

VB-HR™ RATING – HCM100 BENCHMARK REPORT

‘Organisation Performance through a Human Capital lens’



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2005



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'Fusing finance with HR'

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As a company we define the highest professional standards in order that our clients, which include FTSE100, Euro300, and S&P500 companies, and the public sector, receive unparalleled service.

VaLUENTiS' practitioners are skilled across a range of disciplines that include business performance, organisational architecture, financial economics, human capital management, strategy, and measurement.

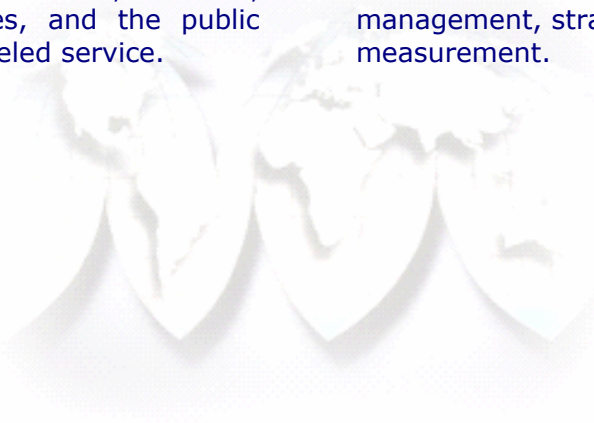




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i Foreword

2005 marks the introduction of a new and unrivalled reporting standard in the measurement, analysis and value benchmarking of Human Capital Management (HCM) in organisations. We trust that this groundbreaking event will propel organisations and HR functions forward into a new realm of understanding and create a new era in terms of the way in which human capital and human capital management is both perceived and reported. The report is a culmination of over ten years of applied research and client project experience; and the accumulated expertise and insight that comes from working with top organisations around the world.

The subject – VB-HR™ Rating - is the most sophisticated human capital measurement reporting and diagnostic tool available. Aside from its truly innovative reporting solution, its portfolio of derivative tools assess current approaches towards measurement within HR and human capital management (HCM) with an organisation performance focus, identifying emerging insights into today's human capital management practices.

Over the last few years, there have been a number of task forces, workgroups, academic studies and proprietary offerings devoted to the topic of human capital measurement, most of which have failed to deliver on early promise. It is time to move on: organisations need something now to adopt as standard and we believe that the VB-HR™ Rating provides the necessary rigour and elegance.

The contents of this publication are based upon the utilisation and subsequent calibration of VaLUENTiS' VB-HR™ Rating system and its derivative components. To that extent we are delighted that the exercise has surpassed our expectations in terms of both the accuracy and level of detail that both the model and construct display.

The report presents the findings from the initial benchmark group of 100 organisations drawn from the Public and Private sector, including a representative tranche of FTSE100, FTSE250, S&P500 and global privately-owned constituents.

As a professional services firm, client confidentiality is of uppermost importance to us and thus no specific organisation's statistics are reported here. However, we have included the names of organisations with their consent in Appendix I (whilst respecting those organisations who have preferred their involvement to remain confidential at this stage) merely to validate our claim of representation in terms of the constituent index.

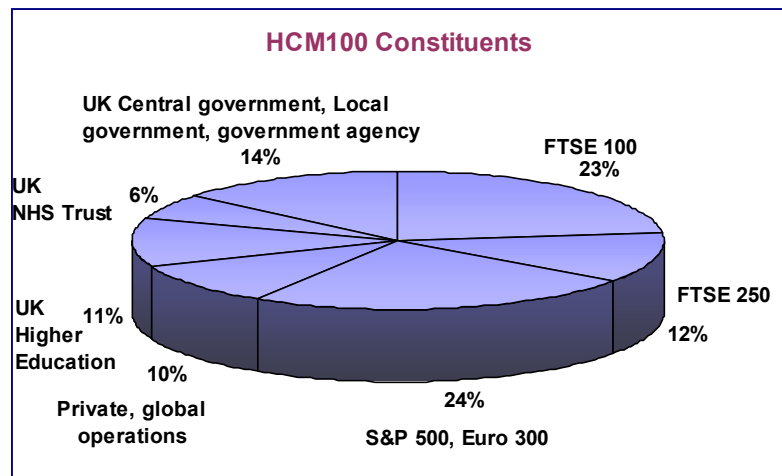
We have been overwhelmed with the number of client organisations who have proffered quotes regarding the VB-HR™ rating and we have included them within the report. These have been included anonymously as we do not wish to portray 'endorsement' at this stage, rather a reflection of their experience.

We would like to offer our warm thanks to those organisations who accepted our invitation to take part and trust that they all benefited from the process and feedback experience.

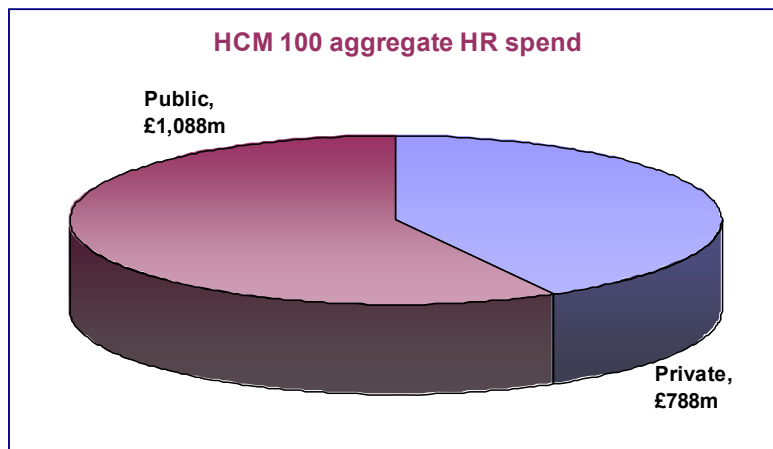
Nicholas J Higgins
Chief Executive Officer
VaLUENTiS Ltd
07.10.05
HCM100 overview



In order to provide a representative benchmark sample, the initial HCM100 benchmark group includes 100 Private- and Public-sector organisations drawn from various global representative indices and over twenty industry sectors, including six from the public sector. The following pages present an insight as to this benchmark group through a series of charts representing various dimensions of operating statistics.

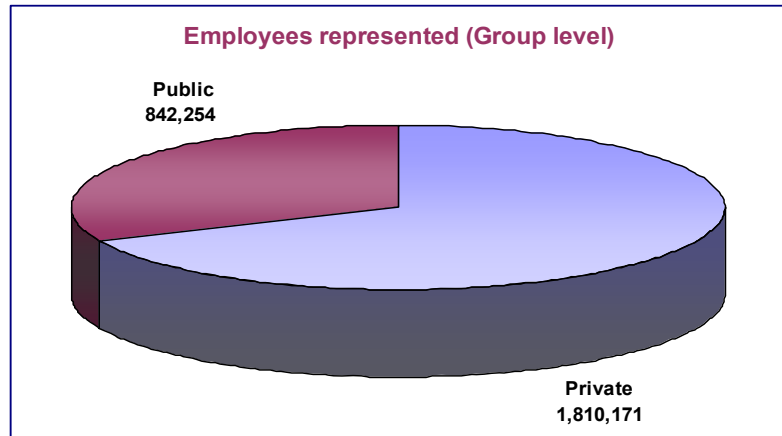


Aggregate adjusted HR spend of the HCM 100 organisations totals some £1.88 billion, of which 58% is attributed to Public sector and 42% to Private sector organisations.

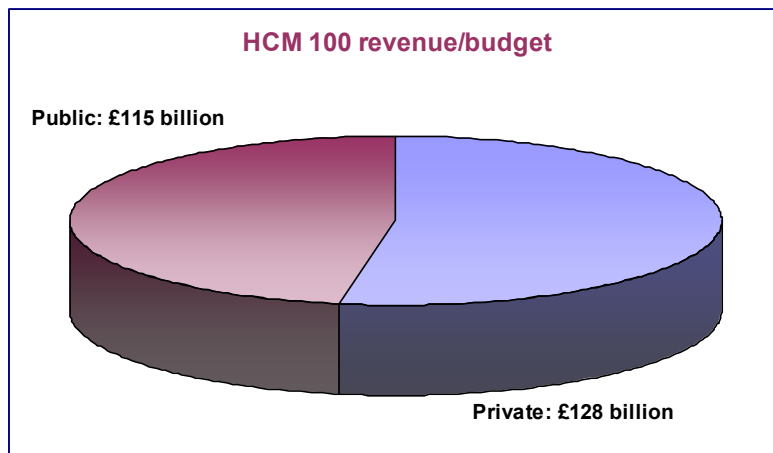




The number of employees represented by the HCM 100 organisations totals 2.65 million. Of these, 32% are employed by Public sector and 68% by Private sector organisations.



Combined revenues (using operating budgets as a proxy for public sector organisations) of the HCM 100 organisations total **£243 billion**, fairly evenly split between Public sector and Private sector.



The range of participating organisations demonstrates a high level of market interest in evaluating HCM practice within multiple sectors and sizes of organisation, and demonstrates the applicability of the VB-HR™ Rating system.



The following tables set out the 26 sectors involved in the HCM100 initial benchmark group – as indicated.

Private Sector	Public Sector
■ Business services	■ Government - Agency
■ Chemicals	■ Government - Central
■ Construction/Engineering	■ Government - Local
■ Distribution	■ Health (NHS Trust)
■ Financial services - Insurance	■ Higher education
■ Financial services - Investment banking	■ Police/Fire
■ Financial services - Retail banking	
■ Financial services - Other	
■ Food production	
■ FMCG	
■ Hotels	
■ Leisure	
■ Manufacturing/Mining	
■ Media	
■ Professional Service Firms	
■ Pharmaceutical	
■ Retail	
■ Telecommunications	
■ Transport	
■ Utilities	

For the purposes of the report, a number of these sectors have been clustered and aggregated for the purposes of analysis to protect client confidentiality whereby means of deduction may expose certain

individual client findings. In reality client organisations receive much more specific context data during the VB-HR™ Rating process.



ii Introduction and routemap to contents

This report is divided into three main sections: Part 1 – which includes a general observation on the issues and challenges prevalent within the HR industry, and a report on metrics and benchmarking. Part 2 – focuses on the VB-HR™ Rating and results of the HCM100 study. Part 3 – includes a review of HR functional effectiveness, the inclusion of our blueprint of the emerging HCM discipline, planned developments for the VB-HR™ Rating and a brief introduction to the wider aspect of intangibles and value-based enterprise performance.

Part 1

Chapter 1 introduces the emerging discipline of Human Capital Management that contributes to organisational performance, whilst *Chapter 2* reviews HR measurement and metrics, including a critique of current benchmarking and measurement approaches.

Part 2

Chapter 3 introduces the VB-HR™ Rating, its roots, methodology and calculative ability together with cross-industry results

and analysis, with *Chapter 4* providing more in-depth information regarding the aggregate sectors and individual HCM value drivers.

Chapter 5 focuses on the HC Performance matrix™, its underpinning rationale, implications and overall results, whilst *Chapter 6* focuses on the complementary HCM investment model, its rationale, implications and findings.

Part 3

Chapter 7 presents current challenges for the HR function and its effectiveness, as well as introducing the VB-HR™ performance system, accompanied by various insights from the collated data.

Chapter 8 provides HR trend analysis derived from the data. *Chapter 9* provides further insight through looking at applications of the VB-HR™ Rating and its planned development going forward.

Finally, *Chapter 10* closes with a look at the wider perspective of intangibles and the emergence of value-based enterprise performance.



iii Market context & proposition

The big picture

For the last decade or so, there has been a market acceptance that organisations are increasingly reliant on intangible assets to derive superior or 'successful' performance. Though we cannot ignore the importance of tangible assets, intangibles such as brand, intellectual property, customer relationships, knowledge, innovation and human capital have become an increasing focus of attention.

Over the last few years, organisations have been engaged in the pursuit of valuing human capital as a means of answering a number of searching questions around differentiation of organisational performance. Most commentators refer to the 'people are our greatest assets' quote as a starter to uncovering some underlying magical method of valuation. However, we have to acknowledge that human capital though important is not the only intangible and a number of business models are as (or even more than) reliant on other intangibles to generate superior performance and competitive advantage.

Though evaluating 'human capital' is a worthy pursuit (having settled on the definition), we believe that there is a more central issue to evaluate – the effective utilisation of people in the context of an organisation's goals. Quite simply, if people weren't important or valuable to the organisation, they wouldn't be employed. But, somewhat paradoxically, all organisations have to employ people to exist - thus for any organisation, human capital has to be of value (but not necessarily the same given the context of each organisation's operating model).

It is also worthy of note that during this past decade, most organisations have

been operating in fairly benign economic conditions and attention needs to be equally paid to the potential 'resilience' of these intangibles, and thus value, in more testing economic climates.

From a human capital perspective, this raises the question as to the investment in people-related areas and whether, given the expanding focus on work-related themes, organisations have potentially been over-investing (as much as under-investing) in human capital management infrastructure, particularly where business cases for investment may not necessarily have been articulated.

This point is very important, when acknowledging the increasing 'trade-offs' that organisations (mainly through their HR functions) face in terms of current spend and expected return in terms of performance (and minimising risk in terms of compliance). For many organisations and their HR functions this is now a constant challenge. Spending trade-off has manifested itself in a number of ways over recent times, for example, restructuring HR into more lean operating models, greater use of procurement/technology (though not necessarily outsourcing), greater use of business case discipline, and the move towards a more measurement-focused environment. HR outsourcing (HRO) has received much attention recently, though the 'market' appears to be more discerning¹ than expert forecasts. Outsourcing is all about transaction cost and risk, two dimensions that do not appear to be well understood, which can add significant cost to HR spend without any significant benefits².

¹ See for example, Special report: HR Outsourcing, CFO Europe, June 2005, pp37-42

² The Reality of HR Outsourcing: Value, cost and risk, VaLUENTIS white paper, 2005



Issues with current measurement

Our focus and the subject of this report are on the performance of human capital and human capital management, in relation to organisational performance. Knowledge of intangible models reminds us of the varying complexity within organisations, of which human capital is a core component. Value-based enterprise performance featured later in this report presents an intangible model that depicts the main components, one of which being human capital management.

In view of this knowledge, we believe that looking to link concepts such as shareholder value with human capital without acknowledging linkage to other intangibles is futile and potentially misrepresentative. Thus organisations and/HR functions need to be circumspect in attempting to link human capital elements directly with revenue, profit, market value etc., as evidenced in existing common benchmark data, as only in extremely narrow circumstances can direct correlational³ links be established between these metrics.

As a proxy, many HR functions have been engaged in benchmarking and 'quasi-measurement' activities in an attempt to provide a framework for measuring human capital for both internal and external reporting purposes; for evaluating the contribution of and/or effecting change in the HR function. Partnered with this has been much focus on the internal structuring of HR. Though this is eminently sensible, we believe that there has been some tendency to avoid clarifying the HR function's remit within an organisation in terms of how it assists in optimising human capital performance and the levers used to realise this.

It is a positive sign that organisations have put some resource into the general

area of measurement/analytics, but we are concerned and disappointed that current tools and methodologies in the market-place are at best limiting, whilst at worst potentially misleading and irrelevant.

To explain our concern it is important to understand the definition, nature and role of benchmarking, as, to date, this has been the main focus of HR measurement attempts.

For simplicity, we differentiate benchmarking, here, in two main ways (there are more) – (i) the act of gaining and comparing data, and (ii) the establishing of a baseline set of knowledge for acting upon, whether for intervention or evaluation purposes.

The first option (i) really only looks at '*the what*', whereas the second option (ii) looks at '*the why*', '*the how*' and '*the what*' - a process that is much more associated with measurement. In practice these two options can overlap which is why the act of benchmarking (which is a particular aspect of measurement) can become confused and often misleading if looking to act on findings. Measuring elements of human capital and human capital management also presents further challenges in that various metrics need to be combined in various ways to provide effective meaningful measurement.

This has become particularly apparent within the HR function/human capital management space. Most of the '*what*' benchmarking has been singular-based 'cost', 'efficiency' or 'input' related metrics with little or no corresponding 'output/outcomes' to provide effective performance knowledge. Also, to cover for the inadequacy of measurement relevance, resource-intensive exercises in gathering global data have been used to make it feel more authoritative. What organisations and HR functions need to know is how effective human capital performance/productivity/output is in

³ We use the term here rather than reference causation, as experience has shown how notoriously difficult at this level it is to prove conclusively.



relation to the associated spend/costs at business unit or local/country level. Also, benchmarking by percentile still begs the *so what?* question without specificity of context or output related data.

A particular issue prevalent in HR measurement is the potential to adopt a financial metric by dividing it, by say, FTEs and labelling it a human capital metric which is not strictly true [a process we define as 'misappropriation of denominator' – see example below].

Example - adopted financial metric

Revenue per FTE has been commonly used as an 'output' marker for human capital productivity. The equation is simple enough, but that is its drawback. Experts in organisational performance will instantly recognise its flaws. Unless all organisations exhibit the same operating model with the same people cost to operating cost ratio, then this equation will be of no relevance. However, what may be of value is to adjust the revenue per FTE figure to take account of the people cost/operating cost ratio (what we term human capital intensity) to give a more relative comparison. Even then this figure is only a 'proxy' as organisation operating models that generate revenue contain a multiplicity of inputs. Similarly, 'costs per FTE' suffers the same severe limitations for the same reason. [These particular metrics highlight the problem with simplicity, in that dividing any potential financial metric by the number of employees does not necessarily constitute an 'HR metric' – an example of 'denominator misappropriation'].

Human capital reporting

There has been much discussion in HR (and to a lesser extent, organisations) around the question of a standard human capital reporting framework. Organisations are seeking a workable framework that can provide them with a meaningful 'metric tree'; a means of presenting data

for both internal and external reporting that meets any required standard; also providing them with a portfolio of derivative tools that can provide diagnostic and comparative analyses whilst maintaining an organisational (unit) context.

There are a number of observers who believe that it is not possible to generate a standard meaningful framework, citing differences in sectors, context etc, whilst others believe it is.

We firmly believe that a standard reporting framework is possible and is presented in this report. We do not see that sector differences should stop the adoption of a common framework, nor should they become 'too vanilla' to be meaningful. However, to acknowledge or understand this hypothesis requires a shift in mindset. Most industry thought and comment has focused on the type and selection of metrics. However, we believe that metrics are only a means to the solution, **not** the solution itself.

In essence, we're putting forward the premise that the VB-HR™ Rating, together with appropriate commentary in a standard reporting format, can be the accounting parallel for human capital reporting. Thus, selected HR metrics feed into the template just as financial metrics feed into the generally accepted accounting statements.



This proposal changes the basic argument and solves a number of issues in the process.

It effectively focuses on outcomes similar to the accounting statements, and as such issues such as sector differences, sensitivities of data, meaning and context, are reduced in terms of significance of challenge. Sector



comparisons can be maintained but do not need to be overly-used.

Commentators have pointed out that accounting has taken some 500 years or so to develop into its current state (which still has much to resolve) and our expectation shouldn't be that high.

We would argue that modern day organisations have been around for some two hundred years and should, by now, be in a position to report under a standardised HC(M) framework.

To surmise otherwise would be to fall into the lowest common denominator trap of expectation.

The VB-HR™ Rating

The VB-HR™ Rating, and its underlying construct, is designed to provide organisations (and HR functions) with the 'Why', 'How' and 'What' enabling them to measure, analyse, benchmark and report both input- and output- related performance data across eight 'asset-type' categories (HCM value drivers) in three dimensions:-

- **Effectiveness**, the degree of current performance
- **Maintenance**, the degree of effort that is being invested to maintain or upgrade current performance (as such a future indicator)
- **Risk**, the degree to which the organisation is exposed to adverse deviation of performance which can take a number of forms.

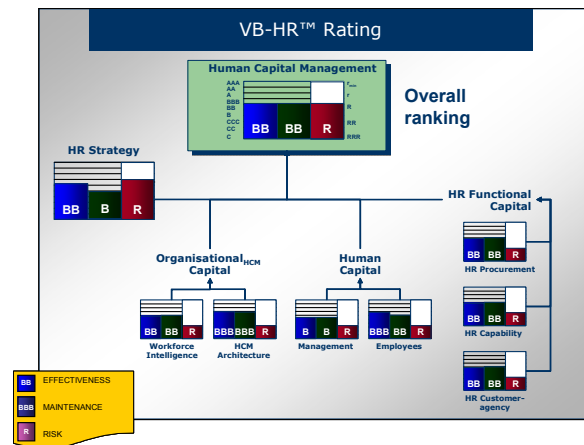
For the Effectiveness and Maintenance ratings, there are ten levels of performance (AAA, the highest to C, the lowest) following the same nomenclature seen in financial markets (e.g. bonds) and therefore easy to identify with from a commercial perspective. The Risk rating differs in that it has five levels of severity (r_{min} – minimum risk to RRR – highest risk level).

The eight HCM value drivers are:

- HR Strategy,
- Workforce Intelligence,
- HCM Architecture,
- Management,
- Employees,
- HR Procurement,
- HR Capability
- HR Customer-agency

Each value driver receives its own rating and is then aggregated to an overall rating as displayed below.

The VB-HR™ Rating



The related HC(M) Performance Model links organisational performance through a human capital proxy metric with the VB-HR™ Rating to produce a descriptive/predictive tool (see Chapter 5).

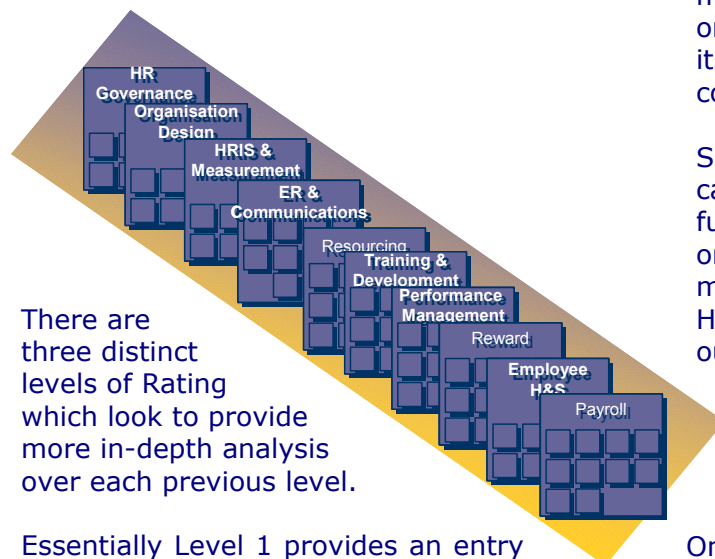
The Rating does not profess to be the 'holy-grail' but a significant step-change in the way organisations measure human capital and human capital management, a framework that can be easily adopted and utilised.



iv Methodology

The VB-HR™ Rating system is a composite formed from various interlinked, complex models. These consist of:

- An HCM 'input' model that defines human capital management practice activities; broken down across 10 'domains' (see below) and 93 clustered activities/tasks/processes – see page 102)
- Identifiable drivers of HCM performance that influence underlying organisational performance
- A combination of multi-factor based contribution and output models
- A calculative matrix that combines qualitative and quantitative data through a series of algorithms
- A sophisticated survey construct that maximises data points and minimises question-statements for ease of client use
- HCM value driver beta coefficients
- Sectoral and overall benchmark group indices.



There are three distinct levels of Rating which look to provide more in-depth analysis over each previous level.

Essentially Level 1 provides an entry point for organisations, with Level 2 adding further depth to the basic findings, particularly in terms of a wider organisational viewpoint including line management, detailed HR spend and

procurement and a more authoritative action plan of improvement. Level 3 is an 'audit' based assessment independently qualifying findings for external reporting purposes.

This particular study

For this report, participating organisations were asked to complete a level 1 rating – answering a multi-scaled instrument containing qualitative and quantitative question-statements.

The overall survey construct is structured into eight sections, each examining aspects of HCM within the organisation from a different perspective. The overall construct is designed for HR representatives to complete, whilst a shortened format is utilised for line manager or non-HR completion.

The 'Question-statements' focus on a range of organisational aspects of people management and performance within the organisation, as well as the HR function itself. A HR metrics template is also completed.

Survey responses therefore cover human capital inputs (e.g. the work of the HR function and management within the organisation); throughputs (e.g. line manager involvement in carrying out HCM-related activities); performance outcomes (e.g. organisational effectiveness, employee turnover rates, engagement levels etc); and financial data, such as operating margins, people costs, HR budgets etc.

One of the features of the VB-HR™ Rating system methodology is the face-to-face meeting to complete the survey construct at level 1. This allows a VaLUENTIS practitioner to contextualise the survey for consistency of completion, and interpret



where terminology or application may not be immediately apparent. The more intensive Level 2 and 3 Ratings - to provide more comprehensive results (not part of this study) - utilise an on-line server capability (as well as other software-driven assessment tools).

On average, the full survey takes in the order of 25-40 minutes to complete, with a minimum of reference.

The resulting data is uploaded into our VB-HR™ 'data warehouse' and the various modelling algorithms take over to produce several detailed reports on HC(M) performance. A parallel exercise is undertaken by analysts, looking at accounting and operational data to provide the corresponding organisation performance data.

Further contextualisation takes place with the input of a qualified HC Practitioner.

Various report formats can be produced providing detailed HCM value driver data plus generated text-algorithms to provide contextual feedback and resulting action-focus.

As stated, the HCM100 initial benchmark group includes Private- and Public-sector organisations drawn from 26 sectors. A representative sample of organisations across

various sectors and from differing listing indices was invited to take part.

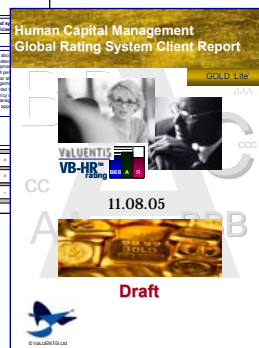
Two meetings were carried out with organisations - (i) to complete the instrument, and (ii) to complete a feedback session which included details of their subsequent level 1 report.

The benchmark exercise commenced on 01 June 2005 and was concluded on 27 September 2005. The wide range of participating organisations demonstrates a high level of market interest in evaluating HCM practice within multiple sectors and sizes of organisation, as well as demonstrating the applicability of the VB-HR™ Rating system and its relevance to a wide range of organisations.

We report that data received at this stage from participating organisations is at level 1. As previously mentioned, further triangulation and 'drill-down' of data is carried out at levels 2 & 3 within the client organisation, at business/Directorate unit level. Further aggregated data validates reported data as growing numbers of client organisations undertake the VB-HR™ Rating.

This initial group will be expanded to create specific sector indices (see Chapter 9 for further information on planned developments).

Client Organisation: SAMPLE UK							
Business Unit:							
Overall Rating	Client HCM Report: Rating summary 07 August 2005 HCM Symbol: XXXX						
HCM Value Drivers	<table border="1"> <tr> <td>HR Architecture</td> <td>BBB</td> </tr> <tr> <td>HR Strategy</td> <td>BBB</td> </tr> <tr> <td>HR Development</td> <td>1</td> </tr> </table>	HR Architecture	BBB	HR Strategy	BBB	HR Development	1
HR Architecture	BBB						
HR Strategy	BBB						
HR Development	1						
Workforce Intelligence	<p>The organisation has developed appropriate HCM processes and is an employer and leader in providing continuing professional development.</p>						
HCM Architecture	<p>The HCM architecture includes an overall range of HRM, covering the average performance of all HRM elements. This suggests the organisation has a strong focus on HRM processes and is a leader in providing continuing professional development.</p>						
Management	<p>The areas of recruitment, pay and investment emerge as particular strengths in the HCM architecture. The HCM architecture is well aligned with the organisation's business strategy and is a leader in providing continuing professional development.</p>						
Employees	<p>The HCM architecture is well aligned with the organisation's business strategy and is a leader in providing continuing professional development.</p>						
HR Procurement	<p>The HCM architecture is well aligned with the organisation's business strategy and is a leader in providing continuing professional development.</p>						
HR Capability	<p>The HCM architecture is well aligned with the organisation's business strategy and is a leader in providing continuing professional development.</p>						
HR Customer Agency	<p>The HCM architecture is well aligned with the organisation's business strategy and is a leader in providing continuing professional development.</p>						
Effectiveness	<table border="1"> <tr> <td>Effectiveness</td> <td>BBB</td> </tr> <tr> <td>Maintenance</td> <td>BBB</td> </tr> <tr> <td>Risk</td> <td>BBB</td> </tr> </table>	Effectiveness	BBB	Maintenance	BBB	Risk	BBB
Effectiveness	BBB						
Maintenance	BBB						
Risk	BBB						





"Having participated in the initial high level pilot, we believe that with further application of the VB-HR tools and metrics, the outcome could significantly add to our understanding of Human Capital management and allied decision making. The performance diagnostics are geared to helping organisations like ours address when, where and how we invest in the deployment of critical resources and this could play a pivotal role in determining the priorities for both HR and the business going forward."

**HR Director
Global Pharmaceuticals Company**

"I am impressed by the outputs of this tool in terms of information that is presented on our 'Human Capital' as well as the diagnostic properties which enables us to target, very easily, those areas that need attention and which will give the best return on investment."

**Director of Human Resources
Government Agency**

"Having undertaken the VaLUENTiS VB-HR GOLD 'Lite' benchmarking exercise, HR was presented with a comprehensive report focusing on the key HCM drivers. A myriad of graphics was supported with detailed and thought provoking commentary. The observations raised in the report have supported our current understanding of our people management strategies and have additionally highlighted new areas to focus on."

**Group HR Manager
Global Business Services Company**





Part One



Chapter 1	<i>HCM – The emerging discipline in driving organisation performance</i>
Chapter 2	<i>HR Metrics and measurement</i>

"Tremendously insightful report - VaLUENTiS has added huge value to my thinking on the measurement of human capital, this in turn has added real value to my thinking and consequent action in terms of people management within our business"

**HR Director
Global Pharmaceuticals Company**

"VB-HR Rating system is impressive. It reflected how effective we are in terms of managing our workforce, the organisation, our strengths and weaknesses and from the analysis provided - pointers for where to focus improvements. "

**HR Manager
UK Chemicals manufacturer**



Chapter 1

HCM – The emerging discipline in driving organisation performance

Human capital – a retrospective introduction

The term 'human capital' has been with us for over 40 years. The first use of the term has been attributed to Theodore Schultz, Nobel Laureate in a seminal economic paper⁴, that looked at providing an explanation as to the faster economic growth experienced where investment in human capital occurred as against 'conventional (nonhuman)' capital. Originally the term was particularly used to frame investments in education and training, before Becker's (another Nobel Laureate) classic treatise⁵ that expanded its boundaries from which today's wider accepted interpretation as an umbrella term to define the knowledge, skills and other attributes of individuals.

Human capital management (HCM) is all about the capability to optimise people's innate abilities, knowledge and skills that contribute to organisational success. The challenge is both simple and complex. Simple in the sense that one can relatively assess an individual's human capital, but complex in effectively managing

individuals or groups of individuals in an organisational setting that optimises collective performance and organisational aims.

Human capital management (HCM) has come to define something new in the space of HR from its humble roots in personnel management. The move towards human resources as a term reflected the growing contribution original personnel departments had made, moving from its administrative roots, to a more expanded role covering things such as employee relations, training and development, performance and talent management, reward, organisation development etc.

HCM is a wider, more pro-active and dynamic discipline that relates organisational performance through a 'human capital lens'⁶, for which traditional HR functions act as agents not guardians⁷.

⁴ Investment in Human Capital, Theodore W Schultz, American Economic Review, Volume 51 Issue 1, pp1-17, 1961

⁵ Human Capital, Gary S Becker, NBER Chicago, 1964 (3rd edition revised 1993)

⁶ partly based on High performance work organisations/ systems studies, see, for example, a summary of various studies by Farias & Varma, Human Resource Planning, June 1998 vol 21 no 2. Also, from an organisational effectiveness perspective, see, for example, Brickley J, Smith C W & Zimmerman J, 'Managerial Economics and Organizational Architecture', McGraw Hill, 2001 2nd ed; and Jensen M C, 'A theory of the firm, Harvard 2000 and 'Foundations of Organizational Strategy' Harvard 1998;

⁷ Value-based HR: A blueprint for the emerging discipline of human capital management, Nicholas J Higgins, forthcoming, 2006



It is particularly important to remember that the HR function is a corporate function and neither solely an employee support or compliance function as it is too often portrayed. HR as a discipline still suffers regular charges of insignificance and/or irritation rather than being noted for its value-adding contributions⁸.

