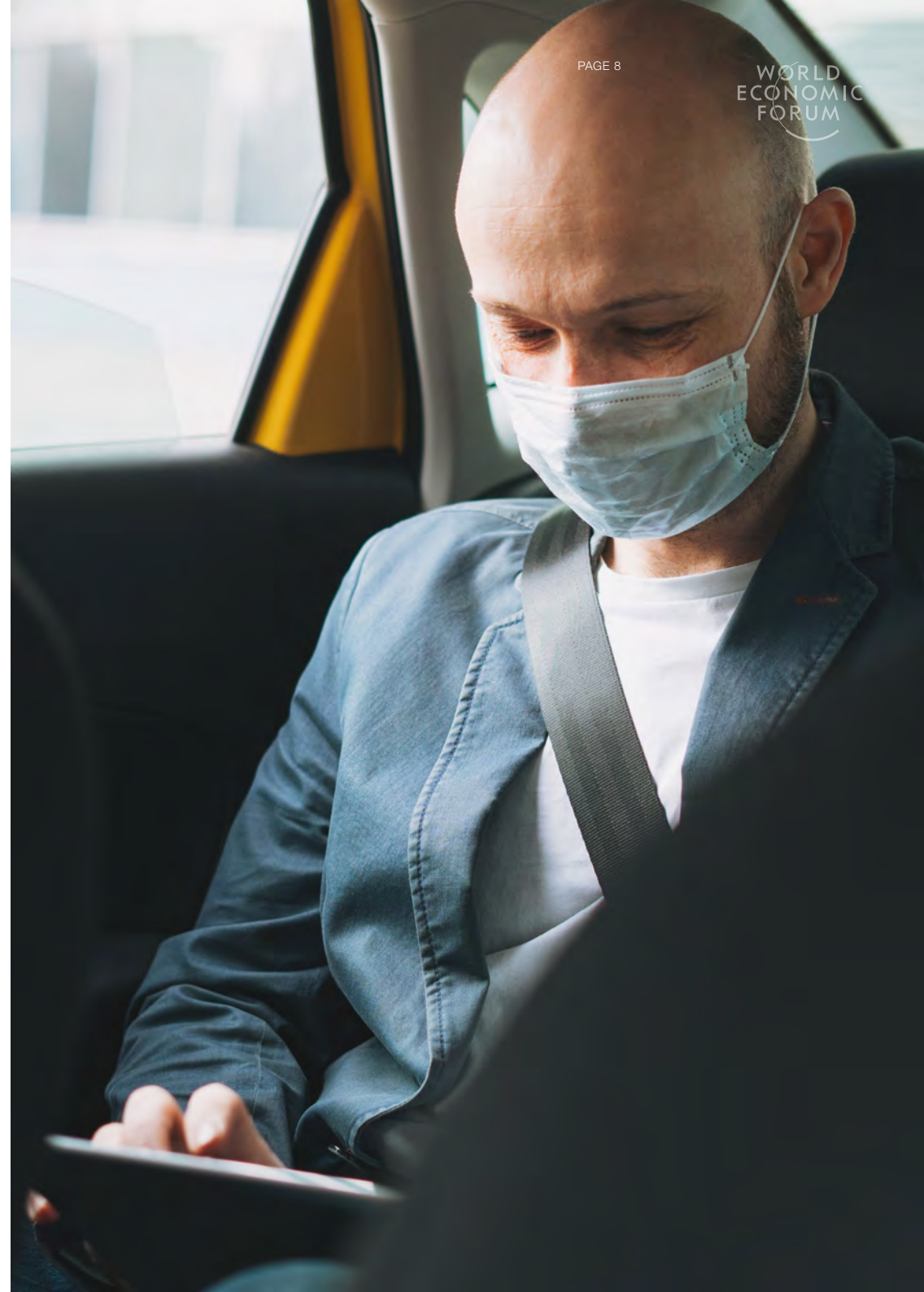
— **Regulatory bodies.** An August 2019 proposal by the US Securities and Exchange Commission (SEC) would expand reporting requirements to include a broad set of measures including training hours, worker productivity and turnover. The International Financial Reporting Standards (IFRS) and US Financial Accounting Standards Board (FASB) both have requirements in place for reporting employee-employer transaction information related to employee benefits, retirement plans and compensation.

— **International organizations.** In late 2018 the International Organization for Standardization (ISO) specified 23 core metrics – including costs and worker productivity; health and well-being; and leadership trust – for organizations to track and report. Earlier this year a task force organized by the International Business Council (IBC) of the World Economic Forum released a [consultation draft](#) proposing a set of common environmental, social and governance (ESG) disclosures and metrics⁴. The disclosures are organized into four pillars aligned with the UN Sustainable Development Goals (SDGs): principles of governance, planet, people and prosperity. The people pillar includes metrics covering three key themes: dignity and equality; health and well-being; and skills for the future.

— **Investor communities.** For example, the Human Capital Management Coalition (HCMC), representing 26 institutional investors, has been instrumental in petitioning the SEC to move in the direction of requiring human capital metric reporting.

— **Policy-makers** The US Congress is examining the topic of human capital reporting. In addition, the EU's non-financial disclosure requirements are designed to promote greater transparency in organizational efforts related to social responsibility and the treatment of employees as well as board of director diversity.

