CIPD

Championing better work and working lives

THE INTANGIBLE WORKFORCE

Investor perspectives on workforce data

Report

March 2019

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 150,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Report

The intangible workforce: investor perspectives on workforce data

Contents

Acknowledgements

This report was written by Dr Achim Krausert, Associate Professor at Warwick Business School; Professor Clint Chadwick, Professor of Strategy and Human Resources Management at University of Kansas School of Business; Edward Houghton, CIPD Head of Research and Thought Leadership; and Louisa Baczor, CIPD Research Adviser.

1
2
3
4
5
6
7
8
9

1 Foreword

CIPD's new research comes at an opportune time. Expectations regarding transparency and outcomes are evolving on several fronts, most notably in the context of the recently revised UK Corporate Governance Code and the upcoming changes to the Stewardship Code. These regulatory amendments are sending a clear signal that consideration of the workforce is a keystone for both companies and investors seeking to deliver good governance and social purpose. Alongside this, calls from civil society and worker organisations for action to deliver on the promise of decent jobs are only getting louder. To respond meaningfully to these expectations requires access to better data. As CIPD highlights in this report, there is a huge opportunity here for the human resources profession to fill the gap and help shape the response to these demands.

I am pleased to be able to introduce this new research, which puts a small sample of investor motivations under the microscope. This research is of interest not least because it examines some of the similar aspirations and viewpoints that ShareAction has also encountered during the development of the Workforce Disclosure Initiative (WDI). A key driver of the WDI is that investors are looking for insights into what good workforce practice looks like, where the challenges lie, and how to incentivize better performance. These investors understand that workforce issues can be a major determinant of company success and value creation for shareholders, not just in the long-term but also over shorter horizons. They want to understand what the baselines are and how their engagement can help to move things in the right direction, both for positive social and financial outcomes. But they are acutely aware that without access to a breadth of credible and comparable data then their ambition will fall short. These factors underpin the WDI's existence. We also recognise that investors still have much ground to make up in applying the available data more systematically in their decision-making and pricing. They are aware of this too, which is partly why so many of them are joining forces and collaborating to request consistent, comparable workforce data from companies though the WDI.

There is an interesting theme in CIPD's research around the opportunity for companies to manage the narrative – and the data points – that investors take into consideration. Attention to these insights should benefit business too. I have attended meetings where senior HR professionals have said they would love to be able to access the kind of data points that investors are requesting, but that they just do not have them. Whether the gap is with internal systems, resource allocation, or prioritization, what CIPD's research points to is that these issues need to be addressed, urgently. The desire for more workforce information is not likely to diminish. Therefore, both the investment and business communities need to work together to drive improvements – not least as both sides can benefit significantly from the sort of data-driven decision-making that thorough measurement and transparent workforce reporting make possible.

Clare Richards, Good Work Programme Manager, ShareAction

2 Introduction

The context: growing interest in the quality of work and workforce practices

The quality of work in the UK, and what can be done to improve it, has long been an area of research and debate – but has only recently surfaced as an issue of real policy interest. In 2016 the prime minister commissioned an independent review, led by Matthew Taylor, to consider the changing nature of work in the UK economy. The findings of this work, known as the *Taylor Review of Modern Working Practices* (BEIS 2017), noted the importance of creating fair and decent work, particularly in the context of rapid change associated with new technology and innovative business models, and various emerging risks associated with atypical forms of work. In its response to this work, the UK Government highlights that the overarching ambition for the UK economy is one in which work is *'fair and decent with realistic scope of development and fulfilment'* (HM Government 2018). These outcomes are commonly described as 'Good Work' outcomes and continue to be considered of critical importance to policy-makers and businesses alike.

In light of this growing interest, the CIPD has developed an evidence-based understanding of Good Work by launching the first comprehensive measure of job quality in the UK. *UK Working Lives* provides a snapshot of job quality across a set of key dimensions and, in 2018, found that across the UK, there are several key job quality measures that need to be addressed: issues relating to work–life balance, and the nature and design of jobs (CIPD 2018). The issues highlighted in *UK Working Lives* are not only issues for businesses and their employees. External stakeholders, such as investors, are increasingly interested in concepts relating to the quality of work – and Good Work in particular (ShareAction 2017). Understanding Good Work requires not only an understanding of job quality, but a deeper appreciation of the barriers to creating Good Work. The CIPD believes that one of these key barriers is the quality of governance and leadership in the UK.

> *Numerous high-profile cases of business malpractice have highlighted the reputational and financial risks presented by poor governance.*

Improving corporate governance is one means of encouraging organisations to understand the value of the workforce and the risks associated with poor management, thereby helping to create better work outcomes and sustainable business performance. Numerous high-profile cases of business malpractice have highlighted the reputational and financial risks presented by poor governance. In recognition of this, the Department for Business, Energy and Industrial Strategy (BEIS 2017) proposed corporate governance reforms with the aim of strengthening stakeholder representation in corporate structures. As part of this, more emphasis was placed on the role of directors as part of the Corporate Governance Code, in delivering value to multiple stakeholders, and the role of investors as stewards of organisations in enabling both financial and non-financial outcomes for organisations. More weight is being placed on the role of investors in helping to tackle governance and leadership issues in organisations.

The rising interest of investors in workforce issues

This recognition highlights an important point: investors can play a critical role in helping companies address workforce-related issues by seeking information on companies'

1
2
3
4
5
6
7
8
9

employment models and working practices (Investment Association 2018). The Financial Reporting Council (FRC), through its 'Lab', has explored the quality of performance measures to understand whether the way companies report on their performance meets investor needs. Their initial findings (consistent with the CIPD's literature review, 2017a) indicate that investors are keen to receive measures of management quality, but require little insight on other facets of human capital (Financial Reporting Lab 2018). It has been claimed anecdotally that investors have become more interested in information related to human capital (the knowledge, skills and abilities of an organisation's workforce), since this can influence an organisation's competitive advantage and potential for growth (CIPD 2017a). However, the intangible nature of human capital means that it is difficult for investors to understand exactly how people create value for organisations. Not coincidentally, while workplace technology and analytics are providing more data on the workforce, inconsistent measures and reporting are preventing this information from being used effectively by organisations and their primary stakeholders (CIPD 2017b).

The intangible nature of human capital means that it is difficult for investors to understand exactly how people create value for organisations.

Various actors are now exerting pressure on organisations to change how they report and to demonstrate how they're encouraging better working practices, as well as delivering value to their stakeholders. One such programme is the Workforce Disclosure Initiative (WDI), a coalition of organisations and investors launched in 2017 to request comparable workforce information from listed companies, co-ordinated by responsible investment charity ShareAction. Over 120 investors support this initiative to push for transparency on how multinational companies are managing their workers, with the goal of improving the quality of jobs in companies' operations and supply chains. The WDI's 2017 pilot year resulted in 45% of the targeted companies disclosing data – providing investors with information on recruitment and people development practices (ShareAction 2018).

