EVALUATING HUMAN CAPITAL PROJECTS

IMPROVE, PROVE, PREDICT

JANE MASSY
AND JEREMY HARRISON

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EVALUATING HUMAN CAPITAL PROJECTS

How can we be sure that all those projects, programmes and activities that depend for their quality, efficiency and effectiveness on people's performance have met their objectives?

How can we improve the ways in which these projects, programmes and activities are planned so that realistic and useful measurement of their outcomes and value for money becomes possible?

How can we produce from these evaluations data of the quality and a standard required to drive future improvement?

Evaluating Human Capital Projects addresses these issues for professionals in the private, the public and the not-for-profit sectors. It shows them how to plan and track their investments with the professionalism and discipline widely applied to other capital investments. It is also written as a sourcebook for both professional and Master's-level students in business, health and a wide range of socio-economic disciplines.

It addresses effective planning, stakeholder engagement, result-tracking, and the identification and removal of barriers to good performance. It provides ideas, theoretical background, extensive references to practice and analysis from the authors' extensive experience or planning, collection of data, analysis of data and attribution, and reporting to drive future improvement.

It is intended to raise the bar on the professionalism with which human capital investments are planned and measured.

Jane Massy is the Founder Director and CEO of abdi Ltd.

Jeremy Harrison is a Director of abdi Ltd.

FOREWORD

This book is for all those who are concerned to do a better job of planning projects, programmes and any activities which depend for their success on the buy-in, capability and good behaviour and practice of people. People may work independently, in pairs or in teams. They may be colleagues responsible for the main actions in an activity. Or they may be important stakeholders – colleagues or not – whose activities (or sometimes deliberate inactivity) are vital to good conduct and success.

So it is both for professional planners and managers, and for evaluators.

In fact, one of the strong messages from the book is that, at work, we all need to be better at ensuring that the things we do are linked to the most important objectives of our organisations; that they are driven by demand; that we have set realistic and measurable objectives; and that we take the time and the trouble to collect just enough data against these objectives to find out whether our activities have been of benefit, and if so (or if not), why that was so.

We both took our first steps in this active evaluation with Jack Phillips in the United States. We are always grateful to him and to Patti Phillips for introducing us to this powerful approach, and then for the support they gave us in our early years. In recent years we have added a great deal to that initial learning, and we are still adding.

We have consolidated what we know into a fully accredited (Pearson) ladder of professional learning and a 60-credit post-graduate certificate (University of Derby). Our approach is also accredited by the Singapore Institute of Adult Learning. It is mapped by Napier University against Scottish Vocational Qualifications.

This sourcebook for our approach has been developed from all of this experience, much of it drawn from teaching more than 1,600 business professionals from all over the world, and much of it drawn from our consultancy work – again worldwide. We thank all of these past and present colleagues for their support.

Closer to home, the book would not have been produced but for our colleagues in our business, abdi Ltd. We need to give special mention to some of them.

Deneise Dadd, whose PhD at the Open University we have been delighted to support, has drafted all of the case study extracts and has produced all of our references to research and practice, as well as the glossary and index.

Lianping Dong (Kay) and Hassan Mourtada have turned all of our sketches and ideas into graphics.

Diane Arnott, Arman Baroyan, Sandeep Joshi and our chair, Sally James, have provided encouragement and support when we've needed it.

Our colleagues at Routledge saw the point of it all, and were very patient.

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THE QUEST FOR VALUE

There is growing agreement in organisations of all types and sizes that the cost and the value of human capital effort and achievement must be better tracked and reported. The demand to understand impact and value for money is intensifying. This can be met only by better planning and by rigorous and consistent evaluation. Human capital is reported as a cost rather than as an asset, in spite of claims that 'people are our greatest asset'. Too often, ambiguity about the benefit of investing in people leads to a black hole of accountability in which large sums of money get lost. This results in a cycle of ignorance about the outcomes of this expenditure, and a failure of accountability for the consequences. It is urgent to improve the way in which organisations align spend on human capital with their key priorities and objectives. But there are no magic bullets or quick fixes. The only way to measure the impact and value of human capital is through disciplined planning, rigorous tracking and objective reporting of robustly tested outcomes.

