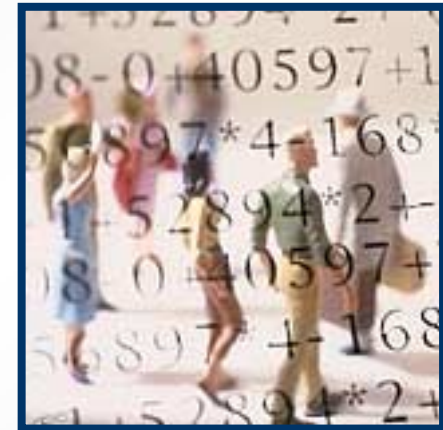




Effective Measurement of HR



Maria Crudge, VP Human Resources, Schering UK

Nicholas J Higgins, CEO, VaLUENTiS Ltd

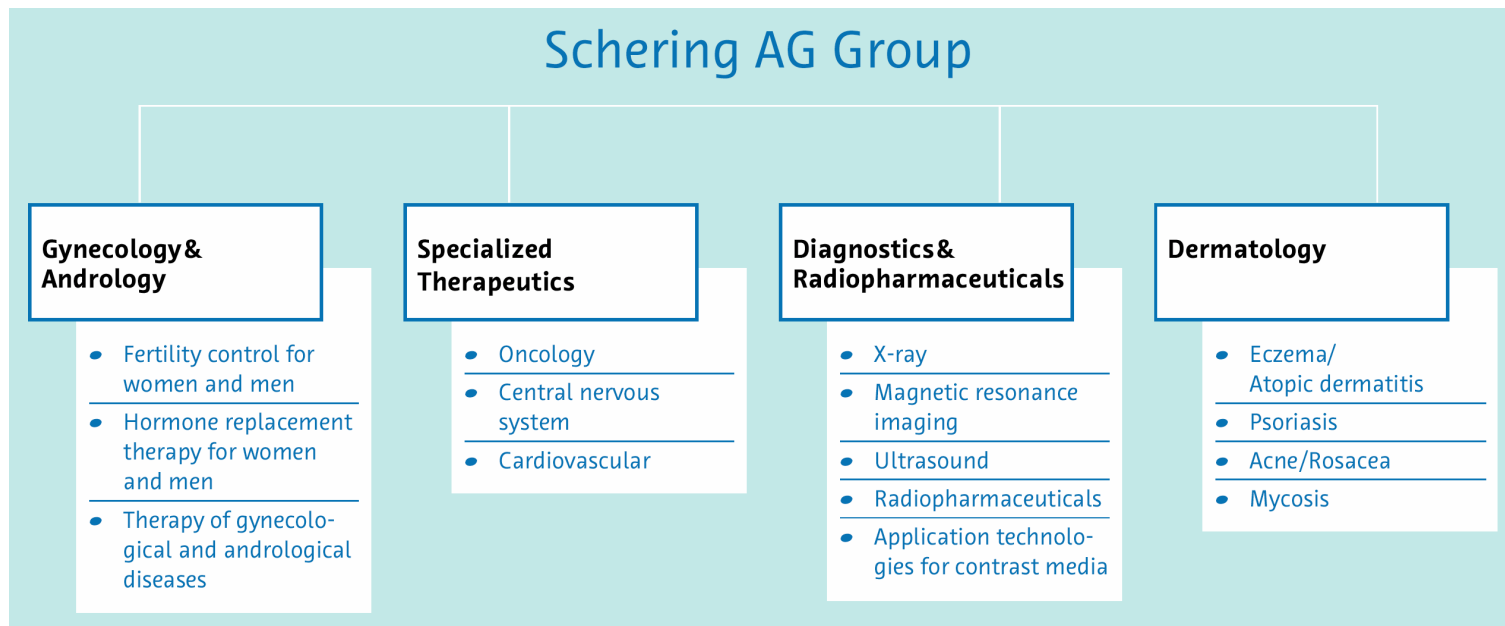
HR Directors Summit

Dublin 27th April 2004



Schering Group

- Schering is a research-based pharmaceutical company
- Revenues: € 4.83 billion (£ 3.35b); Profit: € 443 million (£ 298m)
- More than 140 subsidiaries
- More than 26,000 employees worldwide
- Schering AG Group's expertise is concentrated on four Business Areas



Corporate HR Strategy



Employee Principles & Values: All people and HR-related activities are guided by a general concept describing Schering's expectations on cooperation and behavior.

Competent People: The strategically necessary knowledge, skills and experience are identified, systematically developed, linked and transferred throughout the entire organization.

Excellent Leaders: The expectations Schering has of its managers are defined and known. Managers and management talent throughout the Schering Group are identified and developed systematically to meet corporate requirements.

Effective Organization: The organizational design supports cross-regional and cross-functional business processes.



Until 2003: Shared Vision

IT'S WHERE WE WANT TO BE

SHCL Aim - 2005

SHCL will be recognised as a leading company in its chosen market segments (Female Healthcare, Diagnostics, Dermatology and Therapeutics) and achieve an average profit growth of 10% p.a.