Organizations are under pressure to pivot to sustainable business models, follow SDG goals and provide higher levels of transparency such as through ESG reporting. This report focuses on the people pillar as described in the IBC ESG paper, looking at how to value the skills and performance of the workforce and support investment in human capital. The humanitarian, economic and health impacts that characterize the COVID-19 pandemic make such efforts even more critical.



Widespread job losses: could things have been different?

The pandemic has had a devastating effect on the global workforce. The International Labour Organization reports that in June 2020, 93% of the world's workers were living in countries with workplace closure measures in place. Although restrictions are easing, work has been heavily disrupted. In addition, the sharp economic downturns that have resulted from the crisis have dealt a severe blow to incomes and jobs. The International Monetary Fund projects that more than 95% of countries will see per-capita incomes fall in 2020⁵. The International Labour Organization also estimates that hours worked globally declined 14% in the second quarter of 2020 compared with the final quarter of 2019, equivalent to 400 million full-time jobs⁶.

In the US, the unemployment rate jumped from 3.5% in February to 14.7% in April before falling to 10.2% in July⁷. More than sixteen million people were unemployed that month. The rise in unemployment was considerably lower in the EU: the EU unemployment rate was 7.1% in June 2020, up only modestly from 6.5% in February. But this was only because governments provided extensive incentives for companies to retain workers. As of June, such employment subsidy programmes covered 45 million jobs, or one-third of the workforce, in Germany, France, Britain, Italy and Spain⁸. While no sector or industry was left untouched by COVID-19, some have been hit harder than others. In retail, the crisis accelerated the shift to online shopping and triggered mass lay-offs and bankruptcies⁹. Following an 80% drop in airline passenger traffic, airlines took various measures to address the crisis, including reduced working hours, unpaid leave, pay cuts, furloughs, temporary and permanent lay-offs along with new hiring freezes. The aerospace sector resorted to similar measures. Earnings for the tourism and hospitality sector decreased dramatically: In April, the industry was losing more than \$534 million in earnings and 12,000 jobs per day, on average¹⁰.

Even the impact on the healthcare and pharmaceutical sector is mixed. With elective surgeries on hold, hospitals are facing falling revenue and rising costs, and medical device manufacturers are seeing declining demand for their products used in non-essential medical procedures¹¹. Revenue opportunities from the approval of new pharmaceutical products to fight COVID-19 are difficult to estimate.

Perhaps the technology sector alone is somewhat better positioned to meet the challenges of COVID-19 due in large part to its well-established policies for remote working and the rising demand for digital collaboration tools and technology to support remote working¹².

Would companies have behaved differently, and would job losses have been lower, with better human capital accounting? It seems likely. It is significant that in the EU, with sufficient incentives in place, companies have typically preferred to hold on to their employees. But such government-backed employment protection schemes risk market distortion; if sustained, they will hamper the reallocation and reskilling of labour from sectors that are likely to continue to struggle to sectors with better long-term prospects as the economic recovery progresses. They hamper financial incentives for companies to recalibrate for the new reality. And finally, they are also expensive for the taxpayer. It would be preferable if the correct incentives were incorporated directly into companies' own decision-making through improved human capital accounting. Companies would then better appreciate the value of their workforce and would be less inclined to cyclically "hire and fire".

Indeed, many companies are already implementing their own measures to hold on to people, including furloughs as an alternative to redundancies. Based on a review by Willis Towers Watson in May 2020 of 230 companies globally that announced a furloughing of employees, most (~85%) did not set a defined time period for the furlough and a majority stated that furloughed employees would return to work as soon as conditions permit. Approximately 15% specified a furlough duration, typically from one to three months. Furloughs also create financial difficulties for employees, of course, as well as emotional distress; however, a number of companies are aiming to reduce the impact of furloughs by shortening workweeks or requiring employees to take a certain number of unpaid days within a specified time period¹³.

Based on a review of publicly available announcements, 474 companies reported pay cuts as of 8 May 2020, up from 392 as of 29 April. Out of these, specific reductions were implemented for 463 chief executive officers, 417 chief executive officer direct reports, 325 senior managers and 125 among the broad employee population¹⁴. Such C-suite-focused pay cuts are significant as they show a principled approach to workforce management in which the value of the entire workforce is appreciated and senior executives share the burden of pay cuts in order to protect the broader workforce.



A basis for work redesign

Some companies are also taking action to redesign work. Before the pandemic, technology was already disrupting the world of work, redefining how, where and by whom work is done. The cost pressures, changing business models and workforce disruptions of the COVID-19 crisis have accelerated many trends associated with the future of work. According to a global survey of 514 employers:

- 63% have taken action on, are planning or considering redeploying (and potentially reskilling) workers to support another function.
- 57% have taken action on, are planning or considering shifting when and where work gets done.
- 48% have taken action on, are planning or considering automating certain aspects of work to streamline and/or increase productivity¹⁵.

By designing with the constraints of today's business environment in mind, organizations are able to unlock innovative ways of reimagining work and to build more sustainable business models; however, cost-effective and sustainable work redesign requires effective human capital accounting to provide measures for valuing all talent, including contingent workers, as an asset.