'Soft' activities, hard money

You are a manager and one of your team comes to you for approval for £20,000 worth of new equipment. Would the conversation go something like this (Figure 1.1)?

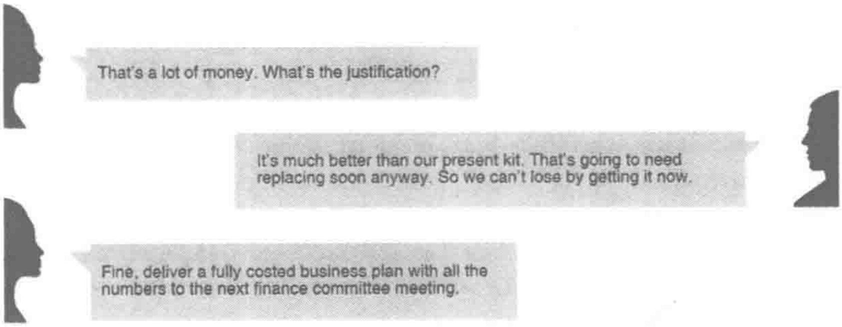

FIGURE 1.1

It almost certainly would. But what if the request were for some training (Figure 1.2)?

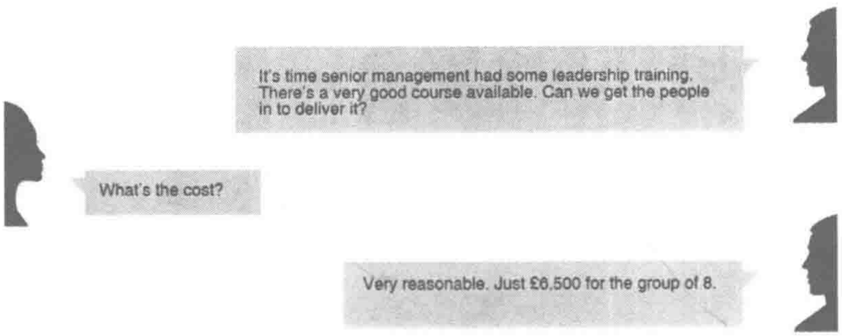

FIGURE 1.2

Stop here. Would this be your response (Figure 1.3)?

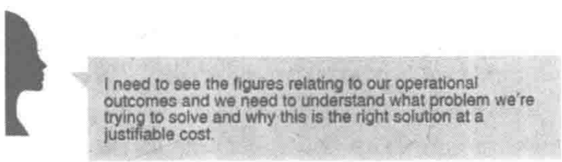

FIGURE 1.3

Or this (Figure 1.4)?

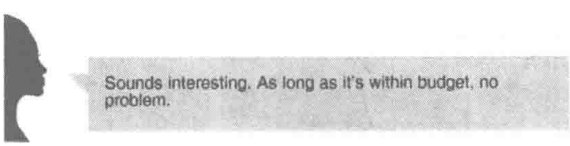

FIGURE 1.4

Why?

Experience suggests that many, perhaps most, managers will apply different standards to approving human capital initiatives than those they would apply to equipment. Most managers would also fail to spot that the real cost of the two is likely to be much the same. The human capital initiative may, in the end, be the more expensive. The indirect costs of human-intensive activities like training – the price of time committed by those being developed, and all the other 'hidden' but very real costs – are often at least *three times* the direct costs, and can even go as high as *ten times* the total of those costs.

So the real cost of both of these investments is likely to be virtually the same: £20,000 for the equipment, and at least £19,500 for the leadership development.

Why do so many experienced people bring a different set of attitudes to human effort than to what they consider common good practice when they consider physical things like plant and equipment?

Is it because it is commonly held to be much more difficult to measure the 'soft' outcomes of human effort than it is to measure the 'hard' impact of a piece of equipment? We think so. As a result, they avoid trying to do it.

But this is changing. There is growing agreement in the private, the public and the not-for-profit sectors that the cost and the value of human effort and achievement need to be better measured and reported. Demand from governments, donors, sponsors and shareholders to show value is intensifying.