Critical Success Factors

Definition



Former SHCL Values:

Achievement Stakeholders People Innovation Responsibility Enjoyment



Key performance drivers

- These replace the CSFs in Shared Vision and provide a new framework for objective setting
 - Delivering on customer needs & fulfilment
 - Controlling our costs
 - Extracting best value from launched products
 - Developing the new business pipeline
 - Managing support processes
 - Building a performance culture
 - Managing compliance



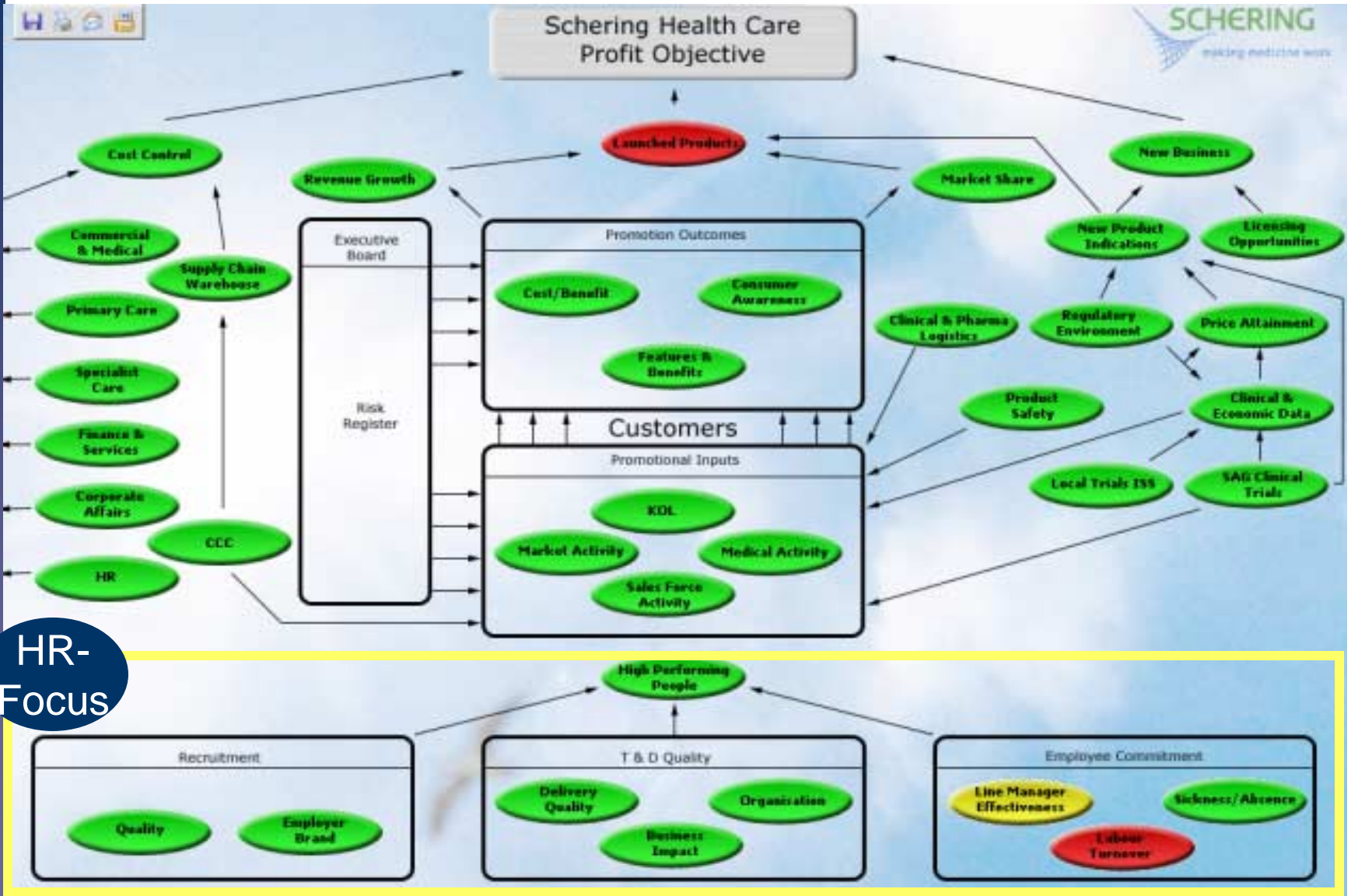
HR @ Schering HCL 2004

- **Launch of Corporate HR Strategy and review of local HR Strategy**

Launch of new approach to Performance Management, encompassing measurement

- **Launch of a new HR system - Snowdrop**
- **Development of a new Head Office Incentive Scheme**
- **Development and implementation of a staff survey**
- **Provision of training for the COGNOS reporting tool**
- **Future development of the Careers section of the SHCL web**
- **Contribution to the first all staff SHCL conference**
- **Development of a 'blended' approach to learning**
- **Provision of support for UK Radiopharma business**