Supporting employee well-being

Supporting employee health and well-being has been a leading concern for many companies during the pandemic. Among employees responding to employer-sponsored surveys, there is a sense of trust and goodwill despite significant levels of stress and worry¹⁶. Data shows that well-being support from the employer in the form of outreach from managers and communication regarding an organization's health and well-being efforts can serve as a buffer against anxiety.

As companies recalibrate to the new reality, a focus on balancing company and employee well-being – encompassing financial, social, physical and emotional aspects – builds a pathway to generate sustained value for the business and workforce and support more human-centric outcomes in the world of work. Companies recognize the need to focus on employee well-being, but such efforts would be given a firmer foundation by better human capital accounting that demonstrates their tangible value.

Guiding principles to shift how human capital is valued

GUIDING PRINCIPLES TO
SHIFT HOW HUMAN CAPITAL
IS VALUED



Seven guiding principles to shift how human capital is valued

From profits to purpose

For too long, many companies had embraced the notion that a company's sole responsibility is to maximize profits for its shareholders. In one sign of the changing times, in August 2019, the Business Roundtable of leading US chief executive officers released a new Statement on the Purpose of a Corporation signed by 181 chief executive officers committed to leading their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders. In doing so, the Business Roundtable publicly acknowledged a shift from shareholder primacy to stakeholder primacy.

The World Economic Forum has been advocating for stakeholder capitalism for 50 years. The original **Davos Manifesto of 1973** set out for the first time the stakeholder concept that businesses should serve the interests of all society rather than simply their shareholders. The **Davos Manifesto 2020** provides the Forum's vision for stakeholder capitalism and declares that “the purpose of a company is to engage all its stakeholders in shared and sustained value creation”. The manifesto goes on to state: “A company is more than an economic unit generating wealth. It fulfils human and societal aspirations as part of the broader social system.” Consequently, performance measures should focus not only on the return to shareholders but also on how an organization achieves its ESG objectives. And executive remuneration should be tied to stakeholder responsibility. An important element of stakeholder capitalism and corporate purpose is a company's responsibility to its people, including contingent workers as well as salaried employees.

1

From corporate policy to social responsibility

Codes of conduct and corporate values often serve as a “north star” for enterprises, defining and guiding acceptable behaviour at work. We see progressive companies with strict protocols for respecting differences and diversity in all its forms – gender, race, age, sexual orientation, ability and other characteristics. Any infringement can lead to disciplinary action.

With mounting pressures and expectations for organizations to be strong actors in their ecosystems and become more human-centric – for the benefit of the business and all stakeholders – there is a call for codes of conduct and corporate values to apply both within and beyond the organization. In light of this, there will be a rethinking of how the employment contract intersects with the social contract and with enterprises as actors in the community. It will be important for companies to be able to rely on their workers to represent the business in this broader context and to value them accordingly.

2

Seven guiding principles to shift how human capital is valued

From stand-alone to ecosystems

Traditionally, companies have taken an inward, stand-alone and self-sustaining view of business and human capital strategy; however, successful businesses in the future will thrive as participants in ecosystems, working with the communities in which they operate, partners, suppliers, ancillary industries and at times even competitors for talent. The recent pandemic has necessitated stronger partnerships and alliances between unrelated companies that may otherwise compete for talent. Take, for example, furloughed baggage handlers and airline cabin crew who were successfully redeployed to supermarket chains and hospital administration roles, respectively. Better human capital accounting will help companies to accord such partnerships the value they deserve.

From employees & jobs to people, work and skills

In the face of a growing plurality of ways to get work done (e.g. contingent work, artificial intelligence, process automation, robotics, outsourcing, alliances), the traditional notion of work being performed primarily by employees in jobs is rapidly giving way to a broader focus on work and skills.

As companies look to achieve the optimal combination of inputs by humans (regardless of the nature of their relationship with the organization) and by machines, and embrace agile ways of working, the traditional one-to-one relationship between a degree matched to a person matched to a position is giving way to a many-to-many relationship with multiple micro bite-sized on-demand learning opportunities matched to multiple skills matched to multiple ways of getting work done (e.g. jobs, projects, assignments). This approach, combined with technology, can make for a more human-centric enterprise in which people focus on higher-value, non-routine work. However, there is a need for metrics that effectively measure the plurality of work options on a level playing field. Differentiated accounting practices and isolated metrics need to be replaced by more integrated, holistic measures.

3

4

Seven guiding principles to shift how human capital is valued

From the workforce as an expense to the workforce as an asset

Most countries provide favourable accounting treatment for reductions in the workforce by allowing such costs to be considered a one-time, “below-the-line” cost along with other restructuring costs and excluded from core earnings. At the same time, all workforce development costs are required to be expensed when incurred, resulting in a direct hit to earnings with no recognition of the value provided.

This results in a set of perverse incentives whereby management is motivated to reduce investment in the workforce while being encouraged to treat talent as disposable. We propose reversing this situation by treating investment in human capital in the same way we do investment in natural resources, particularly oil. Similar to PV-10, an accounting method for estimating the value of a company’s future oil and gas reserves¹⁷, the investment in the workforce could be capitalized and recognized on the balance sheet, as illustrated below in the Total workforce value section.

5

From backward-looking financial measures to forward-looking, broader measures of value

The performance of organizations is traditionally measured through backward-looking financial metrics quarter over quarter.