Human capital management

Human capital looks at the contribution of people from two perspectives. It covers both the resource side, which businesses need to undertake activities; and also the capital side - the knowledge and potential value contribution that people make to the business aside from just their resource.

Human capital management encompasses a number of new areas that link into organisation performance. All companies employ people, since they are reliant on them for their operation - therefore people are indeed valuable. Thus the question should really focus on how much can people be utilised, whether resource, capital or both in an organisation to the benefit of the individual and the organisation.

Exceptions can arise in reality through an organisation's operating model which does not 'fit' with its environment, i.e. events where it is deemed that there are too many people given the nature of the organisation's objectives. However, this scenario itself can be attributed to a previous collective failure of the organisation's incumbent human capital.

Human capital management defines a number of capabilities that have expanded outside of the traditional HR's role, to become central towards what we now term organisation effectiveness. This encompasses a number of areas - performance; reward/benefits design;

employee relations/retention; organisation design (not just structure); job design, job evaluation; recruitment; organisation communication; change management; teamwork; talent management; succession management and so on.

Latterly, HCM has incorporated elements of IT to provide what is termed HRIS - the increasingly important information systems side to HR. More recently the focus has been on measurement - the ability to not only measure and evaluate things in the human capital space, but also to provide detailed analytics to be able to model the way in which organisations actually work from a people perspective.

It is now widely accepted that organisations have become more complex in structure. Growth in terms of outsourcing and offshoring, the use of contracting, strategic alliances, matrix structures and virtual networks all play a part in producing a more sophisticated organisational set-up. Market forces in both private and public sectors increasingly demand more speedy adaptation which put greater burdens on maintaining organisation effectiveness and greater demands on organisational management.

And here's the rub for HR - human capital management is not some 'new-fangled' thing. It's an evolving means through which the organisation's managers view people management in a more expanded role, with the HR function acting as 'agent' for embedding appropriate best practice. In good times, good HCM can accelerate growth and performance, in stagnant or contracting times, good HCM provides stronger organisation resilience⁹.

⁸ For the latest see 'Why We Hate HR', Fast Company, August 2005 and FEEDBACK responses in October 2005 edition

⁹ - at organisational level, see for example, 'The Quest For Resilience', Hamel G & Valikangas L, Harvard Business Review, September 2003, pp52-63

- at individual level, see for example, GSK Corporate Responsibility Report, 2004 at http://www.gsk.com/corporate_responsibility/cr_report_2004/ep_hs_health_programmes.htm



There have been a number of models that have been produced within this report. Several are leading-edge in the way in which they look to establish the connection between the HR inputs, outputs and outcomes, and the relationships between these three.

Measurement attempts

Several fairly unsuccessful attempts have been made at providing a direct causal link between human capital management and organisation performance, typically, measures such as market value through a narrow intangible rationale.

We have already stated that currently there is no model available that can adequately portray or map the very complex way in which intangibles operate. We have defined what we call 'value based enterprise performance', as the next level in terms of quantifying, measuring and understanding organisation performance (*see Chapter 10*). For a comprehensive 'no holes' model or methodology of enterprise value to be successful, it has to incorporate a number of different perspectives from the organisation; only one of which is human capital management. Other perspectives with which HC/HCM needs to be combined include:

- Customer/client management – an area that covers the organisation's customer value proposition(s) i.e. its marketing (the 4Ps), sales, PR etc
- Financial/governance – the financial/governance management perspectives
- Business intelligence – the information systems and IT architecture
- Operational excellence – parts of the value chain required to deliver the product, i.e. the supply chain and associated organisational components.

Only then will models emerge that will provide a potential multi-factored link that relates all of these together to give an underlying value of the enterprise. It is important to remember that organisations

operate through effective use of tangible and intangible assets side by side, a fact that many protagonists in the intangible debate seem to neglect.

What does it mean for HR

For many HR practitioners this all may sound slightly disconcerting as their main focus is people. The reality is that people permeate the organisation so an understanding of the organisation's operating model is important. There has been an increasing call for the HR profession to become 'more commercial' in the last few years; an acknowledgement that HR functions need to understand 'business'. However, equally, managers need to understand aspects of human capital management and certain terminology in the process.

Unfortunately, it would appear that too often HR functions spend an over-proportionate amount of time looking internally – an element of 'silo navel-gazing' wondering as to how or whether it makes a contribution or not.

Well, let's start with the fact that HR functions do add value. The question for HR functions is where does that value manifest itself? As you will see, the VB-HR™ model looks at the whole aspect of organisation performance from a human capital perspective, reviewing all of the areas mentioned earlier – that is where its inventory of question-statements and metric data are designed and linked.

The VB-HR™ model

The model has an unrivalled degree of sophistication – there are over 5,000 data points with over 7,500 linkages between the various inputs, outputs and outcomes. The model has been constructed through developing a combination of 'mini-models' of previous human capital/organisational effectiveness research published over the last forty years together with our practical client project experience.



The model construct rationale is contained within Valuentis proprietary VB-HR™ white paper portfolio¹⁰.

We have seen that most measurement conducted in the human capital space today is primarily benchmarking, much of which is irrelevant outside of the HR function. It is time for organisations and their HR functions to realise that they have to step-change the way in which they measure the contribution of human capital management.

The HC(M) Performance Model

The human capital performance model is designed to enable organisations to evaluate their current performance, and more importantly, to target their future performance. The VB-HR™ Rating provides organisations with a means to communicate human capital reporting in a standardised format.

We believe for the first time, that the market now has the necessary instrument to assess organisation performance from a human capital perspective. We have been heartened by the response of many of those in the study with regard to utilising the VB-HR™ construct. It is here that we will find how easy or hard it is for organisations to really understand how and what has been done/spent around human capital management.

It has been a recurring theme throughout this first HCM 100 study of the difficulties HR functions face in terms of obtaining an accurate picture of what is being spent and what is being done. From our perspective, this is the real flaw in an organisation's intelligence. This would be akin to the Finance function, for example, not knowing how many invoices there were outstanding at any point in time. This should not be underestimated in terms of the effect for HR to be able to get

a hold of what is actually going on in the human capital management space.

There are some new terms for HR practitioners and managers to get acquainted with. For example one of these is workforce intelligence, i.e. data or measurement that is HC or people related. Why do we call it that? For the simple reason that business intelligence denotes the capability of the organisation to collate data and measurement across its operations. Data/measurement on people is a subset of this, thus 'workforce intelligence'. A further example is the identification of HR procurement as a specific output area responsible for an increasing share of HR spend – as opposed to remaining hidden under the various traditional HR activities perspective.

Moving to the new space

We believe that leading-edge HR functions have already started to move into this new era – our work with a number of clients has confirmed that. The use of data analytics to enable fairly advanced modelling is an example of this.

There have been a number of attempts to construct frameworks for measurement, but these have always been led by the act of measurement itself rather than by the objectives of the measurement.

This is why the VB-HR™ Rating exists. The construct also allows for organisations (organisational units) to compare across consistent measurement parameters, rather than the inconsistent measurement parameters that so many benchmarks currently provide. The analytical tool now gives HR functions the wherewithal to not only measure where they are, but to systematically target where the organisation should be, given a targeted timeline.

¹⁰ VB-HR™ white paper series 2003-2005, proprietary intellectual capital not yet available in the public domain



"The VB-HR system provides the potential for identifying what we need to do to ensure we optimise effectiveness in our HCM practices – which is exactly what we want"

**Director of Human Resources
NHS Trust**



Chapter 2

HR metrics and measurement

The why, the what and the how

Over the last decade, there has been increasing effort to measure HR related activities and/or human capital. The act of measurement in organisations is mainly utilised for four different purposes:

- Tracking progress against set objectives/goals
- Monitoring for exceptions or non-achievement of targets
- Finding links (correlations/causations) regarding organisation performance
- Valuing the contribution of intangibles.

Primarily, measurement should assist in answering *the why, the what, and the how* of organisational performance.

For HR, measurement has primarily focused on the 'efficiency' and/or 'value contribution' of the HR function. More recently, this focus has expanded to look to 'value' human capital and/or human capital management.

In human capital terms, organisations and HR functions have/are utilising measurement:

- To provide metrics as required by basic operational needs such as absenteeism or turnover to track potential organisational performance issues
- To evaluate HR/organisational interventions or actions
- To provide comparative data, i.e. benchmarking re above
- To provide business cases for HR investment or spend in people

- As a means of analysis through modelling data to provide trends/patterns insight
- As a means of reporting both internally and externally within some form of framework
- As a means of valuing human capital.

For some time, HR functions have made use of benchmarking to provide supposedly comparative data, in order to provide grounds for improving operational efficiency. Human capital reporting is an increasing focus, due in the main to the impetus provided by the UK's Kingsmill task force and more recently the Operating & Financial Review announced earlier in 2005. Behind this is the logic that reporting on HC intangibles provides more information to the markets (financial, human and governmental) which boosts the standing of the organisation, whether for market value, employer branding or evaluation (for public sector particularly) purposes.

The Challenge

The challenge organisations face in evaluating human capital/human capital management and HR functional contribution is that there is a plethora of metrics available, very few of which provide any meaningful purpose when viewed discretely. This presents a number of problems, in the sense that only *the what* question is answered (and mostly only to some degree because of context).



For example, our own database of collated metrics, built over time from interaction with clients, contains nearly 1,000 different formulae, most of which are classified as 'efficiency-type' metrics, for example, HR FTEs to total FTEs, training days per employee, payroll cost per employee, recruitment cycle time (see Appendix II on page 126 for the evaluation list of 200+ common metrics extracted from the VB-HR™ database).

Further challenges are posed in terms of meaningfulness due to issues of metric definitions, data integrity, and particularly organisation context.

In providing context for our own VB-HR™ Rating and measurement, we have reviewed current practice within the industry, focusing on a number of commonly used metrics and providing a critique of their usefulness and also their drawbacks¹¹.

Revenue per FTE

This is used quite commonly across organisations and particularly across business units, as various benchmark publications report this. Unfortunately, this metric cannot provide any real comparison due to the fact that to be meaningful, the metric relies on the premise that all organisations operate with the same operating model – which is patently not true. One cannot draw a comparison, for example, generically between a professional services firm and a food supermarket chain unless at least adjusted to take account of their different utilisation of human capital. The metric also severely limits any comparison that can be made when combined with any other HR functional metrics in terms of efficiency. Similarly, 'costs per FTE' suffers the same severe limitations. [These particular metrics highlight the problem with simplicity, in that dividing any potential financial metric by the number of

employees does not necessarily constitute an HR metric – an example of what we term 'denominator misappropriation'].

Profit per employee

This metric, though on the surface may be viewed as a relevant measure, is subject to the same issues and limitations explained in 'revenue per FTE' above. In this instance, the profit is generated from organisational assets/resources which include people, not exclusive to people and unless all organisations have the same operating model, this measure again can lead to misleading comparisons – notwithstanding issues over what constitutes profit from an accounting standpoint.

Modelling analytics is an emerging discipline whereby certain metrics are combined ('concatenation' is the term we use) to provide meaningful analysis. For example, linking employee engagement data to performance data or segmented turnover data, to provide subtext trends such as low engagement/low productivity correlation or potential issues with leavers who have been 'recent' recruits.

Shareholder value (or wealth created) per employee

Over the last few years, there have been a number of attempts to link human capital/human capital management with market value type metrics. Some have been reliant on what may be termed robust academic research and scrutiny. However, academic research can, if given big enough samples, find correlations between most things, rendering any findings limited in their applicability – particularly when a sector or organisational or business unit focus is taken. Thus the bigger the academic study, the more potential for findings to be irrelevant at individual organisational level. Also, critical review of these studies can reveal the rather 'thin' construct used to derive the study outcomes, which raises further questions around validity and application.

¹¹ A more detailed critique is contained within 'Value-based HR: A blueprint for the emerging discipline of human capital management', Nicholas J Higgins, forthcoming, 2006



There are certain common HR benchmarking equations that derive a wealth metric but do not appear to take into account an organisation's 'cost of capital' – a fundamental financial metric to denote the appropriateness of the risk-return relationship (i.e. opportunity cost) of an organisation's business model assigned by the 'market'.

Where appropriate, we do envisage that human capital/human capital management can be linked with concepts such as shareholder value but this would require a more sophisticated approach than is currently available. For further comment on this and the issue of intangibles please refer to Chapter 10.

As a final note shareholder value (wealth creation) cannot be applied to all organisations and therefore is itself limited in application.

Competency/learning/qualifications

There are a number of discrete metrics that are in existence with regards to the measurement of skills, qualifications, and learning. Though there is merit in organisations collecting data in these areas (providing macro views, individual profiles etc.) these metrics are all 'input' focused and suffer from the 'so what' output question. Normally, these metrics are best applied by being fed into multi-factor models to generate output relationships, i.e. between performance and training or 'engagement' for example (a process we define as modelling analytics). Organisational context is of importance here if any meaningful comparisons are to be drawn.

Recruitment metrics

Metrics related to this area normally divide into two categories – those that are HR operational efficiency based (e.g. recruitment process cycle time) and those that are 'proxy' indicators related to other issues (e.g. acceptance rates that can be indicative of the strength of the employer brand or 'deal', and can be linked with other relevant metrics).

The drawback, here, as with many specific activity or activity chain type metrics, is the appropriateness for comparison particularly where aggregation takes place. Segmentation of role types and/or locations is often required to provide meaningful comparison.

Also recruitment type metrics do not always lend themselves to continual comparisons as they can be 'cyclical' and/or subject to specific events which may distort general industry benchmarking.

Turnover metrics

Metrics reported in this area are sometimes included under recruitment. Generally, aggregated involuntary and voluntary turnover statistics provide the organisation with some relevancy as a proxy output indicator for organisation performance from a human capital perspective. Again, segmentation provides more insightful data (e.g. manager versus employee, role bands, unit by unit level etc.) particularly when paired with engagement-type data to spot trends/correlations.

Two things to note here regarding general assumptions around employee turnover:

1. Low turnover is not necessarily a good benchmark score, as is high turnover, and in fact for organisations there is an 'inversion point' where low/high are deemed acceptable. This inversion point requires organisational context to be of value, particularly where change programmes may be in effect and degrees of turnover are expected.
2. Sector comparisons can provide a 'comfort zone' in terms of finding a norm which can mask 'deficiencies in accepted practice' within a sector. High turnover signifies potential greater cost within an organisation's operating model relative to industry as a whole, and low turnover can indicate organisation performance



deficiencies. Sector benchmarking does not necessarily drive organisations to seek improvements within the operating model.

Absenteeism/health & safety metrics

Absenteeism metrics are useful in that they are output metrics which give indication to potential organisational issues. Again combining with other metrics can provide relevant insight across a number of areas, particularly within an organisational context. X-sector benchmarking can provide useful comparison but drawbacks do exist in terms of organisational definition and reporting and whether any methodology is being applied. Quite often organisation statistics are not the most robust due to operating issues and thus a degree of caution needs to be applied with regard to data integrity.

Training metrics

Most training metrics by definition are input or efficiency metrics and therefore limited. For example, training hours/days per employee, training costs per FTE etc are input metrics which do not provide any meaningful data. Training provision data metrics are efficiency based for HR functional consumption only, but without context cannot be meaningfully compared.

HR functional metrics

Metrics related to the HR function are covered and evaluated in Chapter 7 with an extensive list of over 200+ metrics provided in Appendix II on page 126. The VB-HR™ suite of metrics used in a level 1 assessment is shown on page 33.

A look at the UK's Operating & Financial Review

*'Employees may be a key resource – and accordingly a key risk – for many entities.'*¹²

¹² Operating and Financial Review, RS1, ASB, May 2005, IG24 pp 67-71

The OFR published earlier this year, provides guidelines for quoted companies to report on certain 'performance metrics'. From a human capital standpoint, there is no currently adopted widespread framework for organisations to report with and thus the OFR has provided a cautious (and correct) tone in terms of identifying potential HC metrics.

Areas suggested for reporting include:

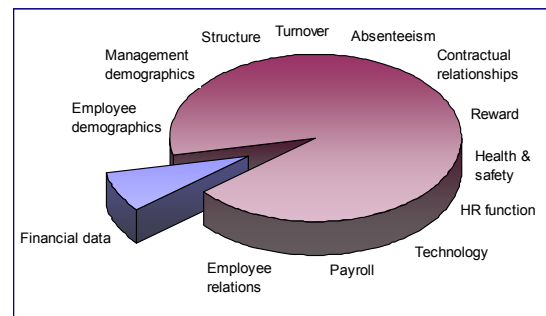
- Employee health and safety
- Recruitment and retention
- Training and development
- Morale/motivation
- Workforce performance and profile

However, examples given under each section appear to be mostly input-based metrics. Only employee engagement and employee productivity appear to be output/outcome-focused type metrics. The various entries seem to be taken from the common HR benchmarking list. Thus straight adoption of these guidelines could render reporting to be of little value.

For a further analysis of these metrics, an evaluation table is provided on page 33, which includes the VB-HR™ metric suite.

VB-HR™ Rating level 1 metric composition

The diagram below shows the various HR metric clusters in the level 1 assessment.



See page 33 for specific detail.



HR Metrics evaluation table

In the extracted VB-HR™ level 1 metrics table on the next page, we can see that a number of OFR related metrics are also included. This list is itself a sample extracted from the main VB-HR™ metrics database containing over 1,000 metrics (not all HR related). These metrics have undergone an evaluation exercise to judge as to their respective usefulness in terms of HC/HCM measurement.

A quick glance at the table on the next page highlights some interesting observations, notably the low ratings of commonly used benchmarks including a number of financial metrics, which are budget related. What may be surprising is that these are classified as financial rather than HR-related.

One particular finding from the study was the difficulty a number of large organisations had in presenting a coherent HR budget/spend. Structure, policy and legacy all played parts in providing significant obstacles to presenting a definable and comparable number.

For example, how much of the HR budget contains training & development as opposed to embedded in line budget? Which column on the spreadsheet does outsourcing spend of HR related functions sit? At what point does absorbed cost kick-in? What does HR spend really constitute? We possess a defined spend template of 93 main activities across 6 spend categories which provides sufficient clarity.

But how has the HR industry managed to benchmark this given the wide variation of definitions and allocations?

The table in Appendix II contains over 200 commonly used metrics evaluated in the same manner which should provide a comprehensive reference point.

Our experience raises concerns on HR functions' attempts at HC reporting. Current efforts may well be leading to a

false sense of security, particularly where investment in HR benchmark projects have taken place¹³.

Each metric has been evaluated from a number of perspectives to provide an overall rating of importance/usefulness:

Domain i.e. the classification of the metric; (i) financial related (ii) HCM – human capital management related (iii) HC – human capital related (iv) HR-F – HR functional specific

Reference i.e. where the metric is used or referenced (i) 'VBHR' indicates that the metrics form part of the level 1 VB-HR™ core metrics suite, incorporated within the Rating construct (ii) 'OFR' indicates current 'Operating & Financial Review' guidance

Application identifies two categories - (i) cross-industry or (ii) organisational specific

Collatability rating i.e. the degree of ease in which the metric data can be ascertained: 5 = easily available, 1 = hard to extract/collate

Usability rating i.e. the capability of the particular metric to be used in conjunction with other metrics to provide greater level of insight with 5 = Multiplicity of usage, whereas 1 = Discrete usage (stand-alone, very limited application)

Comparability rating i.e. the extent that the metric data in question can be used as a means of comparison: H = High, M = Medium, L = Low

VB-HR™ Level indicator i.e. the mapping of the particular metric that relates to the VB-HR™ 'metric' pyramid (L1) data analytics (L2) activity/efficiency metrics (L3) outcome metrics - leverage (L4) Performance – see page 35 for a more detailed explanation

Overall rating i.e. a mathematical calculation combining the various weighted ratings into an overall relative score

¹³ A number of clients in the HCM100 study were undertaking or had undertaken these types of projects



Core VB-HR™ metrics suite [Level 1 only]								
Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
PRIMARY								
VB-HR™ Rating score	HCM	VBHR	X-industry	5	5	H	4	★★★★
HCM Performance	HC/HCM	VBHR	X-industry	5	5	H	4	★★★★
Human capital intensity	HC	VBHR	X-industry	5	5	H	1	★★★★
HC revenue per employee	HC	VBHR	X-industry	5	5	H	3	★★★★
HC leverage	HC/HCM	VB-HR	X-industry	5	5	H	3	★★★★
HCM investment ratio	HCM	VBHR	X-industry	4	5	H	3	★★★★
Employee engagement	VBHR/OFR	General	X-industry	4	5	H	3	★★★★
HR spend/people costs	HCM	VBHR	X-industry	5	3	L	2	★★
SECONDARY								
HR budget	Financial	VBHR	X-industry	3	4	M*	1	★★★
Total HR spend including any HR outsourced contracts	Financial	VBHR	X-industry	3	4	M*	1	★★★
Training budget	Financial	VBHR	X-industry	3	4	M*	1	★★★
Management Development budget	Financial	VBHR	X-industry	3	4	M*	1	★★★
Ratio of number of management positions filled internal to external	HCM	VBHR	X-industry	4	4	H	1	★★★
Degree of success with formal job offers over the past 12 months (approximate %)	HCM	VBHR	X-industry	4	4	H	2	★★★
Voluntary turnover rate - overall	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Voluntary turnover rate - management	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Voluntary turnover rate - employees	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Annual absenteeism rate - management	HCM	VBHR/OFR	X-industry	5	4	M*	3	★★★
Annual absenteeism rate - employees	HCM	VBHR/OFR	X-industry	5	4	M*	3	★★★
Annual accident injury rate (RIDDOR)	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Number of industrial tribunals in the past 12 months	HCM	VBHR	X-industry	5	4	H	1	★★★
Percentage of staff who are members of a union	HCM	VBHR	X-industry	4	4	M	1	★★
Percentage of staff covered under collective bargaining agreements	HCM	VBHR	X-industry	4	4	M	1	★★
% of HR service delivery based on mix of technology solution/integrated/non-integrated e.g. ERP/ASPs/in-house etc	HR-F	VBHR	X-industry	4	3	M	1	★★
TERTIARY								
Involuntary turnover rate - overall	HCM	VBHR	X-industry	5	4	M*	3	★★★
Involuntary turnover rate - management	HCM	VBHR	X-industry	5	4	M*	3	★★★
Involuntary turnover rate - employees	HCM	VBHR	X-industry	5	4	M*	3	★★★
Voluntary turnover rate - overall within 1 st year	HCM	VBHR	X-industry	4	4	H	3	★★★
Voluntary turnover rate - management within 1 st year	HCM	VBHR	X-industry	4	4	H	3	★★★
Voluntary turnover rate - employees within 1 st year	HCM	VBHR	X-industry	4	4	H	3	★★★
Number of managers with direct people responsibility	HCM	VBHR	Org-spec	4	5	L	1	★★
Number of management levels (from 1 st line to CEO)	HCM	VBHR	Org-spec	5	4	L	1	★★
Number of full-time employees	HC	VBHR	X-industry	5	4	L	1	★★
Number of part-time employees	HC	VBHR	X-industry	5	4	L	1	★★
Overall FTE (full-time equivalent)	HC	VBHR	X-industry	5	4	L	1	★★
Number of managers/partners (1 st line and above)	HC	VBHR	Org-spec	4	4	L	1	★★
Average % pay rise over preceding 12 months	Financial	VBHR	X-industry	5	4	M	1	★★
No of HR Full-time employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of HR Part-time employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of HR temporary and contract FTEs	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of Interim HR employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
Total HR FTE	HR-F	VBHR	Org-spec	5	4	L	1	★★
Percentage of staff on flexible employment contracts	HCM	VBHR	Org-spec	4	4	L	1	★★
Percentage of staff with a university or equivalent education or a recognised professional qualification	HC	VBHR/OFR	Org-spec	3	4	L	1	★★
Percentage of staff salaried and not eligible for overtime	HCM	VBHR	Org-spec	4	4	L	1	★★
Percentage of staff covered by a national minimum wage (or equivalent)	HCM	VBHR	Org-spec	4	4	L	1	★★
Percentage of staff is employed on a fixed term or other temporary basis rather than on a permanent basis	HCM	VBHR	Org-spec	4	4	L	1	★★
Average years of service (aggregated)	HCM	VBHR	X-industry	4	4	M	1	★★
Number of job families	HCM	VBHR	Org-spec	5	2	L	1	★★
Number of current (legacy) payrolls	HR-F	VBHR	X-industry	5	2	na	1	★
Reward scheme linked to absenteeism	HCM	VBHR	X-industry	5	2	na	1	★

* Adoption of standardised definition/template would improve level of rating



Comment

The VB-HR™ Rating core metrics suite is categorised into three 'hierarchies' – Primary, Secondary and Tertiary.

This reflects its nature as a cross-industry, outcome focused application and is a consequence of a rigorous prioritisation of existing measurement frameworks, to draw out a 'core' scorecard. The evaluation process clearly distinguishes the degree of 'usefulness' across the various metrics.

The Primary portfolio contains a number of, what we term, 4-star metrics, i.e. those that are measures of outcome and performance.

The secondary portfolio contains a number of key metrics but which have more limited importance, and, more often than not, need to be combined with other metrics to establish particularly insightful knowledge.

The Tertiary portfolio contains a number of other metrics (particularly HR functional ones) that have a much narrower focus but are useful in organisational specific contexts.

At VB-HR™ level 2, there are additional organisational specific metrics (which are not the subject of this report) that are either collated or calculated.

Conclusion

Organisations need to differentiate between metrics they wish to report on an ongoing basis from a performance angle and those metrics whose prime use is event-specific (which over time can become one and the same).

HR functional metrics are normally used for specific events in HR, such as a restructure and/or the introduction of a new delivery model (e.g. shared services). As such, benchmarking in these circumstances requires caution, without due diligence being paid to the

organisational specific context. There is a tendency for HR functional metrics to be wrongly included into a HC scorecard, with the confusion arising between reporting operational effectiveness and organisational performance.

Both have their place, but reporting organisational performance from a human capital perspective is what is required by the organisation, not the efficiency of the HR function (which realistically should be taken as a given).

The next few sections of this chapter are devoted to models and frameworks which are designed to guide organisations in applying cost-effective approaches to measuring human capital/human capital management.



Differentiating metrics: the reporting pyramid

As we have identified, a lack of metrics is not an issue that HR functions typically face. Often, however, functions do not possess a clear means of differentiating between various types of metrics, and consequently risk placing an equal organisational 'value' on all information reported. This runs two potential risks:

- Overwhelming colleagues outside HR with large volumes of data that are time-consuming to track and have questionable operational relevance
- Failing to place the correct 'weighting' on reported metrics with the potential for inappropriate or unfocused activity.

The HC reporting framework or 'pyramid' mitigates these risks through identifying four levels or categories of metrics. It is used both to differentiate between metrics of these various types and as a means of ensuring that organisations collate a 'balanced' metrics portfolio (i.e. one with metrics selected from all levels within the pyramid in appropriate ratios) that can result in meaningful tracking of activity, supporting and driving management decision-making.

Four levels are identified within the reporting pyramid of Data; Activity/Efficiency; Leverage and Performance. These are set out in the

following diagram, with associated examples.

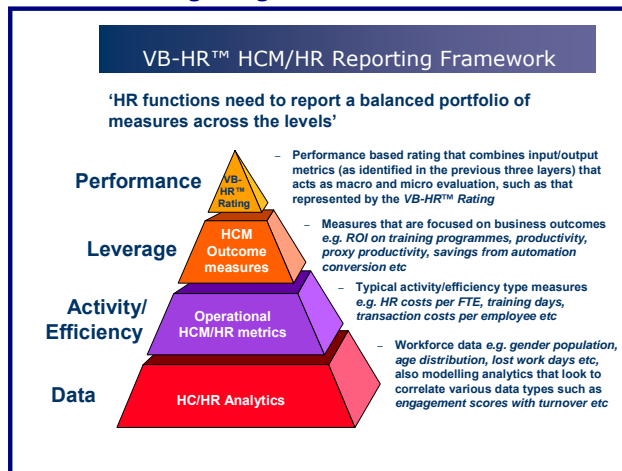
Whilst the pyramid suggests a 'hierarchy' in its construction, this does not imply that certain types of metrics are necessarily 'better' than others, but assesses the relative sophistication and perspective of the given measure.

For example, absenteeism is rightly regarded as a key metric within organisations – classifying it as a data-point at the first level, however, will miss the potential organisational implications arising if this is seen by the organisation as being an outcome measure on the third

level (on the grounds that employees leave organisations as an outcome of multiple factors, often relating to their expectations, daily experience and awareness of alternative options).

We find in practice that, in order to generate Performance and Leverage metrics,

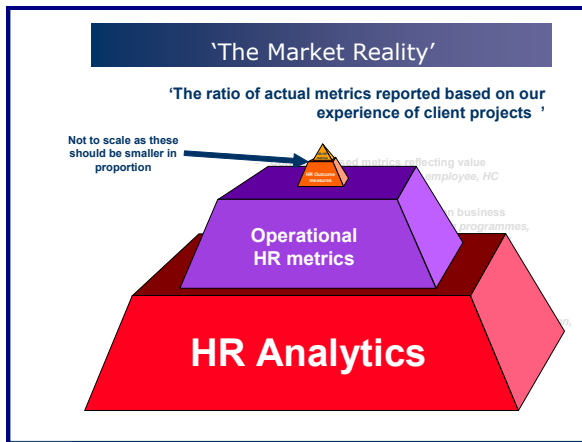
organisations will aggregate upwards from existing efficiency or data metrics. Calculating the return on investment for a training programme (a third level metric), for example, requires at a minimum access to data regarding participants, individual performance, cost of training, training days and so on. Consequently, fewer of the top two levels of metric will typically be collated or reported, as they draw from a broader number of data or efficiency metrics.





Market reality

As suggested by the following graphic, our client experience designing HR scorecards and strategy documents suggests a disproportionate focus on the collation and reporting of HR Analytics, such as those relating to workforce profile. Some focus exists on reporting operational HR metrics, particularly relating to cost or time – these typically lend themselves to specific targeting within HR scorecards (even though the rationale for this targeting can sometimes be obscure).



As indicated within the graphic, the use of outcome measures is limited, although we are seeing an increasing trend for organisations to include assessments of employee engagement levels. We would argue that, whilst this can indeed be a valuable lag indicator that lends itself to measurement, it is crucial that the engagement construct in use is based on a balanced construct that can drive meaningful activity (see Page 40).

Unsurprisingly, given limited market availability of such instruments, the use of Performance-based metrics is not yet the norm.

The data collation instrument that is used for the VB-HR™ Rating contains both qualitative and quantitative data points. Data is gathered through a standard template containing 40 core metrics such as absenteeism, voluntary turnover, involuntary turnover, FTEs, people managers, HR budget items (including outsourcing), H&S stats, job families etc. This data is itself input into the VB-HR™ model combining with other data. For example, the model utilises absenteeism and turnover data across a number of the multiple factor cells, representing the degree to which they impact or are themselves an outcome of other factors, representing reality.

In addition to data gathered through use of the survey construct and relating to HR cost/efficiency metrics, the VB-HR™ Rating utilises financial metrics to provide further insight and differentiation into how the human capital 'profiles' of organisations differ.

The evidence

Up until this moment, there has been no clear measurement framework for organisations to use to measure and evaluate human capital/human capital management.

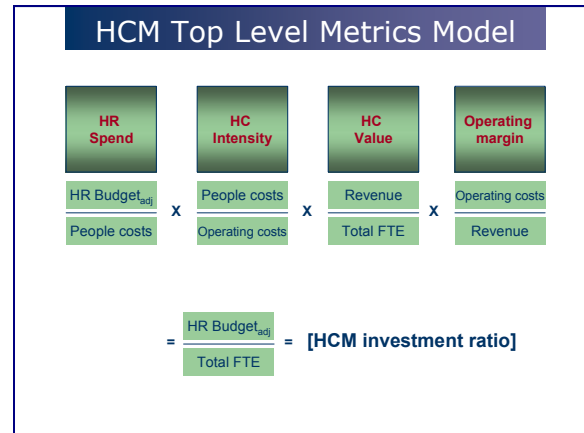
The evidence points to the fact that most organisations collect and compare benchmark data that has little or limited use other than the potential to help with marginal operational efficiency gains (or worse resources/expenditure that do not add value).

Though we would advocate that some metrics are better than none without some form of accurate output related focus, work in this area will bear little reward. What organisations need is an instrument that links inputs with outputs in an organisational context that can be used for both analytical and reporting purposes.



VB-HR™ HCM model

Alongside the VB-HR™ Rating score, HC leverage and resulting HC performance metrics, the VB-HR™ process also utilises four 'financial' metrics, which 'collapse' to form a fifth metric (which is used in HC leverage) in determining differentials between organisations.