The role of the people profession

CIPD research has shown that people professionals in large organisations are often the custodians of data sets which may be of significant value to those stakeholders looking to understand the performance and impact of the business (CIPD 2018). For example, the people analytics function is often collecting and analysing data relating to various parts of people practice, including:

- health and well-being, including mental health and stress
- skills and capabilities
- diversity and inclusion
- pay and rewards.

This data, along with many other indicators, is often used to demonstrate progress on HR key performance indicators to senior leaders. This often takes the form of benchmarks and balanced scorecards.

It has been argued that HR leaders and people professionals have a key role to play in helping investors understand both the value of the workforce and people-related risk through the collection and reporting of data (Krausert 2016, 2018). To help uncover how people add value in organisations and inform better business decision-making, the CIPD's new professional standards include 'analytics and creating value' as a core knowledge area for all people professionals. This will be particularly important in the context of uncertainty and potential workforce risks arising from Brexit and new workplace reforms.

Purpose and aims of the research

To date, little research has explored how investors view human capital information and use it to inform their investment decisions. In the first stage of our project with Warwick Business School and the University of Kansas, our literature review found that investors are interested in HR data that provides an indication of long-term risks and opportunities to the organisation (CIPD 2017a). While our work to date has demonstrated the opportunities for people professionals to help investors understand the value and contribution of the workforce, it has also highlighted issues with people data and biases which prevent investors' use of the information in their decision-making. There are also differences in investors' interest in and use of people data depending on sector, organisational factors and type of investor.

The purpose of the current report is to provide qualitative research evidence of investors' perceptions of human capital information, and how they use it to inform their decisions. We aim to better understand how HR leaders can help boards and investors to consider the workforce in their strategic decision-making, in order to drive more ethical organisational cultures and long-term business sustainability.

Methodology

To explore how different types of investor view and use people data, we conducted a combination of face-to-face and telephone interviews with 13 individuals who work in an investment role. The sample was accessed through the CIPD's network and YouGov's online panel. The interviews were conducted between February and July 2018 by members of the research team and YouGov.

More information about the methodology and details of research participants can be found in the Appendix.

3 Findings

Based on thematic analysis of our interviews, we have identified themes in relation to each of our six broad question areas. In the following, we describe the themes by question area: (1) why are investors using human capital information; (2) how often is human capital information used to inform investor decisions; (3) which information is being used by investors; (4) where does workforce information sit in the investor decision-making process; (5) where are investors finding the information they incorporate into their analyses; (6) barriers and areas of improvement for workforce reporting. The terms human capital information, workforce information and workforce data are used interchangeably.

Why are investors using human capital information?

With respect to the first question – 'Why are investors using human capital information?' – five broad uses of data were identified: evaluating risk, forecasting long-term performance, evaluating the business model, reinforcing views of management and forming an engagement hypothesis. See Table 1.

Table 1: Uses of human capital information

Evaluating risk	Investors use various statistical and qualitative analyses to assess and quantify the risk associated with their investments. Risk – or the expected variability of future earnings streams – is important in understanding the return from investments investors should expect. Human capital information may shed light on earnings risks related to workforces.
Forecasting long-term performance	It is important for investors to understand the short- and long-term potential of their investments. Human capital data can be used to help build forecasts of returns over the long term.
Evaluating the business model	Business models describe the structure, purpose and strategy of a business to deliver value to its stakeholders. Human capital data can be used to understand whether the business model that has been applied is appropriate and being effectively executed.
Reinforcing views of management	Human capital data can also be used to inform and further reinforce investor opinions of management. The use of human capital data in this way, along with other forms of information, help to paint a clearer picture of the quality of management in the organisation.
Forming an engagement hypothesis	Where investors get actively involved with the management of firms they invest in, they may use human capital information to develop their strategy for engaging with the firms they are invested in.

Workforce information may be used to evaluate earnings risks – this was mentioned by three of the interviewees. For example, Director 3 stated that it played a role in *'fine-tuning the discount rate [in discounted cash flow analyses]'* and evaluating *'how well protected the revenues are'*. More specifically, he talked about the use of workforce demographic data to forecast potential future staffing problems, which can cause *'a flashing of red lights'*. Directors 1 and 2 both stated that their assessments of management quality, directors and other aspects of HC management influenced their risk assessment and/or willingness to make investments that would otherwise be considered risky.

Second, HC data plays a role in forecasting longer-term performance (mentioned by three of our interviewees). For example, Director 4 described how they used information on past management performance as well as information on past workforce growth to forecast future performance trends:

> *'[We] take the track record of management into account and project it forward [...] looking at the medium to long term.'*
>
> *'[We look at] the skill progression [of the workforce] over the last five years [...] how the workforce has grown [...] and then project that forward.'*

In a related vein, Fund Manager 5 emphasised the importance of workforce data in making future performance forecasts, particularly when making longer-term investments in firms at an early lifecycle stage, before they become profitable:

> *'[We are] less interested in what is done and more interested in the validity of future forecasting and the degree to which there is a realistic revenue forecast.'*

When it comes to forecasting future earnings growth, Fund Manager 3 stated that they also take into account board diversity as a factor *'conducive to delivering long-term value creation for shareholders'*.

Investors noted how they are using information to understand the business model in greater detail. Buy-side Analyst 1 mentioned that they are using workforce data to evaluate the business model and current position of the company, including information about the human capital deployment and organisation structure and strategy:

> *'[Subjective and anecdotal human capital data] inform our view of where the company is currently situated [...] how certain parts of strategy are being executed [...] particularly when it's going through restructurings.'*

We found that investors used human capital information to understand more about the quality of management at the leadership level in the organisation. Workforce data appeared to act as a signal: when positive, it reinforced the view that management quality was strong, and when negative, it highlighted a weakness in the quality of management:

> *'It tends to be more a case of reinforcing our view of management quality when we see that the workforce is managed well. Or, potentially, when it's not managed well, that erodes our view of management quality.'* (Fund Manager 4)

> *'If a company treats its employees well and it's a well-run company, it will reflect better upon the management and the general overall structure of the business. [...] If a company treats its employees badly, it's likely bad in other areas.'* (Director 4)

Finally, investors exercising active influence over the management of their investment targets stated that workforce data also plays a role in the development of an engagement hypothesis (for example, helping to map out the questions investors would ask the executive team).

Roles in the investor community

In Table 2 we include some quotes from our interviews to further illustrate the different roles and how they relate to HC data.