This principle has been the focus of much research and discussion. The IBC ESG paper details the case for such broader measures to assess value creation in a forward-looking manner. We define some additional measures in the framework below. In order to drive a constant focus on the workforce, such measures should be defined and reported consistently. Past efforts to encourage the adoption of such measures have often been stymied by concerns about protecting competitive advantage. We believe the measures proposed here provide context and comparability without being too specific about the strategic value behind workforce initiatives – striking the balance between useful disclosure and divulging competitive advantage.

6

Seven guiding principles to shift how human capital is valued

From quarterly to generational

An unintended consequence of today's standard of frequent financial reporting and increased emphasis on short-term results has been to incentivize management to focus on quarter-on-quarter performance improvements. This has caused some companies to overcapitalize, engage in share buybacks and dividend policies at the expense of capital reserves and embark on cost-cutting exercises (such as job cuts) to manage profitability over the short term. Better human capital accounting would expose the costs of such decisions.

The result of investing in the workforce to achieve business results often appears in the mid to long term. Therefore, a longer-term view will inform human capital policies such as: building versus buying talent; investing in employee upskilling and reskilling; and reinventing jobs based on technology augmentation and alternate ways of working. Approaching business strategies and associated investments from a multi-year or generational (i.e. 15-year) perspective will likely require different metrics and bases for assessing performance, including new metrics for valuing human capital as set out in this paper.



Human capital decisions in practice



Businesses have had a variety of responses to the COVID-19 crisis, ranging from actions that show a principled approach to the workforce underpinned by an appreciation of the value of human capital, to actions that show the pitfalls of failing to properly prioritize workforce considerations.

Shell

Continuing a reskilling programme to strengthen the talent pipeline and sustain long-term competitiveness

WORKFORCE AS AN ASSET

Royal Dutch Shell was facing a shortage of skilled artificial intelligence (AI) talent to help it develop alternative sources of energy as well as to operate its oil business. Senior leaders recognized that they needed an alternative to hiring new talent, given the expense of the recruiting and hiring process and the fact that AI talent was in high demand and short supply. To tackle this challenge, the company partnered with Udacity to deliver online training in AI prior to the COVID-19 crisis. Despite efforts to cut operating costs by \$9 billion, the company continues to invest in reskilling through this programme¹⁸. Upon successful completion of a four-to-six-month programme, employees receive a nanodegree or online certification. As a result of this online reskilling effort, Shell has strengthened its talent pipeline, enabling the company to deliver on its business strategy, as well as increasing employee satisfaction among those completing the AI training. In addition, Shell hopes that its collaboration with Udacity will help to attract talent in the future¹⁹.

McDonald's/Aldi

Surviving and thriving via a cross-industry talent-sharing partnership

ECOSYSTEM

Due to restaurant closures and restricted working hours stemming from COVID-19 lockdowns, McDonald's was facing the possibility of having to cut jobs. Meanwhile, Aldi Germany, a grocery chain, was grappling with a talent shortage due to higher demand for its products. In March 2020, the two companies signed an agreement to redeploy McDonald's workers on a voluntary basis from the burger chain to the retailer's stores²⁰. Aldi temporarily employed McDonald's staff on the terms of its own employment conditions; employees could return to McDonald's after the assignment. As a result, McDonald's avoided lay-offs, enabling it to preserve its human capital, and Aldi was able to satisfy its customers due to this win-win cross-industry partnership.

US Foods

Working with partners to redeploy talent and protect workers' livelihoods

ECOSYSTEM

US Foods, a leading American food-service distributor servicing restaurants and food-service operators, experienced a dramatic decrease in demand for its services as many of its customers halted operations due to the pandemic. To avoid lay-offs, the company teamed up with grocers that faced a shortage of warehouse talent due to the spike in demand for groceries²¹. Through this partnership, warehouse workers from US Foods began working in the distribution centres of the affected grocery stores. As a result, the workers at US Foods were able to retain their jobs and associated benefits despite the negative impact of COVID-19 on the food-service distributor's business, and the company strengthened its human capital value.

Marriott International

Sharing the pain between hotel workers and executives

ECOSYSTEM AND PURPOSE

With the drastic decline in economic activity and plunging occupancy rates due to the pandemic, Marriott International made the decision to furlough tens of thousands of its staff while also imposing salary cuts on its executives. In addition, Marriott has donated hotel rooms to front-line workers in the battle against COVID-19. This has resulted in the hotel chain being perceived as an employer of choice in the media despite its furloughing of employees²². Properly valuing human capital means that companies are more likely to seek to retain staff during downturns, even at the cost of salary cuts to executives, making them better positioned for the economic recovery.

Franklin Templeton

Living the company's values in the community

SOCIAL RESPONSIBILITY

As part of its zero-tolerance policy on racism, Franklin Templeton recently fired an employee who was caught on video having a confrontation with an African American man in New York. "We can't control everything, but we can control the environment in which we operate our companies," Chief Executive Officer Jennifer Johnson said. "And it starts with leaders ensuring that discrimination is not tolerated and that we create an environment that absolutely feels inclusive for all employees." It is imperative that leaders and employees of Franklin Templeton live the company's values, even when not at work, in the communities in which they operate. Companies should understand and value the importance of their workforces as stewards of their corporate reputation.