This group of metrics is referred to as the VB-HR™ primary cluster, with definitions contained in the table below.

VB-HR™ Rating primary metrics

Metric name	Calculation	Explanation
VB-HR™ Rating score	Complex algorithmic construct	Provides a comparable score of effectiveness on organisational HCM performance- used as a base to accurately measure organisational performance from a human capital perspective.
HCM Performance	HC Leverage/VB-HR™ Rating score	Determines the performance of an organisation (via human capital proxy) against the Rating score to provide a relative industry benchmark of organisational performance.
HC Intensity	People costs/ Operating costs	Assesses the degree to which people costs are central to the organisation's operating model in terms of revenue generation or otherwise. High intensity means that people are extremely important whereas low intensity suggests that other tangible/intangible 'assets' are more or as important.
HC Revenue	HC Intensity x HC Value	Determines the revenue (or budget proxy) per employee attributable to human capital, by proportionally allocating overall revenue against 'HC intensity' within the operating model to give a more accurate or reflective contribution.
HC Value	Revenue (or budget)/ Total FTE	Determines revenue (or budget) per FTE. <i>Used only in conjunction with HCI above as by itself its usefulness is very limited.</i>
HCM Investment	HR budget (adjusted)/ Total FTE	Determines HR spend per FTE, based on a standardised template for meaningful cross-organisational benchmarking.
HR Spend	HR budget(adjusted)/ People costs	Assesses investment in the HR functional budget (with adjustments) as a proportion of the organisation's people costs. This metric only used as a checker, as too unreliable in itself to provide meaningful comparison.
Employee engagement	Composite index of five core domains	Standardised index platform which also has the ability to cut existing 'non-standard' organisational data to be recut to provide index comparison.
Operating margin	Operating costs/ Revenue (or budget)	Commonly used financial metric determining organisational profitability.



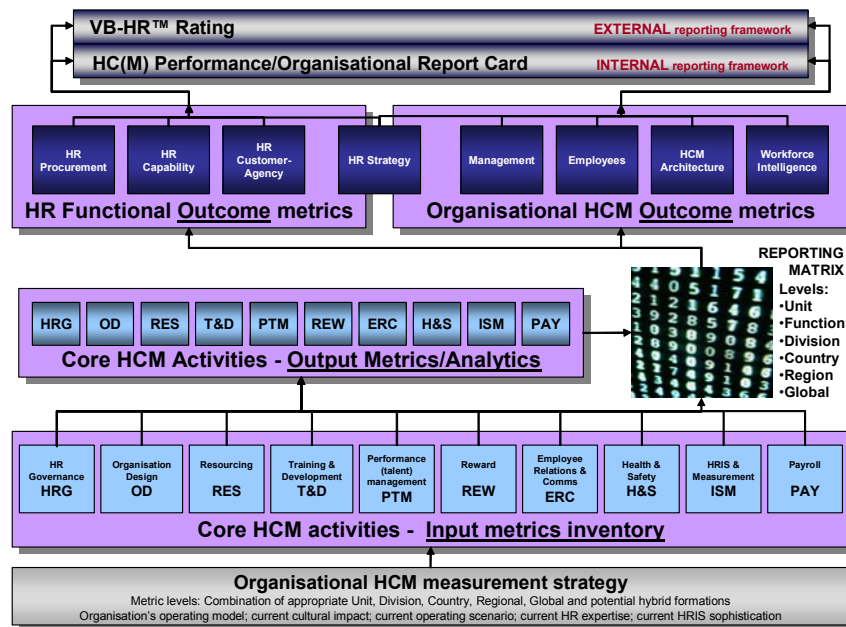
An introduction to VB-HR™ Rating metrics methodology

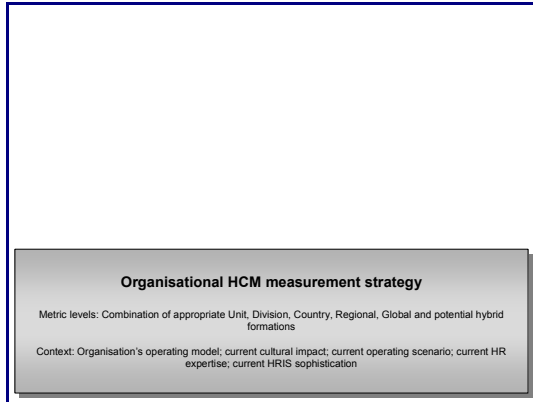
The VB-HR™ Rating (introduced in the next chapter) looks to provide a way through for organisations looking for an effective human capital reporting framework.

In this way organisations can generate HR measurement projects with definitive boundaries and expected practical output. The diagram below provides a simplified view of how a HR measurement project links measurement strategy to result in VB-HR™ Rating report and HC(M) Performance/Organisational report card output.

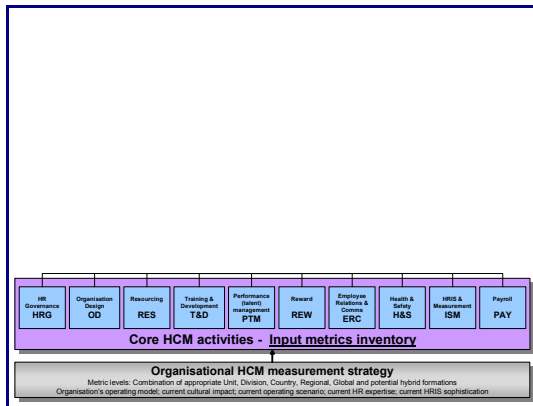
The HCM measurement strategy needs to take into account a number of organisational factors such as the current operating and reporting structure; the operating model; cultural elements that will be driving or obstructing the need for greater HCM measurement as well as the current operating environment the organisation may find itself in, e.g. a restructure, merger or parallel projects such as governance or financial audits etc.

More often than not organisations already have a metrics platform, but not necessarily any particular framework to report with, thus the process is defined to provide a structured means from end-to-end. The following page details the four major steps resulting in this model.

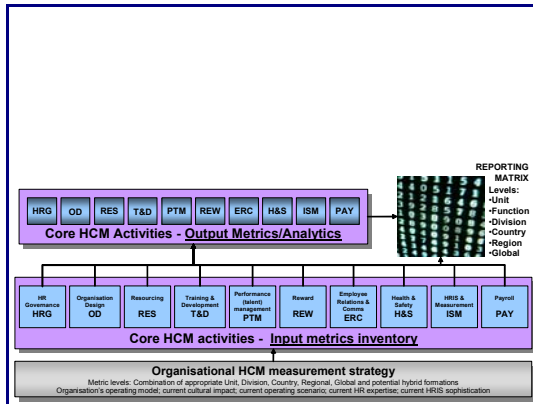




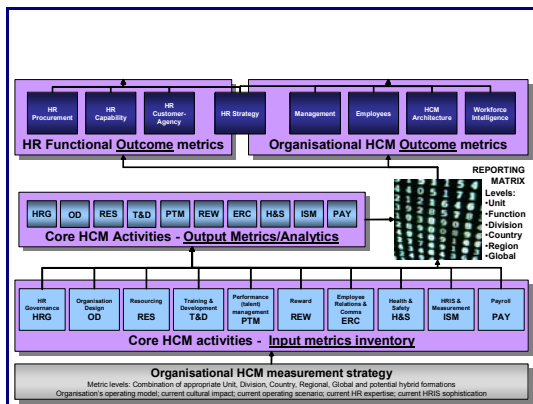
1. Identifying the organisation's operating model(s) will determine particular emphasis on certain areas. Understanding the culture, as well as taking into account the current operating scenario will indicate potential drivers or barriers in terms of an effective measurement strategy. An assessment of the organisation's current capability in HRIS – the ability to capture and manipulate HR data as well as the internal expertise (whether residing in the HR function or not) will provide a marker as to the scope of the HR measurement strategy.



2. The second stage is to complete a sweep of current input metrics which are normally in existence. These normally include level one – workforce analytics (demographics), e.g. number of males/females, part-time, full-time and level two – efficiency/activity metrics, such as training days per employee, average remuneration etc. For ease of reference and structure, these metrics can be clustered into the ten core HCM activity domains and rated as to their purpose, usefulness, and integrity.



3. The third stage is to identify output metrics, such as absenteeism, involuntary turnover, health & safety incidents etc and cluster these under the same categories as the input metrics. This data is then fed into the report matrix allowing organisations to segment data around importance/impact, reporting lines and/or specified cross-sectional perspectives. There are six main degrees of level: Unit, Function, Division (Directorate), Country, Region, Global. Further quasi or hybrid levels are possible, given the complexity of organisations.



4. The VB-HR™ model construct now 'kicks-in' enabling a new cut of 'outcome-based' data that can be used for scorecard reporting – both internal and external, inter and/or intra-organisational benchmarking, 'drill-down' modelling analytics and also broader organisational learning. This allows for a comprehensive reporting construct to be created that combines input, output and outcome based metrics to be reported. The VB-HR™ Rating provides the umbrella-type reporting standard as the top-slice.

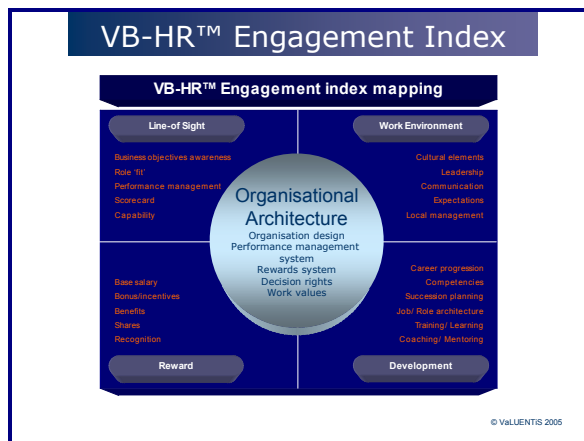


A perspective on employee engagement

An increasing number of organisations are moving away from traditional employee satisfaction surveys and utilising the more powerful construct of employee engagement. This is underpinned by academic research has failed to demonstrate effective linkage between 'satisfaction' or 'commitment' and employee performance¹⁴. Whilst these measures provide insight into aspects of employee opinion, we argue that leading-edge survey design aims to measure a more subtle psychological construct, employee engagement. We define this as possessing two axes:

- Alignment of the employee with broader organisational objectives through a combination of high levels of awareness and value 'fit'
- Commitment of the employee towards the organisation.

Employees with high levels of alignment and commitment are described as having high levels of 'engagement' with a corresponding impact on productivity, quality, innovation and customer services. The two dimensions of engagement are assessed across five 'domains' as set out in the VB-HR™ Engagement Framework (see overleaf), with each of these domains explained in further detail below.



Line of sight provides the link between the actions of the individual employee and their fit with overall corporate objectives. Research¹⁵ has shown that when individuals are able to understand how their actions directly link into a broader divisional or corporate strategy, their engagement levels and performance increase. The components that define this quadrant are:

- the individual's awareness of wider, business objectives and their ability to understand how their role fits within this context
- the ability of the performance management system to encourage the behaviours that contribute to organisational success
- the effectiveness of scorecard and related metrics to track and incentivise the components of engagement
- the existence of organisational capabilities to provide a backdrop for linkage.

Work environment reflects the day-to-day surroundings that set the backdrop against which employees carry out their job, and is influential in engagement through the way in which it allows the bonding of the individual with the organisation. The key components are:

- the environmental aspects that link to culture (e.g. nature of colleague interactions, office layout, implicit ways of doing things)
- style of leadership and how it relates to employees
- style of communication (within the team and on a broader corporate scale)
- expectations of employees towards management and vice versa
- local management and its ability to motivate and manage employees on a daily basis.

¹⁴ For example Benkhoff, B.: "Disentangling organizational commitment", *Personnel Review* 26, 1997, pp. 114-131

¹⁵ See, for example, Rucci, Kim and Quinn: "The Employee-Customer-Profit chain at Sears", *Harvard Business Review* 76 no. 1, 1998



Reward reflects the financial and non-financial benefits that an employee can expect to receive as compensation for effort expended in a value-adding way. The structure of a financial package can significantly influence individual motivation, behaviour and engagement. The key components are:

- base salary, which should act as a threshold payment for an individual's competencies
- bonus/incentives which reward achievement of targets
- benefits package (often where a company can pass on purchasing economies of scale to employees)
- shares, providing a sense of ownership in the organisation
- recognition (a non-financial component) of employee success through awards.

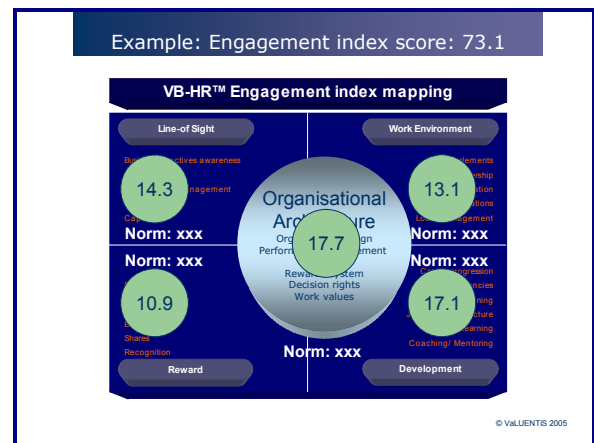
Development indicates to an employee the degree to which an organisation will be supportive of future needs as well as current ones. Key components include:

- career progression, giving employees a sense of growth within one organisation;
- competencies, which provide structured guidance on focused incremental development
- succession planning, which allows proactive management of individual development plans to equip them with the skills necessary to progress in their career
- job/role architecture, which provides more or fewer opportunities for development and its application
- training/learning, demonstrating the organisation's investment in the employee's development and the provision of opportunity to apply new skills
- coaching/mentoring, which acts as on-going development to strengthen confidence by the provision of directional guidance and constructive feedback.

Organisational architecture provides the structural support required to successfully develop engagement. The components of this are:

- organisation design, key to the creation or stifling of employee's opportunities
- performance management system, which provides the linkages between other human capital management processes
- rewards system, providing a context for each employee's personal reward
- decision rights, which lead to greater or lesser senses of empowerment at the team and individual level
- work values, an implicit embodiment of the corporate brand for staff acquisition and retention.

Through the use of a balanced survey construct (with between 20 and 50 questions depending on variant), a score can be generated within each domain and aggregated into an overall index for comparison against sector and overall norms. This is illustrated within the diagram below, which takes as illustration an organisation with a high overall engagement score but relative weakness in the areas of Reward and Work Environment.



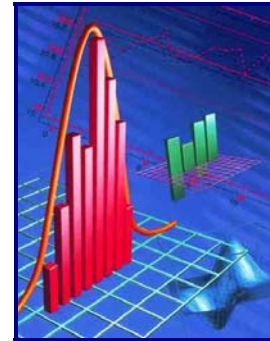


"We found the system to be a quick and easy process to undertake which provided a valuable snapshot of our organisation from one system, rather than relying on a number of sources to provide similar information. We think it will also be a useful tool in being able to compare how different parts of the organisation are performing and provides some useful pointers in terms of what action/hot spot areas we need to focus on."

**Head of Pay and Employment
Metropolitan Borough Council**



Part Two



<i>Chapter 3</i>	<i>The VB-HR™ Rating and Rating analysis</i>
<i>Chapter 4</i>	<i>HCM value driver analysis</i>
<i>Chapter 5</i>	<i>The HC performance model™</i>
<i>Chapter 6</i>	<i>The HCM investment model</i>

"The VBHR Rating Report was an accurate representation of my view of the business – it will act as a wake up call for us to work on the priority areas of our human capital management practices for the future"

**Group Director of Human Resources
Global FMCG Company**



Chapter 3

The VB-HR™ Rating and initial Rating analysis

The VB-HR™ Rating

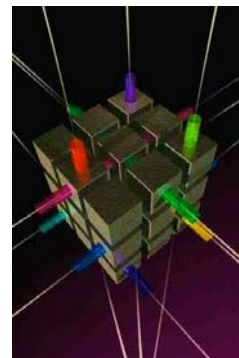
As already stated we have adopted the simple premise that people are valuable to an organisation because, if they weren't, organisations would not employ them. The central issue is not necessarily the value of human capital per se (which may be of interest) but how well people are utilised i.e. the performance of human capital management in relation to organisational performance (the underpinning dimensions of the HC Performance Model™ in Chapter 5).

To that extent, the VB-HR™ performance system (introduced in Chapter 7) and the VB-HR™ Rating reflect this premise and are dedicated to assessing and reporting on both human capital performance (productivity) and human capital management effectiveness in organisations rather than just the HR function itself. Most important is the ability to measure at (business/directorate) unit level and aggregate upwards, which provides far more meaningful insight.

We define here that the HR function in effect fulfils an agency role in helping to optimise human capital management within an organisation. (**Note:** human capital as an intangible asset is covered in Chapter 10 under the broader study of intangibles and enterprise performance).

A unique feature of the VB-HR™ Rating is how HCM activities (inputs), HCM value drivers and HCM outcomes are combined

to generate an overall assessment, relating human capital management outcomes (e.g. turnover) to HR functional inputs (e.g. policies and practice) - mapping the complexity of people management through 93 HCM main activities. [See Chapter 7 for a diagrammatic breakdown - 'The HR 'periodic table'.]



A key strength of the VB-HR™ Rating is that it can be applied at business/directorate unit level as well as the organisational level. The rating can be used to determine a routemap for improvement or business case for investment.

The VB-HR™ Rating has been designed to

- provide a comparative assessment of the practice of managing people within the organisation or business unit from three key dimensions:
 - current effectiveness
 - degree of risk



- maintenance (efforts to maintain or renew performance).
- combine with available financial data to provide clients with an 'HC metrics reporting portfolio' containing meaningful organisational HC/HCM measures
- resolve the issues of (i) publishing sensitive people-related information into the public domain and (ii) the reporting of 'plain vanilla' metrics and thus potentially meaningless comparatives
- generate an internal and external benchmark of human capital management within the organisation or business unit as well as assessing the efficiency of current HR budgetary spend when compared against other collated HR data
- cover compliance requirements of both UK's Operating & Financial Review, and US' Sarbanes-Oxley whilst enhancing management awareness of the impact of people practices within the organisation
- evaluate the contribution of HR functional activity and the potential impact of outsourcing decisions and generates options for future human capital investment decisions
- provide a robust construct for business case investment in aspects of the HR function or people management through the identification of relative organisational HC(M) strengths across the eight distinct value driver areas (or combination thereof)
- assess the impact of changes in human capital management practice (return on investment)

- enable client organisations to plug-in available employee survey data

At business unit level, the VB-HR™ Rating can provide the following additional benefits:

- assessment at a meaningful level within the organisation to reflect differences in 'local' practices
- generate internal benchmarks to identify strengths and weaknesses of the differing approaches and practices that may exist within the same organisation
- ability to make changes at local level that can increase the rating without the need for interventions at the organisational level
- for external reporting purposes, multiple business unit or departmental VB-HR™ Ratings can be consolidated into an overall organisational view, much as accounts are calculated.

Further, the VB-HR™ Rating system and its associated outputs provide HR functions with an organisational marketing tool - aimed at all those within the organisation who do not necessarily understand or comprehend the importance of human capital management and its potential impact.

For the first time, the complexity and multi-faceted contribution of what the HR function 'delivers' to the organisation can be made explicit, through the recognition of the HCM activities and nature of interactions between HR, the line and external providers of expertise/resources.



The essence of the VB-HR™ Rating system

In essence, the VB-HR™ Rating system is a multi-layered, multi-factored model representing human capital management performance across an organisation, with the ability to aggregate data from business unit (or below) level.

Thus the Rating has the capability of being a multi-functional diagnostic tool as well as the ability to be a standardised reporting instrument that enables organisations to report both internally and externally in a recognisable format, whilst maintaining organisational metrics preference internally.

The Rating itself has been designed to assist clients to meet guidance criteria set out through the UK's Operating & Financial Review and similar global reporting standards, whilst circumventing the thorny issue of externally reporting potentially sensitive data.

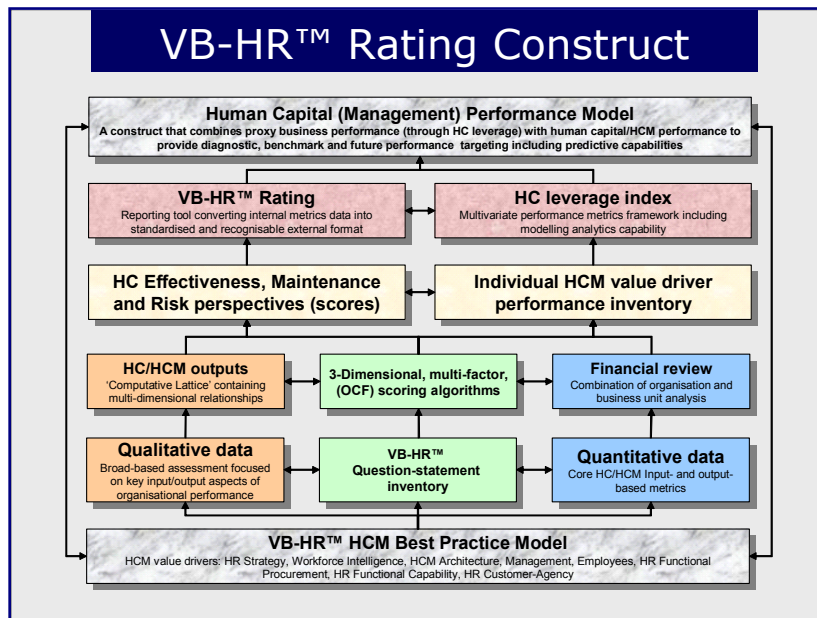
The VB-HR™ Rating model is based on a fairly complex three-dimensional scoring system that provides a wide range of possible scores.

For reporting purposes, similar to those used in Finance, the resulting distribution is 'normed' through the use of standard deviation intervals.

Overall Rating

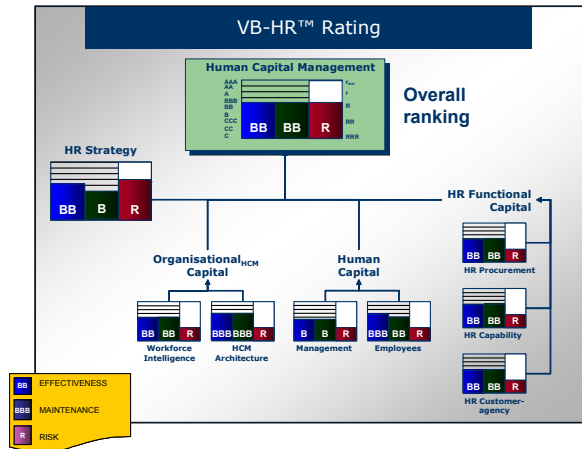
The output rating uniquely looks at human capital management across an organisation from three different outcome perspectives:

- **Effectiveness** – current level of performance of each value driver
- **Maintenance** – efforts going towards maintaining or improving the current level of performance and therefore a future indicator
- **Risk** – level of risk associated with each value driver (e.g. of non-compliance, under-optimised performance or ill-informed decision making).





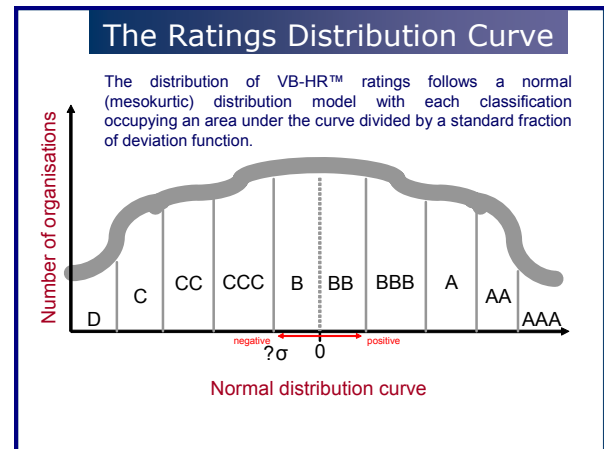
Both the Maintenance and Risk perspectives are important in HR context but are seldom reported. The Rating is displayed in graphical format for ease of interpretation purposes as shown in the diagram.



This multi-dimensional picture allows an overall Rating to be awarded which provides an overall assessment of HCM within the organisation (or organisational division), as well as identifying relative strengths and weaknesses within the particular organisation.

The Rating nomenclature

The Rating nomenclature is similar to that used in Finance (e.g. bonds, assets) whereby nine classifications are used from AAA, representing high performance and associated lower risk through to C (plus a D-Default rating) representing very low performance with associated higher risk as seen in the table below.



Effectiveness (current indicator)		Maintenance (future indicator)		Risk (degree of)	
AAA	extremely high effectiveness - world class	AAA	extremely high effort to maintain	r _{min}	minimal level of risk
AA	very high effectiveness	AA	very high maintenance	r	low level of risk
A	relatively high effectiveness	A	relatively high maintenance		
BBB	above average effectiveness	BBB	relatively high maintenance	R	'moderate' level of risk
BB	'average' effectiveness, positive to the mean	BB	'average' effort to maintain, positive to the mean		
B	'average' effectiveness, negative to the mean	B	'average' effort to maintain, negative to the mean		
CCC	low effectiveness	CCC	low maintenance	RR	high level of risk
CC	very low effectiveness	CC	very low maintenance		
C	extremely low effectiveness	C	extremely low effort to maintain	RRR	very high level of risk



Three levels of rating

As the VB-HR™ Rating has a wide range of potential applications, we provide three distinct 'levels' of rating which provide a flexible stepped process to a fully

reportable Rating. The 3 levels utilise the same VB-HR™ Rating engine, but differ in the nature of the benefits they provide which are briefly summarised below:

Reporting level	Who participates	Benefits	Typical application
Level 1 - Initial view (Lite)	1 person (typically HR Director level)	<ul style="list-style-type: none"> ➤ minimal investment requirement with fast turnaround ➤ provision of initial 'snapshot' to identify areas of relative strength & weakness as an initial baseline indicator 	initial viewpoint & external benchmark comparison; initial priority identification; draft routemap; generation of VB-HR™ Lite HC report; HC Performance Model mapping
Level 2 - Triangulation	6-10 people (typically senior management) drawn from different areas of the business unit/ organisation	<ul style="list-style-type: none"> ➤ 'normed' data provides a more representative viewpoint than level 1 assessment ➤ data is triangulated to identify any respondent differentials or similarities ➤ assessment of HR spend and outsourced contracts ➤ re-cut of available employee engagement survey data ➤ performance improvement planning through insights provided by HC measurement data cuts 	as level 1 plus internal benchmarking and more robust external HCM comparison; business case generation; HR investment options & risk assessment (unaudited); HC reporting portfolio; HC Performance Model mapping
Level 3 - Audit/ Performance Review	as level 2 with VaLUENTiS professionals verifying data provided through interviews and structured audit review process	<ul style="list-style-type: none"> ➤ external assessment results in highly robust rating suitable for use in external/internal reporting & comparisons ➤ performance improvement planning through insights provided by HC measurement datacuts ➤ eligibility for inclusion in VaLUENTiS' global HCM index 	as level 2 plus external audit report; production of audited risk assessment; HR investment planning; full VB-HR™ reporting suite; advanced HC measurement inventory



HCM100 initial rating distribution

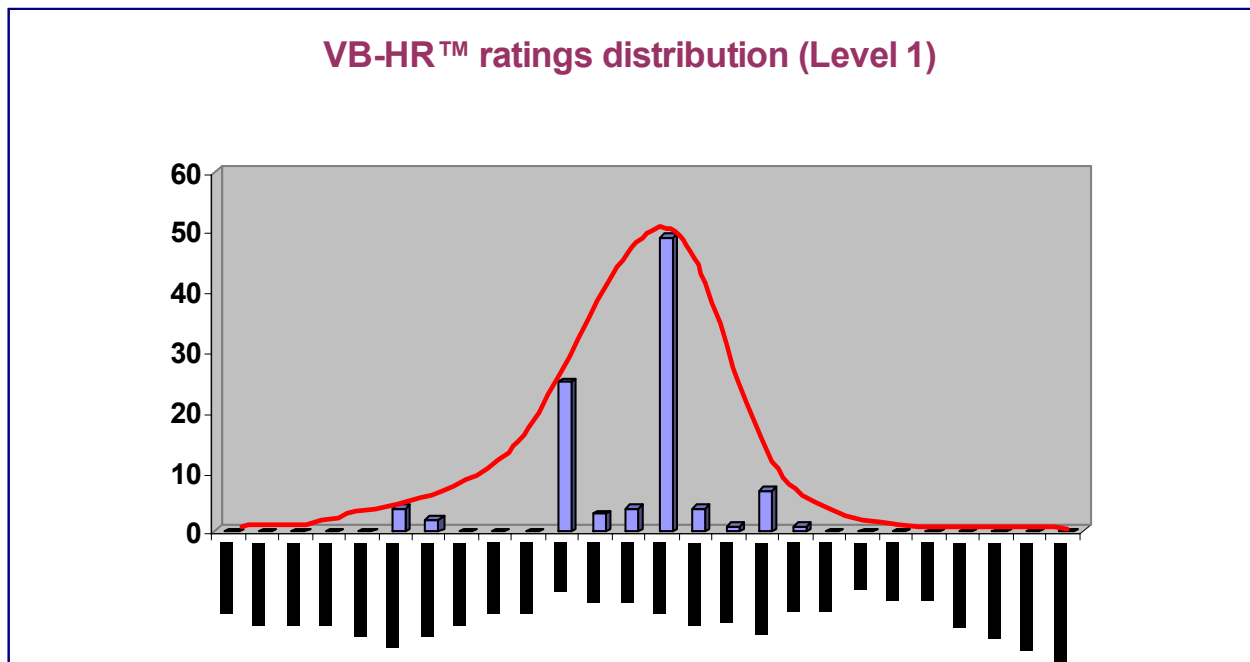
Ratings analysis

A cross-industry analysis of ratings at the organisational level reflects a 'normal distribution' tendency. A significant number of organisations record a BB-BB-R rating, with distribution on both sides of this. We would expect the distribution to 'norm' further as more and more organisations are added to the database. The actual model based the attainment of ratings is based upon a 'normal distribution' on the basis that the majority of organisations carry out a range of human capital activities sufficient for the organisation to perform to an acceptable level.

Organisations are generally neither so effective nor so deficient at human capital management that unusual levels of performance are observed – this is reflected in the infrequent award of very high or very low overall rating scores.

A section of this 'normal distribution' is shown below, illustrating how the majority of organisations fall within the BB-BB-R overall rating, with relatively small numbers achieving an overall rating significantly above or below this point.

The chart below shows the overall scores of the current benchmark group. We would expect that over time as more organisations are included that the distribution will 'norm' to some degree. The Ratings distribution is also provided in the table overleaf.





Normal distribution

The level 1 ratings conducted for the initial benchmark exercise reflect a 'normal distribution' with the highest number of organisations recording a 'BB-BB-R' rating. The highest recorded rating so far is BBB-A-r. Our experience of diagnostic assessments, is that further triangulation of data (i.e. level 2) invariably results in a downward shift of the level 1 score.

By calibrating the expected variance, we recalculate the scores and corresponding ratings to provide an expected distribution. As can be seen, this slight variance produces a significant shift in the distribution with B-B-R rating becoming the most common and an overall skewed negative distribution. We would expect that 'evidenced-based' level-3 assessment would further degrade scores to a smaller degree. Recalibration shows a marked trend towards the B-B-R rating.

The HCM value drivers

To assist in providing more meaningful comparators, benchmarks and/or more detailed assessment, we break down overall human capital management into eight key outputs/outcomes blocks or 'value drivers' of HCM performance, which are themselves linked into inputs ('activities').

	Private (69)		Public (31)		HCM 100 Index	
	#	%	#	%	#	%
BBB-A-r	1	1.5	0	0.0	1	1.0
BBB-BBB-r	6	8.7	1	3.2	7	7.0
BBB-BB-r	1	1.5	0	0.0	1	1.0
BB-BBB-R	4	5.8	0	0.0	4	4.0
BB-BB-R	32	46.4	17	54.8	49	49.0
BB-B-R	3	4.4	1	3.2	4	4.0
B-BB-R	1	1.5	2	6.5	3	3.0
B-B-R	18	26.1	7	22.6	25	25.0
CCC-CCC-R	2	2.9	0	0.0	2	2.0
CCC-CCC-RR	1	1.5	3	9.7	4	4.0
	100.0		100.0		100.0	

Below is a brief definition of the eight HCM value drivers referred to earlier:

HR Strategy: The organisation possesses HR has a coherent, integrated and effective strategy that is aligned with business needs.

