

An independent appraisal of the HR Value for Money indicators and guidance

Value For Money in public
sector corporate services
A joint project by the UK Public Sector Audit Agencies

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VaLUENTiS

Professional services firm

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1 Introduction

The UK Public Sector Audit Agencies recently released new Performance indicators (PIs) under the value for money in public sector corporate services project.

The corporate services covered include:

- Finance
- HR
- ICT
- Procurement
- Estates management

Being specialists in human capital management and measurement, our focus is limited to commenting on the PIs and associated rationale/guidance for the HR function.

The various corporate service documents can be downloaded from www.public-audit-forum.gov.uk.

2 Executive summary

- We note that a number of public sector organisations were involved in the project along with external auditing firm representation. Our focus is strictly on the HR function indicators reflecting our specialism and related work in this area
- We acknowledge the thought and process that has been conducted in the preparation of the VFM document but would point out that there is no recognisable people management or HR function framework (or underpinning rationale) as to why these particular indicators have been chosen from a value for money perspective.
- We identify with the choice of several of the HR PIs since these are already collated in our HCM Evaluator portfolio and contained within our VB-HR™ database. Local Government benchmarks are already well established through the VaLUENTiS VB-HR™ Rating consortium work.
- However, we would like to draw attention to issues surrounding choice of primary versus secondary indicators and the potential confusion between PIs that are **directly associated** with the HR function and those where the HR function has an **indirect relationship** – what we term people management indicators.
- Though we would acknowledge that HR would naturally recognise these PIs, the danger from the wider organisation perspective is that they can be too often interpreted as HR's responsibility not line (people management) responsibility.
- From a value for money perspective, this misinterpretation can become highly questionable and incur unintended consequences whether politically motivated or not.
- We have provided further commentary regarding the usage/limitations of these indicators, building on the existing guidance contained within the original VFM document.
- Our analysis provides a comprehensive review of the indicators and their focus as to whether efficiency or effectiveness/outcome driven as well as the design reliability of certain questions used
- The analysis shows that the majority of the chosen indicators are 'efficiency' type in nature and thus are not sufficient to evaluate 'Value For Money' by themselves
- Most indicators are people management focused or a mix of HR function/people management rather than HR function specific
- We would draw attention to our comments to the section 6 commissioner and user index and to the section 7 management practice indicator and advise caution in adoption of these two indices given the limitations identified
- We would recommend further consultation on the adoption of these indicators to ensure that the contents of this document assist in ensuring the adoption of 'best practice' with in local Government.

3 HR value for money guidance

(i) Project rationale and objectives

The *VFMpsc*¹ document sets out the rationale and origins of the project. The audit agencies correctly point out that 'better measurement systems are needed to monitoring and demonstrating the efficiency and effectiveness of corporate services in the public sector'.

The document asserts that 'there is no consistent approach to performance measurement of corporate services across the public sector and the use of benchmarking information is patchy'. This may be true for Finance, ICT, Procurement and Estates management but we would argue this is untrue for HR.

VaLUENTIS has been involved with a number of public sector organisations over the last few years, the latest culminating in the VB-HR™ Rating consortium for Local Government commencing in 2006 (and since expanded).

As an independent professional services firm we already have benchmark data on HR functional activity and people management evaluation that measures efficiency, effectiveness and a more sophisticated value based approach. Thus public sector HR functions can already take advantage of this. It is because of our expertise that we are able to provide further guidance and comment to the *VFMpsc* content.

(ii) Principles

The document provides five main principles supplemented by a further three which resulted from the initial research and consultation phase. The five main principles are:

1. Use of the indicators should be voluntary, with organisations deciding whether and how these can help drive their own value for money improvement programmes
2. There should be a small number of high level indicators capturing those aspects of performance that are vital for the effective management of the service by senior managers
3. Managers should also have the ability to drill down deeper
4. There should be a focus on better outcomes for corporate service users and commissioners
5. To aid innovation and effectiveness, the indicators should reflect best practice.

These are supplemented by the additional three principles:

1. The indicators should be kept simple and easy to measure
2. The indicators should not aim to cover all aspects of performance but instead be chosen for their capacity to motivate changes in behaviour and support improvement
3. The indicator set should aim to complement any existing performance management frameworks and benchmarking initiatives, and where possible facilitate future benchmarking with the private sector.

¹ We use VFMpsc to represent the title of the document Value For Money in public sector corporate services.

(iii) Indicator selection criteria

The document also provides the criteria for selection of the indicators. For each corporate service function, there should be a small set of primary indicators each of which must fulfil at least one of the following criteria. Indicators should:

- be critical to the reputation of the function
- be recognised as a key feature of a modernised organisation
- relate to processes or activities that account for at least one-third of gross spend of that function
- have a major impact on the outcomes or performance of the organisation as a whole

An additional set of secondary indicators are provided that match one of the criteria above, although not necessarily to the same degree or assist in explaining variations between organisations' results for the primary indicators. The rest of this document relates specifically to the indicators for the HR Function guidance.