Singapore Airlines

Redeploying its skilled workforce to contribute to the community

ECOSYSTEM AND PEOPLE, WORK AND SKILLS

As COVID-19 travel bans and lockdowns went into effect, many airlines took drastic measures to offset the loss of business, cutting salaries and furloughing employees among other cost-cutting measures. Singapore Airlines saw an opportunity to redeploy its furloughed employees as "care ambassadors" in low-risk hospital wards to help provide basic care, nutritional care and patient service management²³. This was a great match because the cabin crew members are already trained in crisis management and first aid, and the redeployment of their skills helped local efforts to contain the crisis. Such actions improve a company's reputation and strengthen its human capital: If redeployed employees eventually return, they will do so with valuable new experiences.

Situations in which better human capital accounting could have made a difference

Although many organizations have adopted a principled approach to their workforce during the crisis, there are also examples of companies whose approach has fallen short. These include businesses that, in order to mitigate steep declines in revenue, cut workforce numbers and forced employees to take unpaid leave – but then announced large payouts for shareholders. Such actions reflect a narrowly shareholder-focused model that places insufficient value on human capital and has longer-term costs for the company as well as negative externalities for society.

Other enterprises announced rich rewards for chief executive officers, or initially cut pay for executives only to defer remuneration for the future in cash or equity, even while furloughing or laying off employees. Such misallocations of resources are in part a result of companies undervaluing their human capital more broadly.

In other cases, poor management of workforce health and well-being has led to unsafe workplaces, where guidelines for physical distancing and proper hygiene were ignored, sufficient personal protective equipment (PPE) was lacking, and bonuses that incentivized attendance may have contributed to employees working while ill. Lax safety measures have put workforces, their families and the communities in which they operate at high risk of infection and have caused considerable reputational costs to the companies involved. Companies that undervalue their workforce are more likely to take actions with negative implications for employee health and well-being.

Delivering ‘win-win-win’ outcomes

Companies that ignore the guiding principles outlined have much to lose. For example, they could face a toxic workplace culture; a 2019 study revealed that such a workplace culture has cost the US \$223 billion in turnover over the past five years²⁴. In contrast, when an organization takes a longer-term view; creates value with purpose; adopts a mindset of people, work and skills; invests in the workforce; and sees itself as an actor in an ecosystem with a well-defined level of social responsibility, it is a “win-win-win” situation for the business, the workforce and the larger community. Better human capital accounting incentivizes such outcomes.

A framework for human capital accounting

Operationalizing a principled approach to workforce management requires organizations to think about human capital measurement in a way that goes beyond current mindsets and practices. Companies are accustomed to selecting among metrics to understand the value of their people.

This approach is healthy, but it is only a start. There are four important considerations for expanding beyond current practices and taking a more principled approach:

– **The metrics themselves.** Metrics are often chosen based on availability of data. Headcount and employee turnover can be relatively straightforward to track and trend but are insufficient. What is needed is an approach attuned to specific principles such as fulfilling purpose, prioritizing upskilling requirements, investing in the workforce and optimizing corporate ecosystems. In addition,

metrics need to be relevant to and engage a wide range of internal and external stakeholders. Relevant metrics will inevitably involve qualitative as well as quantitative elements, including quite mainstream measures of investment, profit and employee engagement as well as more innovative sources, such as social media or email sentiment.

– **Frameworks.** In order to organize metrics and bring their value to life, frameworks are needed that align metric choices with company purpose. Measurement frameworks provide an organizing principle that can join up disparate measures, conceptually or even analytically. When done well, such a framework can tell an overarching narrative about human capital value and promote a balanced view of performance. Measurement dashboards can be used to communicate that performance narrative. Regardless of the form, their intention is to appeal to and represent the input and influence of multiple stakeholder groups – from human resources (HR) to operations and customer service, and even oversight boards and regulators.

– **Duration.** In a world marked by generational time horizons, metrics also need to balance immediate feedback on results with long-term trends that reflect progress towards an eventual goal. For instance, sales results and even email and social media sentiment can be regularly examined to signal immediate shifts in service performance. In contrast, pay equity measures or even rates of employee volunteering can be tracked to monitor progress towards longer-range goals of gender equality and positive community relations.

– **Purpose.** Underlying all of these considerations is the ultimate purpose of the measurement process itself. Data points are of most value if their input to decision-making is readily apparent. Organizations can be particularly successful if they limit their focus to metrics for which they have action plans in place or for which they intend to introduce such plans. In turn, it is easier to determine what those actions should be when the available data permits the analysis of root causes of shifts over time. A best-practice model thus includes comprehensive measures that are fit for purpose, are tied to ongoing change initiatives and enable smart analysis to direct improvement efforts.

Recommendations to support better decision-making

An accounting framework for human capital that reflects the guiding principles needs to extend beyond currently available metrics. A framework for such an expansion was articulated this year by the IBC. Its report affirms and applies the notion that society is best served by corporations aligning their objectives with societal goals. The metrics that reflect progress towards those goals must be embedded in ESG considerations. In application, the IBC report proposes a comprehensive metrics framework, containing both current and recommended future indicators, organized around four pillars: principles of governance, planet, people and prosperity.