Table 2: Investor roles

Role	Description	How they use HC data
Sell-side and buy-side analysts	Sell-side analysts are employed by investment banks and brokerage houses, conducting research on potential investment targets and publishing reports making investment recommendations.	*'[Sell-side analysts] have very long, very close relationships with the company. They will attend events and meetings with boards. [...] And then they would [know] an awful lot about the company's operations. And they would [...] be able to explain to the likes of me [in his former role as buy-side analyst] exactly what a company does.'* (Fund Manager 1)
	Buy-side analysts are employed by investment firms, making investment recommendations to fund managers, based on their own research as well as reports of sell-side analysts.	*'The standard stockbroker analysts [that is, sell-side analysts] who produce, you know, buy or sell notes, they take account of human capital as well, to varying degrees. They tend to talk to management directly, in-depth. So they do tend to have a bit more in-depth information, but only sometimes, not always.'* (Sole Trader)
Fund manager	Employee of an investment firm who is responsible for an investment fund, making investment decisions (using information supplied to them by analysts).	*'[In my current role as fund manager, I] get more in among the weeds in analysing the company's data [...] only infrequently. It's not a core part of my job.'* (Fund Manager 1)
Trader	Traders are short-term investors, buying and selling high volumes of stock within a short period of time (for example, less than a day, using electronic trading tools).	*'As an opportunistic trader, I really don't think that the [human] capital element is particularly important, because all you're really doing is focusing on the short-term fluctuations with the share price. For longer-term value investments, I do think it is more important.'* (Sole Trader)

1
2
3
4
5
6
7
8
9

We were not able to access any sell-side analysts for our interviews, constituting a limitation of our study. It is all the more noteworthy that, overall, our interviews revealed an overall growing interest in HC data in the investment community. Given we did not talk to the actors deemed most likely to use HC data, our findings can be considered conservative estimates of the extent to which HC data is of interest in the investment community.

How often is human capital information used to inform investor decisions?
Interviews were mixed with regards to how often people data is used to inform decision-making and we found no consistent trend regarding the use of human capital information, with the exception of a consistent concern with management quality.

Some of the investors we interviewed observed that the potential value of some types of human capital information is now playing a bigger part in their firm valuations and investment decisions. For example, one interviewee stated that HC information is increasingly influencing decisions of fund managers (while previously, the data may have been available to analysts but not used):

> *'For the fund managers, HC information is being brought in more and more. The analysts probably had it there, didn't make use of it. They are making a lot more use, but we're certainly seeing it coming now to the fund managers a lot more, that they are sitting down, going through the information and finding it really useful when helping to fine-tune their decisions.'* (Director 2)

> *'HC information is extremely valuable because that's the key with what we're getting, it's the bits that are well managed. [...] The view has to be taken on whether that share price is going to go up, which is going to be as a result of the actions of the management of the company.'* (Director 4)

Others emphasised the growing importance of management quality and the influence it can have on the decision-making process. Senior management, particularly the CEO and CFO, were highlighted as key roles for which insights are needed:

> *'Understanding the history of management and what their drivers are is absolutely key. [...] If you don't trust the people running the company, particularly the CEO or CFO, you never make an investment to the long side in the stock.'* (Director 5)

> *'HR-related factors end up influencing decisions 100% of the time. Top management is always the big driver. If they are competent, the issues with the rest of the firm are solvable. If there are potential problems with top management, [...] chances are you've got issues further down the line.'* (Director 3)

Not all the interviewees agreed, however. For example, Fund Manager 4 indicated that other types of intangibles information, such as environmental data, plays a larger role in the valuation process than human capital data:

> *'We use a lot of intangible data. [...] We use a lot of environmental data, I think fairly self-explanatory, to try and inform our view of the resource efficiency of the company. We try and make use as much as possible of some of the HC data.'*

Finally, we also interviewed one investor who found little or no use for human capital data, including management data:

> *'Any headcount data would come a distant second after the balance sheet, income statements, cash flow [...] Any workforce data wouldn't be a key line. It might be something that's interesting and it might give me something to look at, flag potential problems, but it wouldn't be key data that I would feel comfortable making investment*

without […] I'd only go into that kind of detail with their absolutely chief personnel or you'd need particularly skilled or motivated staff. There aren't many businesses that I looked at in detail like that […] A well-managed firm with good business procedures can cope with mediocre management. You know, the best firm's management is not the central thing to the business. It's the market they are in, you know, if you're swimming in a growing market, it's a great deal easier to, sort of, pour resources into that and grow market share and grow profit and everything else.' (Fund Manager 1)

Which information is being used by investors?

Our thematic analysis revealed a wide range of different types of human capital information that is currently being used by investors. That is, most interviewees use some types of human capital information. However, there are few data categories that are used consistently across investors, with the exception of management quality, which most interviewees highlighted. Nevertheless, we have been able to identify five categories of human capital data that were mentioned by several interviewees, including management quality, corporate governance, executive pay, labour-related costs, and employee attraction and retention. See Table 3.

Table 3: Information types being used by investors

Management quality	*'Management quality is absolutely incorporated into the valuation models. There is a line in the model where we attach a score to management quality, and that has a direct modifying impact on the total or the output valuation […] it's also aligned within our ongoing portfolio optimisation process. [This score] is informed by meetings with management and our sense of their own capabilities. […] The inputs into that are huge, and varied, and probably undefinable. They are very qualitative in nature […] a lot of it is informed by management track record. That is, in part, whether they are meeting earnings targets and that sort of thing. That they are communicating to the market. Are they meeting expectations consistently? Are they communicating in a consistent and understandable fashion to the market, so the market understands where they're intending to take the business?'* (Buy-side Analyst 1) *'…a track record of not annoying the market. If you constantly promise and deliver what you promise, you get a good reputation for solid management. To be constantly warning the market that profits aren't what you expected, you will suffer in your share prices. The individuals, their track record, and this is not the company, this is actually individuals. We get to have, obviously, from the […] Companies House searches, but also tracking their employment history, what they bring to the company, and also, we'd always go out and have a meeting with these directors and so on, so you can get a better feel.'* (Fund Manager 1) *'[I] would want to look pretty closely at the quality of the people driving that business if you're going for 100% acquisition, so in other words, you're buying something lock, stock and barrel, that can be less of a problem, because in many cases, you might want to strip out management or replace management with your own team.'* (Fund Manager 2)
Corporate governance	*'Traditional governance criteria that we look for around independent board, and so on, diversity, of sorts, boards that set stretching targets for their executive team, and so on if the board is such that we feel that they're incapable of managing the company and achieving final success because of that corporate structure and that board structure then that will be a line in the sand.'* (Fund Manager 3)
Executive pay	*'[…] the remuneration side of things because, ultimately, it's a financial game. The environment and all that can have a big impact on the way a company's run but, ultimately, if you look at WPP with Martin Sorrell, he was getting paid an astronomical amount of money and he wasn't running the company particularly well, it appears. That could come up as a red flag. You're going, "This guy's getting paid an exorbitant amount of money. Is he worth it?" That's the sort of thing I would expect our managers would look at first.'* (Fund Manager 5)