(iv) Scope of HR function activities

The guidance provides a means of defining the scope of the HR function and identifies 'key' questions which reflect the requirements of a modern, value for money HR function. The scope and key questions are included as background information as well as the categorisation of primary and secondary indicators.

The scope of HR function activities are identified as:

- ***HR Strategy/change management/organisation development***
- ***Employee relations:*** staff terms and conditions of employment, industrial relations, diversity and equalities in employment, tribunal claims, grievance and discipline, employee involvement and staff communications, commissioning of employee assistance and welfare, and occupational health assessment and testing
- ***Resourcing:*** workforce planning, workforce remodelling, job analysis and design, agency and other contingent labour, recruitment and selection, redeployment and transfers, redundancy
- ***Individual performance management:*** competency and skills planning/ frameworks, performance standards, employee appraisal, secondments, absence management
- ***Reward and recognition:*** pay and reward strategy, flexible benefits, post grading, pay and benefits administration, employee recognition schemes
- ***Learning and development:*** strategy, training needs analysis, commissioning, delivery and evaluation of learning and development
- ***Health and safety:*** policy and procedure development, incident management, compliance and inspection regime

The following activities were deemed outside the scope:

- Pensions administration
- Payroll (assumed covered under the Finance Function although recognition is given that for some this falls under the HR Function remit. There are two specifically-related payroll secondary indicators (13 and 14) under the Finance indicators)
- Ensuring equality and diversity in the delivery of services
- Delivery of occupational health assessment and testing
- Delivery of employee assistance and welfare.

(v) Key questions for the HR function

To derive the VFM indicators for the HR function, a number of key questions were derived that reflected a modern, value for money HR function. These were:

1. Is the HR function cost-effective?
2. Are HR processes operated in an efficient and timely manner?
3. Is the HR function effectively supporting the organisation in ensuring it has the right people, in the right place, at the right time?
4. Is the HR function proactively planning for future resource needs and taking appropriate action to address gaps?
5. Does HR ensure there is appropriate investment in terms of capacity building within the organisation including leadership development?
6. Is the HR function helping to effectively promote and manage the health, safety and wellbeing of staff?
7. Is the HR function helping the organisation to effectively manage individual employee performance?
8. Does the HR function help to ensure the organisation appropriately recognises and rewards employees?
9. Does the HR function help to ensure a diverse workforce?
10. Are internal customers satisfied with the services provided by HR?

(vi) Overall comment:

We note the similarities with regard to our own HR Profiler™ which structures people management activities across ten domains and 93 main activities. One notable absentee is the HR Governance domain. From a value for money perspective it is important to distinguish between *HR functional value for money* where the HR function has a **direct** influence and *people management value for money across the organisation* where the HR function has an **indirect** influence (the strength being dependent upon specific context).

From the HR functional perspective, we would advocate that there is therefore a clear definition or distinction made in terms of 'value for money' otherwise there is a risk of confusion over both measurement and accountability with regard to people management going forward. Given the relevance of the key questions asked, this is particularly important when categorising Primary and Secondary indicators.

For example, absenteeism is people management indicator of which HR has an indirect influence (through managers) in terms of the recorded metric, even though the function has the responsibility of reporting it. The danger if this is seen as a primary indicator is that managers will interpret this to be owned by HR which is not the same thing. Thus we would advocate that this is a primary '*people management*' indicator and a secondary '*HR function*' indicator.

Whilst acknowledging the establishing of principles and subsequent criteria for indicator selection, we would point out that the criteria rationale requires further elaboration in terms of the primary and secondary indicators as chosen to avoid some potential *unintended consequences* (as shown in the example above). This echoes a number of comments from several of our local government consortium members.

The re-categorisation of primary and secondary indicators is only the first part of a realignment. There is a further due diligent undertaking in identifying as to what these indicators are measuring in terms of efficiency, effectiveness or both.

We have therefore provided further comment regarding metric dependency, i.e. that the relevant indicator can only be used in conjunction with further metrics/data to be considered robust.

This is to recognise the inherent complexity relating to HR function and people management measurement that is not necessarily present in the other corporate function outputs. Overall, we are looking to ensure complementarity in keeping with the intended nature of the project's principles.

4 Summary list of HR function VFM performance indicators

1. Performance indicator recategorisation

We have repeated the list of HR function VFM performance indicators and re-categorised them into HR function and people management indicators.

2. Indicator - dimension of performance

We have provided further insight into whether the indicators are measuring efficiency, effectiveness or both (or neither) subject to 'measure contingency' below.