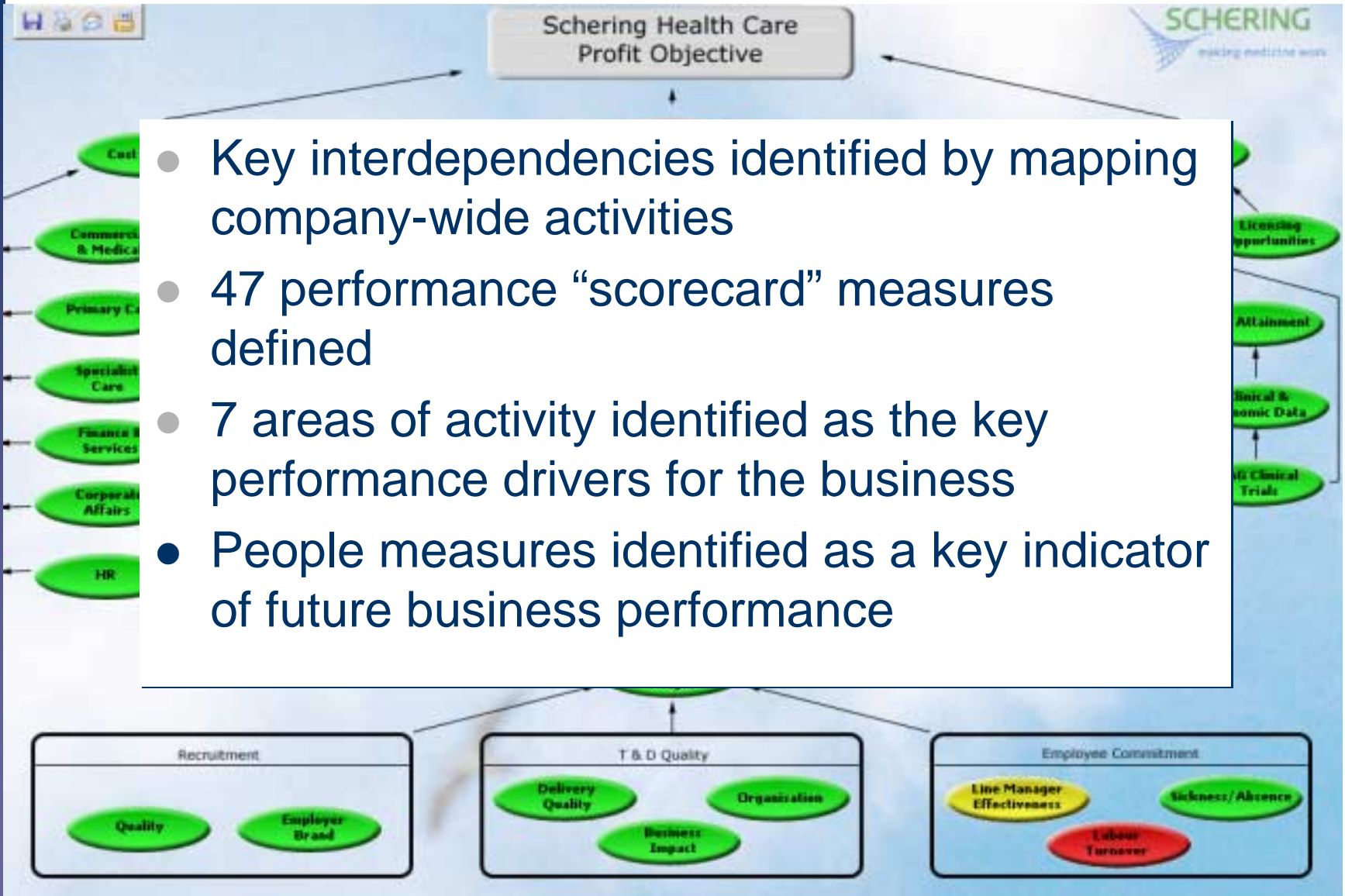
Schering Success Map



HR-Focus



Schering Success Map





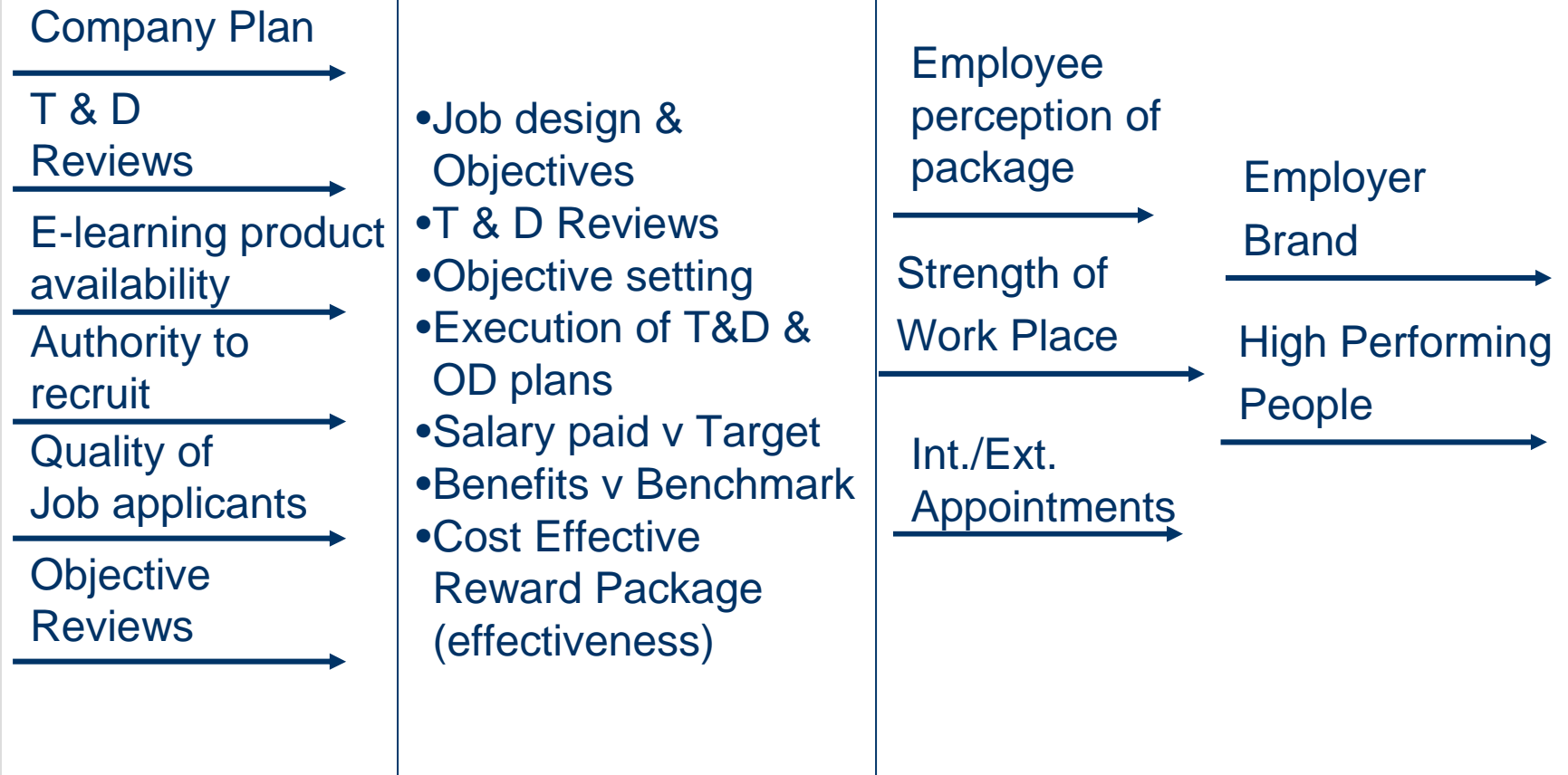
Schering HR Resourcing Linear Process Map [shorthand]

HR Resourcing Process



Schering High Performance Workforce Linear Process Map [shorthand]

High Performing Workforce





HR Scorecard Top Layer Reporting (10 Measures)

Employer Brand

Cost-effectiveness of People Resource

Training & OD Delivery Quality

Training & OD Effectiveness – Business Impact

Training & OD Effectiveness – Delivery

Employee Commitment & Focus

Sickness Absence

New Staff Turnover

Ratio of Internal:External Appointments

Labour Turnover

Measure: Sickness Absence



Live Example

Measure	Sickness absence (proxy)
Purpose	Sickness absence rates can be indicative of morale/motivation in the organisation
Relates to	High performing people
Target	Lost time rate less than 3%. Frequency less than 1.5
Formula	% of time available lost because of absence. Spells of absence per employee.
Frequency	Quarterly
Who measures?	HR
Source of data	Employee
Who acts on the data	HR and line management
What do they do	Investigate and manage
Notes & Comments	

Measure: Employer Brand



Live Example

Measure	Employer Brand
Purpose	Significant factor in recruitment and retention of high performing people
Relates to	Recruitment quality. Cost effectiveness of People Resource. Productivity
Target	To be determined by initial survey which will set baseline
Formula	An index derived from the survey questions
Frequency	Internal survey annual, external every two years
Who measures?	HR
Source of data	Survey
Who acts on the data	Executive Board
What do they do	Note trend. Action accordingly
Notes & Comments	

Schering: Mapping Question-statements to HR scorecard measures