Continued on next page

1
2
3
4
5
6
7
8
9

Labour-related costs	*'We have a few companies that have been through various headwinds over the past five years, and certainly one company in particular that has over the past three or four years retrenched on its investment in its workforce. That involved the withdrawal of its health insurance benefits. As a result, the productivity went down and turnover went up. Earlier this year, the company announced a £250 million additional investment in its workforce, to reverse those decisions made over previous years. That's one example I think where there's been the culmination of issues that we've been looking at.'* (Buy-side Analyst 1) *'So, for example, recruitment and training expense and what is the impact of the ongoing training in that the, sort of, structure in the context of what the cost face looks like now as opposed to what it might look like in two years' time.'* (Fund Manager 2)
Employee attraction and retention	*'Very quickly, I would typically always look to try and understand the employment model of the company. Who is employed and where are they employed? Clearly attached to that, I would want to try and get a sense of what the skills mix is of the company, and therefore where any skills shortages may come.'* (Buy-side Analyst 1) *'Now if you're talking to the senior team and they tell you, on a qualitative basis, what a splendid business they're running and how well they treat everybody, then you drill down and look at, sort of, analytical data to find the staff turnover rate is 60% a year, then you've got a problem, haven't you?'* (Fund Manager 2) *'I've just been looking at a company that's a high-tech company, just this afternoon, and so one of my immediate concerns is, how are they attracting staff and how are they retaining staff in high-skilled roles? Because we know that there are shortages around engineers and around technology roles.'* (Fund Manager 3)

In addition to specific measures of human capital, we also found investors had interest in broad areas of workforce issues, which are outlined below.

Corporate culture and purpose

Culture is often cited as a key issue in organisations that shapes the ability of the business to create value. Our interviews highlighted that some investors are seeking workforce information that helps them to paint a picture of:

> *'Other things that sometimes are symptomatic of poor structure or poor practice are things like absenteeism statistics, you know, illness statistics and other things, like the instance of disciplinary proceedings, staff complaints and that sort of thing. So, if you're allowed access to more detailed personnel information, you can build a picture really of the organisation culture and the quality of that culture will have some impact on the inherent value of the opportunity.'* (Fund Manager 2)

Director 2 noted that awards, such as Top 100 Company to Work For, were useful, as were the statements organisations made regarding their purpose and mission.

Good work and ethical business practices

We found examples of investors in the environmental, social and governance sphere who appear to look for information regarding the organisations' approach to boardroom diversity, wider workforce diversity and gender-related information, as well as information on health and safety practices and the use of child labour in supply chains:

> *'On the engagement side, […] I think generally we tend to look at diversity on the board first, but also we try to get more information on diversity across the organisation.'* (Buy-side Analyst 1)

> *'It's nice to know gender pay gap splits, ethnicities, also, we get breakdowns of sexual orientations, obviously, to see if it's a diverse company.'* (Director 2)

Others were also interested in data that describes the quality of work (or 'Good Work'), such as working practices and working conditions. One investor noted how they pay attention to the use of atypical contracts:

> *'The main thing that's come up, I would say, recently, on the ethical side, is the zero-hours contract in the UK. [...] The likelihood of an ethical fund manager investing in a company that is using those sort of practices, I would say, is very slim as well.'* (Director 4)

Where does workforce information sit in the investor decision-making process?
In the next part of the interviews, we explored how human capital information is being processed by investors. An overarching finding is, again, that the ways in which it is used varies considerably across investors. While some interviewees recognise human capital information as an input into a holistic judgement process (one based on intuition and insights), others are incorporating data into their firm valuation models.

Data is often thought to:

- inform an *'educated and intuitive approach'* (Director 1)
- be useful when viewed *'in [the] round with all other factors'* (Fund Manager 3)
- be holistic, and never viewed in isolation: *'We don't look at anything in isolation. So all the information that we collate is looked at collectively in the big picture, if you like, rather than isolating things [...]'* (Director 4).

One investment firm is making efforts to quantify and, thus, systematise, their use of workforce data obtained from Glassdoor:

> *'I think the most obvious one would be something like Glassdoor that we alluded to before. I think most analysts here now are aware of Glassdoor, and do make use of Glassdoor as a kind of window into a company. It's been the source of questions asked at management meetings in the past. I think it will probably be done increasingly, so as we develop tools internally to aggregate that data, and be able to better visualise Glassdoor ratings, for example, of individual companies. How they stack up over time and how they stack up against peers.'* (Fund Manager 4)

However, the outputs of such efforts to quantify workforce data would nevertheless still feed into the firm valuation in a holistic, qualitative fashion (as opposed to being incorporated into financial valuation models):

> *'Analysts increasingly use anecdotal or subjective data such as from Glassdoor, which is informing their subjective view of management. [...] [However], models just aren't that granular in nature. Where it is a material issue we may be able to draw a line to it. But I think it would be very rare. There just isn't consistent and reliable data to make that input into a valuation model. Where it is available it tends to be patchy. So it would mean having to create a line within a model just for that individual case.'* (Fund Manager 4)

While this company does not incorporate quantified scores on workforce-related issues in their financial models, they do incorporate quantified scores for management quality.

> *'Management quality is a core input into the valuation [...] a score is ascribed in the first place by the analysts in touch with the company. This score is then peer-reviewed by the entire investment team. Everyone's views and judgements come to play in determining what the final score would be. [...] The primary points at which that investment will be altered or influenced would be when we interact with management or interact with board*

1
2
3
4
5
6
7
8
9

members. Or have some line of sight into something that's happening within the business. We would typically meet with most companies at least annually. So through analyst calls and those one-to-one meetings, that would be the primary assessment.' (Fund Manager 4)

We emphasise that this practice of incorporating a management quality score in the financial model is not used consistently across this investment firm. The practice was described by Fund Manager 4, who is responsible for a fund specialised in smaller mid-cap companies. By contrast, Buy-side Analyst 1, employed by the same investment firm, stated that this is not common practice.

While a larger number of interviewees stated that they process HC data in an intuitive fashion, Fund Manager 4 was not the only interviewee stating they make efforts to quantitatively incorporate HC data into valuation models. Director 4 stated that the track record of the management team factors into their forecasts of future earnings. The same interviewee stated that they are making efforts to also integrate environmental, social and governance (ESG) risks into their models, which, however, is not being done yet:

'We are trying to integrate ESG risks into our DCF [discounted cash flow] calculations. ESG risks would be put into a quantitative scoring system. But that's something we're still working on.'

Finally, Fund Manager 2 stated that they incorporate forecasts of recruitment and training expenses into their financial models.