3. Measure contingency

The complexity of people management measurement requires a degree of specialist understanding to avoid unintended consequences of particular use of metrics. As such, in keeping with the principles and criteria laid down in the *VFMpscS* document, we have identified those indicators that require further measurement treatment for them to be classed as robust or meaningful for the context given.

4. Additional expert comment

Where appropriate we have added to the explanatory text where initially provided to enrich understanding and where also appropriate we have offered alternative suggestions.

Primary indicators

#	Indicator	HR Function	People Management	Mix of HRF/PM	Efficiency	Effectiveness	Outcome but needs context	Data only without further context
1a	Cost of the HR function as a percentage of organisational running costs (expenditure)	✓			✓ ^P			
1b	Cost of the HR function per employee	✓			✓ ^P			
2	Ratio of employees (full-time equivalents) to HR staff	✓*			✓ ^P			
3	Average days per full-time employee per year invested in learning and development		✓		✓			
4	Leavers in the last year as a percentage of the average total staff.		✓				✓	
5	Average working days per employee (full time equivalents) per year lost through sickness absence		✓				✓	
6	Commissioner and user satisfaction index - a composite indicator compiled from the responses to a set of statements by commissioners and users.			✓				
C	The HR function supports delivery of the organisation's strategic objectives.	na	na		<p>These are qualitative questions and thus care needs to be taken in terms of providing a balanced index.</p> <p>The use of (U) User here is misleading from an HR functional context.</p> <p>A better label would be (A) for Agent to recognise the role actually being played by subject of question.</p> <p>Note the mixed nature of several questions.</p> <p>✓^R Question has underlying assumptions which need to be clarified to provide meaningful answers</p>			
C	The HR function provides quality advice when I need it.	✓ ^R	✓ ^R					
C	The HR function enables me to address people management issues.	✓ ^R	✓ ^R					
C	The HR function anticipates the organisation's workforce issues and addresses them.	✓ ^R	✓ ^R					
C	The HR function provides value for money.	✓ ^R	✓ ^R					
U	The organisation offers flexible remuneration and benefits options which take account of the different needs of staff.	✓ ^R	✓ ^R					
U	The organisation takes the well-being of staff seriously.		✓					
U	The appraisal process helps me set measurable objectives which make clear what is expected of me.		✓					
U	I receive appropriate learning and development in relation to my needs.		✓					
U	I know where to go if I have a query relating to an HR issue.	✓ ^R	✓ ^R					
C	The HR function supports delivery of the organisation's strategic objectives.	na	na					
7	Management practice indicator – the number practices that have been adopted by the organisation out of a possible total of 10	See overleaf						

7 cont	Indicator	HR Function	People Management	Mix of HRF/PM	Comment
i	The last three years the HR Function has rationalised the number of sets of Terms and Conditions in use in the organisation by five per cent.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator.
ii	The organisation has undertaken equality impact assessments across all key service areas within the last three years, and is implementing an action plan which targets areas of vulnerability.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator
iii	There is employee self-service through desktop access to modify non-sensitive HR data.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator
iv	All employees have clear and measurable outcome based targets set at least annually.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator
v	All employees have had the opportunity for a formal, documented performance review at least on an annual basis which can track personal/professional improvement.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator
vi	The organisation carries out a survey of staff satisfaction levels at least annually, publishes the results, has developed an action plan and monitors delivery of that plan on at least a quarterly basis.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator. Should focus on employee engagement as measure of PM effectiveness.
vii	The organisation explicitly requests that employees declare that they have complied with any Continuous Professional Development (CPD) requirements of their professional institute (where applicable).	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator
viii	The organisation has a statement which anticipates the workforce requirements of the organisation over the medium-term (at least five years) and an action plan agreed by the Executive / Corporate Management Team which sets out how those requirements are met and is monitored on a six monthly or more frequent basis.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator
ix	A comprehensive professional development programme is in place for professional HR staff which ensures that they receive at least five days of continuing professional development per annum.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator
x	It is possible to apply on-line for all vacancies for which external applications are invited.	na	na	na	This is a binary (i.e. yes/no) target measure not a performance indicator
	<p>A common error when designing performance indicators is the confusion between targets and measures/indicators. For example, in (i) the number of terms and conditions in use is actually the performance indicator. The target 'to reduce by 5% over three years' has actually replaced it. With regard to targets, context, range and calibration are required for any target to have relevance in a measurement context.</p> <p>Primary indicator 7 constituents are all binary targets, thus rendering the index of limited value. There are ways for aspects of each of these questions to be measured – see final comment at the end of this section.</p>				

Secondary Indicators

The complexity of people management measurement requires a degree of specialist understanding to avoid unintended consequences of particular use of metrics. As such, in keeping with the principles and criteria laid down in the *VFMpscscs* document, we have identified those indicators that require further measurement treatment for them to be classed as robust or meaningful for the context given.