Workforce Intelligence: The organisation is able to systematically collate workforce data/metrics and has the ability to analyse, manipulate and report.

Organisational HCM Architecture: The organisation has developed appropriate HCM processes and systems which are integrated and result in good/value-contributing practice/efficiency.

Management: The organisation through its managers displays good governance, leadership, management practice and control.

Employees: Employees are competent, engaged and productive.

HR Procurement: The HR function effectively manages and utilises procurement, vendor relationships and outsourced arrangements.

HR Capability: The HR function possesses the requisite competencies, as well as its positioning and brand within the organisation.

HR Customer Agency: The degree to which the HR function has a portfolio of product/service and is seen as an effective support/monitor function (managers/employees are both customers and agents).

We are also able to measure each value driver from the same three perspectives of Effectiveness, Maintenance and Risk providing a comprehensive picture of what is going on in each of the areas.

We would point out that all of the HCM value drivers are linked rather than being separate, but that segregation helps in terms of analysis and comparison.



"A very useful tool which accurately assesses organisational effectiveness from an HR standpoint. The eight value drivers provide a unique reporting view of people management in the organisation from a commercial perspective; with the overall Rating graphic proving to be an easy standard reference point for what is a complex area of measurement."

**HR Director
Global Business Services**



Chapter 4

HCM value driver analysis

Macro cross-sector overview

This chapter reviews the eight HCM value drivers from the perspective of private/public sector and from sub-sectors within these two main populations, to identify related comments and insights.

To recap, the eight value drivers are:

- HR Strategy
- Workforce Intelligence
- HCM Architecture
- Management
- Employees
- HR Procurement
- HR Capability
- HR Customer Agency.

The following pages provide an overview of the maximum, mean and minimum scores within each of these value drivers for the HCM 100 benchmark group, private sector constituents and public sector constituents. Within each row, the highest score has been shaded in green, with the lowest shaded in red.

Review of the maximum scores received shows that HCM Architecture is the value driver that is rated highest overall within the HCM 100 and for Private sector. This would reflect a strong reliance on establishing systems and processes that are supportive of effective HCM performance within the organisation. HR Procurement receives the lowest maximum score, suggesting that

organisations are not consistently utilising external vendors as a primary means of ensuring high HCM performance. This can be a valid approach, depending on the HR service delivery model in use, and reflects a growing trend for HR operations to be taken back 'in house' from external providers.

The picture within the Public sector shows that HR Customer Agency is identified as the highest rated value driver. This could reflect a growing uptake of themes such as career development, work-life balance and the provision of related services to employees within the sector, whilst maintaining high levels of compliance with legislation ensuring equitable treatment and workforce rights.

Whilst HR Procurement receives a similar score to the Private sector, Public sector capability at Workforce Intelligence scores significantly below other HCM drivers. Despite the increased levels of investment and focus on tracking KPIs and targets within this sector, the analysis suggests that Public sector HR functions will face challenges in evaluating HR strategy and demonstrating the impact of increased spending on HR/HCM interventions such as job evaluation exercises, introduction of skills frameworks and/or increased levels of reward.



Consistent message

A consistent message emerges when mean scores are reviewed. In both sectors, the HCM Architecture is identified as the highest-performing value driver, with Workforce Intelligence receiving the lowest scores. This suggests that the most organisations rely primarily on the effective running of HCM systems to ensure consistent performance, but have developed relatively low levels of capability in collating, analysing and reporting Workforce Intelligence (with some notable exceptions).

This suggests that, more often than not, HR functions within organisations support effective human capital performance, but has not yet developed approaches of the required sophistication to be able to quantify either the impact of performance differentials or its own impact. This is in line with findings from recent research, suggesting that HR Directors are not yet seen as 'strategic partners' within the majority of organisations. The perception still remains that the HR function focuses predominantly on operational aspects (i.e.

the effective running of processes and systems).

This would appear to be another reason why measurement has come to the fore in recent years.

Review of the minimum scores received within each sector highlights HR Procurement as the lowest scoring value driver, suggesting that most organisations are using external vendors in limited ways (again, with some notable exceptions) or are pursuing an explicit approach towards providing services internally. Given the challenges on HR spend going forward this is perhaps a poignant note of opportunity.

High scores at the minimum level diverge between Management, HR Capability and HR Customer-agency. This suggests that organisations within both sectors with under-developed HCM capability will, unsurprisingly, rely either on Management or on the HR Function to support HCM performance within the organisation. This could be viewed as the 'baseline' of organisational efforts to enhance HCM performance.

	HR Strategy	Workforce Intelligence	HCM Architecture	Management	Employees	HR Procurement	HR Capability	HR Customer-Agency
Maximum								
HCM 100	13.8	13.5	14.6	13.9	13.8	12.3	13.6	13.4
Private	13.8	13.5	14.6	13.9	13.8	12.3	13.6	13.0
Public	12.3	11.0	13.0	13.2	12.9	12.3	12.8	13.4
Mean								
HCM 100	10.5	9.0	11.1	10.9	10.9	9.6	9.6	10.5
Private	10.6	9.2	11.3	11.1	11.1	9.8	9.6	10.7
Public	10.3	8.6	10.7	10.4	10.3	9.2	9.4	10.3
Minimum								
HCM 100	6.2	5.1	5.8	6.4	6.6	2.2	5.8	6.8
Private	6.6	5.7	5.8	7.1	6.7	2.2	5.8	6.8
Public	6.2	5.1	7.1	6.4	6.6	3.9	7.3	7.0



Value driver ranking

Ranking the value drivers by sector reveals shows virtually no differences between public and private sector responses (see the table below, where value drivers receiving the same ranking in both sectors are highlighted in bold). This suggests similar areas of emphasis from a human capital management perspective, with both sectors scoring HCM Architecture, Management and Employees as their top 3 scores.

Ranking	Private sector
1	HCM Architecture
2	Employees
3	Management
4	HR Customer-Agency
5	HR Strategy
6	HR Procurement
7	HR Capability
8	Workforce Intelligence

This would imply that human capital performance within organisations is seen as being an outcome predominantly of effective systems/processes, employees and managers. Whilst perhaps an intuitive message, this supports the view that the HR function's role should predominantly support HCM performance and ensure its consistency with required standards: the function itself is not the pre-eminent driver of HCM performance.

Ranking	Public sector
1	HCM Architecture
2	Management
3	Employees
4	HR Customer-Agency
5	HR Strategy
6	HR Capability
7	HR Procurement
8	Workforce Intelligence

Additionally, the high level of similarity in the ranking across the two sectors goes a long way towards dispelling any myths or perceptions that the two sectors have intrinsic differences. At least from the perspective of human capital, both public and private sectors appear to have aligned

viewpoints on what leads to high levels of performance – perhaps the key differential lies simply in how performance outcomes are measured.

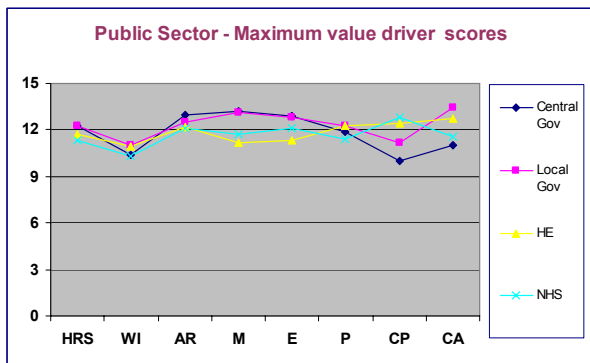
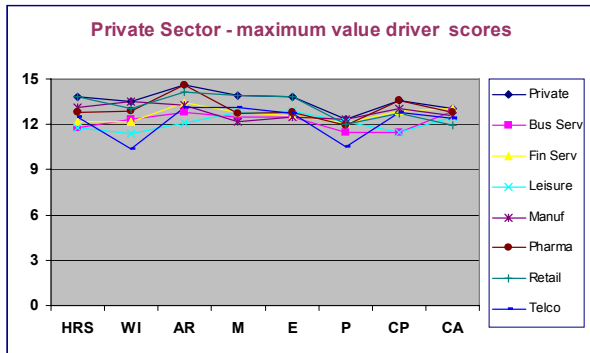
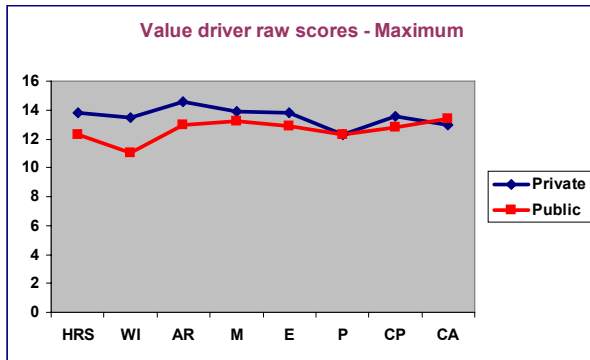
Overview of sector data

The following pages provide observations of each individual sector cluster.



Maximum scores: chart

Maximum scores reflect the average of all the highest raw scores per value driver provided within each sector, and therefore advise against over-interpretation at this level.



Key:

- HRS** HR Strategy
- WI** Workforce Intelligence
- AR** HCM Architecture
- M** Management
- E** Employees
- P** HR Procurement
- CP** HR Capability
- CA** HR Customer-Agency

Key observations

Maximum scores for Management and Employees do not differ significantly across private and public sector, implying that both sectors are able to recruit high-calibre workforces and managerial talent.

This supports recent reporting on the increased attractiveness of the public sector as an employer¹⁶ and implies that both sectors should, theoretically at least, be able to achieve similar levels of productivity and HCM performance, given the right supporting conditions for their human capital.

Responses show that HCM Architecture receives the highest maximum score.

In the conduct of the Ratings, we have found evidence of considerable investment made in aspects of HCM Architecture (e.g. performance management systems), although we have noted that a broad cross-section of organisations display inconsistencies or variation in their application of any such system or approach.

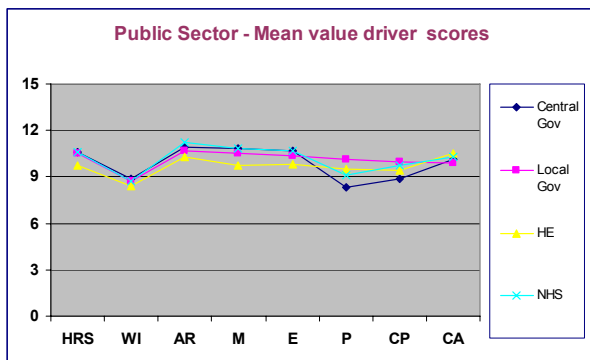
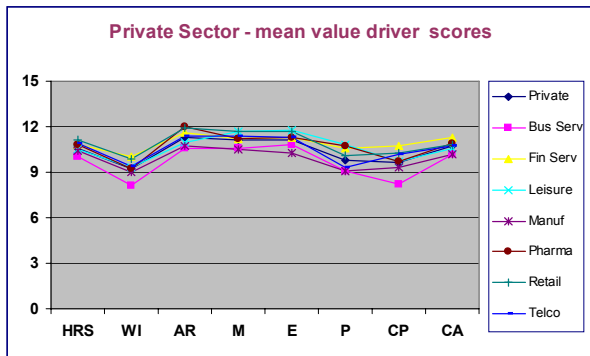
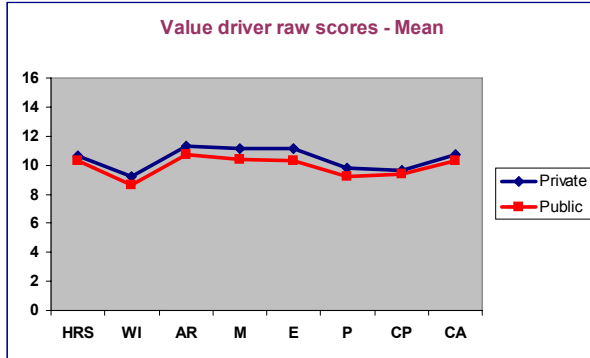
This leads to degraded levels of HCM performance across the organisation as a whole and impacts on HR functional resource focus.

¹⁶ "New dawn for public services", *The Guardian*, 28 September 2005



Mean scores: chart

Mean scores reflect the average of all raw scores per value driver provided within each sector, and accordingly present a more balanced basis for interpretation.



Key observations

Public sector scores, whilst mirroring those of the private sector in terms of relative strengths and weaknesses (i.e. with an identically shaped line), are consistently below private sector scores.

This would suggest that the public sector is indeed catching up from an investment perspective: alternatively, this would support recently reported views¹⁷ that HCM performance within the public sector lags behind that of the private sector through inefficiencies.

Given the relatively high levels of human capital intensity in delivering public sector KPIs (52% versus 31%), this raises the concern that investment in HR/HCM areas may not be realising expected outcomes, questioning the 'business case' around investment strategies.

This point is amplified in our Performance Matrix in Chapter 6, where a number of public sector along with private sector organisations occupy, what we term, the 'red zone'.

Workforce Intelligence is again identified as the lowest scoring value driver, suggesting that this is a relatively new or immature concept within organisations, whilst HCM Architecture receives the highest mean score across both sectors, reflecting its importance in underpinning HCM performance.

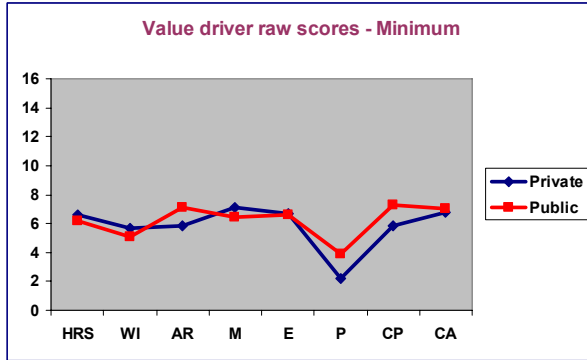
¹⁷ "Growth in output per worker at 14-year low" *Financial Times*, 30 September 2005

"Poor growth 'due to public sector'" *The Times*, 30 September 2005



Minimum scores: chart

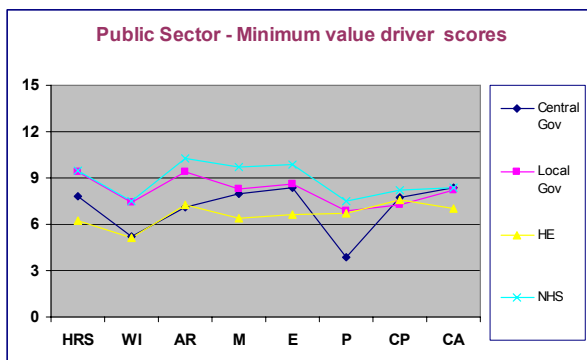
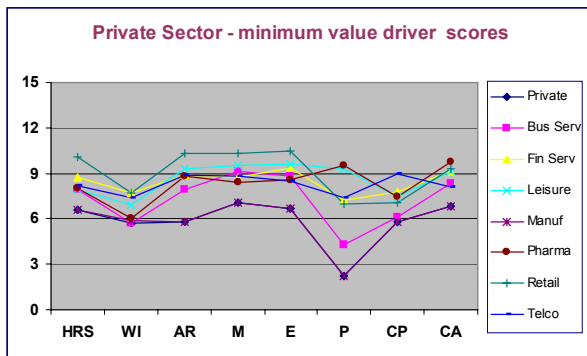
We note that minimum scores are based on the lowest scores reported across the group by individual organisations, and therefore advise against over-interpretation at this level.



Key observations

Private sector scores display higher variance than public sector scores, both across the eight value drivers and in comparison against the Maximum scores shown on the previous page, implying higher consistency of scores within the public sector as a whole.

Perhaps surprisingly, HR Procurement receives the lowest overall scores in both sectors, given the perception of high levels of public sector robustness in this area.





Sub-sector analysis

Categorisation for comparative purposes

The following categorisation has been used for sub-sector analysis to cluster similar operating models whilst preserving participant confidentiality:

- Business Services including Professional Services and Media
- Financial Services
- Leisure, Hotels
- Manufacturing/ Mining including Construction and Engineering
- Pharmaceuticals (including Pharmaceutical equipment)
- Utilities, Telecoms including Transport.

Within the Public Sector, the following categorisation has been utilised, both to identify relatively homogenous types of organisation where evident, and to maintain participant confidentiality:

- Central Government, Government Agency, Emergency Services
- Local Government
- Higher Education
- NHS Trusts (Acute and Primary Care).

There are two charts presented within each of the sub sectors. The 'radar chart' contrasts the value driver scores within the sub-sector with overall sector mean scores by value driver, to identify relative strengths and weaknesses.

The 'stock chart' represents the range of raw value driver scores within the specific sub-sector, with the vertical line indicating the range between the maximum and minimum score received, with the horizontal bar marking the mean across all participating organisations within the sub-sector.

The following table contains the raw scores used in value driver comparisons within the following pages.

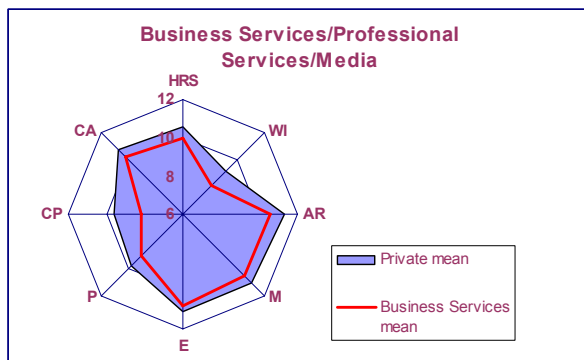
	HR Strategy	Workforce Intelligence	HCM Architecture	Management	Employees	HR Procurement	HR Capability	HR Customer-Agency
Business services	10.0	8.1	10.6	10.6	10.8	9.1	8.2	10.2
Manufacturing/ Mining	10.4	9.0	10.7	10.5	10.3	9.1	9.3	10.2
Financial services	10.8	10.0	11.6	11.2	11.3	10.6	10.7	11.3
Leisure/ Hotels	10.5	9.3	11.0	11.7	11.8	10.8	9.7	10.6
Pharmaceutical	10.8	9.2	12.0	11.2	11.3	10.7	9.7	10.9
Retail/ FMCG	11.1	9.9	11.9	11.7	11.7	10.1	10.3	10.8
All Private	10.6	9.2	11.3	11.1	11.1	9.8	9.6	10.7
Central Gov't & Agency	10.6	8.9	10.9	10.8	10.7	8.3	8.9	10.1
Local Gov	10.5	8.7	10.7	10.5	10.4	10.1	10.0	9.9
HE	9.7	8.4	10.3	9.7	9.8	9.5	9.4	10.5
NHS	10.6	8.7	11.2	10.8	10.7	9.1	9.7	10.3
All Public	10.3	8.6	10.7	10.4	10.3	9.2	9.4	10.3



Business Services/Professional Services/Media

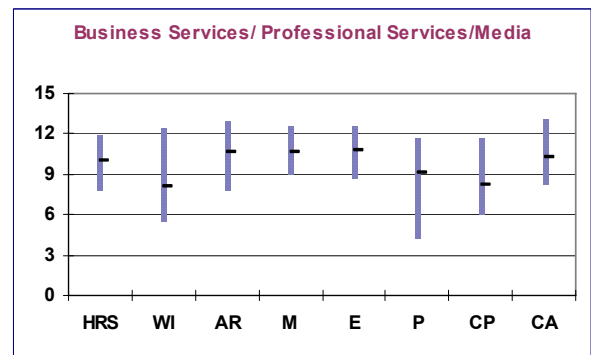
Analysis

This sub-sector rates below the Private sector mean in all value drivers, suggesting that efforts at managing human capital performance are less advanced than in other sectors: this appears counterintuitive as the sector typically possesses relatively high levels of human capital intensity.



be achieved through review of existing budgetary priorities.

Management and Employees show limited differential between maximum and minimum scores, suggesting that these are not the primary reasons for HCM performance variation across organisations within this sector.



Observation

We note a particular relative weakness to Private sector norms in the scores received in HR Capability, suggesting that this sector has not placed relatively high importance on the HR function as a means of assuring HCM performance (implying more of a reliance on individual managers).

Given the levels of HCM Investment in this sector (£1,941 vs. a Private sector norm of £1,525), this raises questions about how effectively investment is targeted and whether additional HCM performance can

Conclusion

Low VB-HR™ Rating scores relative to the Private sector norm and the overall distribution of Ratings (with B-B-R identified as the largest category) suggests that opportunities exist to increase levels of overall productivity and quality through increased focus on the benefits of HCM practice within this sub-sector (potentially through further investment/review relating to HR Functional remit and expectations).

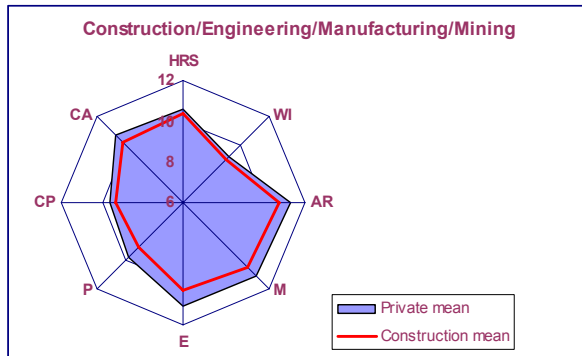
	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	0	1	0	0	0	6	1	2	4	0	0	1	0
Mean VB-HR™ Rating score	20,183					Relative to Private sector norm					0.928		



Manufacturing/Mining/Construction/Engineering/

Analysis

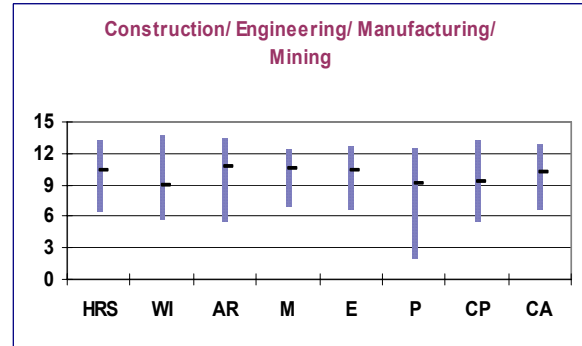
Comparison against the mean shows that HR Strategy, Workforce Intelligence, HR Capability and HR Customer-Agency rate close to Private sector norm levels, suggesting that the HR function plays a relatively significant role in ensuring HCM performance within these sectors. Other scores suggest, however, that this role will focus on monitoring and ensuring legislative compliance.



Observation

Scores suggest that this sub-sector regards Management, Employees and HCM Architecture as being relatively limited contributors to HCM performance. Whilst this is to a degree consistent with the relatively low levels of human capital intensity (23% vs. a Private sector mean

of 31%) in this sector, it suggests potential to enhance HCM performance through stronger focus in these areas.



Conclusion

We note that overall levels of HCM Investment are significantly below Private sector norms (£1,009 vs. a Private sector norm of £1,525). Despite this, the VB-HR™ Rating score is not significantly below Private sector norm levels, but this conceals a very wide range of ratings obtained, suggesting considerable differentials in HCM performance (and accordingly return on the investment made) within this sector.

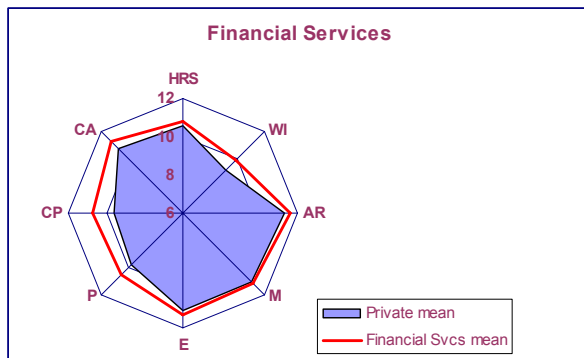
	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	1	1	0	0	0	4	0	0	4	1	0	1	0
Mean VB-HR™ Rating score					20,828	Relative to Private sector norm					0.957		



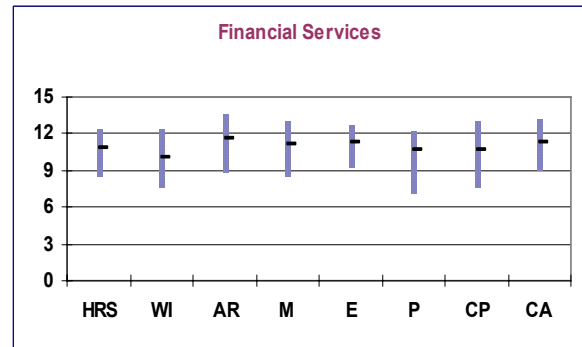
Financial Services

Analysis

Mean scores show that the Financial Services sector performs at above Private sector norm levels within all value drivers, with particular strengths in Workforce Intelligence and all three value drivers relating to the HR Functional Capital. This suggests relatively strong investment in the HR function, potentially reflecting the importance of risk management and process consistency within the sector (particularly apparent in the above norm score within HR Customer-Agency).



performance. The level of HCM Investment within this sector is significantly above the Private sector norm at £2,461 (adjusted for outliers), versus the Private sector norm of £1,525.



Conclusions

The Financial Services sector receives a majority of VB-HR™ Ratings that are on or above 'market average' levels (i.e. BB-BB-R or above). This suggests that, on the whole, organisations within this sector are successful at translating their greater than average levels of HCM Investment into high levels of HCM performance (in some cases leading to the award of BBB ratings and a reduced level of risk associated with this).

Observation

Means across all value drivers score relatively consistently (and display narrow ranges of response), suggesting an even focus within Financial Services organisations in all areas of HCM

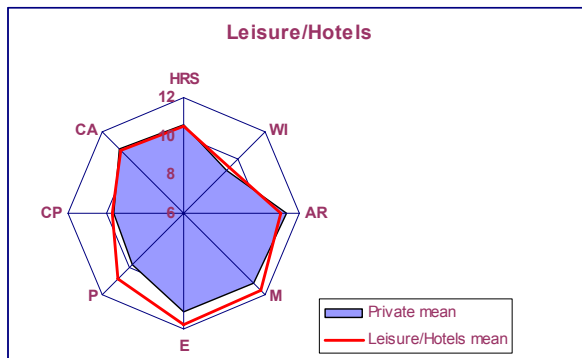
	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r	
Distribution	0	0	0	0	0	3	0	0	7	2	0	2	0
Mean VB-HR™ Rating score					22,756	Relative to Private sector norm					1.046		



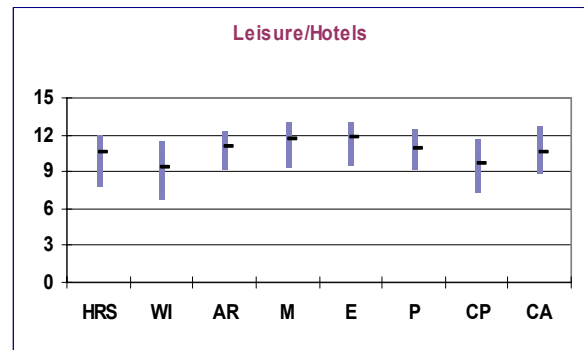
Leisure/Hotels

Analysis

Mean scores show particularly high focus on Management and Employees within this sub-sector, with other value drivers scoring at Private sector norm levels. This appears consistent with the focus on customer/guest service within this sector, and the often decentralised nature of organisations based across branches or hotels – these factors will place a significant onus on individual managers to ensure effective HCM performance.



A low level of HCM Investment per employee suggests the potential for HR functions to suffer from relative under-investment, increasing the challenge in ensuring the consistency of HCM application within an organisation.



Observation

With the exception of Workforce Intelligence and HR Capability (two value drivers with a high level of linkage), means across other value drivers score relatively consistently, suggesting balanced investment and focus across value drivers.

Conclusions

Ratings within this sector show a high degree of consistency, with the majority at BB-BB-R. That this is achieved for a significantly low HCM Investment per employee (£391 vs. a Private sector mean of £1,525) suggests that the performance of Management and Employees, rather than heavy reliance on the HR function itself, is in part responsible for this. This implies that raising overall ratings beyond the level currently achieved will pose significant challenges.

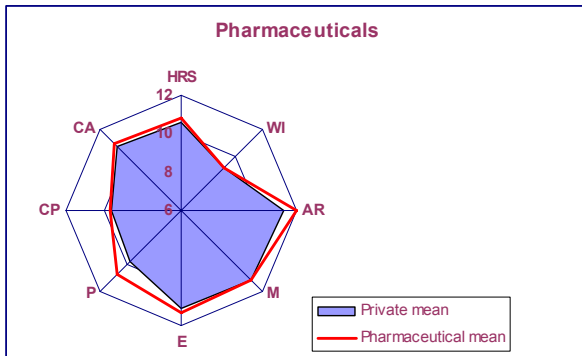
	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	0	0	0	0	0	1	0	0	4	0	0	0
Mean VB-HR™ Rating score						22,114	Relative to Private sector norm					1.017



Pharmaceuticals (and Pharmaceutical equipment)

Analysis

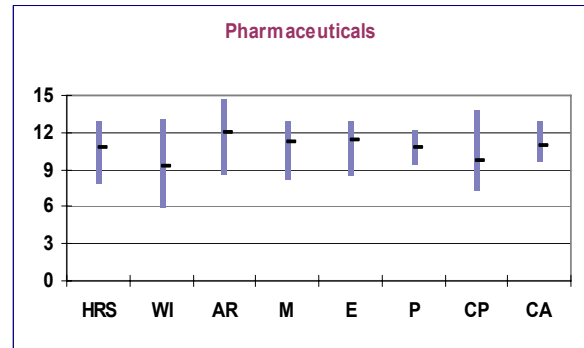
Mean value driver scores show that the Pharmaceutical sector consistently scores at or above Private sector norm levels, with particular strengths in HCM Architecture and HR Procurement, suggesting relatively high investment in standardising HCM approaches through development of systems and processes.



Observation

Despite this apparent investment in HCM Architecture, scores within this value driver, Workforce Intelligence and HR Capability fall across a broad range. This suggests that, despite particularly high performance in a small number of organisations, individual companies will display variable levels of performance and

investment in these areas. The narrow range of responses within the HR Procurement value driver, however, suggests a high degree of consistency and utilisation within this sector.



Conclusions

The distribution of VB-HR™ Ratings shows considerable HCM performance differentials. Whilst one organisation receives the only 'A' rating within the HCM100, the majority of ratings fall within normal levels. This would appear to be in line with an HCM Investment level of £1,468, close to the Private sector norm of £1,525.

	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	0	0	0	0	0	2	0	1	2	0	0	1	1
Mean VB-HR™ Rating score					22,642	Relative to Private sector norm					1.041		

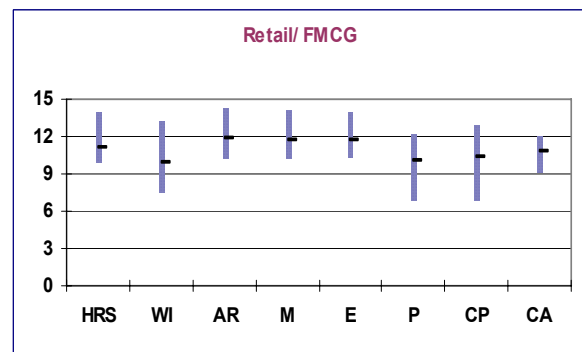
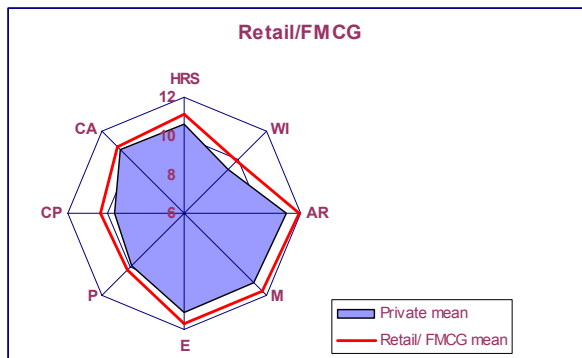


Retail/FMCG

Analysis

Organisations within this sector appear to benefit from consistently high relative levels of performance across value drivers, compared against Private sector norms. This suggests that organisations have invested in the means to ensure consistently high levels of HCM performance (potentially in response to the employee resourcing model in place within Retail organisations and its reliance on relatively high volumes of part-time employees).

Although the HCM investment within this sector is below Private sector norm levels (£1,076 vs. £1,525), the scale of organisations within this sector will result in high absolute levels of HR expenditure, supporting the investment apparent in individual value driver scores.