Where are investors finding the information they incorporate into their analyses?
Previous research has highlighted that there are various sources of information that investors consider when developing their valuation models (see CIPD 2017a). Below we outline some of the key sources that were mentioned by interviewees:

- **Official company communications:** a number of interviewees referred to annual reports, annual accounts, quarterly market briefings and analyst calls as key sources of information. One interviewee noted that sometimes investors deduce or impute HC-related data that is not directly reported by companies based on the data that is being provided in different sections of the annual report:

  'What you get in one part of an annual report compared with what you see in another part, if you combine these two elements, will give you some quite useful, derived information that you can look at.' (Fund Manager 2)

- **One-to-one meetings and individual communications:** some interviewees noted that alongside official channels, they also seek information through calls with press and investor relations teams, as well as meeting separately with management.
- **Sell-side research:** information from brokers was noted as an important source, but one that may be open to bias, and as such should be considered sensitively.
- **Third-party research:** a number of interviewees highlighted third-party research agencies as useful sources of data, including NGOs:

  'There are some really good NGOs that might provide ranking systems if there's a particular risk that they've identified, and they've conducted a piece of research. […] NGOs are a great medium-term barometer for us.' (Fund Manager 3)

Others stated that they use information from Fact Check, the Institute for Fiscal Studies, MSCI Sustainalytics and JP Morgan Research to inform their analyses. Companies House data is used to understand specific information about directors (including CEOs), for example:

1
2
3
4
5
6
7
8
9

'The individuals, their track record, and this is not the company, this is actually individuals. We get to have, obviously, from the Companies House searches, but also tracking their employment history, what they bring to that company and also, we'd always go out and have a meeting with these directors and so on, so you can get a better feel.' (Director 2)

- **Traditional media and social media:** we found examples of investors who look at the business sections of newspapers and other forms of media, traditional and social, to understand aspects of management quality. This is particularly true of those investors interested in the quality of management and leadership:

  'You can find out certain things which they let slip. People say certain things on social media if you go back far enough. [...] If I can find a Facebook profile, or Instagram or Twitter, I'll look for photos. I'll see what they're doing in the photos. I'll see who they're with, I'll see who they're friends with, they're associated with. [...] This will be reported to me by third parties as well.' (Director 1)

- **Glassdoor:** Fund Manager 4 described how their analysts increasingly use Glassdoor as a window into companies. The use of Glassdoor data has become so established in their organisation that they *'develop tools internally to aggregate that data, and be able to better visualise Glassdoor ratings'* (see also quotes in the previous section).

Barriers and areas of improvement for workforce reporting

Our thematic analyses yielded four broad issues that prevent investors from making more use of human capital information: information gaps, comparability of workforce data, the availability of both numerical and narrative information, and the reliability of the data. We elaborate on each of these issues in the following.

Gaps in information

We investigated which types of information investors want to see from organisations but which, at present, are not readily accessible or organisations are simply unable to share. Interviewees mentioned various measures that they consider lacking in current reporting:

- accident rates (Fund Manager 4)
- employment information (*'Who does the company employ? Where does it employ them?'* Fund Manager 4)
- employee turnover (broken down by business segment, Fund Manager 4)
- talent attraction and retention:

  '[...] for a firm that relies on higher qualified professional staff, I would like to see some kind of independent analysis done on which companies are the best at attracting and retaining talent, how they do that and the difference it makes to their business.' (Fund Manager 3)

- diversity information (that is, information describing the makeup of the workforce, Fund Manager 4)
- corporate culture (*'a cross-cutting issue that affects any company anywhere [...] how you go around measuring culture is another matter,'* Fund Manager 3)
- pay and working conditions of low-skilled workers (Fund Manager 3)
- employee productivity and performance:

  'I have found that a lot of HR data does not really seem to take any sense of performance measurement or, you know, when they do performance measurement, it's a bit glib and imprecise, really. Then someone rushes over productivity issues, rather than trying to address inefficiencies.' (Sole Trader)

1
2
3
4
5
6
7
8
9

Fund Manager 3 and Director 1 raised the issue that companies are reluctant to disclose perceived failures:

> *'We're always asking the companies difficult questions that they don't want to answer. [...] This whole area of human capital management has been ridiculously overlooked, unnecessarily overlooked, you know? I think there is a lot of reluctance among companies to be honest about some of the issues that they're facing as organisations.'* (Fund Manager 3)

Comparability of workforce data

Two interviewees specifically raised the issue of limited comparability of data across firms:

> *'Yes, and what we'd really like is the data not just in raw format but in a benchmarked format, issue by issue, depending on the sector.'* (Fund Manager 3)

The opportunity to standardise measures, such as through the recently published ISO Human Capital Reporting Standard, was something that the investors welcomed:

> *'[...] the assumption of a [ISO HC reporting] standard starts to give some confidence in how companies are defining the metric, and obviously then reporting it in a consistent and comparable fashion.'* (Fund Manager 4)

> *'[The lack of comparability of data] starts to erode the confidence in that data or the willingness of analysts to make use of the data.'* (Fund Manager 4)

On a related note, Fund Manager 4 suggested data broken down by business segments would be particularly useful:

> *'So that you are clear as to what part of the business one is talking about, and are therefore able to drill down into individual management practices, individual parts of a business.'* (Fund Manager 4)

Availability of numerical versus narrative information

Another issue is the availability of the right mix of narrative (qualitative) and numerical (quantitative) data. One interviewee reflected that the absence of robust numerical data is having an impact on the use of narrative information, while others called for more narrative information to be reported by organisations, again an inconsistency in perspectives:

> *'There is very limited provision of hard quantitative information, that would give you greater confidence in the qualitative commentary that would be attached to it.'* (Fund Manager 4)

> *'What is it that puts them out there above their peer group? Usually that's a story, a basis behind it, and we don't always get that story, or the companies and their leadership teams aren't very good at bringing that story to us, to be honest.'* (Director 2)

> *'If it's turned into hard data, it becomes just another wiggle factor. What you've got to do is say, look, that data, on which the assumptions and the share price is made, are likely to change. In which direction are they likely to change, and that isn't going to come from numbers, because the numbers generate the current price. You're looking at factors that might influence numbers, and half the time you're right, and half the time you're wrong.'* (Fund Manager 1)

Reliability of workforce information

Generally, interviewees consider the reliability of the human capital information to be relatively low, but recognise variation across different measures:

1
2
3
4
5
6
7
8
9

> *'I think there's on the HC side a dearth of quality information across the board. It's why we, at least with those sources that we do use, give very little credence to many of them, and why we rely so heavily on the judgements that we form through our interactions with management. […] I think, frankly, the information sources that we probably have most confidence in are our own judgements, formed by individual one-to-one meetings with management and their colleagues.'* (Fund Manager 4)

> *'If they're going to put it out in the public domain then they will have had to have done their research on it and had it checked by the company.'* (Fund Manager 3)

> *'I think even that, because [the publicly available reported information] is so typically qualitative in nature, has a lot to be desired.'* (Fund Manager 4)

Social media is considered the lowest level of reliability by one investor, and another highlighted the issue with services such as Glassdoor:

> *'Clearly, Glassdoor I think has at least the credence that it is reviews coming from real people, but obviously, as with all review sites, they're written typically by people who have a very favourable or unfavourable view on the whole. So you need a critical mass of reviews before that starts to really credibly inform any meaningful judgement to be made.'* (Fund Manager 4)

For some investors there is a stark difference in quality between the narrative information being made available in annual reports, and the financial data which is produced:

> *'Financial data is clearly very trusted. Obviously stuff that's in the reporting accounts is audited. […] I think pretty much everything in the front half [of the annual report] clearly is much more open to interpretation. And I think on the social side, probably more than any other area of reporting, the front half of a company's report is particularly open to interpretation and is particularly lacking in credible and robust data.'* (Director 2)