The metrics in the people pillar relate to promoting individual dignity, well-being and the ability to realize human potential through work. Measures focus on labour force representation by gender and diversity groups, pay equity and injury rates. Additional metrics targeting dignity and health include: involvement in company well-being programmes; current pay practices in relation to living wages; and skilled worker shortages and training budgets.

Alongside such measures, we propose **three key human capital metrics** that companies can use to drive long-term value creation. These could also be purposed to improve reporting, including through incorporation into ESG frameworks.



Employers looking for ways to connect their people with purpose and apply a broad approach to the value from human capital are tapping into the employee experience they create for workers. For example, Willis Towers Watson has developed an evidence-based model of employee experience (“EX”), which identifies the most important experience factors across different levels of maturity and has established that employee experience is predictive of business performance²⁵.

The model, developed from organizational surveys of workers, focuses on experiences of connection with company purpose and colleagues, and contribution to work and consequent rewards. Companies with more effective, high-performance employee experience outperform their peers for top-line growth, bottom-line profitability and return to shareholders. In other words, an employee experience diagnostic is predictive of whether an organization will underperform or outperform its peers²⁶.

At its core, employee experience is a metric that captures employee sentiment and reports on the quality of specific experiences at work. For example, the Willis Towers Watson model is put together using an all-employee survey methodology that asks workers to respond to a limited number of questions, using standard five-point response scales. Specific concepts related to connection and contribution are embedded throughout those questions to enable organizations to separate strengths from opportunities and improve experience. Results are provided through a heat map report showing total favourable opinion scores for each concept versus a high-performance profile. Areas for improvement can then be translated into root causes and actionable steps to remedy them.

Although employee survey scores and in particular engagement scores are often publicly announced, comparability is lacking. The survey categories, items and response scales of employee surveys should be reported more consistently, such as those proposed here. Data is usually gathered through established processes and technology already in use for this purpose. Tracking and consistently reporting employee experience through a standard model enables employers to understand the health of their employee sentiment in comparison to that of a high-performing company. This process also provides boards and executives with a means of ensuring accountability and transparency regarding the health of employee sentiment.

In addition, an employee experience model can be used to organize non-survey metrics into a common framing. For example, in Willis Towers Watson’s EX model, measures can be mapped to the purpose, people, work and reward quadrants to create a supplemental EX scorecard. Example measures include social media ratings of leadership effectiveness for purpose, manager retention rates for people, safety incident rates or defect rates for work, and pay equity measures for reward. In this way, employee experience can be visualized and tracked over time by organizing in novel ways measures already in common use in companies today.



Figure 2 — Source: Willis Towers Watson

Total Cost of Work (TCoW) and Return on Work (RoW)

To reflect the changing nature of work, organizations should seek to place their “plurality of means” for getting work done on a level playing field. This requires having integrated and holistic measures of cost and productivity that capture the full range of ways in which work is organized and resourced, including those related to technology implementation to replace or augment work. From a holistic perspective, this means capturing the cost and productivity of all types of talent (e.g. employees, gig, outsourced) and automation on a like-for-like basis through such measures as the Total Cost of Work (TCoWTM) and the Return on Work (RoWTM).²⁷

The data to calculate these measures is readily available but captured by different functions: HR might have the employee data, procurement might have the free agent and vendor data, corporate strategy the information on alliances, and finance the information on capitalized automation. Tracking, reporting and aligning these two

metrics to how company performance is measured, executives are compensated and board oversight is exercised is essential to any organization that seeks to be relevant in the Fourth Industrial Revolution. As the remit of the HR function shifts from being a steward of employment to being a steward of work, a lack of metrics that provide a clear and holistic view of the cost of work rather than employment will hinder the enterprise’s ability to achieve the optimal combination of talent and technology. Metrics such as TCoWTM and RoWTM (see Figure 3) are essential to enabling this pivot in the role of the function and monitoring changes over time.