Employee survey question-statements are mapped to HR measurement dimensions.

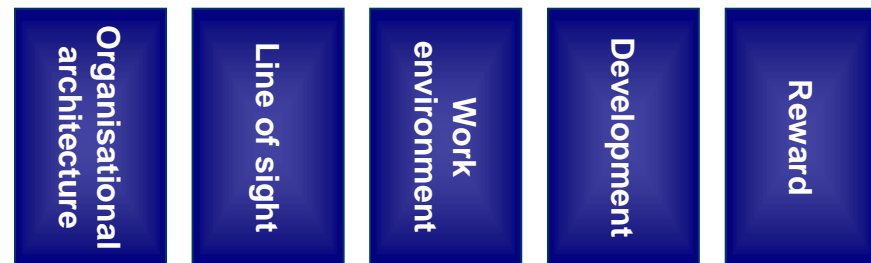
	Employer Brand	Cost-effectiveness	T&OD delivery quality	T&OD effectiveness BI	T&OD effectiveness DD	Employee commitment	Sickness absence	New Staff turnover	Int/Ext appointments	Labour turnover
Company management demonstrates clear leadership/acts as positive role models						F				
Schering has a reputation as a good place to work										F
Overall, I think I am paid fairly compared with people in other companies who hold similar jobs										F
Overall, I think I am paid fairly compared with other people in my company who hold similar jobs						F				
My company does a good job of providing opportunities for personal development						F				F
Schering provides excellent training	F									
My training helps me be more productive						F				
The training I receive is relevant to my job										
I have access to the training I need to be productive in my current position										
I know the skills I need to be successful in my company						F				
My work gives me a sense of personal accomplishment										
My personal values are similar to my company's values								F		F
The amount of work I am expected to do is reasonable										
Schering is supportive of my attempts to get the right work/life balance										
I have received a good induction and support from my team since joining Schering						F				
I feel that joining Schering has been a good decision										
I am confident that I will be promoted when I deserve it						F				
Schering does a good job of retaining highly qualified employees										
My company makes it a priority to address staff retention	F	F								
Schering does a good job of retaining highly qualified employees										