Observations

Scores indicate an emphasis on HCM Architecture, Management, Employees and HR Strategy in driving HCM performance. Whilst Workforce Intelligence scores highly relative to the Private sector norm, it still receives a relatively low mean score. This indicates that organisations in this sector have further opportunities to enhance their use of measurement in driving HCM performance.

Conclusions

The majority of VB-HR™ Ratings within this sector are at the market average (BB-BB-R), with limited incidence of lower performance. Given the scale of organisations within this sector and evidence of prior investment, this suggests that the sector has generally responded effectively towards obtaining satisfactory levels of HCM performance, although certain high ratings received imply further scope to raise HCM performance within the sector as a whole.

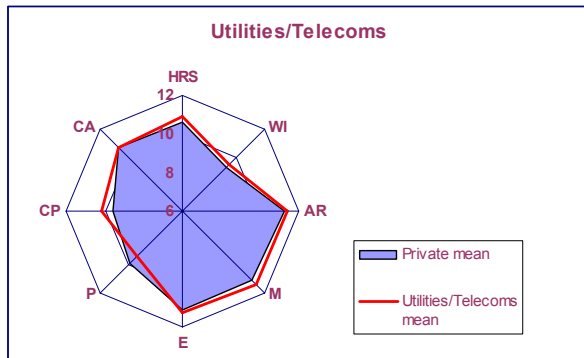
	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r	
Distribution	0	0	0	0	0	1	0	0	7	0	1	1	0
Mean VB-HR™ Rating score						22,787	Relative to Private sector norm					1.047	



Utilities/Telecoms (including Transport)

Analysis

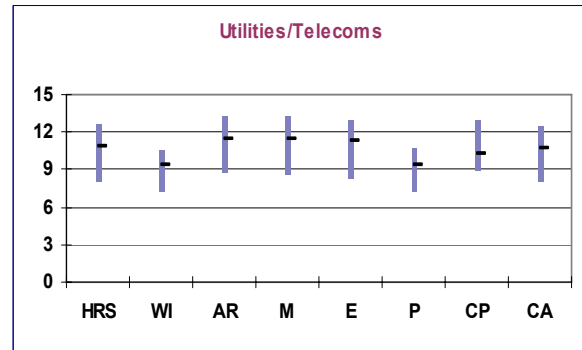
With the exception of HR Procurement, organisations within this sector score just above Private sector norm levels, particularly in the HR Capability value driver. This implies a relatively high level of investment within the HR Function itself: despite this, and consistent with other sectors, HCM Architecture, Management and Employees yield the highest mean scores, suggesting a strong reliance on these value drivers in supporting HCM performance.



Observation

HCM Investment within this sector is above Private sector norm levels, at £2,317 vs. £1,525, although there is considerable range around this mean within the sector, suggesting different

levels of investment priority. Given this, the range of responses received in various value drivers is relatively narrow, implying differential outcomes from investments made.



Conclusions

The sector receives a mean VB-HR™ Rating score that is only slightly above norm Private sector levels. With the majority of organisations receiving a market average rating of BB-BB-R, this suggests that organisations within the sector will typically benefit from a review of investment priorities to ensure that maximum return on HCM performance is obtained for the level of investment.

	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	0	0	0	0	0	1	0	0	4	1	0	0	0
Mean VB-HR™ Rating score					22,146	Relative to Private sector norm					1.018		

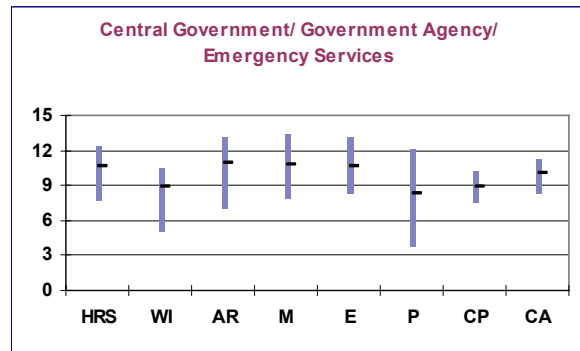
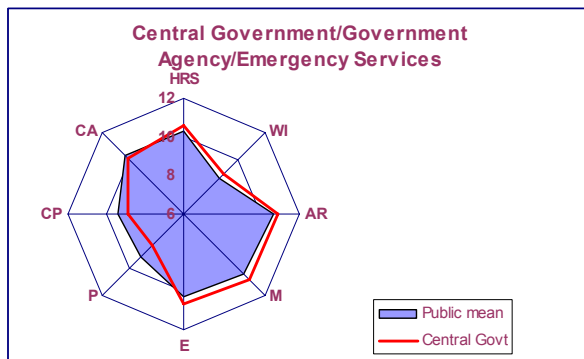


Central Government/Government Agency/ Emergency Services

Analysis

This sub-sector exhibits particular strengths in the performance of Workforce Intelligence, HCM Architecture, Management and Employees in comparison against Public sector norms, whilst HR Procurement and HR Capability receive relatively lower scores. Responses suggest a particular emphasis on Human capital to deliver organisational objectives, supported by generally robust HCM systems and processes.

range, suggesting either that some aspects of operational risk are increased, or that the ability of individual organisations or Departments to monitor and achieve consistent productivity or return on HCM investment will be degraded.



Observations

We note the relatively low performance of HR Functional value drivers, suggesting that functional involvement in supporting the delivery of organisational objectives/KPIs is not at the point intended. Perhaps surprisingly, given the importance of human capital in delivering organisational KPIs (with human capital intensity at 50.5%), scores within Workforce Intelligence fall within a broad

Conclusions

Whilst relatively high levels of HCM investment (at £1,363 significantly above the Public sector norm of £994) appear to result in greater than average value driver performance, this results in a mean VB-HR™ Rating score that is only slightly above the Public sector norm, suggesting that this sub-sector has not yet seen the benefits from its relatively high levels of investment, despite the large majority of organisations scoring a market average BB-BB-R rating.

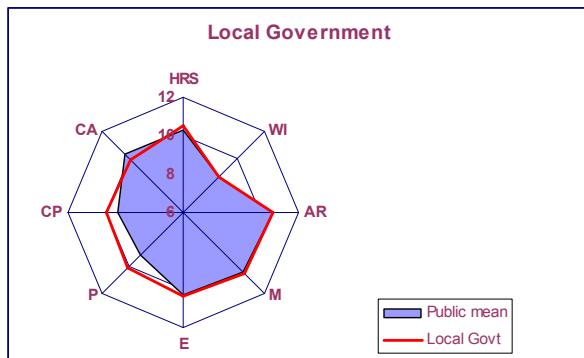
	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	1	0	0	0	0	1	0	0	7	0	0	0	0
Mean VB-HR™ Rating score					21,103	Relative to Public sector norm					1.013		



Local Government

Analysis

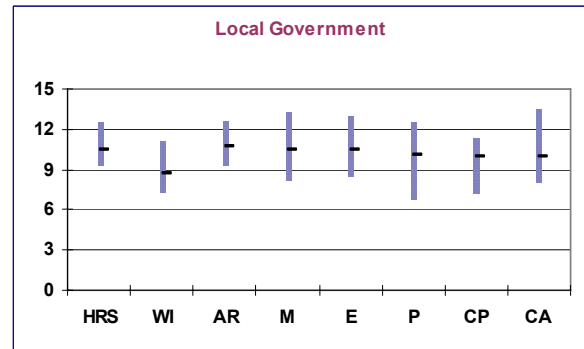
Local Government value drivers generally mirror Public sector norms, with particular strengths identified in HR Procurement and HR Capability, suggesting that this sector places relatively higher emphasis on the role and performance of the HR Function than other sub-sectors within the Public sector.



Observation

Value driver mean scores exhibit (with the exception of Workforce Intelligence) a high level of consistency, implying an even focus across all value drivers at the mean level. Despite this, the range of responses suggests that individual Local Government organisations display considerable variations in performance within each

value driver, suggesting differing focus for investment.



Conclusions

Levels of HCM investment at £581 (against the Public sector norm of £994) are relatively low, in line with levels of human capital intensity that are below the public sector average (35.3% versus a norm of 52.3%). In light of this, the sector still achieves a positive mean VB-HR™ Rating when compared against the Public sector mean (despite scores tending to 'B' ratings), suggesting that the level of expenditure itself is not a primary source of HCM performance differentiation.

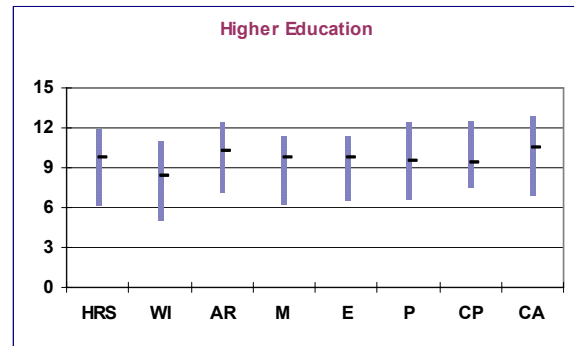
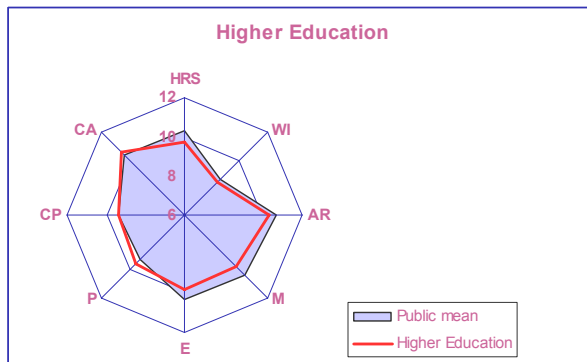
	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	0	0	0	0	0	2	1	0	1	0	0	1	0
Mean VB-HR™ Rating score					21,022	Relative to Public sector norm					1.010		



Higher Education

Analysis

Higher Education institutions score below Public sector norms in all value drivers with the exception of HR Procurement and HR Customer-Agency. Relative weaknesses are seen in HR Strategy, HCM Architecture, Management and Employees (of potential concern given the high human capital intensity level of 59.3%).



Conclusions

Ranges within all value drivers are large, suggesting a highly organisation-specific approach within Higher Education institutions towards human capital management. Given that levels of HCM investment in this sector are above Public sector norm levels (£1,074 vs. £994) this raises questions around the impact (or targeting) of expenditure on enhancing levels of HCM performance.

Observation

HR Customer-Agency, atypically, is identified as the highest performing value driver at mean levels. This suggests either the particularly effective provision of HR services within the institution, or could equally imply a strong emphasis on compliance monitoring to mitigate the variable application of HCM practice suggested by the relatively low scores in Management and Employees.

This is borne out in the distribution of ratings. Whilst the majority of institutions receive B or BB ratings (suggesting HCM performance generally towards market norm levels), two institutions receive particularly low ratings which suggest increased levels of HCM risk. This raises questions around the consistency of practice within the sub-sector, despite considerable efforts made on this front.

	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	2	0	0	0	0	1	1	1	6	0	0	0	0
Mean VB-HR™ Rating score					20,810	Relative to Public sector norm					0.999		

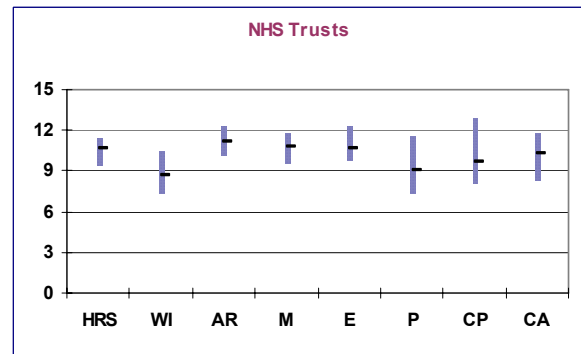
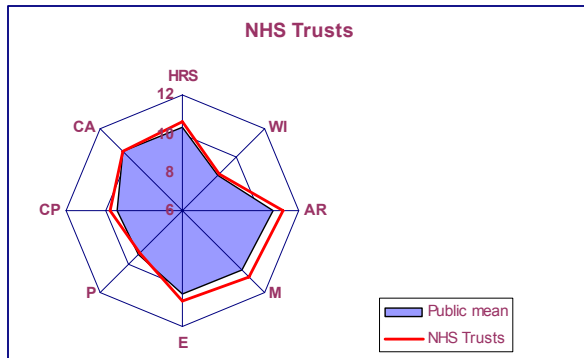


NHS Trusts

Analysis

NHS Trusts score at or above Public sector norms in all value drivers, with particular strengths in HCM Architecture, Management, Employees and HR Capability. This suggests that Trusts are, in general, relatively successful in obtaining levels of HCM performance for limited budget.

performance, whilst processes and human capital are extremely consistent within the sector (from an HCM performance perspective). This suggests a degree of effectiveness of the relatively 'centralised' or consistent approach within the sector, (e.g. in line with the implementation of current initiatives relating to competencies and reward).



Observation

Evaluation of responses shows that NHS Trusts provide highly consistent value driver scores in HR Strategy, HCM Architecture, Management and Employees, with HR Procurement and HR Capability emerging as the value drivers exhibiting the highest levels of performance differential. This suggests that the expertise and use of technology with the HR function (and, as a consequence, its positioning within the Trust) will be a significant differentiator in HCM

Conclusions

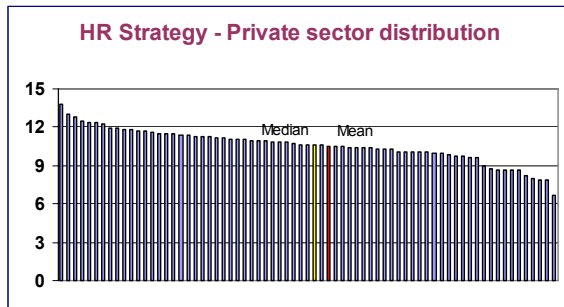
The distribution of ratings received is polarised, suggesting that 50% of Trusts have the opportunity to raise their HCM performance to market levels (and obtain a BB-BB-R rating). In light of low levels of HCM investment relative to Public sector norm levels (£663 vs. £994) this suggests potential challenges either relating to the level of funding available (and its implied priority) or relating to the targeting of existing expenditure.

	CCC-CCC-RR	CCC-CCC-R	CCC-B-RR	CCC-B-R	B-CCC-R	B-B-R	B-BB-R	BB-B-R	BB-BB-R	BB-BBB-R	BBB-BB-r	BBB-BBB-r	BBB-A-r
Distribution	0	0	0	0	0	3	0	0	3	0	0	0	0
Mean VB-HR™ Rating score					20,323	Relative to Public sector norm					0.975		



HR Strategy

HR Strategy



Whether it exists as a formal document submitted for Board approval, or exists predominantly at a 'tacit' level, the HR Strategy has the one clear and overarching purpose of serving as a 'statement of intent' for management and the HR function to drive resource utilisation in a manner that increases human capital performance within the organisation.

HR functions within the Benchmark 100 enjoy considerable physical resource (a mean of 89 HR FTEs) and a budget to deploy in the pursuit of functional and organisational objectives. The average reported annual HR spend within the HCM100 is £1.87m, although this figure varies significantly depending on organisational scale, placing considerable onus on the function's ability to target its resource and time within the organisation

on areas conducive to high levels of human capital performance, whilst minimising people-related risks.

The HR Strategy should therefore act as an articulation of how the HR function is to achieve this, providing the linkage between the activity of the HR function and human capital outcomes within the organisation: in essence, it should provide the platform for HCM decisions and actions within the organisation for both line management and the HR function itself.

We identify two key dimensions within the HR Strategy of equal weight and relevance:

- The extent to which it is aligned with the broader organisation's objectives
- The extent to which it is internally coherent or consistent.

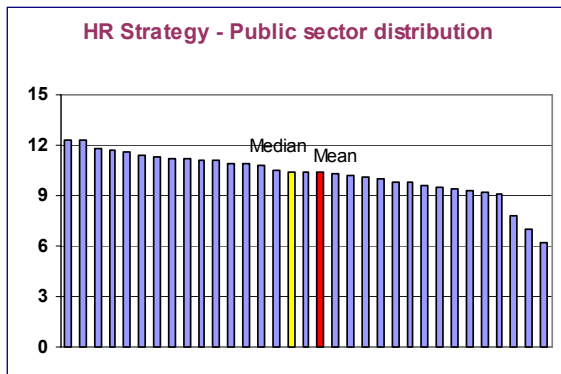
Any imbalance within these factors will lead to sub-optimised HCM performance: a completely coherent HR strategy that does not account for the level of recruiting activity needed to replace staff in a high-turnover environment (e.g. retail) will fail to deliver desired organisational outcomes. Similarly, a tightly aligned strategy designed to deliver the people resource needed for a growing professional services firm will not meet



organisational needs unless it also ensures that new hires are effectively inducted and trained in how to operate.

Consequently, highly rated HR Strategies possess a number of characteristics aligned with these two dimensions. The processes and approaches leading to its development and integration will involve stakeholders from outside the HR function - we shall see in other value drivers how the VB-HR™ Rating system explicitly recognises that the HR function, crucial as it is in underpinning high HCM performance, does not possess sole responsibility for this. The HR Strategy will be taken as being a 'living thing' within the organisation, with line awareness and understanding of its objectives. Its objectives will be incorporated within other aspects of organisational planning, with clear targets and effective measurement against this. Most importantly, it will be implemented in a consistent manner throughout the organisation, through the joint efforts of management and the HR function.

At the aggregate level, both private and public sector distributions show that the majority of HR Strategies score within a narrow range, with very small numbers being identified as high- or low-scoring. This suggests that the large majority of organisations possess similar overall levels of expertise in developing and implementing appropriate HR Strategies, albeit with a range of focus within these.



Despite this, we note that the highest score in each case is roughly twice that of the lowest score, suggesting a wide diversity of capability with each sector as a whole. With a large number of organisations falling within a 'mid range', the distribution charts suggest that differentials in the performance of the HR Strategy within organisations exist more at the detailed level.

Within the Benchmark 100, a recurrent theme emerges around limited effectiveness in applying measurement to ensure management 'follow-through' against the objectives specified within the HR strategy, with only a small handful of organisations attempting to measure the impact (or return on investment) of efforts made. In many cases, this results in high levels of variability in management performance and leads to limited appreciation of the HR function's role and contribution to the organisation. Not only does this undermine

VB-HR Level 1 Lite Report - extract

"Limited monitoring of the effectiveness/impact of the HR function's contribution and progress against the objectives within the HR strategy will undermine the consistency of its impact within the organisation.

In addition, this will make the HR function overly reliant on subjective viewpoints of individual line managers, which can be unreliable and lead to any 'good work' carried out by the function being undervalued."

the impact of the HR Strategy and weaken the chances of its successful implementation, but this will also degrade the consistency of perception of the HR function and lead to unclear understanding of its value.

A more subtle impact of limited measurement against HR Strategic objectives is the function's reliance on more qualitative viewpoints to assess its effectiveness and contribution to the organisation - these can be unreliable and



suffer from incomplete and subjective interpretation.

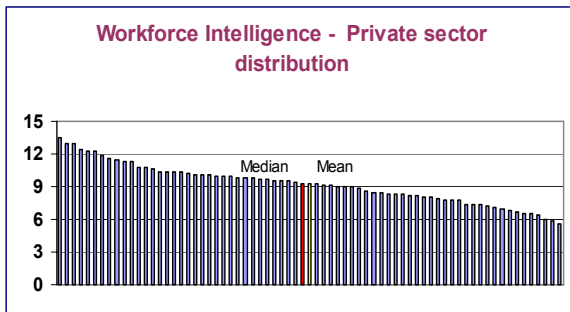
Given these findings, we would argue that the biggest challenge organisations face relating to their HR Strategy is how best to ensure the consistency of its implementation where this involves stakeholders outside the HR function itself. This has strong linkage to an

organisation's performance within two further value drivers in particular – Workforce Intelligence and HR Customer-Agency.



Organisational_{HCM} Capital

Workforce Intelligence



Workforce Intelligence is a term that relates to the collation and application of all information relating to the workforce – we regard it as a sub-set of the overall concept of 'Business Intelligence' and one that directly relates to how people are utilised within the organisation.

Workforce Intelligence accordingly includes aspects of 'operational' and 'strategic' information, relating on the one hand employee data and composition, performance data, information designed to reduce inefficiencies and risk (e.g. job evaluation exercises, equal pay audits); and on the other to the use of information to measure, i.e. HC metrics and metrics to quantify and assess the impact of HR interventions (and the impact, as noted, of the HR Strategy).

The following table sets out different levels of Workforce Intelligence:

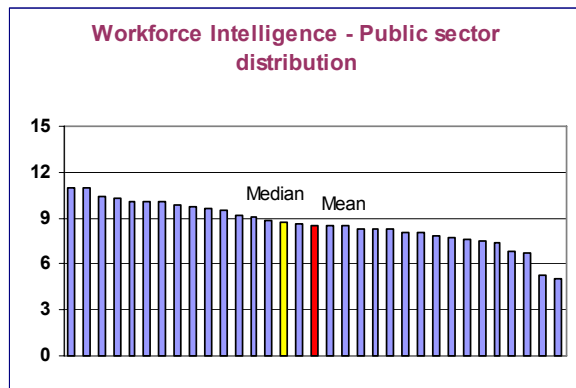
Metrics level	Examples
Data	Accurate employee records, updated organisation charts, data on workforce size, equal pay and equal opportunity information
Efficiency	Absenteeism; turnover; training days per employee; days to fill an empty position; success rate of job offers
Effectiveness	Revenue per employee; employee engagement indices; return on investment on training
Value	net present value of HR strategy, free cash-flow generation per employee, value added per employee
Employee modelling	construction of predictive models linking, for example, performance evaluations with turnover propensity; development of longer-term workforce forecasting models to match understanding of the external labour market against internal skill-sets



The two dimensions of Workforce Intelligence reviewed within the VB-HR™ Rating system as defined are:

- Sophistication
- Reporting ability.

We regard a highly rated Workforce Intelligence capability therefore not just as one that is capable of gathering a wide range of data (which can often be the temptation when designing organisational approaches) but also one that generates reports and insights that are seen as relevant by the wider organisation and incorporated into decision making.



Conclusions

Whilst maximum scores within this value driver are higher in the Private sector distribution, the two sectors have broadly similar means and minimum scores. This

suggests a limited differential in performance across the two sectors but also implies that individual organisations within the Private sector possess more capable approaches (although scores show this to be a relatively small number of organisations).

Common challenges within the HCM100 benchmark group relate to the ability to collate and maintain accurate data on workforce composition – without this in place, the HR function’s ability to generate relevant reporting is substantially degraded. Whilst 80% of organisations claim that their workforce data is more accurate than not, only 63% of organisations have a centralised technology platform underpinning their workforce data. This suggests that data collation exercises for one third of organisations will be time-consuming and be subject to questions around the integrity of data. Perhaps not coincidentally, one third of organisations also claim that issues exist around executive and management awareness and buy-in to any HR measurement.

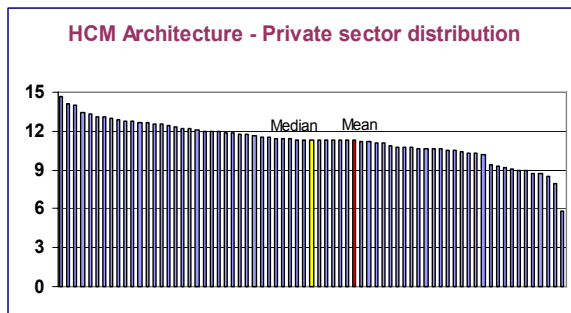
Given these challenges in obtaining workforce data, it is not surprising that only 12 organisations claim any consistent attempts at quantifying the impact of HR interventions at a more ‘strategic’ level.

VB-HR Level 1 Lite Report – extract

“Despite the existence of dedicated measurement resource, responses relating to the use of workforce data within decision making are contradictory, suggesting patchy or inconsistent application. This implies that current approaches are ‘disconnected’ to some extent from organisational requirements, and thus contributing to the CCC rating.”



HCM Architecture



HCM Architecture can simply be defined as the systems and processes that support the delivery of effective and consistent human capital management within the organisation. Typically these will cover all stages of the employee 'life-cycle', from recruitment, development, 'on the job' support, performance and talent management, promotion and, ultimately, exit. We term these 'architecture' (to borrow nomenclature from IT) as they provide the overall structure for effective HCM practice.

In reality, an effective HCM Architecture encompasses not just technology solutions, but the approach towards implementation of specific processes. Not every organisation, for example, will require a sophisticated database to carry out 360 degree appraisals – the effectiveness of those will rely more on management and employee understanding and diligence in providing accurate,

evidenced feedback to a central repository.

Accordingly, questions relating to the effectiveness of this value driver probe more into consistency of implementation and the usefulness/application of the outcome of the process. We examine two dimensions in particular when reviewing HCM Architecture:

- Sophistication
- Integration.

In this context, 'sophistication' refers as much to the outcomes and their robustness as it does, as mentioned, to any specific technological solution. To return to the example of performance management, an organisation effectively implementing 360 degree appraisal, linked to a robust competency framework, supporting a set of developmental courses and underpinned by productivity-related data should be in possession of a highly *sophisticated* performance management system (notwithstanding issues of the consistency of its application, which is addressed within aspects of the Management and HR Customer Agency value drivers).

This theoretical example also demonstrates the importance of Integration within the HCM Architecture, encompassing aspects that could typically be considered as part of different

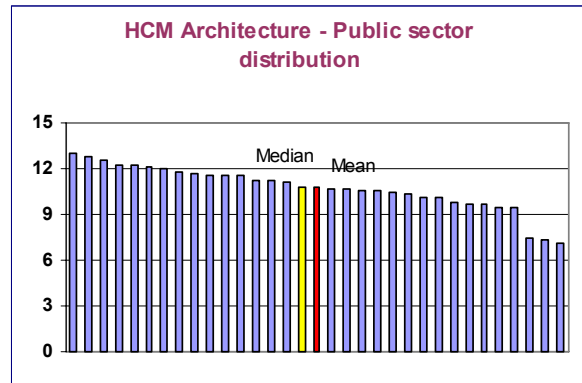


processes. The following table takes the example of performance management set out above and demonstrates how the architecture will integrate what could be regarded as aspects of separate processes.

Architecture component	'Process'
360 degree	Appraisal
Competency framework	Appraisal/Recruiting
Development courses	Training & Development
Productivity data	Measurement

Comment

As noted, this is the highest scoring value driver, with the proportion of scores above 12 in the Private sector reflecting this. Despite this, we again note that the highest score in each case is roughly twice that of the lowest score, suggesting a wide diversity of capability with each sector as a whole. The overall distribution, however, shows that the majority of organisations have generally established at least baseline HCM Architecture that is capable of supporting HCM practice.



Within the Benchmark 100, we note that potential 'disconnects' within the HCM Architecture can be identified through review of specific indicators: involuntary turnover, for example, or a high ratio of external appointments to management positions. Unless part of an articulated HR Strategy, these can point to either a misaligned component (inability to develop managerial talent internally through insufficient focus on performance management, for example) or inconsistency of application (often linked to Management understanding and buy-in).

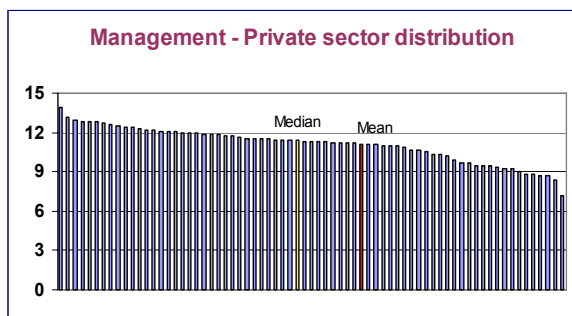
VB-HR Level 1 Lite Report – extract

"The high proportion of external appointments to management positions (over 50%) suggests either that the organisation has the explicit strategy of acquiring external skill sets (with an impact on recruitment costs and employee expectations of promotion) or that some aspect of the approach towards development is not consistently resulting in internal candidates of a sufficient calibre. The HR function should ensure that this is consistent with an intended approach and does not result from any potential 'disconnect' within the HCM architecture (e.g. relating to performance management or training provision)."



Human Capital

Management



Within Human Capital, we evaluate Management separately from Employees for the reason that, from an HCM perspective, their role within the organisation is somewhat different. Whilst Employees would typically be expected to carry out their role to the best of their ability (see the Employee value driver for further information), the role of the manager within the organisation is generally to deliver team outcomes rather than predominantly individual ones.

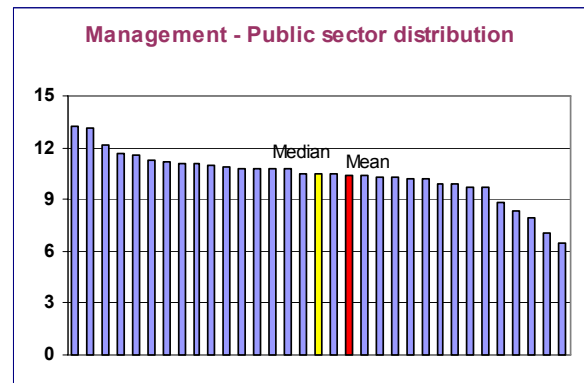
As such, we define the Management value driver as possessing two key dimensions:

- Leadership
- Competence.

Note that this definition of Management explicitly overlooks specific technical capability, as the VB-HR™ Rating is concerned with human capital management within organisations.

Two extreme illustrations of these two dimensions would be, on the one hand,

charismatic individuals who are extremely gifted at motivating teams, but regard giving feedback and appraisals as having limited relevance (i.e. demonstrating high levels of Leadership but limited Competence) and, on the other hand, a bureaucratic manager with a preference for policies and procedures (i.e. strong Competence but limited Leadership). Whilst these two extremes both possess an area of strength, we would argue that only when Management possesses both aspects can employees expect to be motivated and treated equitably, which will typically affect their performance levels.



Comment

Whilst the two sectors show that the majority of organisations fall within the 'mid-range', with few very high or very low scores, the gap between the median and the mean within the Private sector



distribution suggests a considerable 'tail' of organisations where Management does not effectively combine both aspects of Leadership and Competence.

Within the Public sector distribution, this pattern is less evident, but we note sharply declining scores in the final five organisations, suggesting that Management capability is not consistent within this sector.

Within the HCM 100, issues commonly arise around the consistency of Management practice within the organisation, degrading overall scores. One third of organisations question

Management's ability to manage team performance effectively, raising questions about consistency of approach (and equity of treatment) and the ability of the organisation to attain optimum or desired levels of productivity and quality.

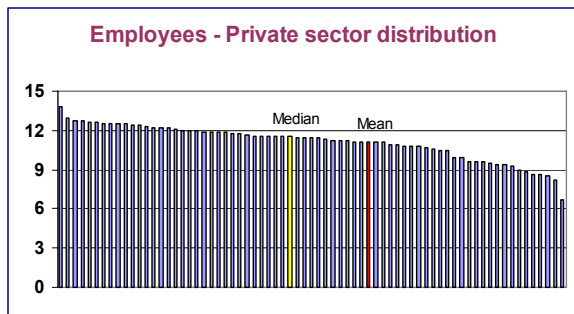
Interestingly, a similar proportion of respondents feel that managers in the organisation are at best ambivalent around the value contribution of the HR function, which could either suggest limited awareness of its impact, or mask a deeper lack of understanding of the importance of HCM practice within organisations.

VB-HR Level 1 Lite Report – extract

"Responses indicate weak-points or inconsistencies in the areas of managing under-performance, decision making and role clarity. Inconsistent management practice in these areas causes issues around equitable treatment and will undermine overall levels of productivity – if poor performers are seen to be tolerated, high performers will tend to reduce their productivity or leave the organisation (as implied by a further response). This requires further investigation to identify its impact on Employee levels of engagement."



Employees



The VB-HR™ Rating system, as mentioned above, evaluates Human Capital from the perspective of both Employees and Management.

The underlying assumption from an HCM perspective is that Employees should be competent, engaged and productive.

The Rating system accordingly reviews two key dimensions relating to Employees:

- Alignment
- Commitment.

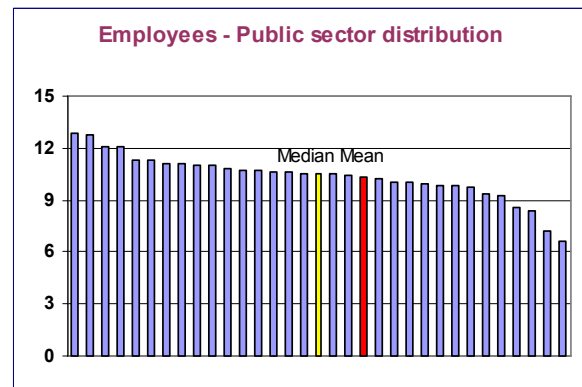
Employees who score highly within Alignment will be aware of organisational performance and objectives (which typically requires effective communication from Management) and understand the nature of their role and its contribution to these overall organisational objectives.