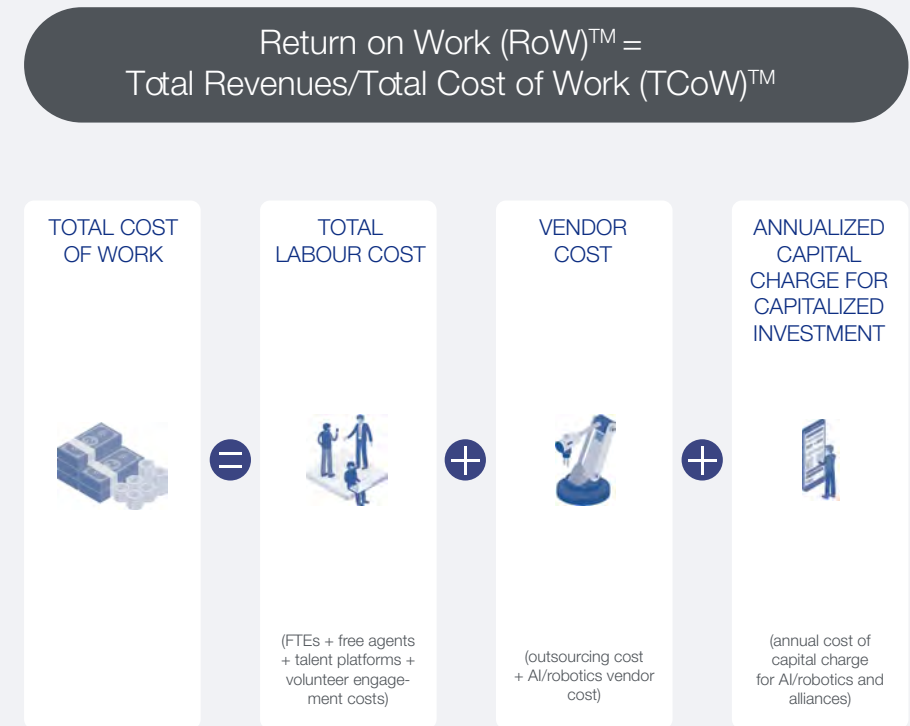


Figure 3 — Total cost of work and return on work — Source: Willis Towers Watson

As noted previously, it is essential that the workforce be viewed as an asset rather than as an expense or liability, with investments in the workforce (such as learning and development) being captured and reflected in the overall change in workforce value. There is a relevant precedent for this view when we consider how we account for natural resources. The total workforce value metric illustrated below would reflect the market price of all human talent (employees and non-employees) engaged in the business, adjusted for investments in the workforce, such as talent acquisition and development, or changes in workforce engagement or impairment of skills.

While it might be challenging to have a measure of total workforce value appear as a line item on the balance sheet, it would be relatively straightforward for any organization to provide this information in the supplementary disclosure of its annual report so that investors and other stakeholders have a more accurate picture of the true value created by the company. Similar to TCoW™ and RoW™, the data underpinning this metric should be relatively accessible, with perhaps the exception of measurements related to impaired/redundant skills. However, total workforce value has the benefit of having all of its data elements fall within the purview of one function: HR.

The data can also be supplemented with innovative sources, such as publicly available opinions on sites such as Glassdoor or LinkedIn data to augment and benchmark all-staff survey data to determine decreases in workforce engagement.

As we noted with TCoW™ and RoW™, tracking, reporting and aligning this metric to how company performance is measured, executives are compensated and board oversight is exercised will be essential, particularly if we are serious about treating human capital as an asset.

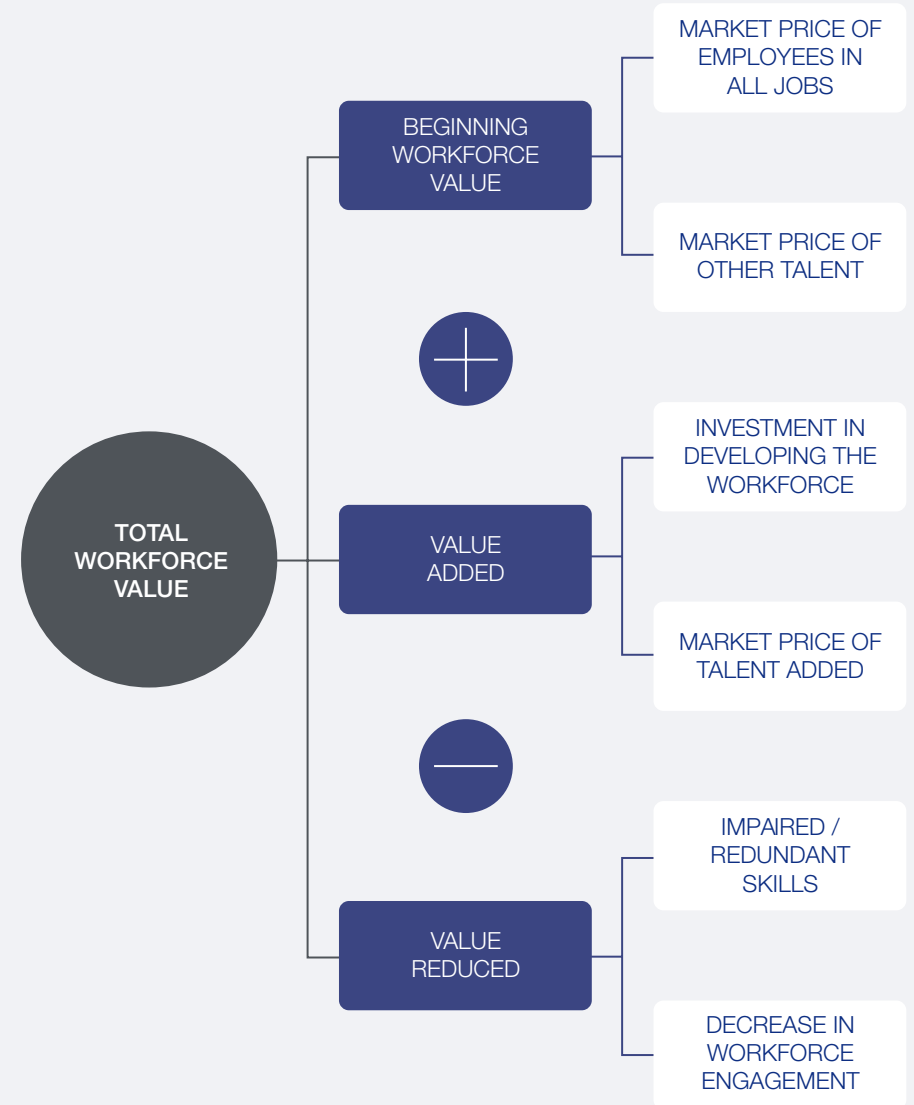


Figure 4 — Total workforce value — Source: Willis Towers Watson

Incorporating the framework into business decision-making

How chief human resources officers (CHROs) and boards can mainstream this framework in order to shape companies' approach to human capital in the post-COVID economic recovery