HR measurement scores

Measurement dimension	Core Qs	Factor Qs	Core (2Q score)	Core plus factor (2Q + nF)
Employer brand	Q3, Q6	Q7, Q13	67⁶	66⁶
Cost effectiveness of people's resource	Q2, Q8	Q13	57⁹	51¹⁰
T&OD development delivery quality	Q7, Q11	n/a	69⁵	69⁴
T&OD development effectiveness - business impact	Q1, Q9	n/a	77²	77²
T&OD development effectiveness – training and OD delivery	Q12, Q17	n/a	75³	75³
Employee commitment	Q4, Q18	Q6, Q8, Q9, Q10, Q11, Q12, Q20	72⁴	69⁴
Sickness absence	Q14, Q15	n/a	62⁷	62⁷
New staff turnover	Q19, Q20	Q4	85¹	82¹
Internal/external appointments	Q5, Q10	n/a	61⁸	61⁸
Labour turnover	Q13, Q16	Q2, Q3, Q4, Q11	56¹⁰	61⁸

Superscripted numerals refer to ranking position

Constructing The Index



Total mean scores	9.1	12.8	25.9	14.6	5.7
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Number of questions	3	4	7	4	2
Weighting	1.33	1.0	0.57	1.0	2.0

Index scores	12.1	12.8	14.8	14.6	11.4
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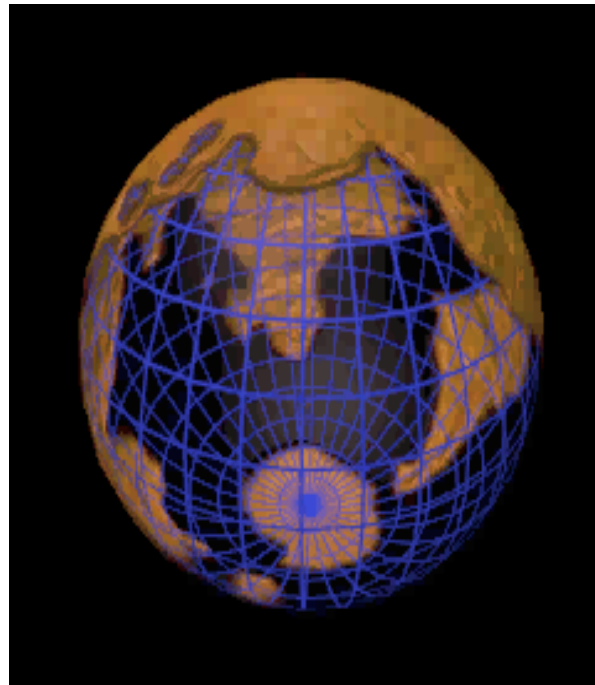
Survey Mapped Against Engagement Framework