Employees who are committed will be willing to contribute to the organisation and relate to it in a way that goes beyond the purely 'transactional', deriving

personal satisfaction from their own performance and that of their team and broader organisation.

Comment

Comparison across the distributions shows that scores are higher in Private sector organisations, despite a high level of consistency within Public sector organisations. Despite this, certain Public sector organisations report high performance in the Employee value driver, implying that both sectors are equally capable of benefiting from highly engaged workforces.



This suggests variable levels of employee engagement within sectors, and generally lower levels within the Public sector.



In light of the vocational nature of many Public sector roles (particularly within the NHS and Higher Education), this appears counter-intuitive and could result from a degree of historic under-appreciation of other aspects of engagement within this sector. As noted above, this has particular relevance in a Public-sector environment that is moving strongly towards tracking productivity and outputs, rather than inputs.

Related to these scores, it is noticeable that

VB-HR Level 1 Lite Report – extract

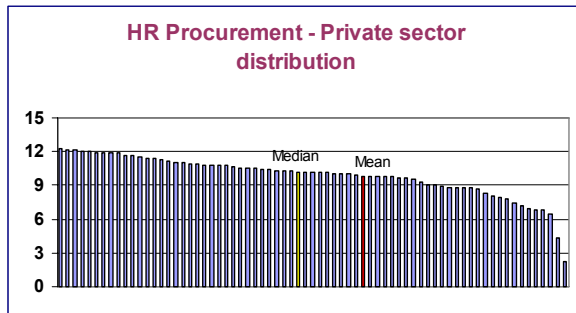
"Mapping responses received onto the VB-HR™ Engagement framework reveals that engagement levels are below the index norm in all domains except Reward: this raises questions about the nature of any employee commitment to the organisation. If employees perceive this relationship as predominantly 'transactional', it has implications for investment priorities and focus within the HR Strategy and will impact on the organisation's cost base over time (as evidenced by the reported level of average pay award of 3.8%)."

absenteeism rates within the HCM 100 average 3.5% within Private sector organisations and 5.6% within Public sector organisations, supporting this differential within levels of engagement between the two sectors. Whilst this could stem from a wide variety of factors (including the performance of Management), this suggests challenges in ensuring consistently high levels of productivity and quality in the Public sector in particular.



HR Functional Capital

HR Procurement



Particularly over the last decade, organisations have sought to utilise external service providers to supplement internal delivery capability either through the perception that this would allow them access to a higher level of expertise or take advantage of a reduced level of cost for a similar level of service provision.

This is as true within HR as in any other function. External vendors are utilised in a wide variety of ways, from providing Employee Assistance Programmes, evaluating pension schemes, implementing software packages, delivering training or running components of functional activity (e.g. payroll or recruitment).

It is easy to overlook the fact that, whether it is effectively the 'prime contractor' or whether it has 'sub-contracted' to a third party, the HR function still remains responsible and accountable to the organisation for the

delivery of these services. As such, HR Procurement is one of the three value drivers associated with the HR function itself.

HR Procurement reviews performance across two dimensions:

- Management
- Utilisation.

Vendor management relates to both to processes utilised in selection, which can increase or diminish delivery risk depending on their rigour and how effectively they are applied, and to processes that ensure delivery of the service or product to the organisation.

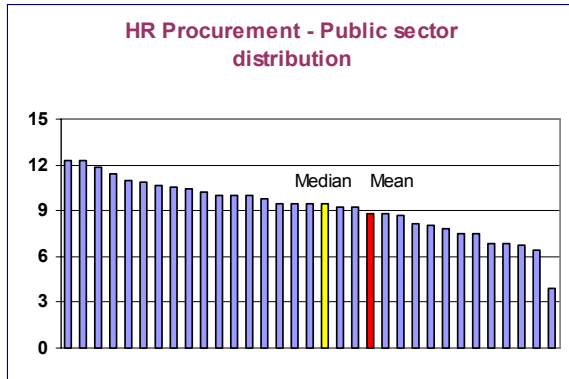
'Utilisation' in this context relates to the organisation's degree of awareness around how best to deploy external resource (i.e. balancing costs against value).

VB-HR Level 1 Lite Report – extract

"Processes to select vendors appear robust, with use of a selection scorecard and a strong focus on track record, flexibility and compatible culture, as well as an appreciation of vendor cost models. Approaches towards managing suppliers score highly, resulting in a perception that external vendors provide 'value for money'. Responses indicate a strong focus on monitoring achievements and benchmarking vendor performance, although efforts appear to absorb significant resource time."



Distributions across the two sectors show incidences in both cases where organisations report very low usage of external support, resulting in 'outlier' low scores.



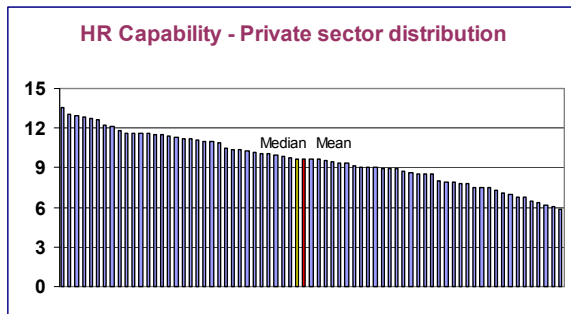
Perhaps surprisingly, scores are slightly lower in Public sector, given the robustness and diligence in approaches towards bringing in external support – this suggests a more limited approach toward the use of external support in HR service

delivery, potentially through the positioning of individual HR functions, or the perceived appropriateness of internal delivery capability.

Across the HCM 100, 84 respondents utilised external support as a means of accessing specific expertise and supplementing HR service delivery to the organisation, whilst under half utilised vendors as a means of reducing HR operating costs – this suggests that organisations are more inclined to enhance the effectiveness of existing expenditure through external support, rather than seeking to reduce overall levels of expenditure in this way. 80% of respondents agreed that external vendors do provide value for money as a consequence of their selection and monitoring processes, although we note varying levels of robustness within these approaches across organisations.



HR Capability



The second value driver relating entirely to the HR function as a whole, HR Capability assesses the effectiveness of the HR function, not just from the perspective from the potential quality of its portfolio of products/services delivered to the organisation, but also from its role or 'positioning' within the organisation.

Increasingly we see the latter component becoming more of an issue for HR functions, with a growing focus on articulating and clarifying the function's 'value proposition' within the organisation (with a corresponding impact, if carried out effectively, on line management awareness – this is covered more fully in the HR Customer Agency value driver).

The two dimensions assessed relate to:

- Expertise

- Use of technology.

'Expertise' in this context relates not only to levels of technical knowledge within the function, but also to awareness of external approaches (e.g. delivery structures, benchmarking) and the ability of the HR function to attract and develop high performers itself.

'Use of technology' assesses the extent to which the function has key platforms in place in support of consistent service delivery, transaction efficiency and workforce analysis. The VB-HR™ Rating approach reviews the potential outcomes from technology rather than making arbitrary judgements around the platforms themselves: a spreadsheet solution may be sufficient for employee case management in one organisation, rather than complicated interfaces into organisational databases.

Effective positioning of the HR function relies on an understanding of the relationship between these two dimensions. For example, an HR function sitting within an individual business unit with a small number of HR professionals, limited HR systems functionality and high levels of individual expertise in specific HR

VB-HR Level 1 Lite Report – extract

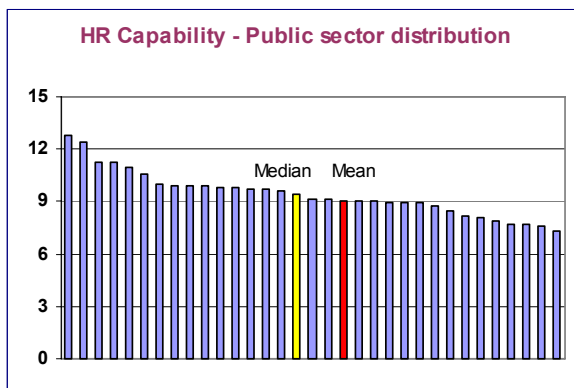
"Overall scores in this value driver are undermined through responses suggesting limited connection/utilisation with the broader organisation. As noted, this suggests that issues exist around line awareness of the role/skill set within the HR function and the relevance of HCM to the organisation. Given the organisation's dependence on human capital to achieve its organisational objectives, this suggests that further work is required to clarify HR and organisational expectations around the role of the function."



technical areas is likely to focus more on individual relationships within the organisation to ensure service delivery, with a value proposition focusing on supporting line managers from an HR perspective.

Conversely, a large, multi-business unit organisation with a highly automated, centralised HR function is perhaps more likely to view its role as supporting consistent adherence to HR policies to drive HCM performance.

In both cases, factors will depend on how the HR function is marketed within the organisation and, indeed, on the 'reach' of the function through its combination of scale and technology enablement.



Public sector and Private sector distributions, unusually, possess different characteristics, with a marked 'slope' in Private sector responses. Whereas Public sector responses suggest that the majority

of organisations have similar levels of HR Capability, scores suggest much wider variation within the Private sector.

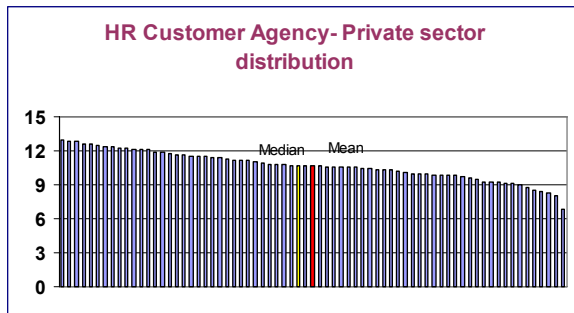
This suggests a much higher level of commonality within the Public sector, perhaps suggesting a greater openness to sharing common approaches and best practice. We also note much wider variation in the levels of HCM Investment within Private sector organisations, suggesting a degree of correlation between expenditure and HR capability.

Across the HCM 100, the area of work analytics/HR measurement and reporting was identified as a relative functional weakness, with particular functional strengths emerging in the more traditional areas of resourcing, people management and employee relations/communications. Given comments made in HR Strategy and Workforce Intelligence relating to the application of measurement as a means of embedding management follow-through against HR Strategy, this suggests an increasing requirement to supplement HR capability in this area to enhance overall HCM performance across the organisation.

HCM 100 organisations are most likely to utilise technology for the automation of change requests and to manipulate employee data for reporting purposes, but least likely to utilise it for employee case management.



HR Customer-Agency



HR Customer-Agency evaluates the two primary aspects of the HR function's 'relationship' with the broader organisation: the provision of services (e.g. training & development) to internal customers, and the requirement for HR to ensure consistent HCM practice through monitoring line manager activity/implementation.

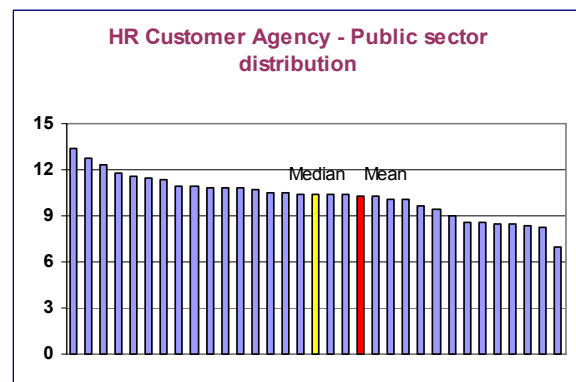
The concept of 'agency' explicitly recognises the compliance monitoring role that all HR functions are required to take on, to avoid risk of tribunal, litigation, unfair treatment or contravention of related legislation (e.g. Working Time Directive, TUPE, Equal Opportunities Act). In addition to ensuring legislative compliance, the HR function will typically seek to enforce consistent application of internal policies or procedures to ensure high HCM performance within the organisation (and, often, a linkage to relevant legislation). In these situations, the HR function will not necessarily be responsible for carrying out the activity (providing employees with performance appraisals being an evident example) but will require the line to act as its 'agents' in carrying out the activity. In this situation,

HR itself is acting on behalf of the organisation's shareholders or external stakeholders.

Naturally, some degree of tension can arise between providing services to 'customers' and policing activity against set standards – unless this is aligned with organisational expectation, situations will occur where the perception of HR goes against its intended strategy. For example, if the HR function is perceived as 'saying "no" to everything' then line managers are perhaps less likely to seek advice when attempting to resolve a potential grievance with an employee, increasing the risk of a non-standard approach and the perception of inequitable treatment within the organisation.

The two dimensions within HR Customer-Agency are accordingly:

- Agency
- Support.



Both sectors display very similar patterns, implying that HR functions in both will focus on both aspects of the role. At the



low end, we note that very few organisations receive significantly weak scores, suggesting a relatively high degree of focus on this value driver.

This is consistent with scores provided within the Rating system, where only three organisations expressed any degree of ambivalence about whether HR ensured legislative compliance on related aspects and was responsible for monitoring and reviewing relating procedures.

As noted within comments relating

to the Management value driver, a typical issue across the HCM 100 is the degree to which so-called 'agency gaps' exist, where implementation of HCM practice, despite HR functional efforts, falls short of the standard intended. This is in spite of the very high proportion of organisations who believe that good relationships exist between HR and the line, suggesting that this relationship on its own is not sufficient to ensure management follow-through.

VB-HR Level 1 Lite Report – extract

"Responses indicate that the HR function has been effective at establishing clear and effective relationships with the line and maintains a strong focus on ensuring compliance with legislative standards. Given the ratio of c. 7.5 people managers per HR FTE, this approach appears effective (even with the limitations identified within HR/HCM measurement and reporting), although the 19 reported industrial tribunals highlights the potential for 'agency gaps' across the business units, where HCM practice can fall short of that intended within the HR Strategy, leading to variable performance across the said units."

"The VBHR system is a very comprehensive and well-crafted tool that seems to offer a wide range of strategic benefits. Although my company has yet to make full use of it, I can certainly see circumstances in the not-too-distant future when we would. Even with the small amount of toe-dipping that we have done so far, it has enabled us to accurately benchmark our current HR strength and identify where, and how, we can improve"

**Director of Learning & Development
Global Communications Company**



Chapter 5

The HC performance matrix™

Introduction to the matrix

We provided a fairly detailed critique of current HR metrics and measurement in Chapter 2, pointing out particular deficiencies and limitations in commonly used metrics. Given our experience, we now put forward what we believe to be the first true measurement benchmark that marries organisational performance with human capital. To that end, it does not look to link concepts such as shareholder value, but recalculates revenue attributable to human capital utilised in the organisation's operating model which better reflects performance/contribution. We use a term 'HC leverage' that fuses organisational revenue attributable to human capital with HR spend – the annual investment in human capital management; and map this against the VB-HR™ rating score using a 4x4 grid denominating various degrees of performance.

We define HC leverage as:

$$\frac{[(\text{Revenue} * \text{Human capital intensity}) \text{ per FTE}]}{[\text{HR spend (adjusted) per FTE}]}$$

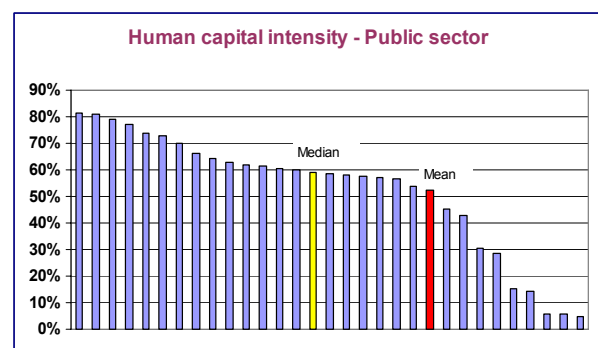
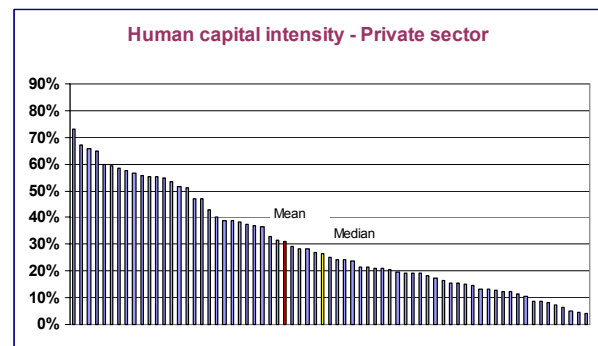
[HR spend (adjusted) per FTE]

where, human capital intensity is the degree to which people are utilised relative to other operating costs to derive revenue (and therefore proportionate). For example, if people costs are a quarter of overall operating costs then we attribute a quarter of overall revenues as an indicative output contribution.

By dividing this number by the HR spend (investment) we obtain a leverage figure that determines the effective organisation performance, relative to HR spend.

This enables the generic and relatively meaningless revenue per FTE to be recalculated to better represent revenue generation attributed to people. Though not a perfect match, it is the closest proxy to providing the most accurate representation and comparative benchmark as using asset-based or shareholder value based calculations becomes a trickier operation fraught with complications due to accounting interpretations and inconsistencies.

The charts below show the HCM100 HCI distribution for the private and public sector segments.

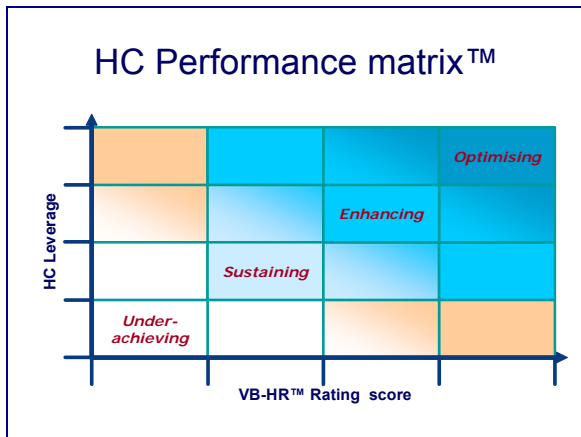




HC Performance Matrix™

Explanation

The matrix combines the scores achieved under the VB-HR™ Rating together with our proxy organisational performance indicator – the HC leverage.



The HC leverage axis is scaled by using relative scores provided by the VB-HR™ database population, i.e. the mid-point providing the mean; with upper and lower quartiles being determined by further mid-points.

Using 'normed' data in this way provides a relative scale that will allow for changes in time (i.e. introduction of new technology, industry restructuring, new organisational forms, use of outsourcing, etc).

The 'x' axis represents the VB-HR™ Rating score which is an absolute scale in that corresponding scale intervals are determined by certain scores obtained within the model that represent significant differentiators. [Note: the Rating score axis is not linear].

The matrix comprises a grid of 4x4 squares which are used to plot an organisation's (or its respective business units) position by cross referencing its HC leverage index score and its VB-HR™ Rating score. The grid itself is actually

composed of 20,000 x 20,000 smaller grids, for calculative purposes (see also HR Improvement Mapping on page 91). But for ease of conceptual understanding we have scaled this to the 4x4 model, labelling various definable stages as signposts, namely Under-achieving, Sustaining, Enhancing and Optimising.

Under-achieving

Organisations (BUs) located within this area have two central problems. Their HC leverage is in the bottom-performing quartile relative to the market index of HC leverage performance and their VB-HR™ score is also located in its bottom quartile indicating that human capital management is also under-performing the baseline of expected base performance. Organisations (BUs) finding themselves here need to undertake a review of operations as there may be fundamental structural, product-market, people and/or governance problems which require fairly immediate action.

- Organisational performance is under question
- Majority of management does not view HCM as a 'value-contributor and not convinced of HR's value contribution
- HR primarily focused on administrative and personnel compliance in nature
- Limited or patchy use of technology with predominance of manual administrative work
- Limited or no use of HR operating metrics.

Sustaining

Organisations (BUs) located in this area suggests that organisational performance is below average from an HC leverage perspective, though their human capital management performance would appear adequate but nothing more. There are options to improve both leverage and HCM performance.



- Acknowledgement that effective HCM can add value but struggling to turn this into effective practice
- Some evaluation of cost- to-value of HR core services and internal client expectation
- Emerging track record in providing some value-added HR programmes
- Application of technology mostly to improve speed and effectiveness of administration
- Limited scorecard of metrics focusing on operating efficiency in the main.

Enhancing

Organisations (BUs) located in this area are performing ahead of the pack in terms of their HC leverage and their human capital management performance score also suggests an above average (or **α** return).

- Acknowledgement that HCM adds value and applying this to some degree
- Widespread acceptance of HR's technical expertise and business acumen and implicit value contribution
- Line integrates HR activities/processes into operating model
- Technology-enabled delivery linked to organisation ERP system
- Fully developed scorecard providing measures of ROI, simple value metrics and operating measures.

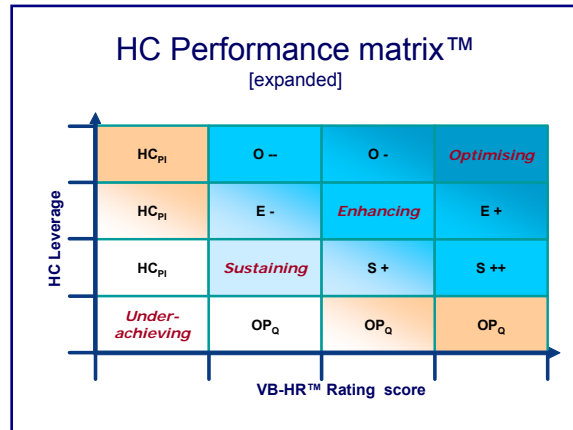
Optimising

Organisations (BUs) located in this area are highest performing in terms of both their HC leverage and their human capital management score and can be called 'World class' if the term is used as a means to define exceptional performance.

- Senior leaders believe and are in receipt of explicit HCM business value model
- Achieving 'world-class' value contribution/ value creation
- VB-HR™ activities/ processes delivered as an essential component of value based management

- Sophisticated use of technology, i.e. self-service, HR data warehousing, OLAP
- Fully integrated VB-HR™ Scorecard that provides knowledge core to organisational decision making.

HC performance matrix [expanded]



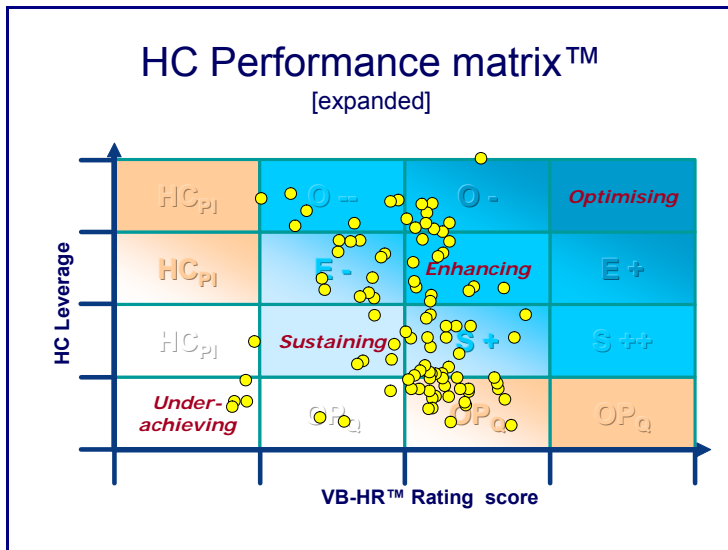
The expanded version includes further nomenclature to delineate particular variations of performance. The point to note here is are the two 'red-zones' designated HC_{PI} and OP_Q which stand for Human Capital performance impairment and Organisational Performance question, respectively.

HC_{PI} indicates that the organisation's human capital management performance is at such a low level that there is a significant impact on organisational performance which requires action.

OP_Q indicates one of two things. Either organisation performance has operating issues, i.e. structural implications meaning under-utilisation of human capital and/or over-investment of human capital management spend relative to the operating model in use. As already been seen during the time of this study, the result on the performance matrix can be predictive.



HCM100 Level 1 distribution

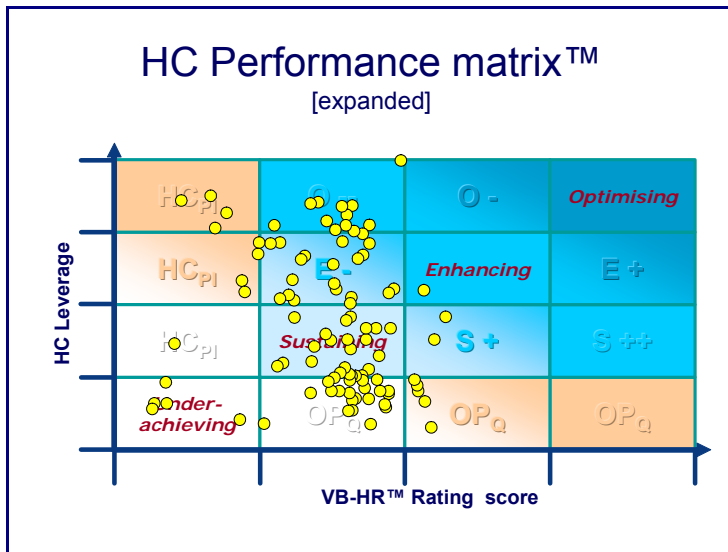


The current distribution reflects some interesting observations: there are currently no 'Optimising' organisations.

There is a significant cluster of organisations which are in or near to 'OP_Q' status – suggesting further serious assessment of performance.

There are a significant number of organisations which appear to have good leverage of human capital but are not necessarily maximising on HCM which suggests further potential performance leverage. (However, see below).

HCM100 Level 2 distribution



Anticipated degradation

Earlier in Chapter 3 we explained that, based on experience, we would expect to see a deterioration in the overall performance score after carrying out a level 2 Rating assessment.

The model predicts a number of organisations overall rating to degrade by one letter of classification, i.e. BB becoming a B. What is more significant is the impact this has when plotted on the HC performance grid.

As can be seen in the Level 2 distribution diagram, there is a considerable 'column shift' to the left which raises some serious questions regarding current performance if this expectation bears out.



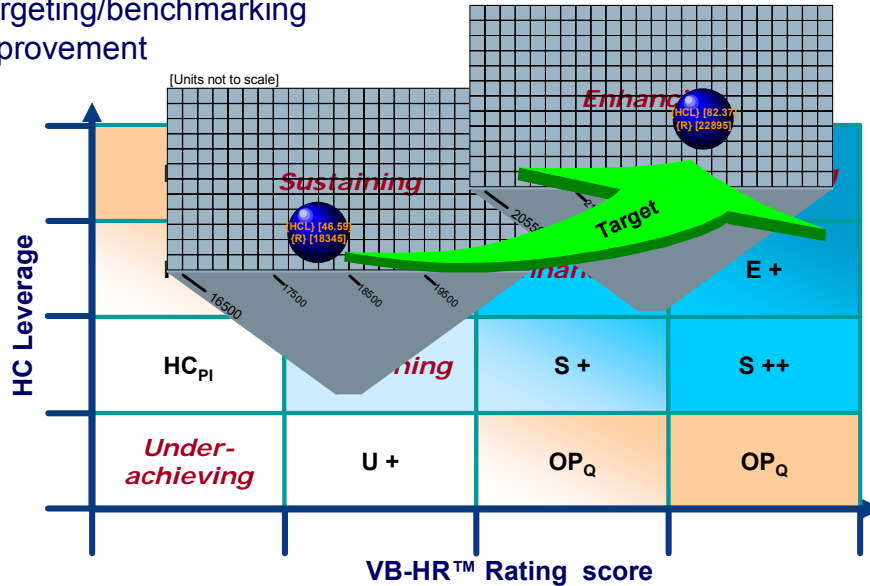
HCM Improvement Mapping ®

Organisations can use the HC Performance matrix™ to map intended performance

targets by drilling down into the VB-HR™ Rating score and actively seeking particular areas of improvement that targeted HR spend and intervention can generate.

HC Performance matrix™ :

Targeting/benchmarking improvement



The model allows organisations to target improvements over time (strategic objective) with the ability to drill down to specific elements of the HCM value drivers, e.g. the impact of a management development programme or HR transition. Thus both macro-HCM and micro-HCM measurement can be done through the use of multi-factor models. The mapping process can also provide an annual (or quarterly) trend of performance to be captured much like that of financial

measures. Since the HC leverage is a market related measure it already has built-in relevancy with regards to organisational performance. The model is sophisticated to 20 thousandths x 20 thousandths to allow for sufficient detailed differentiation to be recorded with respect to benchmark levels.

Private and public sector cuts and comment

Currently this data is only available to individual subscribing client organisations.

"A more scientific and results-based approach than we have used in the past"

**Head of Human Resources
Police Force**

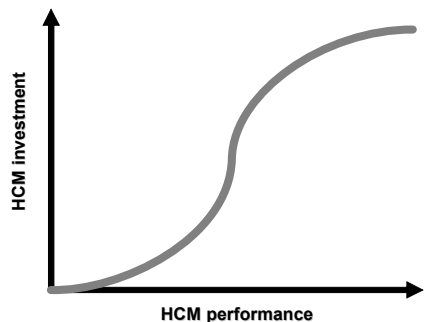


Chapter 6

The HCM investment model

An introduction to the model

One of the ways in which a comparative benchmark can be drawn up is to compare HR spend ratios against the VB-HR™ Rating score, to map relative spend and relative performance against a simple evaluative grid which quickly positions where an organisation is. It is also possible to map previous and future locations of the organisation to provide a potential 'spend compass'.



Relationship between investment and performance

The HCM investment model plots HCM spend ('investment') against the VB-HR™ Rating score, representing the degree of HCM performance effectiveness. The logic of the diagram, below, illustrates how these two elements are related: appropriate investment should be

associated with improvement of HCM performance, but at high levels of existing performance, increasing spend without effective targeting will trigger 'diminishing returns', as represented by the S-shaped curve.

As the curve illustrates, in the early stages of HR/HCM 'evolution' (when an organisation typically approaches 200+ employees), a certain level of investment is required in setting up human capital management infrastructure (i.e. through establishing an HR function and hiring people with specialist technical HR skills) in order to increase HR performance relative to cost.

As an organisation's HCM matures and becomes more complex, performance benefits will be seen, but after a certain point the complexity will be such that significant further investment is required for additional benefits in HCM performance to be realised. An example of this would be the establishment of an organisation-wide approach towards appraisals, with an effective link to development programmes. Initially, large amounts of effort are required to embed such an approach with little obvious performance benefits. Once this process is effectively established within the organisation, considerable benefits in terms of consistent levels of performance and development across the organisation would typically be seen.

In practice, organisations investing in implementing integrated HR systems and



processes are to a degree at this stage of evolution – the investment required may be significant, but does not necessarily lead to an immediate increase in human capital performance. Equally, organisational complexity further complicates efforts to establish consistent HCM practice (e.g. growth through acquisition and expansion into multiple regions or geographies).

Once HCM has reached a certain level of sophistication within an organisation, it is difficult to increase HCM performance through further investment alone. For example, a high-performing HCM organisation might have fully integrated HR systems consistently applied in all divisions, sophisticated workforce analytics and highly effective management capability. In this situation, obtaining further HCM performance will be likely to be as a result of gradual enhancement of existing approaches rather than by investing heavily in a 'magic bullet', requiring effective targeting of additional expenditure.

mean scores within the group mean, allowing us to differentiate between organisations, in terms of whether their HCM investment is above or below the market average, and whether their HCM performance is above or below the market average.

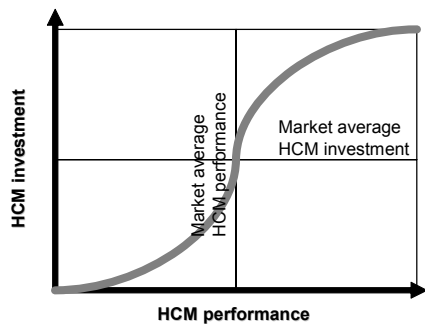
Each of these quadrants has certain characteristics which have particular implications for organisations plotted within them. We have named the quadrants as follows:

- Underweight (relatively low HCM investment and performance)
- Perform (relatively high HCM investment and performance)
- Underperform (relatively high HCM investment but relatively low HCM performance)
- Outperform (relatively low HCM investment but relatively high HCM performance).