> *'There does tend to be pages within most 10-Ks or reporting accounts describing a company's commitment to its people, and the fact it's got a policy on X, Y and Z. I would be amazed if that was ever acknowledged, or made use of, or given any credit by any analyst, outside of a few ESG research providers, because it tells you obviously very little, if anything, about the actual performance within the business. There's no informational value attached to it.'* (Buy-side Analyst 1)

Investors were, however, able to offer some insights into their strategies for coping with the issues of data quality, reliability and trustworthiness. In particular, one investor noted that workforce data is not used alone, but instead is used to prompt further enquiry into organisation practices:

> *'If some of the [Glassdoor] reviews are looking consistent, and they might be reinforcing a view that they [the analysts] might already have had in the back of their mind, then I think that does pique their interest further for questions to be pursued with management.'* (Director 1)

Finally, a number of interviewees highlighted the issue of materiality when considering workforce issues, and the challenge of comparing data when the materiality may differ from business to business. What one firm believes material may to another be immaterial, even within the same sector:

> *'It depends on the company and the industry. So what's material for one company, in terms of workforce data, won't be material or relevant for another company.'* (Fund Manager 3)

1
2
3
4
5
6
7
8
9

> *'We're seeing it in our industry where people are trying to compare what we do with our competitors but, ultimately, each client is so bespoke and different, it's very hard to find a benchmark.'* (Director 4)

Greater opportunity for benchmarking is, for one investor, seen to be an important consideration and goal for investors and firms alike to aim for:

> *'[...] financial analysts are bright people and are very used to focusing down on the relevant metric for relevant sectors. Financial reporting standards are applicable to all companies across the entirety of the corporate market. [...] Frankly, companies should have confidence in the analysts to make use of the data, and to be able to interpret it in a sensible fashion. If they're able to contextualise it with meaningful narrative, they would obviously negate some of that concern in any case.'* (Buy-side Analyst 1)

4 Summary and recommendations

Our data shows that there is increasing recognition of the importance of human capital information, but very little consensus of which facets of human capital are important in firm valuation outside of the key measure of management quality. This was the only consistently highlighted measure that investors are keen to understand further, and which appears to regularly play an important role in the decision-making process.

We found, in concert with the literature, that there is lack of standardisation on quality and type of reporting. Differences across firms and industry segments make standardising difficult because there are different needs. Therefore standards, while critical in developing a shared understanding, cannot be relied upon alone to improve the use of human capital data by investors.

Of the measures that we explored with investors, it is clear that management quality is seen to be the most important. In practical terms, management quality often means the track record of the top management team, including performance in previous jobs. Some of our interviewees desire more information on managers' (or more broadly, directors') track record and background while making creative use of sometimes unreliable data sources to access such information. While used less consistently, investors also attend to various workforce-related data, such as firms' ability to attract and retain employees in strategic positions and labour-related costs and expenses. Such data is used for different purposes, such as forecasting long-term performance and risk, complementing evaluations of management quality and the business model and forming an engagement hypothesis.

> *Of the measures that we explored with investors, it is clear that management quality is seen to be the most important.*

Growing interest in the value of the workforce and the impact of HR
While the use of workforce data (and in particular the types of workforce data) varied across investors, overall, our interviews suggest an upward trend in its use. Interviewees stated that HC data is being used more in general, is more likely to be used by fund managers in making investment decisions and efforts are being made by some investors to formally incorporate workforce data into their firm valuation models (while, for the majority of our interviewees, data is part of a holistic, intuitive assessment of firms). Our data set is small, providing preliminary evidence to be further explored by larger-scale quantitative research. Nevertheless, to our knowledge, this is a first study to provide

1
2
3
4
5
6
7
8
9

systematic (preliminary) evidence to support that investor interest in human capital information has been growing in recent years – a claim that, to date, has been made based on individual anecdotes (for example, Jacobs 2015, Ulrich 2015). Most interviewees also expressed a desire for more HC data, specifically data that is benchmarked and, thus, more comparable across firms, data that is broken down by units within firms (making it more informative), and a mix of narrative and numerical data.

In our study, we also came across instances of investors' interests in investments in the workforce over the long term. For example, one investor assigned positive value to a new employee benefits scheme aiming to address workforce engagement issues, even though it was associated with a near-term increase in labour expenditure. Thus, while the capital market is typically assumed to be a causal factor when it comes to short-term performance pressure, some investors do recognise the positive effects of such human capital investments in terms of future earnings growth. Investors appear to recognise positive growth effects rather than just near-term cost effects, as they do for other types of intangibles investments; this has the potential to facilitate firms' human capital investments given pressures to deliver on short-term earnings targets (Krausert 2018). However, for this potential to be realised on a broader scale, investors depend on the right mix of narrative and quantitative data, including guidance on the likely earnings impact of human capital investments. Interviewees raised that the information that is being provided currently, for example in the annual report, tends to be too abstract and generic to be used in this way.

Key drivers and barriers to the use of workforce data

The earlier-mentioned lack of consistency in how human capital information is used is likely down to a number of issues, including the contextual nature of human capital data, as well as the lack of consistency in measurement at the organisation level. Poor data quality is a well-recognised issue in HR data systems, and this is likely to also be affecting the quality of external reporting. Additionally, it became apparent through our interviews that variation in the use of human capital information is driven by differences in investor objectives and strategies. For example, traders (holding stock for less than a day and trading based on sophisticated algorithms) are least likely to use HC data (or, indeed, any kind of intangibles data). At the other end of the spectrum are value investors, specifically when they invest in people-intensive businesses, underperforming firms, firms undergoing restructurings and firms in high-tech, high-growth industries facing skills shortages. In the case of two of our interviewees, the use of workforce data depended on the size of the targeted firms.

> *On the whole, our interviews revealed a relatively limited knowledge among investors on human capital and how it may impact on firm performance.*

Another challenge is the knowledge of investors regarding human capital and people management practice. For example, one of the firms we interviewed has a dedicated human capital research team – this was one of the firms making more comprehensive and systematic use of HC information (for example, incorporating a management quality rating in their model, and systematising the use of Glassdoor data). By contrast, on the whole, our interviews revealed a relatively limited knowledge among investors on human capital and how it may impact on firm performance. It is plausible that investors' (lack of) knowledge is another driver of human capital information use, suggesting that there may be value in efforts to educate investors about the effects of human capital and the potential uses of human capital information.