Mapping of survey scores to domains

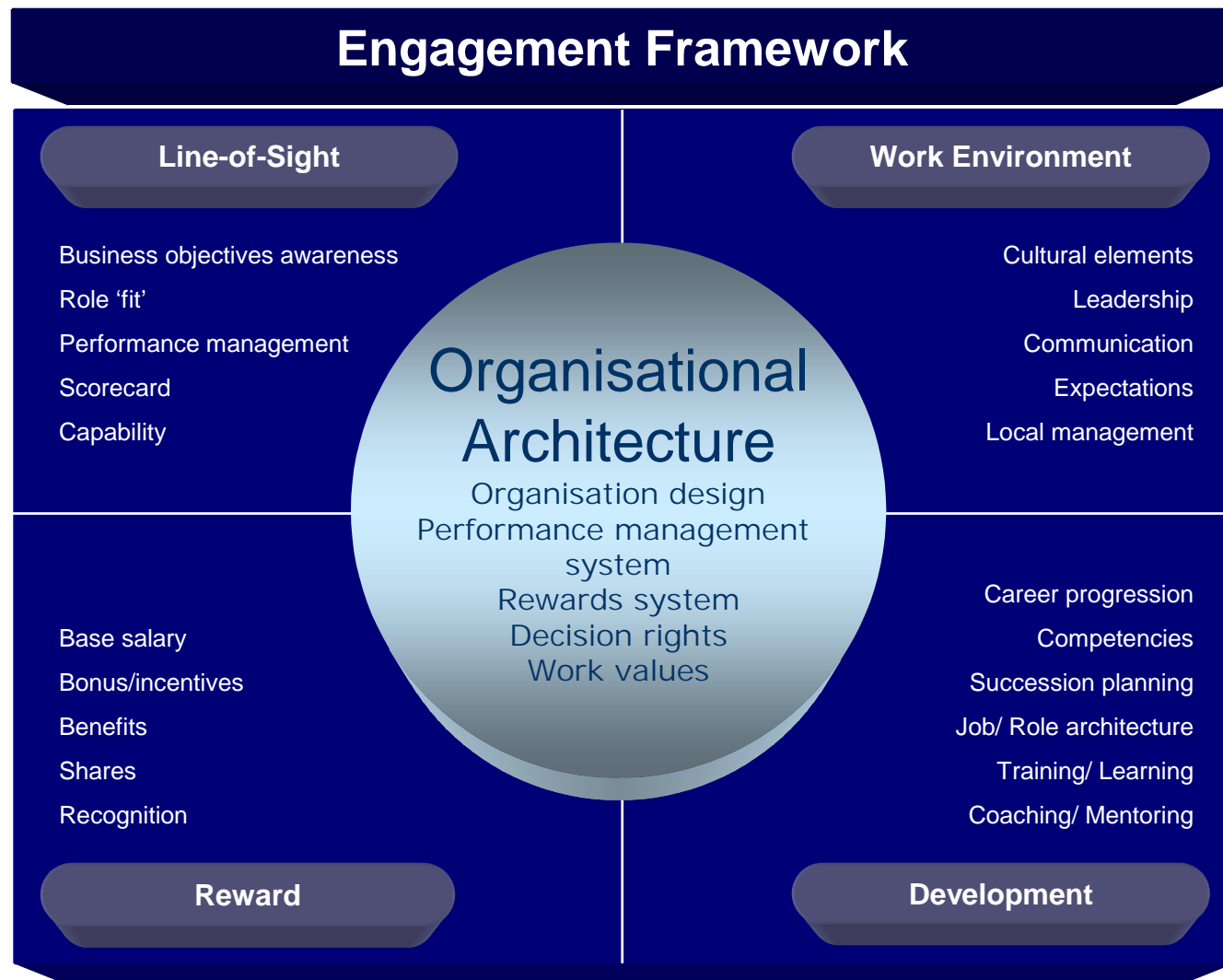




VaLUENTiS General Comments



VB-HR™ Engagement Framework





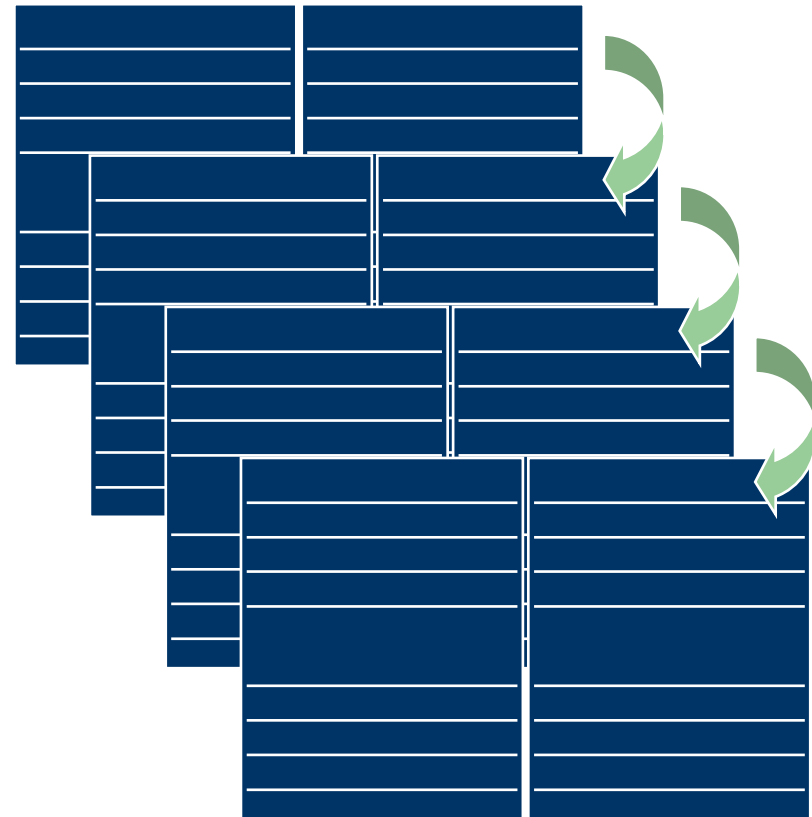
VB-HR™ Engagement Framework (cont)

- **Line of sight** links the actions of an employee with overall corporate objectives
- **Work environment** reflects the employee's day-to-day influences/surroundings
- **Reward** reflects the financial and non-financial benefits that an employee can expect
- **Development** indicates to an employee the extent of an organisation's support of future needs
- **Organisational architecture** provides the overarching infrastructure around the organisation's intended (or otherwise) design