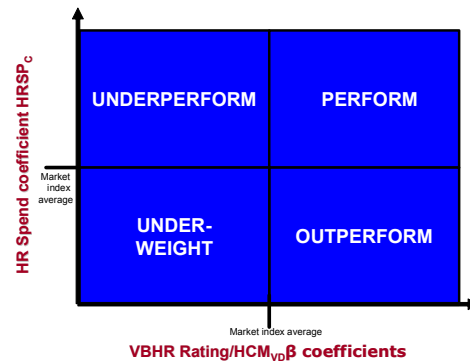
The diagram below illustrates these quadrants with further detail on each provided.

Defining the four quadrants

The data collated in the VB-HR™ Rating system is highly complex and inter-related. For ease of reference, we have plotted organisations onto a grid to identify their position *relative to the mean within the norm group*. This, of course, allows for relativity through time.



HCM Investment Model



Note that the vertical axis is potentially counter-intuitive – falling into the top two boxes of the matrix implies that HCM investment is above the market average (i.e. the organisation is spending relatively more than the norm group as a whole).

This therefore points to the most attractive location to be in the *bottom*

By drawing lines at the mid-points of the axes (as shown below) representing the



right quadrant - Outperform, as organisations here see relatively higher than average HCM performance but are spending relatively less than average.

Categories are:

Underweight

Organisations have invested relatively little in HCM systems, either through deliberate intention, through a historically limited focus on the relevance of HCM to their organisation or simply a matter of size. Consequently, overall performance of HCM is also below market average which is most likely to result from the absence of effective overall HR capability or fully integrated HCM architecture.

Perform

Organisations typically have 'mature' approaches towards HCM and have invested over time to build capability within this area. As a result, they see greater than average performance on these investments made.

Underperform

Organisations are making higher than average HCM investment, but are not currently realising the HCM performance typically associated with such a level of investment. This would suggest that one or more aspects of HCM (or a related initiative) are incomplete or disconnected, or that over-investment is taking place.

Outperform

Organisations have succeeded in obtaining higher than average HCM performance whilst making a lower than average corresponding investment: this results in a return on HCM investment that is higher than most organisations, leading to a classification of 'Outperform'.

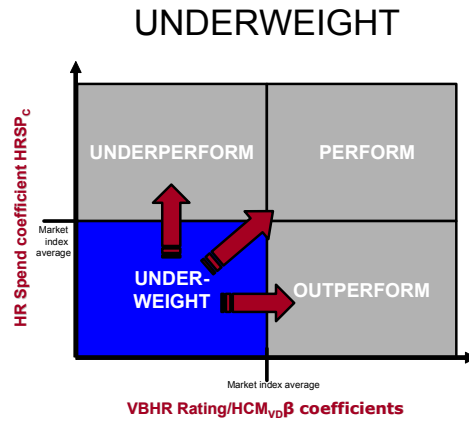
Implications

The following section sets out summary implications with associated actions and risks for organisations falling within each of these quadrants.



Underweight - implications

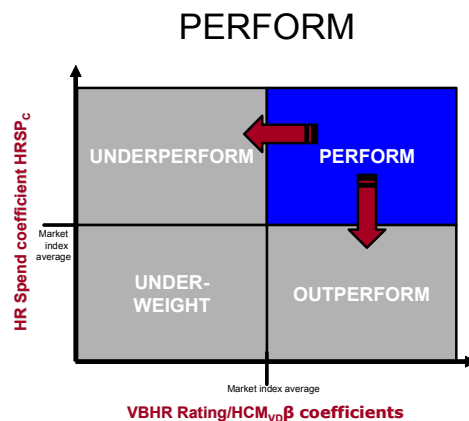
Organisations in the 'Underweight' quadrant have two alternatives and one risk: increase HCM performance, moving towards 'Outperform'; increase HR Spend in line with HCM performance to move towards 'Perform'; increase HR Spend without an accompanying HCM performance and risk moving to 'Underperform'. In order to attain higher HCM performance, organisations in this group can increase their HCM investment. However, the impact of increasing spend on HCM performance will depend on targeting this to maximise the effectiveness of HCM performance and moving towards 'Perform' or 'Outperform'; rather than on programmes or investments that do little to enhance performance. Consequently, the risk exists that an increased HR spend that fails to enhance HCM performance will result 'Underperformance'. Equally, if the investment is targeted towards HCM objectives that are likely to result in significant HCM performance gains (e.g. increasing employee engagement or managerial competence) then the organisation can move to 'Outperform'.



Perform - implications

Organisations have one positive and one negative alternative: targeted reduction of HR Spend to move towards 'Outperform'; or the reduction of spend so great that leads to a reduction of HCM Performance which then transposes into the 'Underperform' box.

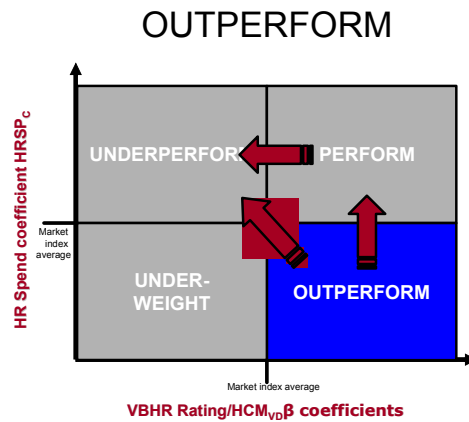
Organisations within this quadrant should aim to maintain current levels of effectiveness whilst reviewing current expenditure to identify programmes or HR initiatives that increase cost, but have little impact on HCM performance. If HR Spend is reduced without identifying these areas, the organisation will risk 'Underperforming'. However, if the organisation can reduce HR Spend in targeted areas whilst maintaining current levels of effectiveness, this can result in 'Outperformance'.





Outperform - implications

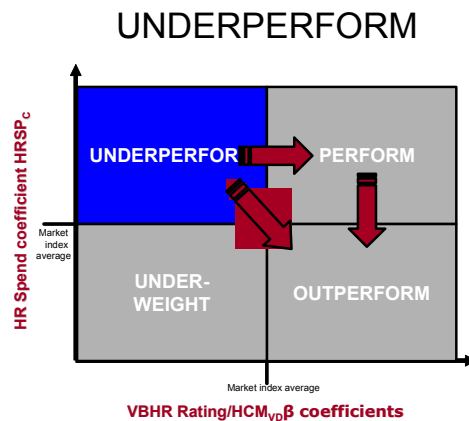
Organisations have one real positive alternative here, of maintaining current HCM performance within existing HR Spend. Organisations should additionally try to identify the sources of their out-performance to ensure that these can be sustained (with or without further investment). Any further increase in HR Spend not accompanied by carefully crafted investment business cases could result in limited or no increase in performance (resulting in movement towards 'Perform'). Equally, allowing HCM performance to erode over time (through complacency, for example) without maintaining investment will result in movement towards the 'Underweight' box.



Underperform - implications

Organisations can go one of three ways: increasing HCM performance whilst remaining within existing HR Spend – 'Perform'; reduce HR spend in a targeted manner whilst increasing overall HCM performance moving towards 'Outperform'; reducing HR Spend in a less diligent manner, creating a corresponding degradation in HCM performance and moving towards 'Underweight'.

Organisations should review current procedures for 'fitness for purpose' to identify where investment can be reduced without impacting HCM performance (potentially creating movement towards the 'Outperform' quadrant).





HCM100 investment model distribution

Analysis has been performed on the cross-sector initial benchmark group to map organisations onto the HCM Investment Rating™ matrix. This displays considerable variance in relative levels of HCM investment and related HCM performance across organisations.

Initial findings

The HCM 100 organisations were mapped onto the HCM Investment Rating™ matrix, on the basis of their respective co-efficient measures.

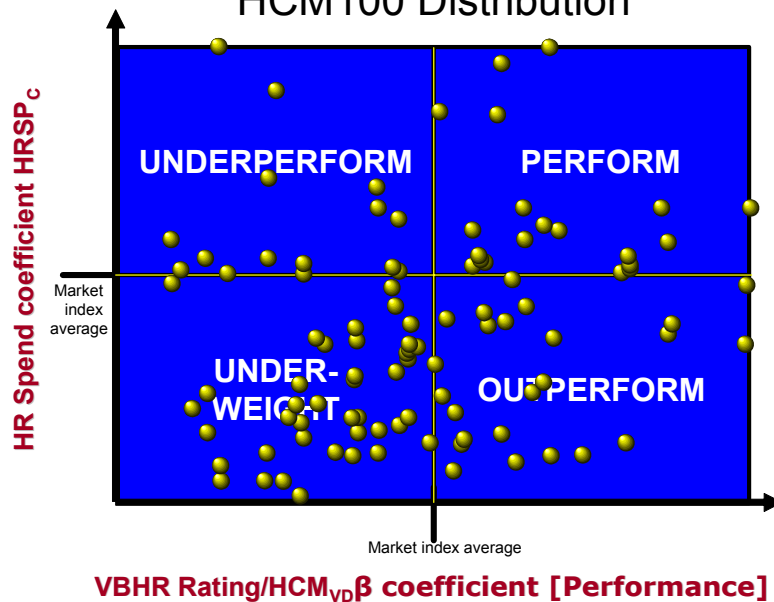
The mid-point of each axis (i.e. the two lines cutting the chart into four) represents the 'norm' score of the initial benchmark group.

The sample is shown in the diagram opposite (where an organisation is represented by a coloured dot).

Key observations on the sample from the initial population include:

- There is no apparent correlation between increased investment and increased HCM performance, suggesting that the relative size of the HR budget is not necessarily the key differentiator
- The distribution suggests that there is considerable variation in HCM performance and investment levels across organisations
- There is no apparent case of a particular sector or size of organisation dominating any one quadrant.

HCM Investment Model:
HCM100 Distribution



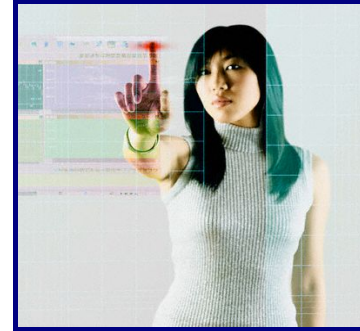


"I found the process of addressing the questions encouraged me to reflect on a wide range of HR and organisational concerns and to think about how they interact. And I can see now that the feedback can help practitioners and strategy makers share their understandings of these challenges, how well the organisation is meeting them and then come to a common purpose about what needs to be addressed."

**Training & Organisational Development Advisor
UK University**



Part Three



Chapter 7	<i>HR function effectiveness</i>
Chapter 8	<i>HR Trend analysis</i>
Chapter 9	<i>Applications of the VB-HR™ Rating and its planned development</i>
Chapter 10	<i>The broader perspective – intangibles and value based enterprise performance (VB-EP™)</i>

“A very detailed report that provides information that is tangible and business relevant.”

**HR Manager
Global Retail Company**

“I found VB-HR an extremely useful tool. It is all too easy to get complacent about your performance. The results highlighted our successes, where we were adding true value to the business but also very accurately drew our attention to those areas that required some attention.”

**Head of Human Resources
Global engineering company**



Chapter 7

HR function effectiveness

The VB-HR™ Performance System

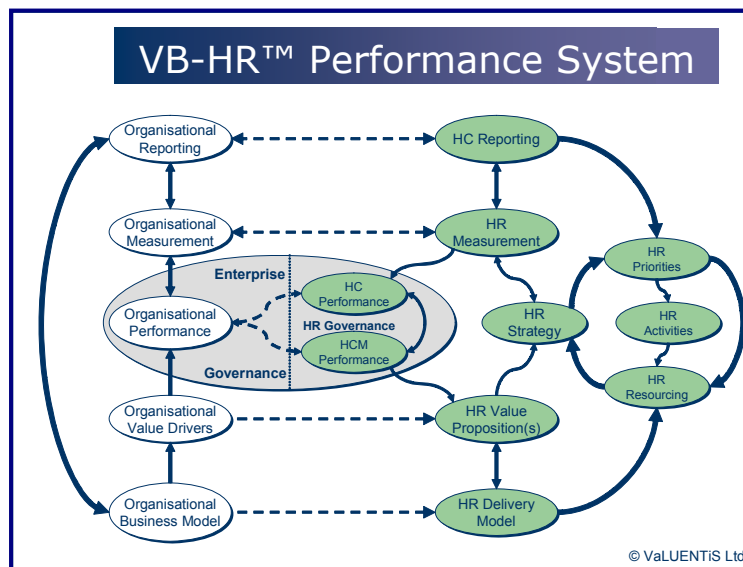
There has been increasing attention paid to the principle of HR function effectiveness. Over the past decade much resource and activity (and indeed measurement) has been focused on the internal HR functional operation. Much has been written and presented about HR structure in the form of HR shared services, Centres of Excellence and Business Partnering with the latest focus on elements of outsourcing.

However, the reality for HR is that nobody outside of the HR function (aside from the CFO from a cost perspective) is that much bothered with the internal perspective. The danger is that despite becoming more efficient, the same problems and issues still arise for HR functions, namely its value proposition or remit, its priorities/delivery effectiveness, evaluation of its contribution, and, in many cases the overarching goal of becoming more

strategic in focus. Underpinning all of the work so far we have reported is our overarching framework, the VB-HR™ Performance system, which maps all of the important top-level HR/HC areas and links it with the corresponding organisational performance dimensions.

The VB-HR™ Performance System

The diagram represents the way in which the various components link forming



systems and systems within systems. What the map demonstrates is the complexity of human capital management and the HR function's raison d'être in an organisational context. Too often attempts at improvement are made in isolation with

the resulting effect that other components not viewed together or, even worse, not recognised with the resulting effect that improvements are not realised to expectation.



HR function effectiveness as a portfolio of product-services

HR can be viewed as a function responsible for the delivery of a defined set (portfolio) of products and services that relate to human capital management. The illustration shows a representative portfolio with the very number of product-services illustrating the diversity and complexity of managing HR service delivery to the organisation.

Broken into four segments of transactional, employment, professional and advisory and governance services, the deliverables will vary from one HR function to another, driven by a number of factors which include:

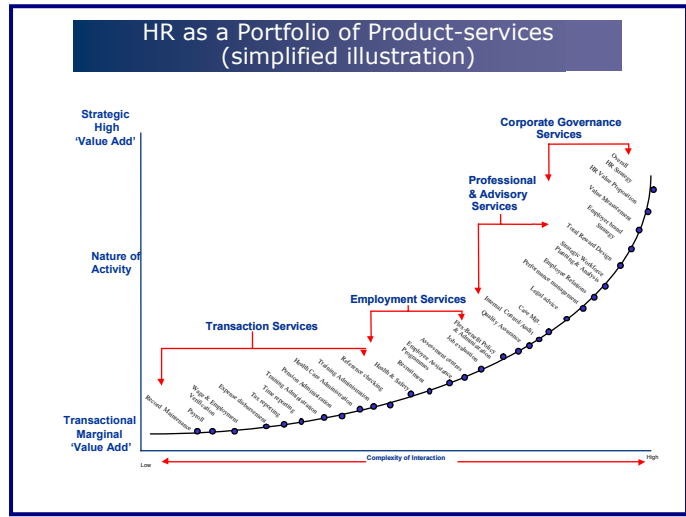
- the overall remit of the function
- demands of the audience/internal customers
- the degree of capability/expertise that HR possesses
- attitude towards risk.

'Transaction services' consist of activities relating to baseline administration within the function (or indeed some other function) - its traditional core role. Employment services tend to require more specialised knowledge and skills whilst the 'consultancy-type' and strategic activities require a deep understanding of the commercial aspects of the business.

In the quest to become 'more strategic' many HR functions have been drawn by the temptation to outsource the most basic functions. Accepting there are many benefits for organisations which have under-invested in technology over a period of time, the

business case for outsourcing transactionally-focused activities per se may be misguided.

The HR function retains accountability whether insourcing/outourcing occurs. Outsourcing should not be seen as a way of abdicating or 'displacing' responsibility. A common misconception is that risk is minimised through outsourcing. What is certain is that outsourcing reduces the degree of control that can be exercised and organisations/HR functions need to assess/trade-off this apparent loss of control in terms of overall commercial risk (even where SLAs or similar



mechanisms exist).

Retaining transactional and employment services within HR should in no way impinge upon the ability of the function to contribute at a strategic level.

Our research strongly suggests that HR needs to undertake the following:

- Revisit the HR strategy and subsequent organisational remit – clarifying precisely what its role is expected to be to ensure it supports the organisation
- Use the framework to map those product-services that are expected to be delivered (this may require a pre-exercise to identify current delivery in terms of product-services)
- Establish supporting measurement framework to quantify and underpin delivery of core services through the VB-HR™ Rating construct.



HCM activities (inputs)

Over a period of time, through client project work and research, we have been able to map human capital management activities (inputs) for ease of reference divided them into ten core domains consisting of 93 sub-domains which we term the HR 'periodic table' (derived from our HR Global profiler™ construct).

We put forward that the HR function's remit may be responsible for all of these or some of these dependent upon the organisation.

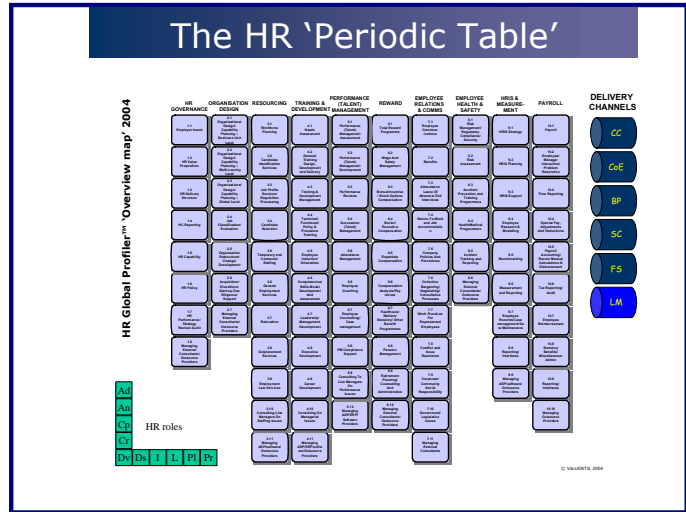
For example, payroll may well reside under the Finance function's responsibility but it is still a human capital management activity which needs to be taken into account when looking at human capital management per se.

In addition, the degree to which line management responsibility is devolved will determine the HR function's role between that of support or compliance.

A really important point here is that outsourcing of any HR activity changes nothing other than raising potential risk of non-delivery.

Clients have been able to utilise this table and its subsequent activity definitions to map current resourcing delivery and budgetary pictures.

It also enables HR functions to map their current HR functional remit in terms of degree of assignment and accountability (there are over 9 HR role types with defined competencies), plus carry out detailed HR spend/activity analysis and detailed resource analysis.





Sample of HR functional metrics (see also extended version in Appendix II)

Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
No of HR Full-time employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of HR Part-time employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of HR temporary and contract FTEs	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of Interim HR employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
Total HR FTE	HR-F	VBHR	Org-spec	5	4	L	1	★★
% of HR service delivery based on mix of technology solution/integrated/non-integrated e.g. ERP/ASPs/in-house etc	HR-F	VBHR	X-industry	4	3	M	1	★★
HR process cycle and cost improvements	HR-F	General	Org-spec	3	5	M	1	★★
Ratio of time spent on HR Governance to total HR activity	HR-F	General	X-industry	3	2	M	2	★★
HR involvement in critical strategic planning	HR-F	General	Org-spec	2	2	L	1	★★
Line manager satisfaction on HR strategy alignment with business strategy (survey scores)	HR-F	General	Org-spec	1	3	L	3	★★
Labour forecasting accuracy	HR-F	General	Org-spec	3	3	M	2	★★
Customer satisfaction with courses and results (employees and managers)	HR-F	General	Org-spec	3	3	L	3	★★
Reward administration process cycle time	HR-F	General	X-industry	3	1	M	2	★★
Measures of cycle time for key HR processes by level of customer satisfaction	HR-F	General	Org-spec	2	2	M	2	★★
FTEs per Training & Development FTE/Training function FTE/Line Trainer/FTE	HR-F	General	Org-spec	5	3	L	2	★★
FTEs per HR FTE (by department)/Headcount per HR FTE (by department)	HR-F	General	X-industry	5	3	L	2	★★
Quality of applicants provided by recruiting channel	HR-F	(OFR)	Org-spec	3	3	L	2	★★
Focus group findings on line executives' (and line managers') perception of HR alignment index	HR-F	General	Org-spec	1	1	L	1	★
Extent to which HR measurement systems are seen as credible	HR-F	General	Org-spec	2	1	L	1	★
Number of current (legacy) payrolls	HR-F	VBHR	X-industry	5	2	na	1	★
Extent to which HR does a thorough job of pre-acquisition soft-asset due diligence	HR-F	General	Org-spec	1	3	L	3	★
Extent to which HR is helping to develop the necessary leadership competencies	HR-F	General	Org-spec	2	2	L	1	★
Internal job posting to acceptance time	HR-F	General	Org-spec	4	3	L	1	★
External time to fill job	HR-F	General	Org-spec	3	2	L	1	★
Applicants interviewed per recruiting source	HR-F	(OFR)	Org-spec	2	2	L	1	★
Early turnover (first six months) by recruiting source	HR-F	(OFR)	Org-spec	2	3	L	3	★
Internal job posting application volume	HR-F	General	Org-spec	5	2	L	1	★
Total hours of training per employee (in-house/external)	HR-F	OFR	X-industry	3	1	M	2	★
Total hours of training per employee (technical/developmental)	HR-F	OFR	X-industry	3	1	M	2	★
Training days per year	HR-F	(OFR)	X-industry	4	1	M	2	★
Number of hours of training typically received by a new employee in the first year of employment	HR-F	(OFR)	Org-spec	5	1	L	1	★
Quality of training content delivered	HR-F	General	Org-spec	1	3	na	2	★
Number of training days per programme	HR-F	General	X-industry	5	1	L	1	★
Knowledge sharing of best practice	HR-F	General	Org-spec	1	3	na	3	★
Percent new materials in training programmes each year	HR-F	General	Org-spec	3	1	na	1	★
Vacancy duration for key leadership positions	HR-F	General	X-industry	5	1	L	1	★
Number of recognition awards	HR-F	General	X-industry	5	1	na	1	★
Percent of payment accuracy	HR-F	General	X-industry	3	1	M	1	★
Number of benefit plans	HR-F	General	Org-spec	5	1	L	1	★
Number of grievances resolved prior to arbitration	HR-F	General	X-industry	5	2	na	1	★
Number of arbitrations won	HR-F	General	X-industry	5	1	na	1	★
Response time per benefit information request	HR-F	General	X-industry	3	1	na	1	★
Number of safety training and awareness activities	HR-F	General	X-industry	3	3	Na	1	★
Report/output timeliness	HR-F	General	Org-spec	5	1	na	1	★



Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
FTE headcount by gender in HR	HR-F	General	X-industry	5	1	na	1	★
Payroll administration accuracy/timeliness	HR-F	General	X-industry	2	1	M	2	★
% HR Managers & Professionals to total HR FTEs	HR-F	General	Org-spec	3	1	L	2	★
SERVICE CENTRE SPECIFIC								
Phone queue time (HRSC)	HR-F	General	X-industry	4	1	M	1	★
Calls per day (HRSC)	HR-F	General	X-industry	5	1	M	1	★
Rate of inquiry resolutions within 48 hours (HRSC)	HR-F	General	X-industry	4	1	M	1	★
Voice mail response time (HRSC)	HR-F	General	X-industry	4	1	M	1	★
There are many Service centre 'operational' metrics which have call centre characteristics, of which a sample is presented.								

Overall observation

HR metrics relating to the HR Function receive, at best 1 and 2 star ratings, crystallising the reality of these in being either (i) a narrow focus or (ii) a limited application beyond aspects of functional cost and efficiency.

Of particular note is the absence of 'outcome-focused' metrics, suggesting that the large majority of these identified metrics have limited application outside the HR function itself.

Given that much of benchmarking utilises these types of ratings begs the question of relevancy. Much HR functional activity is organisational specific in terms of the organisational operating model, structure,

line management maturity and cultural legacy as mentioned previously. Therefore any particular HR functional benchmarking exercise can only be done from a view of 50,000 feet and whilst it may provide some guidance, the reality is that it has relatively little value at operating unit level.

2-star rated metrics within this section, however, can possess further organisational relevance when combined with other metrics – for this reason, the VB-HR™ Rating construct incorporates a small number within the core metrics suite to give insight into an organisation's HR operating model.



"An innovative process which can support the need for further investment in HCM activities; and which highlights the areas where investment will have most impact."

**Head of People Communications and Development
Global Business Services**



Chapter 8

HR trend analysis

HCM100 findings

Analysis of the following sets of metrics within the VB-HR™ HCM 100 shows the following differentials across the

benchmark group (after adjustment for outliers).

Metric name	Average	Minimum within sample	Maximum within sample	Max as a multiple of Min
HR Spend	3.8%	0.8%	13.7%	17.1
HC Intensity	37.3%	4.1%	81.5%	19.9
Revenue per FTE	£181,090	£28,430	£561,411	19.7
HC Value (HCI*Revenue per FTE)	£52,399	£10,998	£324,421	29.5
HCM Investment	£1,370	£163	£5,641	34.6

- High differentials in all comparisons show significant variance across the benchmark group (to some degree a reflection on the various industries and organisations participating), indicating potential causes for differences in approach towards obtaining HCM performance in organisations
- As can be seen, HCM Investment and HC Intensity x HC Value display the greatest variation, suggesting wide differences within the level of HCM investment per employee, and within revenue contribution potentially attributable to the FTE, reflecting disparate operating models
- Note that the HCI*HV flattens the Revenue per FTE range (from £561,411 – 28,430 to 324,421 – 10,998)
- HC Intensity and HC Value show similar levels of differential at a 20 times multiple
- HR Spend shows the lowest differential at 17 times, although this range again suggests disparity of approach within the HCM 100.



General market overview

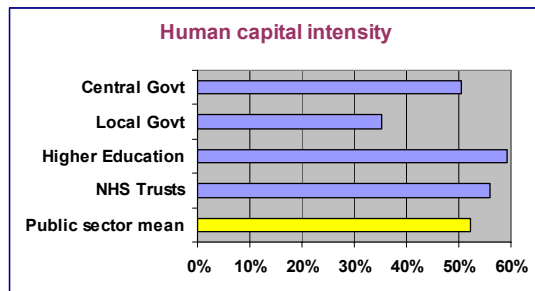
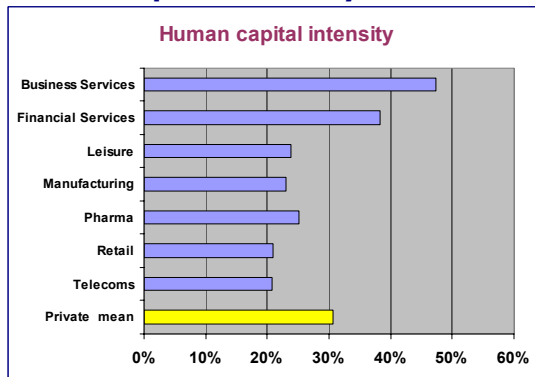
In identifying trends reported below, we have drawn from two main sources: responses given when completing the VB-HR™ Rating qualitative survey construct, and review of accompanying HR/organisational metrics provided by the HCM 100 (unaudited).

Public sector organisations accordingly have a higher overall level of human capital intensity than the Private sector (52% vs. 31%), although Local Government is identified as an outlier within this range.

Private sector organisations demonstrate relative consistency, reflecting the importance of other, tangible assets (i.e. stock, plant, technology platforms) in their operating models.

Business Services and Financial Services emerge as exceptions to this rule, reflecting the people-intensive nature of their service delivery models.

Human capital intensity



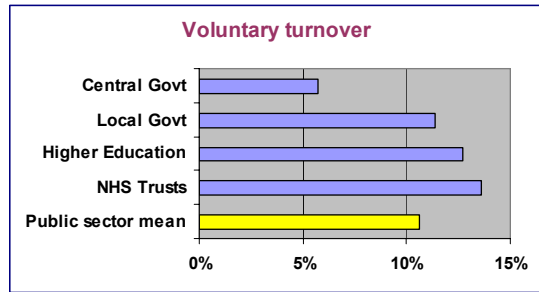
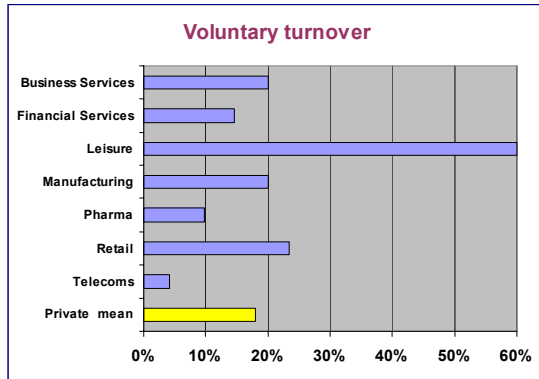
Human capital intensity assesses the expenditure on people as a proportion of overall operating costs within an organisation.

As such, it suggests the relative importance of the contribution of human capital to revenue generation or the achievement of the organisation's key performance indicators.

Organisations with relatively high levels of human capital intensity, logic suggests, should accordingly pay a high level of attention to the effectiveness of their HCM approaches.



Voluntary turnover

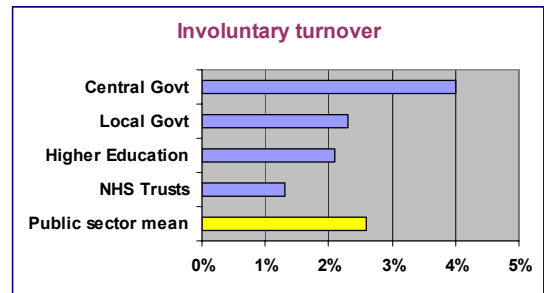
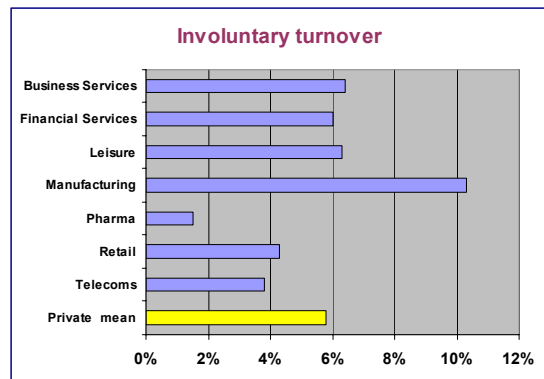


[Note the different scales across Private and Public charts.]

Voluntary turnover rates suggest a significant degree of workforce mobility (at 15% annually across the HCM100), although demonstrate significant differences across sub-sectors.

The extremely high reported rate in Leisure is a reflection on the use of a large seasonal and part-time workforce, and particularly the degree of HR activity dedicated to this area. The figures identify the most 'stable' workforces within Utilities, Pharmaceuticals and Central Government.

Involuntary turnover



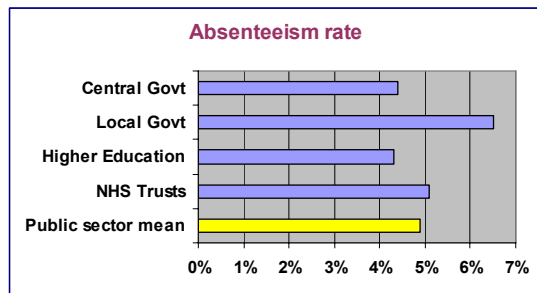
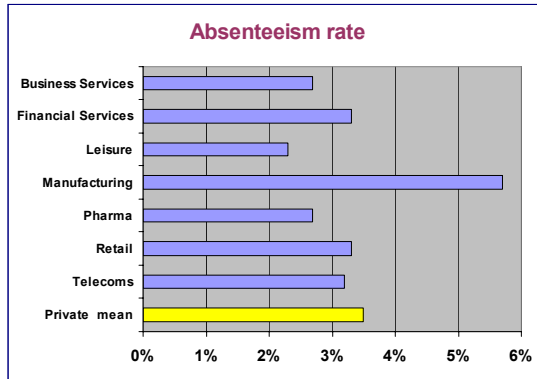
[Note the different scales across Private and Public charts.]

The average level of involuntary turnover with the HCM100 of 5% overall suggests that organisations are able to respond to changes in their external environment through flexing levels of resource. Whilst organisations within these sectors report a minimum level of 0% (suggesting a stable outlook), the maximum level reported of 28% shows that radical imbalances between market requirements and organisational scale can build up. The outlier response for Manufacturing suggests a significant disparity of this nature.

Within the two main sectors (i.e. Public and Private), considerable variation is reported. Pharmaceuticals and NHS Trusts report low levels of involuntary turnover, whilst the highest levels are observed in Manufacturing and Central Government respectively.