Alongside the drive to show value comes the focus on aligning 'people' investments with business priorities (or key performance indicators, KPIs) using the same rigorous standards as organisations routinely apply to other important investments. In general, organisations find this very difficult.

In this book we examine the issues raised by these demands for more rigorous and credible evaluation. We show how it can be done. We also show how good evaluation stimulates a virtuous cycle of better planning, consistent performance improvement and better quality.

Three decades ago 'quality' was measured at the end of the production line. If a product came off a line faulty, it was rejected. Now the focus on quality has moved to the beginning of the line. We expect smarter planning and implementation. We look for quality indicators to prevent faults, and to provide the basis for continuous improvement. Lean management systems develop these concepts of quality further by placing business process under the microscope to identify ways to deliver quality and to achieve improvements in efficiency and effectiveness.

As we write this book, a further key shift is occurring: the growth of analytics (some driven by big data) applied to all human capital investments. All of this should be leading to a transformation in the culture and practice of human capital planning, monitoring and evaluation. Why are we not seeing the results we expect? Part of the answer has to be that too many organisations are ignoring the evidence that collecting, reviewing and carefully analysing data about performance, rather than simply exchanging descriptions and anecdotes about it, leads to better planning, better decisions and improved results.

Human capital: asset or cost?

Can we explain why so few organisations – governments, public sector bodies, large companies, not-for-profits, small firms and local organisations – have developed coherent ways of showing links between the resource they spend on their people and the impact outcomes they achieve?

Language is important. It is significant that whilst people and their endeavours are widely described as human *capital*, they never figure on any balance sheet. In fact, standard accountancy practice shows human endeavour, time and activities as a *cost*. This is particularly ironic, given that so many senior managers (including HR managers) regularly talk about people as their 'greatest asset'. Does it mean that they do not really see their expenditure on these people and their development as 'investment'?

This has two obvious consequences:

- They are left with no means of showing the impact that comes from 'people' investments – education and training, change and reform initiatives, policy, process and structural change, leadership and coaching and changes in incentives and rewards.
- They are unable to demonstrate the role their people have played in achieving (or failing to achieve) key organisational targets and priorities.

These issues hamper the entire process of change management and place limitations on its benefits. The success rates of change management projects are modest. John P. Kotter of Harvard Business School has put the failure rate at above 70 per cent. He cites eight common errors that cause change initiatives to fail:

1. allowing too much complacency
2. failing to create a sufficiently powerful guiding coalition
3. underestimating the power of vision
4. under-communicating the vision
5. permitting obstacles to block the new vision
6. failing to create short-term wins
7. declaring victory too soon
8. neglecting to anchor changes firmly in the corporate culture.

Kotter's influential thinking here closely mirrors and supports the thinking behind our approach to impact planning, monitoring and evaluation. Readers of this book will see a response to Kotter's eight errors in the principles and processes we use.

The enormous sums that fall into this black hole of accountability

The UK government spends in all around £2 billion a day. A very high proportion of that, leaving aside the amount spent servicing debt, is spending where human activity is the crucial determinant of success or failure.

Across the world, governments and private sector organisations spend billions of pounds, euros, dollars, rupees each day on projects and programmes that cannot run or succeed without trained, organised human effort. Men and women acquire knowledge and skills, find and analyse information and data, make plans, organise and re-organise and report on progress. Processes and structures, all aimed at achieving the objectives of teams and organisations, are planned, developed, implemented and become the subject of reports.

The Inquiry into Future Lifelong Learning (IFLL), conducted in the UK by the National Institute of Adult Continuing Education (NIACE), estimated that in 2010 some 3.9 per cent of GDP (£55 billion) was spent on post-compulsory education and training. This includes spending from private, public, voluntary and community sectors, as well as by individuals.

This is an estimate, but likely to be realistic. To put it into context, the learning and development budget for a single healthcare region alone (one of the larger of the former strategic health authorities in the United Kingdom) in 2010 was around £500 million, and for the NHS in England as a whole some £4.5 billion. This includes medical and dental education and training, as well as mandatory training and continuing professional development (CPD).