HR Strategic Objectives-Reporting Transformation Process

- An iterative process using structured workshop/sessions
- Maps/evaluates current HR strategy activities as a starter
- Completes 'As is' draft scorecard report with evaluation
- Determines the metrics domain structure
- Populates scorecard with 'To be' metrics
- Introduces Reporting dimension template
- Introduces 3I Methodology
 - Issue
 - Intervention
 - Involvement
- An Iterative process using measurement validation technology
- 'Organic' document that is continually updated

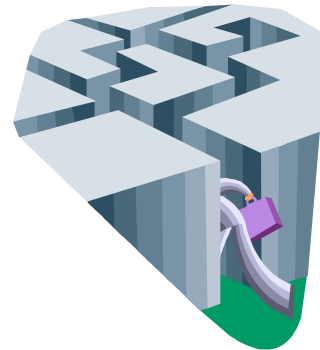
HCR Scorecard design





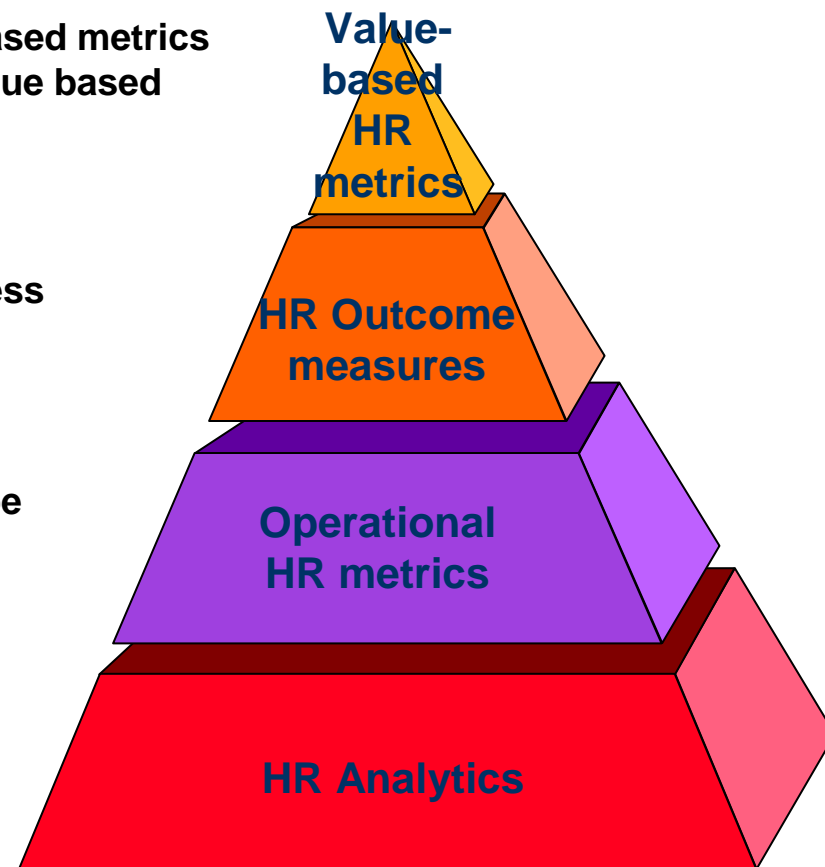
So Many Metrics.....

Revenue/total FTEs, staff costs/
total costs, cost per hire,
acceptance per job offer ratio,
time to fill a job, employee average
tenure, percentage of internally filled jobs,
percentage of employees with development
plans, % payroll spent on training, appraisal
process satisfaction rating, ratio of salary to competitor
salary, days since last accident, number of internal to external
promotions, voluntary resignation rate...

