



**INTERNATIONAL SCHOOL  
OF  
HUMAN CAPITAL MANAGEMENT**

**PRESS OFFICE**  
Global Headquarters  
2<sup>nd</sup> Floor, Berkeley Square House  
Berkeley Square  
London  
W1J 6BD  
Tel: +44 (0) 207 887 6108  
Fax: +44 (0) 207 887 6100  
[www.valuentis.com](http://www.valuentis.com)

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## PRESS RELEASE

Valuentis, the professional services firm and The International School of Human Capital Management today announce the release of their joint publication 'Cracking the Human Capital Code' Volume I and the launch of the Human Capital Composite Index (HCCI™).

### Key findings and outputs of 'Cracking The Human Capital Code' Volume I

1. 'Cracking The Human Capital Code', (in its multi-volume format) extends our previous contributions to industry with further groundbreaking research and the construction of a 'Human Capital Composite Index' (HCCI™). Future volumes will provide sectoral coverage including UK public sector (due to be published on 30.09.06), UK not-for-profit sector, UK top 100 private companies, UK listed companies, top European listed and top global/US listed companies.
2. The inaugural HCCI™ covered within this report (Volume I) evaluates UK companies listed in the FTSE100 and FTSE250 indices plus a sample of leading private companies. The Index presents an evaluation of a company's human capital related organisation performance, human capital reporting and human capital management practice. This will be of interest for all stakeholders, namely management, HR functions, analysts, investors, employees, unions and Government with invaluable insight on performance of companies from different perspectives.
3. The HCCI™ combines public domain information with internally derived evaluation (through the VB-HR™ Rating). The Index makes use of nine separate assessment parameters, each given a relative weighting to reflect their importance. Further, a Standard ([www.hcmiglobal.org](http://www.hcmiglobal.org)) is already in place that provides an audit to compliment the HCCI™ and ensure parity. This is a far more powerful approach than current alternatives.
4. Macro-economic parameters are also included to acknowledge that successful companies contribute to the economic good of society through tax contributions, as well as through employing a workforce.
5. Our assessment and ranking of company OFR/CSR documents showed that, with regard to human capital, the general standard was poor (with very few exceptions). Our key findings were: (i) No organisation reaches the 'Standard' level; (ii). Current approaches are typically unstructured; (iii) Current approaches are predominantly narrative; and, (iv) Many organisations have yet to start.
6. We introduce the concept of Human Capital Intensity (HCI) which is an indicator reflecting the importance of people relative to other inputs of the business model and proportionally link this to company revenues and other performance metrics. We also introduce the 'HCIR' metric which enables the generic and relatively meaningless 'revenue per FTE' to be recalculated to better represent revenue generation attributed to people.
7. Our derivation of the HC Return Curve® provided us with a striking relationship (efficiency frontier) which enables us to predict HC related revenues to an accuracy of 90% if we know its people costs, or vice versa. Knowing the ratio of people costs to total costs means we can also predict total company revenues.
8. All organisations can be assessed in relation to the HC Return Curve® and are ascribed with a relative HC return beta ('β') to express whether that company's return on human capital is above, below or at the market norm, and by how much. Within the FTSE350, there are currently more than twice as many companies under-performing the curve as those over-performing.
9. We have provided a practical model that can explain the different factors related to a company's beta and through the use of the VB-HR™ Rating and the Human Capital Reporting Standards, we can estimate their effect and provide corrective actions (routemap) to improve performance.
10. In January 2006, we released our Human Capital Reporting Standards which were designed to provide industry with a well-constructed template as a baseline to adopt on an 'open-source' basis. We have since provided an initial working infrastructure through the setting up of user groups with the inaugural set of workshops taking place in September 2006. These are fronting our 'Put human capital on the map' campaign (see [www.valuentis.com](http://www.valuentis.com)).
11. We have published a number of papers on HR measurement, several of which have challenged existing 'perceived wisdom' in the market-place around the validity of a number of commonly used/reported HR metrics. We show that performance metrics such as revenue per FTE and profit per FTE are either unsafe or invalid.

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*'Innovation is seeing what everybody has seen but thinking what nobody has thought'*



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12. We would caution that those claiming shareholder value performance as a means of correlating with certain human capital performance are either being statistically dishonest or have a naïve understanding of the complexity of organisation operating models.
13. We provide frameworks that describe four main classifications of measurement. These are:
  - 13.1. Metrics related to aspects of human capital/human capital management performance, such as employee engagement, turnover etc
  - 13.2. Analytics that look to combine various metrics and data to provide further insight, for example looking to find relationship between engagement and turnover, employer brand and recruitment success, talent index etc.
  - 13.3. Enhanced (modelling) analytics that look to combine macro and micro measures to provide 'performance models'
  - 13.4. Metrics to do with the operational efficiency and effectiveness of the HR function/process, such as delivery expertise or recruitment cycle time.
14. Executives need to embrace the organisation performance-human capital axis as more than just another 'photo-opportunity' to hype employer brand – the so called 'hijacking of HR'. Whatever the relative importance of people in their organisational model, managers now have tools enabling them to assess their own human capital performance against others in their sector and the market generally. This will require line managers, in many cases, to become better versed in human capital management practices and terminology, as well as potentially accepting greater accountability for their role as 'agents' of the HR function in delivering effective human capital management services.
15. The development of a more sophisticated framework for human capital evaluation represents a major and substantial opportunity for HR. In recognition of this, we anticipate the emergence of the Chief Human Capital Officer (as a board member) who has a different set of competences than that of the current typical HR Director role currently encountered.

#### Useful related data

16. Annual revenues of the FTSE350 total £1,373bn, with top 15 companies accounting for 50% of the total.
17. The FTSE350 employ 7.2 million employees worldwide with largest 10 companies employing 33% of this total.
18. The FTSE350 has combined human capital investment of £182.9bn. The top 10 companies account for 30% of this total.
19. The FTSE350 paid a combined total of £57.5bn in tax. The top 15 contribute 66% of this total.
20. The average human capital intensity across the FTSE350 is 25.9%.

VaLUENTiS ([www.valuentis.com](http://www.valuentis.com)) is a leading global professional services firm providing clients with human capital management, human capital measurement, organisational effectiveness and organisational measurement solutions to enhance performance. Clients include FTSE100, Euro300, and S&P500 companies, as well as a variety of public sector organisations.

In 2005, VaLUENTiS launched the groundbreaking VB-HR Rating – the most sophisticated assessment tool of human capital management.

In January 2006, the company launched 'open-source' Human Capital Reporting Standards and Operating Principles which have begun to be adopted across industry. September 2006 sees the first of the HCR workshops taking place as part of the developing infrastructure.

VaLUENTiS International School of Human Capital Management ([www.ISHCM.com](http://www.ISHCM.com)) is a pre-eminent business school offering structured course programmes to HR and management professionals.

The School currently offers four main types of practical-based programmes containing over 60 course electives with various accreditation-based options. These can be delivered in standard open format or customised to be delivered to clients on-site.

The programmes deliver exceptional learning experiences that are designed for practical implementation, and impact. They are considered unique in their combination of applied research, material and case studies based on real issues and actual scenarios from VaLUENTiS client work.