#	Indicator	HR Function	People Management	Mix of HRF/PM	Efficiency	Effectiveness	Outcome but needs context	Data only without further context
1	Cost of learning and development activity as percentage of the total pay-bill		✓		✓			
2	Cost of agency staff as a percentage of the total pay-bill (excluding those counted in secondary indicator 3)		✓*					✓
3	Percentage of posts currently in the leadership of the organisation which are filled by people who are not permanent in that position.	✓*	✓*					✓
4	Average elapsed time (working days) from a vacancy occurring to the acceptance of an offer for the same post.	✓*	✓*		✓			
5	Cost of recruitment per vacancy	✓*	✓*		✓			
6	Reported injuries, diseases and dangerous occurrences per 1,000 employees per year		✓			✓ ¹		
7	Percentage of people that are still in post after 12 months service		✓				✓ ^P	
8	Cases of disciplinary action per 1,000 employees		✓			✓ ^P		
9	Percentage of staff who receive (at least) an annual face to face performance appraisal		✓		✓			
10	Percentage of leadership posts occupied by women			✓				✓ ^{Rv}
11	Percentage of employees who consider themselves to have a disability			✓				✓ ^{Rv}
12	Percentage of employees aged 50 or over			✓				✓ ^{Rv}
13	Percentage of Black and Minority Ethnic (BME) employees in the workforce			✓				✓ ^{Rv}
✓*	Require context for performance indicator to have relevance, i.e. what is a good/bad/acceptable/unacceptable indicator range. They also may be proxy measures – see below.							
✓ ¹	Actually this is a reverse effectiveness indicator, i.e. measuring ineffectiveness							
✓ ^P	Proxy indicator. A proxy indicator is a used to actually measure something else. Thus context and explanation are prerequisites. Any proxy indicator needs to be flagged.							
✓ ^{Rv}	These indicators are actually forms of data without specific context and underlying assumptions being articulated. There is also an issue as to the relevancy as a VFM indicator. This does not render this data irrelevant but questions as to whether these should constitute some form of diversity index – see for example VaLUENTIS diversity index as part of the organisation engagement RADAR performance output.							

Further comment

The *VFMpsc* document provides fairly detailed explanations regarding definitions and examples, notwithstanding our comments provided above. However, certain indicators do require further text for clarification.

For example, Primary indicator 5 – absenteeism, describes one method of calculation and mentions the issue of distortion. HR Practitioners, conversant with absenteeism may prefer to use the Bradford method or equivalent.

The text makes no mention of the use of audit here to validate data, i.e. absence can be lowered by simply not following procedure which may distort any benchmark exercise.

For further on measure definitions and calculations, refer to the VaLUENTiS Human Capital Reporting Standards and operating principles.

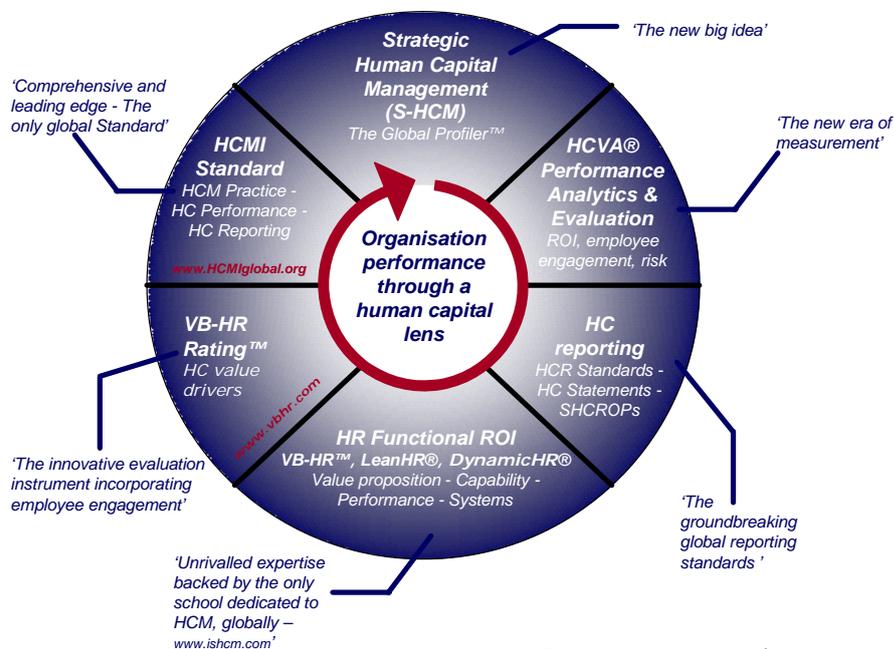
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