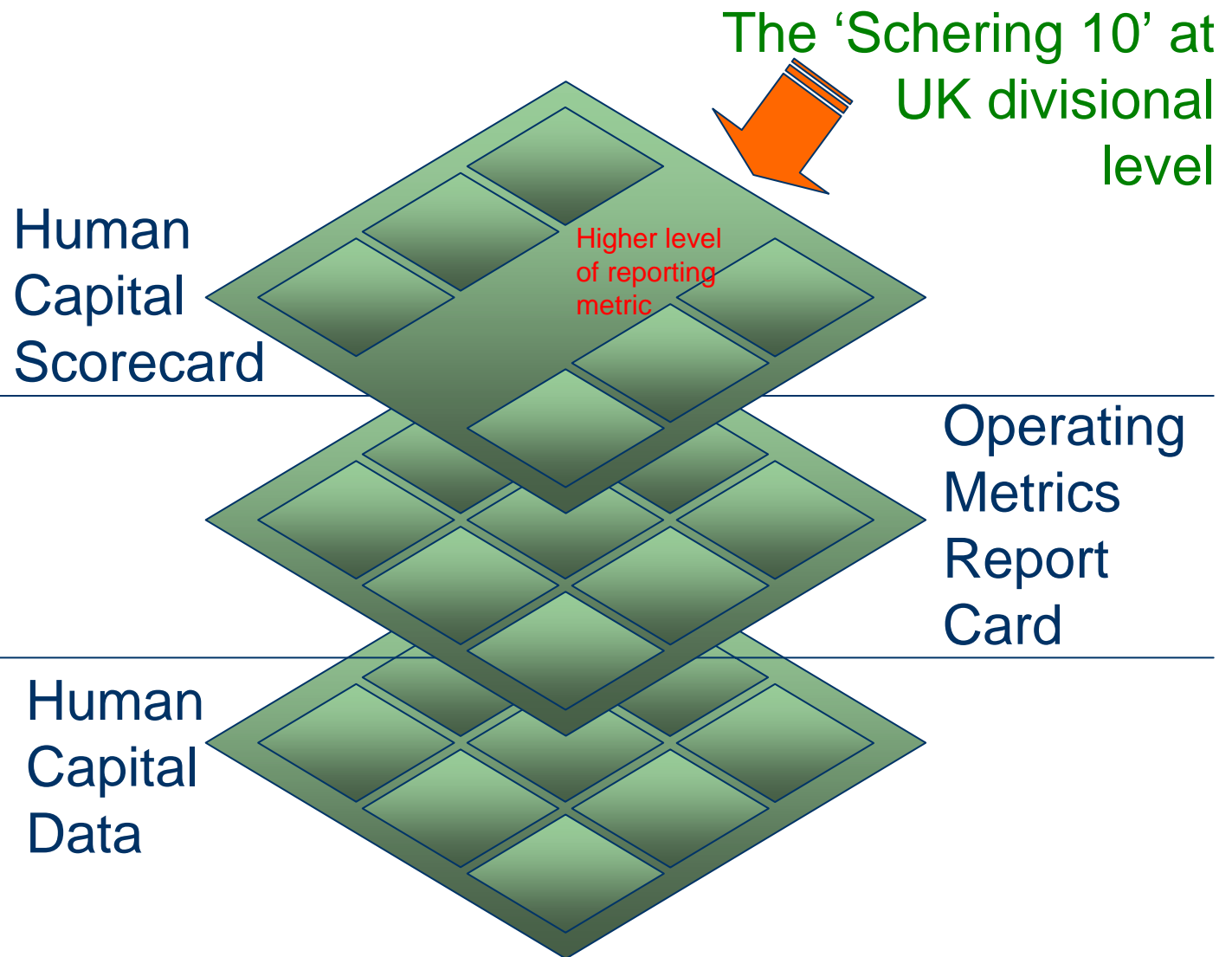


HR Scorecard: Metrics Hierarchy

- Corporate based metrics reflecting value based measures
- Measures that are focused on business outcomes
- Typically efficiency type measures
- Workforce data



HCM Scorecard Layers





Reporting Layers

- Each layer can be reported in either consolidated and/or divisional format. Normally, as reporting progresses through each higher level the number of metrics reduces.
- As an indicator of scale, at the HC scorecard level, up to a dozen or so measurements would be expected. The operating report card can contain anything up to 20-30 metrics. The data report card can contain over 100 metrics.
- It is anticipated that may be up to 4-6 measurements will be extracted from the HC Scorecard and populate the Corporate Scorecard (under a balanced template).

Sample HR Scorecard Measures

Staffing

- Skill/competency gap index
- Experience index
- Employee cost ratio
- Vacant positions index
- Recruitment costs per hire
- Turnover rate/ churn/ retention rate

Managing/Developing Performance

- Revenue per employee
- Value add per employee
- Appraisal score index
- Productivity growth per employee
- Engagement (Line-of-Sight) index

Learning And Development

- Competency growth index
- Percent of payroll dedicated to learning/training
- New hire - time to readiness
- Training hours/employee
- Qualification index
- Training ROI

Reward

- Comparative industry benchmark
- Bonus payout ratio
- Overtime ratio
- Benefit cost as a percentage of compensation
- Rewards alignment optimisation

Staff Relations

- Number of incidents/grievances
- Length of time to resolve issues
- Cost associated with cases
- Employee satisfaction ratings
- Diversity index

HR Business Performance

- Time spent ratio on strategic versus administrative activities
- Impact on key business objectives
- HR expense to total operating expense
- HR FTEs to total FTEs
- Completion of strategic objectives



A Note on Human Capital Reporting Kingsmill 'Accounting For People'

- Kingsmill focuses on external reporting and the issues regarding HCM reporting, caught between two poles – on the one hand, promoting unregulated self-reporting that may be viewed as irrelevant for comparative or informational purposes, whilst on the other, advocating a common reporting framework that results in 'plain vanilla' metrics that are so base that they are rendered meaningless.
- Comparison is made with accounting, but overlooks a fundamental flaw – despite 500 years of financial reporting, cross company/industry comparison suffers from the same issues; feeding a whole industry dedicated to interpretation



A Note on Human Capital Reporting Kingsmill 'Accounting For People'

- HR still needs to focus on internal reporting as a precursor to external reporting and its associated additional stakeholder population
- Despite investment and sophistication in technology, experience suggests that issues of data integrity and availability, metric definition and measurement understanding within HR are still issues to be resolved
- Thus HR should refocus its efforts in these areas as a means of starting the journey to find the so called 'Holy Grail' of human capital measurement



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