Modern-day management systems and governance processes are predicated on frequent management and financial reporting, where management often must choose between satisfying shareholders and creating value for stakeholders and their workforce. Although job cuts can help manage profitability over the short term, they have serious implications not just for the well-being of the people laid off and the broader community, but also for the business. Important know-how is lost, and future rehiring, onboarding and training of employees can be time-consuming and can ultimately create downward pressure on overall productivity. Furthermore, in an increasingly socially and ethically conscious world, the brand could be harmed for consumers and an enterprise's standing as an employer of choice could be jeopardized, putting the company in a less favourable position to rehire when demand returns. Workforce decisions during the COVID-19 crisis will have long-term effects on an enterprise.

To create systemic change, immediate management key performance indicators (KPIs) should be reviewed to balance the human and financial implications of the handling of the crisis and of other major business decisions, tending to corporate financial health and demonstrating leadership, commitment and alignment with employees, customers, supply-chain partners, broader society and environment. KPIs should then evolve to incentivize a sustainable reset of workforce models needed to prepare the company for the future, including: employee health and well-being; work redesign; Return on Work; skills for the future; digital enablement; quality of employee experience; and diversity and inclusion.

This level of change will require a huge mindset shift on the part of shareholders and management; however, the timing is favourable. The devastating labour-market impact of the pandemic and the need for governments to step in and provide extensive support have made it clear that a financially incentivized business model driven by short-term wins no longer works; public and media focus on how companies manage their human capital resources is intensifying.

**INCORPORATING THE
FRAMEWORK INTO BUSINESS
DECISION-MAKING**

At the same time, chief human resources officers have become even more influential in business decision-making as a result of the crisis, given that in a pandemic companies' workforce approach has been pivotal to the business response. As The Economist noted early in the crisis, "in a pandemic, a chief people officer can make or break a company". CHROs have typically been on the core crisis response leadership team. This consolidates the growing role that they have taken in the C-suite in recent years as the importance that companies attach to their people strategies has grown, and it offers a good opportunity to bring relevant human capital metrics to the table. These can be deployed to help govern and measure business performance and can serve as a basis for incentive programmes. Enterprises, boards, CHROs and other supporters of human capital accounting need to ride the momentum of the crisis and communicate incentive changes along with risks and rewards to shareholders and key stakeholders

Had more companies made more human-centric decisions during the pandemic using a framework for human capital accounting such as the one proposed, their actions would have combined to deliver better social, economic and business outcomes. The rise in unemployment would have been smaller, governments would not have needed to provide such significant incentives to encourage companies not to lay off staff, the costs for the public sector and taxpayer would have been reduced and consumer spending would have experienced less of a hit, in turn benefitting companies' revenues. The principles-based accounting framework for human capital set out in this paper can serve as a guidepost for companies to create value for the business. We hope that human capital accounting will gain the same prominence as financial, physical and intellectual capital accounting. Once companies incorporate such frameworks into their enterprise-wide decision-making, they will be better equipped to do what is right for employees and society as well as business and move human capital to the asset side of the balance sheet.



For policy-makers, this means, among other things:

- Transforming accounting principles so investments in the workforce are not penalized but are instead recognized as a source of value creation
- Creating a level playing field of equal protection for all workers, regardless of their employment status (full-time employees, part-time employees, independent contractors, gig workers, etc.)
- Providing incentives, reporting requirements and favourable tax treatment for prioritizing human capital considerations and investments that enhance workforce value (e.g. training)

For CHROs, this means, among other things:

- Actively using, socializing and promoting the proposed metrics to shape HR and leadership decision-making
- Expanding HR's remit from being a steward of employment to being a steward of work by enabling the organization to achieve the optimal combinations of talent and technology in order to achieve a sustainable employee experience
- Advancing the reskilling agenda with a clear understanding and quantification of the various drivers of "work readiness", effectively matching changing work requirements to the skills and capabilities required of the workforce and the specific development options available to close identified skill/capability gaps
- Transforming the employee experience to ensure it aligns with the drivers of high performance, as described in this report, and the organization's broader social responsibility goals
- Aligning culture to principled workforce management, and defining, equipping and incentivizing desired behaviours across stakeholder groups (leaders, managers, employees)

For boards, this means, among other things:

- Ensuring that reported metrics include human capital in order to hold executives accountable and accurately communicate risks and rewards to shareholders
- Actively monitoring human capital programmes and management's progress against agreed-upon metrics
- Having stronger oversight of the company's human capital strategies, talent management practices and employee well-being, and making human capital a board agenda item (i.e. not just leaving it to management)
- Expanding the remits of compensation committees to include human capital governance, talent management and succession planning, and organizational development
- Becoming custodians of corporate culture and setting the tone for a human-centric culture in the organization - by placing the right people in the right jobs and by determining what performance is valued and which behaviours are rewarded
- Ensuring greater prominence of sustainable human capital performance measures in executive compensation plans
- Appointing non-executive directors with specialist human capital experience, similar to how boards view audit and legal experience as specialist skills

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