Recommendations

There are a number of recommendations we make based on this exploratory research:

- **Businesses should take the lead in reporting workforce information more readily to their external stakeholders:** If regulatory bodies imposed mandatory reporting requirements, similar to those for reporting on the gender pay gap in the UK, the value of some types of HC information in predicting performance could increase, potentially enhancing the efficiency of the market and enabling stakeholders to engage with organisations on key issues more readily. In the absence of mandatory reporting requirements, it is also conceivable that companies could take the initiative in reporting more systematic and comparable information to the capital markets in the form of voluntary disclosure. However, for investors to make more use of it, data will need to be consistently communicated and benchmarked accordingly. A combination of quantitative information (such as employee turnover by business segment/job category) and supporting narrative information, as well as guidance on the likely earnings impact, would help investors to interpret data, attribute positive value to human capital information and, ultimately, facilitate longer-term investment in the workforce. There is also a clear opportunity for organisations to co-operate, perhaps within sector, and commit to a regular release of benchmarked human capital information, creating an advantage for themselves in the capital market vis-à-vis firms that invest less in the workforce.
- **Businesses should work with their leadership and HR teams to define management quality and communicate this to their key stakeholders:** Our research corroborates the view in the literature that management quality is a key information category for investors. Our research adds to this by highlighting inconsistency in the types of data used to describe management quality, and as such we recommend that businesses take better control of the information available to investors to evaluate top managers and directors and share this in a systematic manner. Our anecdotal evidence suggests that investors use a wide range of information sources to enrich their perspective on management track records, including information sources they deem unreliable, and as such businesses – and HR in particular – should keep this in mind when measuring and reporting on leadership capability and management quality.
- **Both the investment and regulation communities should explore the standardisation of human capital information:** Investors we interviewed noted that the lack of standardised measures make comparing information between organisations difficult, if not impossible. Several stated that benchmarked human capital information would increase the extent to which it is used. New standards such as the International Organisation for Standardisation (ISO 30414:2018 *Human resource management – guidelines for internal and external human capital reporting*) represent an important step towards globally recognised standards for human capital disclosure by describing a set of core measures organisations can report against. Such standards, if successful, could reshape the way in which organisations structure their workforce reports, and importantly, provide investors with the quality of information they need to be able to use human capital information in their forecasting models. It is clear that there is an appetite among the investment community for clarity on key measures of human capital. Therefore, boards should explore whether the adoption of reporting standards may improve engagement with investors on people issues.

1
2
3
4
5
6
7
8
9

- **Investors should look to improve their understanding of workforce issues and human capital data:** With exceptions, our exploratory study revealed a general lack of knowledge among investors on HC and how it impacts on performance, despite an ever-growing body of evidence on this topic in academic research. This is an important factor that needs to be pursued and explored further, together with the above actions. A key question is whether the limited knowledge on human capital is due to a belief that human capital is perhaps less relevant than other financial and non-financial information in driving firm performance, or due to other factors, such as a historical focus on financial and strategy variables in the investment industry, which may be slow to change. While our interviews suggest that investors do (increasingly) perceive that human capital information is relevant, one recommendation is to make a better case for the importance of human capital specifically geared to investors.

5 Conclusion

Our interviews with investors highlight several important points regarding the value of human capital information, and the ways in which it is, and isn't, being used to understand firm performance. We found many in the investment community who are becoming increasingly interested in human capital information, but this is by no means a trend for all: some of those we interviewed have yet to be persuaded of the value of data related to the workforce.

We did, however, find instances of innovation in how human capital information is being used by investors, including investors who are formally incorporating human capital data into valuation models and forecasts, and others who use external data from recruitment/ratings websites to develop an understanding of corporate culture. These new practices illustrate that there is real appetite in parts of the investment community to incorporate workforce insights into practice.

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. With this there is increasing scope for new engagement practices and improved dialogue on workforce issues using people data. And in an era in which there is much debate on the quality of work – whether work is in fact 'good' for people and society – and in which the future of work is a topic of constant debate, we should expect investors' interest in the workforce to grow.

6 Appendix 1: Research methodology

Methodologically, our study classifies as qualitative research, adopting a semi-structured interview approach. Based on a literature review (CIPD 2017a), we developed an interview guide setting out nine broad question areas we wanted to explore (the interviewee's role, use of intangible data, use of workforce data, use of data on management quality, information sources, information quality, information gaps, barriers to use of workforce data, differences in data use across roles and industries). We also prepared a set of more specific questions that we explored flexibly in each of the nine

1
2
3
4
5
6
7
8
9

question areas (see interview guide in Appendix 3). Wherever relevant, we asked the interviewees to recall 'critical incidents', that is, to describe specific situations in which they have used respective data. The interviews were conducted over the phone with investors individually, each interview lasting approximately 60 minutes. The interview guide was approved by the research ethics committees of both Warwick Business School and the University of Kansas.

We adopted a purposive sampling strategy, approaching investors in different roles and different types of companies within the investment industry. In accordance with the triangulation principle, coverage of a broad range of different roles and companies increases the robustness of findings in qualitative research. The sample was accessed through the CIPD's network and YouGov's online panel. Eventually, the sampling strategy also included an element of convenience sampling, since it proved difficult to access sell-side analysts (that is, analysts employed by brokerage houses) and larger investment firms. We conducted 23 interviews. However, ten of these turned out to be irrelevant for the purposes of our study. For example, we excluded independent financial advisers, an analyst in a management consulting firm doing research on credit risks of banks, a senior accounts manager at an auction house and two interviewees whose responses were deemed not credible for a number of reasons. Thus, our final sample consisted of 13 individuals, including five fund managers, five directors of smaller firms (essentially playing a role similar to fund manager), two buy-side analysts and one sole trader. Two of the interviewees worked for the same firm (Fund Manager 4 and Buy-side Analyst 1). Other than that, each interviewee worked for a different firm. Most firms can be classified as smaller firms, while also including three larger companies (assets under management ranging from £100,000 to £10 billion – see Appendix 2 for an overview of the roles and firms covered).

We conducted three pilot interviews to test our interview guide, making adjustments based on the interviews to improve the clarity of questions. The interviews were recorded with the permission of the interviewees and then transcribed by YouGov. The transcripts were analysed using thematic analysis with Nvivo software. The analyses were conducted by three members of the research team. We initially coded the same three transcripts each, providing the basis for a calibration exercise, and then discussed the codes on two further occasions. It is important to emphasise that qualitative research does not serve to establish causality or identify generalisable patterns. Instead, the purpose of this type of research is to produce new theory on processes and mechanisms that may play a role in firm valuation and investment decisions. In that sense, our research should be considered exploratory evidence and a basis for further quantitative research.