But even these massive figures do not include indirect costs, the greatest of which are the cost to organisations of the time that their people spend in initiatives such as change teams, training, away days, conferences, coaching etc. This omission results in true costs being typically understated by a factor of rarely less than three, and sometimes as much as ten.

These are huge sums of money. And how many of the courses, projects, programmes and initiatives on which they are spent are accounted for in a way that affords a credible account of the value for money that they provide?

The answer is very, very few: fewer than 1 per cent for sure.

A cycle of ignorance

This sustains a self-perpetuating cycle of ignorance in respect of which we need to highlight four key messages.

1. This consistent failure to measure and report the outcomes of human capital expenditure is a failure of accountability.
2. If individual investments are not justified by specific impact outcome targets, then collectively there is no clear way of confirming that they have been aligned with key organisational targets and priorities.
3. One of the key purposes of evaluation in operational settings is to apply immediately the lessons from robust outcome data so as to drive improved behaviour, task performance and changes in practices.
4. Sufficient performance data, systematically collected and analysed, provides a way of avoiding a cycle of operational ignorance characterised by vague objectives, unfocused activities and plans that are based more on guesswork and assertion than on attested experience.

A failure of accountability

One of the first things we do when people begin to learn our approach to planning, measuring and evaluating is to get them to list their key responsibilities, and also the things that they are held accountable for. Responses can vary a lot (Figure 1.5).

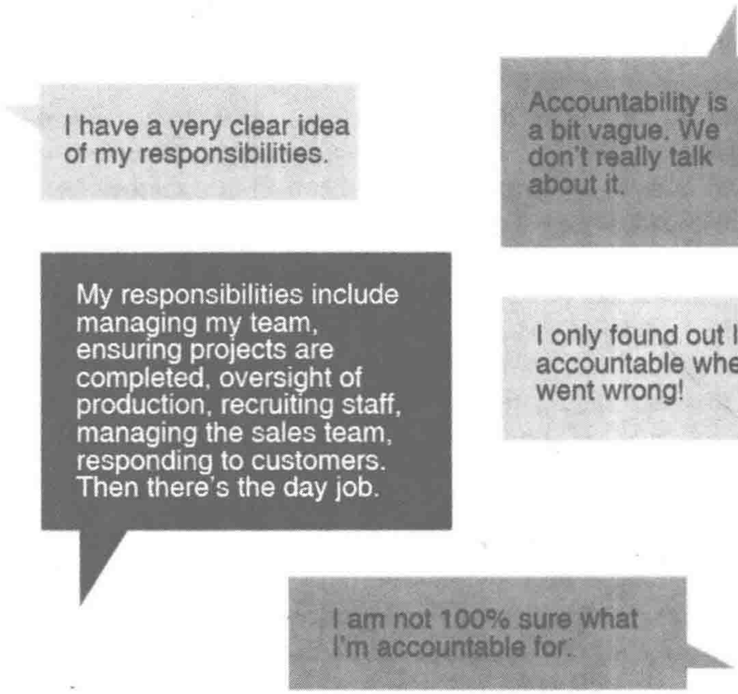

FIGURE 1.5

In part, this lack of clarity about responsibility (where the buck starts) and accountability (where the buck stops) is a reflection of poor discipline in objective setting and project planning. In fact, most of our participants can list the main work activities for which they are responsible, although it is often the case that most refer to tasks rather than to management of the performance of their people. Approximately 90 per cent find it difficult, if not impossible, to state clearly what exactly they are accountable for.

This starts at the top, and its effects are felt everywhere. It may result in indifferent or average practice. Its consequences are likely to be a poor record of improvement, uncertainty about what is expected, disengagement and, at worst, a damaging culture of blame.

Accountability in organisations begins with the leaders. They must be the drivers of improvements in planning, measurement and reporting human capital investments and their outcomes. Senior managers are not suddenly going to become experts in the measurement of human capital initiatives, but they do need to supply the impulsion and resources to ensure that rigorous measurement takes place. They will never do this until they make each major item of human capital spend stand up to three questions.

1. 'Does this plan link with our most important organisational priorities and objectives?'
2. 'Do we know what its full cost will be to the organisation – direct and indirect?'