7

Appendix 2: Table of interviewees

	Role	Type of firm	Firm size (assets under management)	Types of investment	Experience in investment
Director 1	Director	Investment brokerage	£1.2bn	Property companies	4 years
Director 2	Director of investment banking	Investment bank	£10bn	Diverse	4–5 years
Director 3	Director	Financial services business	£170m	Real estate developers	21 years
Director 4	Managing director	Accountancy firm with in-house investment team	£50–£60m	Diverse (UK and US stock markets; property; bonds, etc)	25 years
Director 5	Managing director	Macro hedge fund	£1.6bn	Global macro (equities, rates, FX, commodities)	25 years
Fund Manager 1	Fund manager (former buy-side analyst)	Stock brokers	n/a	Diverse	18 years
Fund Manager 2	Fund manager	Accountants and business advisers	n/a	Business acquisitions/ M&A	15–20 years
Fund Manager 3	Fund manager	Investment firm	£250m	Diverse	n/a
Fund Manager 4	Fund manager and lead engager	Investment firm	£33.5bn	Smaller mid-cap companies	5+ years
Fund Manager 5	Fund manager	Insurance firm with private investment arm	£20m–£50m	Early-stage investments	13 years
Buy-side Analyst 1	Member stewardship team and human capital management team; researcher for senior engagers	Investment firm	£33.5bn	Diverse	n/a
Buy-side Analyst 2	Research analyst	Independent asset management firm	£900m	Japanese companies	17 years
Sole Trader	Sole Trader	Self-employed	£50,000–£100,000	Oil and gas sector	25 years

8 Appendix 3: Interview script

Introduction

- Firstly, could you tell me a little bit about yourself?
  - How long have you been an investor?
  - What are your specialist areas?
  - What sector(s) does your firm cover?
  - How many firms do you cover at any one time?
- Could you tell me a little about your organisation?
  - What is its investment focus?
  - What assets are under management at any one time?
  - What percentage of assets are allocated to ESG (environmental, social and governance)?

Use of workforce data

- Do you consider intangible data in your role?
  - If so, please describe what types of intangible data you use.
- Do you use workforce data (when analysing/researching)?
  - If so, please describe a recent situation in which you've used workforce data.
- To what extent are you familiar with different types of workforce data?
  - Are you familiar with how they relate to outcome variables that are of interest to you?
- When doing financial analyses, do you incorporate this information into your financial models?
  - Do you use it as a basis for negative/positive screening?
- Do you use it to estimate changes in expected earnings/cash flow, risk or transitory cost effects?
  - Are there any other purposes for which you use it?
- When researching, what determines what kind of workforce data you look for?
  - What do you do with this data?
  - What do analysts do with it?

Use of information on management quality

- In your view, what is management quality?
- Could you describe for me how management quality factors into your role?
  - (Probe on: financial analyses, stock recommendations, research, etc)
- Describe a recent situation in which you have used data on management quality.
- When doing financial analyses, do you incorporate this information into your financial models?
  - Do you use it as a basis for negative/positive screening?
  - Do you use it to estimate changes in expected earnings/cash flow, risk or transitory cost effects?
  - Are there any other purposes for which you use it?
- When researching, what determines what kind of data you look for on management quality?
  - What do you do with this data?
  - What do analysts do with it?

Information sources

- What are your information sources on (a) workforce data and (b) management quality?
  - Probe: formal sources (such as annual report, website, other corporate reports, conference calls, etc), informal sources (such as private communications with management, former employees, the media, rumours, etc)
- Can you give me an example of how you use them?
- If you were to consider a comparison between information sources, which do you trust?
  - Which sources are most important?
- How do you rate the quality of information on workforce data?
- What about the quality of data on management quality?
- Are there differences across different types of workforce data/different aspects of management quality?
  - Are there differences across information channels?
- Do you see any mismatch between your information needs and information provision with respect to (a) workforce data and (b) management quality?
  (that is there any information that you need but don't have access to?)

Information gaps and barriers to use of data

- What types of workforce data that are currently not provided would be useful to you?
  - Why do you need this data?
- Are there any types of workforce data that are currently provided that you don't use?
  - Why not?
- How does workforce data compare with other ESG data in terms of how you use it?
  - Which do you trust more?
- Describe some of the barriers to using workforce data.
  - How easy is it to obtain the information?
  - Is it easy to obtain reliable information?
- How predictive are different types of workforce data of future earnings, risk, transitory cost effects, etc, compared with other intangibles information and financial information?
- Do you think the effects of workforce data are already captured by other variables, such as management quality?
- What are the key factors that limit your use of workforce data? How could they be overcome?
- What would it take for you to use more workforce data?
  - (Probes: more numerical information/more narrative information/greater standardisation?)

Variation in use of data across investor segments

- When researching, do you see any differences in analysts' use of workforce/management data across industries/industry segments?
  - In which industry segments are they most likely to use such data?
- Do you see any other analyst characteristics that influence their use of workforce data, such as experience, skill, etc?

9 References

CIPD. (2017a) *Do investors see the potential of people data?* London: Chartered Institute of Personnel and Development. Available at: www.cipd.co.uk/knowledge/strategy/governance/investors-people-data [Accessed 11 February 2019].

CIPD. (2017b) *Human capital analytics from theory to practice: exploring theory and evidence.* London: Chartered Institute of Personnel and Development. Available at: www.cipd.co.uk/knowledge/strategy/analytics/human-capital-analytics-report [Accessed 1 February 2019].

CIPD. (2018) *People analytics: driving business performance with people data.* London: Chartered Institute of Personnel and Development. Available at: www.cipd.co.uk/knowledge/strategy/analytics/people-data-driving-performance [Accessed 1 February 2019].

DEPARTMENT FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY (BEIS). (2017) *Good work: the Taylor review of modern working practices.* London: BEIS. Available at: www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices [Accessed 1 February 2019].

FINANCIAL REPORTING LAB. (2018) *Performance metrics: principles and practice.* London: Financial Reporting Council. Available at: www.frc.org.uk/getattachment/cd978ef7-72ad-4785-81ee-e08bb7b7f152/LAB-Performance-metrics-FINAL.pdf [Accessed 12 February 2019].

HM GOVERNMENT. (2018) *Good work: a response to the Taylor review of modern working practices.* London: The Stationery Office. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/679765/180206_BEIS_Good_Work_Report.pdf [Accessed 12 February 2019].

INVESTMENT ASSOCIATION. (2018) *The companies we keep: delivering good returns for savers and society.* London: Investment Association. Available at: www.theinvestmentassociation.org/assets/files/consultations/2018/20180901-thecompanieswekeep.pdf [Accessed 13 February 2019].

JACOBS, K. (2015) Why investors are thinking about human capital. *HR Magazine*. 23 September. Available at: www.hrmagazine.co.uk/article-details/why-investors-are-thinking-about-human-capital [Accessed 11 March 2019].

KRAUSERT, A. (2016). HRM signals for the capital market. *Human Resource Management*. Vol 55. pp1025–40.

KRAUSERT, A. (2018). The HRM-capital-market link: effects of securities analysts on strategic human capital. *Human Resource Management*. Vol 57. pp97–110.

SHAREACTION. (2018) *Workforce disclosure initiative: pilot year report.* London: ShareAction. Available at: https://shareaction.org/wp-content/uploads/2018/04/WDI-Pilot-Year-Report.pdf [Accessed 12 February 2019].

ULRICH, D. (2015) *The leadership capital index: realizing the market value of leadership.* Oakland, CA: Berrett-Koehler.

Chartered Institute of Personnel and Development
151 The Broadway London SW19 1JQ United Kingdom
T +44 (0)20 8612 6200 **F** +44 (0)20 8612 6201
E cipd@cipd.co.uk **W** cipd.co.uk

Incorporated by Royal Charter
Registered as a charity in England and Wales (1079797)
Scotland (SC045154) and Ireland (20100827)