Absenteeism



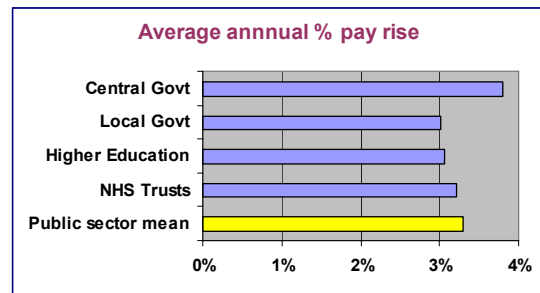
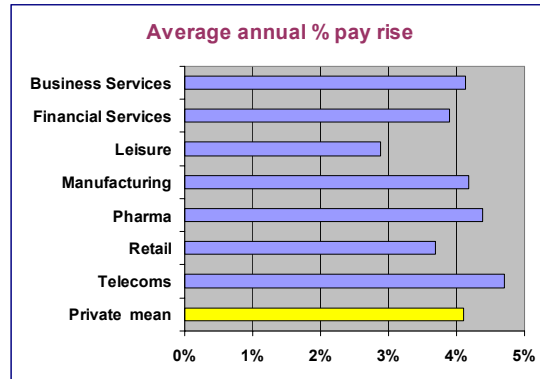
[Note the different scales across Private and Public charts.]

Within the Private sector, overall rates of absenteeism appear relatively stable across sub-sectors (with Manufacturing and Leisure emerging as outliers). Within the Public sector, whilst numbers are generally higher, a similar pattern of consistency emerges (with Local Government identified as the outlier).

The relative consistency suggests that the nature of the sub-sector itself is not necessarily the primary cause of Absenteeism, implying that other factors (e.g. local management, specific role) play a part.

We additionally note that mean rates of absenteeism at Management levels, at 2.6%, are significantly lower than the mean absenteeism of 4.0% for Employees. On the basis that absenteeism is the outcome of several factors (only one of which is illness), this suggests that organisations are generally effective in promoting people who possess levels of engagement with their organisation that are higher than the norm.

Annual pay awards



Note the different scales across Private and Public charts.

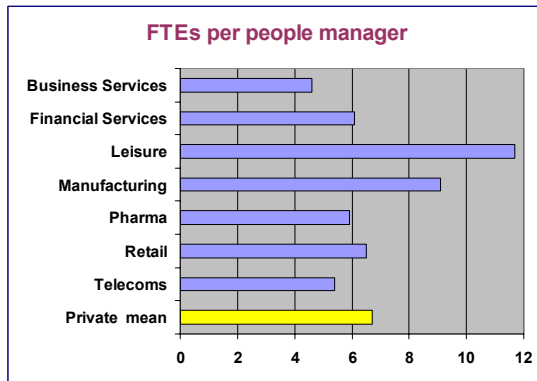
Average annual pay rises across the HCM100 are at an above-inflationary rate of 3.8%, with high levels of consistency within Private sub-sectors and Public sub-sectors despite the differential in the two mean levels.

Leisure reports the lowest overall rate of increase (potentially related to the high levels of part-time staff utilised in the operating model) and Telecoms (including Utilities and Transport) the highest.

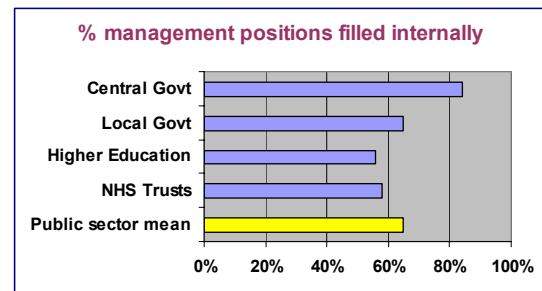
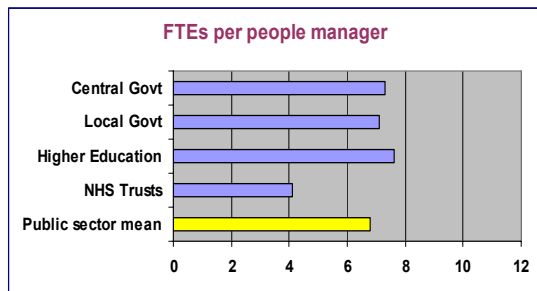
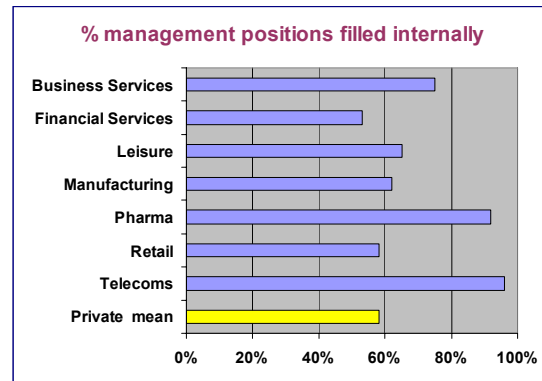
As a trend this is unsustainable, and will provide organisations with significant challenges going forward with regards to motivation and performance, particularly given the current debate on pension arrangements and the rising cost of benefit provision (such as healthcare).



FTEs per people manager ratio



Internal promotion ratio



FTEs per people manager indicates the management 'span of control' within an organisation and reflects the internal structure and aspects of the delivery model.

At mean levels, Private sector and Public sector are indistinguishable, with relative consistency across sub-sectors. Both Business Services and NHS Trusts (sectors employing relatively high proportions of professionally qualified staff) emerge as outliers, suggesting some link between the complexity of the role to be performed, and the degree to which one manager can maintain delivery consistency and control.

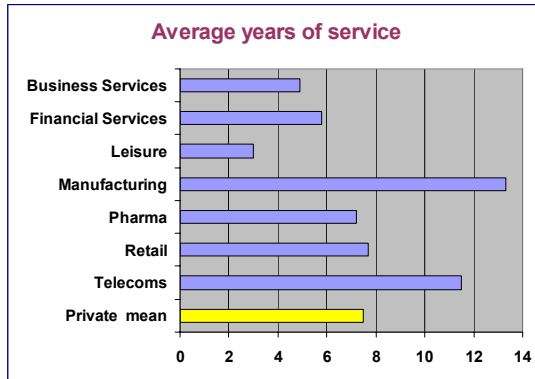
Leisure emerges as a particular outlier, potentially suggesting a high degree of 'role standardisation' within this sector, leading to larger teams.

Organisations in the HCM 100 demonstrate a general preference for appointing internal candidates to management positions, particularly in Pharmaceuticals, Utilities/Telecoms/Transport and Central Government/Government Agency/ Emergency Services – given the reduced costs of promotion, plus the limited time to achieve full productivity, this reflects an effective return on time and development invested in an existing employee.

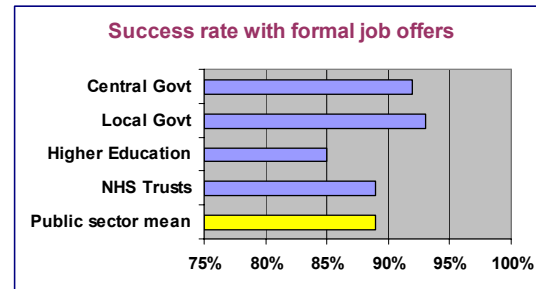
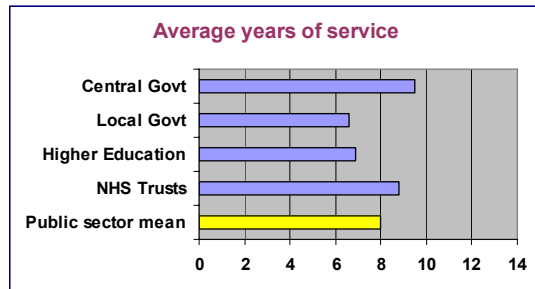
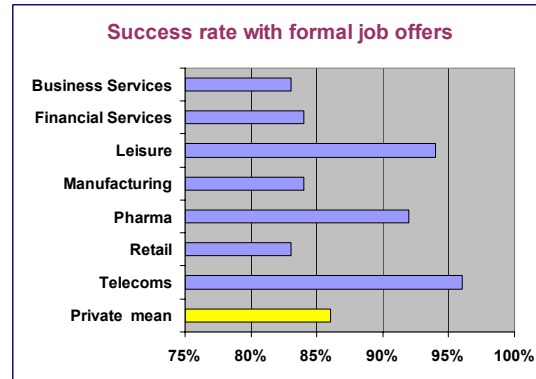
Despite these benefits, the 'average' organisation fills only two in three management positions internally (although both extremes are observed within the HCM 100), demonstrating either a considerable utilisation of external talent to renew existing approaches, or a potential requirement for skills that cannot be developed internally without significant investment.



Years of service



Job offer acceptance rate



At a mean level, Private and Public sector organisations have similar average length of service. Whilst this is a consistent figure within the Public sector (suggesting consistent levels of workforce mobility), the Private sector displays wide differentials.

Overall, the Public sector appears to enjoy a higher success rate with formal job offers, although the relatively low success rate within Higher Education suggests higher rates of mobility, potentially resulting from increasing rates of competitiveness within this sub-sector.

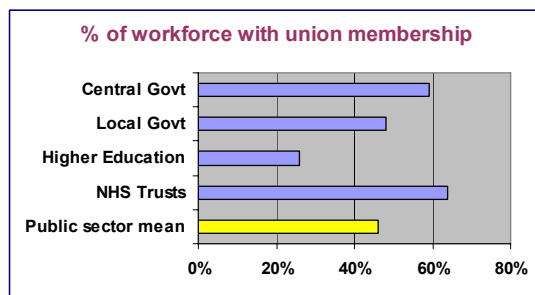
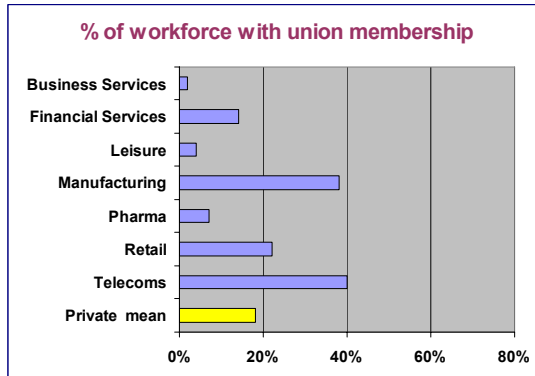
Leisure emerges as the sub-sector with the shortest length of service, unsurprisingly given a considerable focus on part-time or seasonal workforce. We note that Retail (which includes FMCG organisations) does not appear to share these characteristics. Manufacturing and Telecoms (including Utilities and Transport) responses suggest high levels of workforce stability, potentially related to mobility opportunities.

Within the Private sector, wider differentials are observed, reflecting either a higher rate of mobility/opportunity within particular sectors (Business Services, Manufacturing and Retail), or a willingness amongst candidates to apply to multiple organisations in the hope of receiving multiple offers (suggesting limited alignment to any particular organisation).

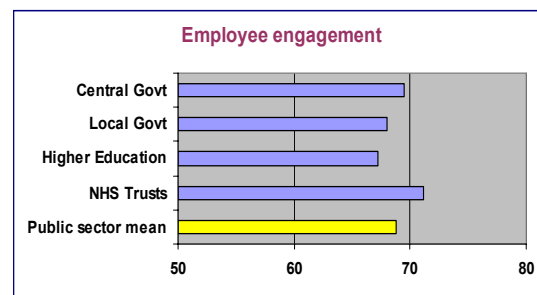
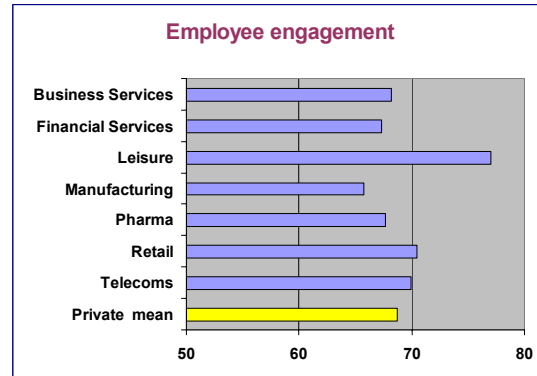
We note that organisations falling at the extreme will pose different challenges for HR functions and HCM practice: at one extreme, reward and development opportunities will be high motivators, whilst at the other, stability will be a higher driver.



Employee relations



Employee engagement



Mean responses between Private and Public sectors differ significantly. This suggests that, whilst unions are clearly seen as possessing considerable relevance within the workforce as a whole, their penetration of large tracts of the Private sector is limited. We note some apparent correlation within Private sector organisations between high rates of unionisation and high lengths of average service (see findings above).

Additionally, organisations report an average of 9.7 industrial tribunals within the last 12 months. Whilst this will to a degree depend on organisational scale, it suggests management inconsistency in the application of effective human capital management practices (of course, this figure ignores situations that are resolved through the use of compromise agreements).

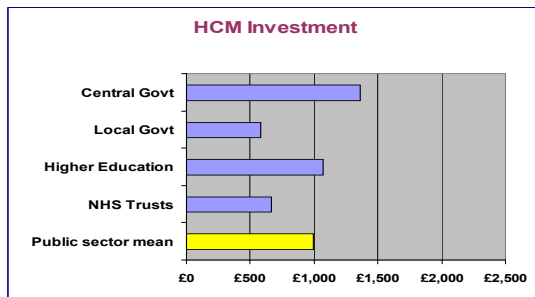
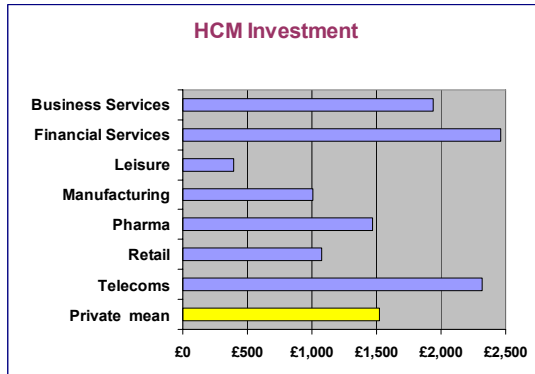
We note that engagement scores reported have not been verified through review of survey data at Level 1 – this is a feature of Level 2 analysis, where existing organisational survey data is incorporated within the VB-HR™ Rating system to provide a high level of robustness to overall findings.

Scores show high levels of consistency between Public and Private sector organisations, with Leisure demonstrating particularly high engagement levels, perhaps reflecting the high levels of customer proximity and interaction within this sub-sector.

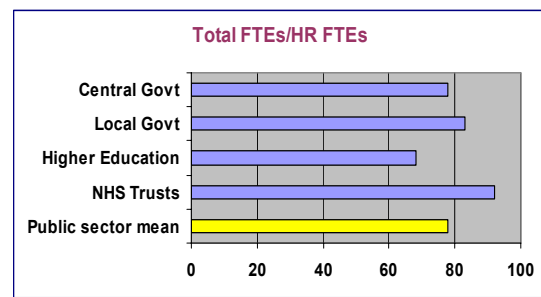
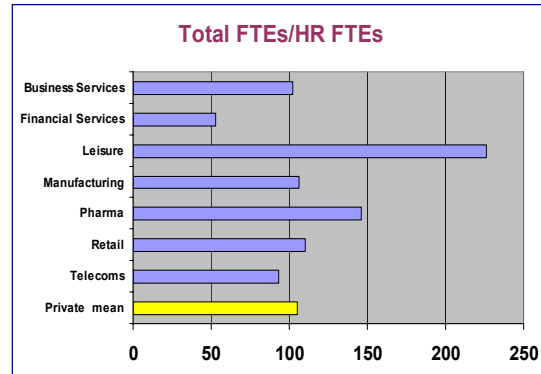
Whilst aggregate figures appear to present a relatively consistent viewpoint, our work across the HCM100 shows that this masks significant differentials between organisations within the same sector.



HCM Investment levels



HR Functional scale



[Note the different scales across Private and Public charts.]

Responses show considerable differentials between HCM investment (i.e. HR spend/FTEs) within the Private and Public sectors. We note that this is as dependent on organisational scale (i.e. number of FTEs) as it is upon absolute sums invested, and would therefore not necessarily identify a case for further Public sector HCM investment on this basis alone.

Responses show that the ratios of the HR function to all FTEs vary widely within the HCM100 benchmark list.

Of note is the wide variance observed within the Private sector, suggesting either very high levels of investment in certain sectors, or the potential for unfocused expenditure. Leisure exhibits very low relative levels of HCM Investment, perhaps a reaction to or outcome from the short average length of service already observed in this sector (see above).

There is a degree of variation across the various sectors, reflecting a combination of organisational scales and operating models, with Private sector more marked than the Public sector. Financial Services in particular demonstrates a relatively low ratio, potentially reflecting a particular focus on compliance. The high ratio within Leisure suggests that managers themselves will have a significant role to play in ensuring effective HCM practice, with relatively limited functional support from HR.

Differentials within the Public Sector could stem from the availability (or otherwise) of ring-fenced or targeted funding (e.g. Rewarding & Developing Staff budgets within the Higher Education sector).



HR Functional capability - trends identified within VB-HR™ Rating responses

Assessment of HR functional capability within the HCM100 shows that organisations are most likely to rate their internal expertise 'below the market' in the areas of workforce analytics, performance management and job evaluation – this suggests that these aspects are not yet regarded as fully 'core' to the function.

Equally, organisations are most likely to rate their internal capability 'above the market' in training & development, and the three 'Rs' of resourcing, reward and retention.

Across the HCM100, responses show that the highest scoring elements of HR's functional role are 'ensuring legislative compliance' and 'developing good relationships with managers/employees'. We note that the twin dimensions of monitoring and supporting staff possesses an inherent tension (leading to the evaluation of this relationship within the 'HR Customer Agency' value driver).

Despite a strong belief that HR 'understands the organisation and its associated value/cost drivers' (ranked within the top 20 of mean responses), scores relating to the degree to which HR staff rotate outside of HR are ranked second from last. This raises questions around how HR functions are able to develop this level of understanding and suggests limited 'hands-on' experience.

Given an ambivalent response to a question relating to management perception of whether the HR function positively contributes to the bottom line, this suggests some limitations in understanding from within HR and the line about how the other operates.

HR functions are least likely to utilise technology in support of case management, employee self service and e-learning. Technology is most likely to be utilised to automate payroll, personnel administration and for the manipulation of data for reporting purposes.

Only 13 organisations claim to measure the return on investment (RoI) for all significant interventions to any degree of accuracy, whilst three times this number regard themselves as effectively making use of measurement to verify HR's contribution.

Despite this, a perception exists that executives regard HR measurement as generally credible in 70% of organisations which suggests a low understanding or expectation.



Chapter 9

Applications of the VB-HR™ Rating and its planned development

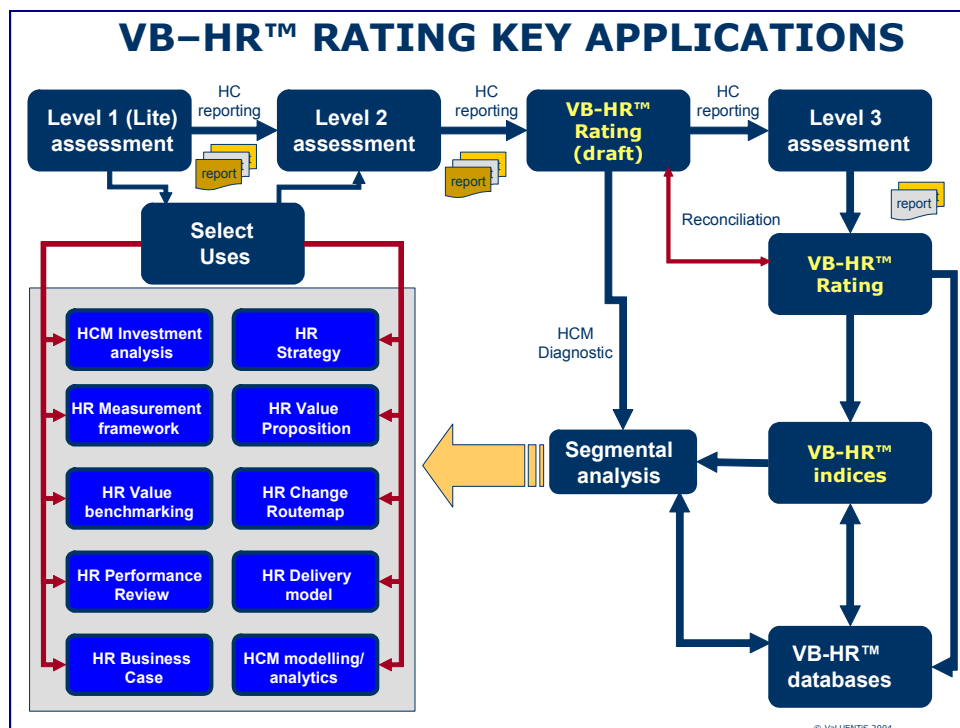
Key applications

The VB-HR™ Rating system has been designed as:

- A global rating system
- A multi-functional diagnostic tool
- An HCM investment/business case generator
- A strategic HR option/routemap device

- A blueprint HR delivery framework
- A true benchmarking tool.

Its 10 key applications are set out in the graphic below, with additional explanation provided in the table overleaf.





The following table describes typical work-phases and outputs for each of the ten specified applications.

Specified application	Typical phases/outputs
HR Strategy	<ul style="list-style-type: none"> • Clarification and alignment of multiple perspectives on current HCM performance across stakeholder groups • Clarification of areas of budgetary expenditure • Development of robust mandate against which the strategy can be defined and implemented • Prioritisation of HR activities and development of validated 'HR Action Mandate'
HR value proposition	<ul style="list-style-type: none"> • Assessment of current perspectives on value proposition (implied or otherwise) through triangulation of stakeholder views on current state • Identification of activities or perceptions that are misaligned or conflict with current perspective • Development and communication of evidence-based value proposition with associated repositioning actions
HR change routemap	<ul style="list-style-type: none"> • Evaluation of current state of HR and HCM within the organisation • Development of 'desired' state projection(s) through evaluation of e.g. positioning, service delivery, HR capability and technology • Identification of specific activities to pursue in order to close gaps identified • Generation of associated change routemap with accompanying HR Action Mandate
HR delivery model	<ul style="list-style-type: none"> • Quantification of outcomes from current service delivery • Clarification of delivery handoffs through mapping current delivery against the underlying VB-HR™ Capability Profiler • Generation of blueprint service delivery model and assessment the impact of projected changes
HCM modelling/ analytics	<ul style="list-style-type: none"> • Creation of linkage between discrete metrics to provide output/outcome driven metrics (e.g. turnover data with performance/engagement scores) • Development of trend and pattern analysis from incorporation of existing metrics within VB-HR™ system and its outputs
HR business case	<ul style="list-style-type: none"> • Assessment of impact of current budgetary allocation in terms of HCM performance • Evaluation of current delivery effectiveness in light of organisational requirements • Identification and development of business case for further and/or redirected investment, including quantification of its likely impact
HR performance review	<ul style="list-style-type: none"> • Assessment of the effectiveness of current areas of the HR function in terms of impact on HCM performance vs. expenditure • Time-based comparison of performance changes with identification of recommended actions to enhance HCM impact within budgetary constraints
HR value benchmarking	<ul style="list-style-type: none"> • Triangulated assessment of the value contribution of the HR function through use of the VB-HR™ Rating methodology • Comparison against normative, sector and internal benchmarks as appropriate
HC/HR measurement framework	<ul style="list-style-type: none"> • Development of standardised measurement approach towards quantifying impact of HR activity • Generation of reporting mechanism and associated data perspectives • Incorporation of existing metrics suite within VB-HR™ framework
HCM investment analysis	<ul style="list-style-type: none"> • Review of current state of HR/HCM within the organisation • Generation of options for HCM investment • Option impact review through running scenarios against VB-HR™ Rating algorithms



Client projects initiated

Following initial exposure to the VB-HR™ Rating system approach and methodology, clients are already applying the system as an organisational diagnostic, human capital measurement instrument, and as a value benchmarking tool (in conjunction

with existing approaches to measurement).

The chart below illustrates how organisations participating in the initial benchmark group are starting to apply the VB-HR™ Rating system.

Application

Commentary

Prioritising HR expenditure

This client in the health sector is utilising the VB-HR™ Rating to identify how to generate maximum HCM value for the organisation with the existing global HR budget.

Engaging Executive stakeholders in the development of an organisational HR Strategy

As part of a process to revisit the HR Strategy, this client, in the mining sector, is utilising the VB-HR™ Rating system as a means of aligning the Executive team around the impact of HCM within the organisation. The outputs from this will be used within the planning process to align the Executive team on the HCM priorities to be addressed within the HR Strategy.

Measuring the impact of the impact of new systems

The client, in the central government sector, is currently carrying out a series of IT implementations that are designed to enhance HR service delivery. The VB-HR™ Rating system is being utilised to 'baseline' current service delivery, with subsequent Ratings scheduled after key implementation milestones to measure their impact.

Aligning the HR team's understanding of delivery priorities

Through conducting the VB-HR™ Rating within the senior HR team, the client, in the financial services sector, is seeking to align HR's perspective of how its activities add value to the organisation.

Clarifying line expectations of HR delivery as a means of developing an HR value proposition

By surveying a sample of line managers across multiple divisions within the organisation, the client, in the financial services sector, will be able to identify differentials and similarities in their expectations. This will lead to the development of a tailored 'HR value proposition' and action plans to address expectation gaps.

**Planned future activity**

The following activities are planned to establish the VB-HR™ Rating system as the most sophisticated form of HCM measurement and reporting.

Expansion of the initial HCM100 benchmark group	This will continue with a schedule that looks to mirror standard stock indices as well as the creation of the world top 100, 250, 500 and 1000 HCM indices.
Development of sectoral indices	Particular sectors are already well represented in the current benchmark group. Through involving further organisations, sectoral indices will be developed, to add further insight to client organisations on how their approach to HCM compares with industry or sector comparators.
Ongoing programme of Breakfast Seminars	Conducting a series of Breakfast Seminars will allow us to report further findings and enhance HR professionals' awareness of human capital measurement and reporting.
Further insight reports	Regular publications of sectoral and cross-industry insight to share high-level findings from the conduct of the VB-HR™ Rating with the marketplace (including the further verification of these interim findings).
External reporting of VB-HR™ Ratings	As an externally verifiable and standardised indicator, the VB-HR™ Rating is suitable for inclusion within organisations' Operating and Financial Reviews (OFR) and annual reports.

"In view of our transition from Personnel to a business focused HR Department, this has been a very thought provoking exercise and one which we would wish to explore further."

**Director of Human Resources
UK Engineering Company**



Chapter 10

The broader perspective – intangibles and value based enterprise performance

Introduction to value based enterprise governance

The Value-based Enterprise Performance (VB-EP™) framework¹⁸ looks to provide a value measurement template that evaluates the performance of the individual business drivers as identified (the nine in the framework).

Research has shown that all of these are important – although organisations will place a different reliance on each individual driver depending on their business models - but none has previously provided a comprehensive framework to assess the impact and interactions between these drivers within organisations.

The VB-EP™ framework does just this, with three key applications for organisations:

- A process of evaluating the 'performance' of individual value driver components (commonly referred to as intangible assets)
- A process of valuing the components either singularly or in combination to supplement market value models
- A process of measuring the 'resilience' of an organisation (another intangible which provides an alternative view to the two previous processes).



Core intangible components

The conceptual framework sets out nine core components (quasi-intangibles or QIs) that make up the domains of VB-EP™.

Whilst each of these has a specific meaning and context, all are strongly inter-related, with no single domain being discrete (thus reflecting the complexity of organisational operating models).

For example, effective Customer capital management (including aspects of marketing) will have strong linkages to Intelligence, as well as overall strategy,

¹⁸ An investigation into the measurement, accounting treatment and disclosure of intangibles and their effect on company share price, Nicholas J Higgins, unpublished dissertation, 2002



operational effectiveness and human capital.

Enterprise governance

'Enterprise governance' differs slightly from other functional assets through typically being the remit of the board or executive team, as opposed to defined functional areas. It can be viewed as the collective executive practices and activities relating to:

- Providing organisational direction and ensuring its implementation
- Managing risks, both internal and external to the organisation (e.g. stakeholder perception)
- Allocating organisational resource in an appropriate manner¹⁹.

Following well-documented examples of high-profile corporate failure, the concept of enterprise governance is starting to gain currency as a central concept to an organisation's performance and ability to survive adverse situations or market conditions (i.e. its resilience). We therefore regard it as central through its role in connecting other QIs.

The purpose of enterprise governance²⁰ has at its foundation the requirement to drive performance at the enterprise level, whilst ensuring compliance with external (i.e. legislative, financial or environmental) requirements.

An example can be drawn from the experience of an integrated UK oil & gas major. Following a decade of increasing concern about the environmental impact of oil spills, fear over growing carbon emissions and activist concerns around the exploitation of natural habitats, this company determined to take steps to reposition its brand not just in the eyes of consumers but also with other stakeholders.

By seeking to explain how the company invested in alternative energy sources and brought benefits to consumers in a series of adverts, the organisation was not involved in 'marketing' for the traditional sake of growing consumer share, but appeared to have the more ambitious remit of combining its marketing skills to bring home aspects of its responsibility and aims as an organisation to enhance external stakeholder perception. This therefore implies an apparent aim not just of seeking to establish effective public relations or to put forward an elaborate explanation of how the company meets required environmental standards, but of setting out a framework for longer-term performance and business diversification.

Customer capital management

We regard 'customer capital management' as the ability to utilise aspects of marketing, or the marketing function itself, in order to enhance organisational performance.

Whilst customers themselves would not ordinarily be regarded as 'intangible assets', the differences in organisational performance between companies that can enhance their understanding around what their customers expect, along with appropriate management strategies, and those that cannot, will be significant.

Supermarkets in the UK have, for several years, run schemes where customers are 'rewarded' with vouchers equal to a small percentage of their overall expenditure. In reality, this approach has nothing much to do with reward, and much to do with customer capital management. Through putting in place sophisticated data-warehousing and analysis systems, a supermarket is able to monitor purchasing patterns at the level of the individual. Based on this information, the supermarket not only benefits in terms of enhanced ability to monitor likely inventory patterns, but can target special offers to the individual, based on their

¹⁹ Adapted from Information Systems Audit and Control Foundation, 2001

²⁰ A broader topic than 'Corporate governance', which generally focuses on specific aspects of compliance.



propensity to purchase. Contrast this approach with an insurance company that mail-shots all its contents insurance customers with an offer for car insurance, irrespective of whether they own a car or not.

Customer capital, therefore, is central to the organisation's ability to gather, interpret and act on data relating to the individuals or organisations that purchase its products. It is intended to result in higher rates of customer retention, reduced costs of customer churn and higher levels of profitability, with linkages through Strategy, Intelligence and Operational Effectiveness to other VB-EP™ components.

Financial capital management

'Financial capital management' relates to the organisation's ability to apply existing skills and processes within the Finance function in order to enhance its performance.

These aspects will typically be related to a number of areas that go beyond the transactional or operational aspects of the function (e.g. accounting, invoice processing, management reporting). These will include:

- Providing decision support through applied analysis (e.g. through support to marketing activity)
- Efficient resource allocation (e.g. treasury function, project financial analysis,)
- Legitimately minimising exposure to taxation through understanding of current legislation and the opportunities presented²¹
- Access to capital markets with associated engineering to ensure lowest cost of capital
- Proactive review of merger & acquisition candidates with

development of associated business cases

- Ensuring business controls to minimise risk of catastrophic non-compliance (Barings Bank exemplifying an extreme example) or non-compliance with prevailing legislation (e.g. Sarbanes-Oxley).

Human capital management

The subject of the VB-HR™ Rating itself, human capital management can be regarded as the activities an organisation carries out through the agency of the HR function (through a combination of systems, processes and HR functional expertise) that results in productive, engaged employees and high concomitant organisational performance as an outcome. This is examined in depth in Chapter 1 and is assessed through the VB-HR™ Rating construct.

Intellectual property management

Intellectual property management is often identified as a corporate source of intangible value, with specific aspects identified (e.g. brand, patents, trademarks, franchises). We would regard Intellectual property as the value-adding managerial activity to optimising and defending intellectual property. For example, effective management of intellectual property will include processes to review patent lifetimes as well as protecting against infringements; effective valuing techniques, particularly where IP portfolios are established; and processes to manage innovation and implementation of new ideas within the organisation.

Should the organisation possess a Research & Development ('R&D' function), this is likely to be the agent of intellectual property management within the organisation.

Architecture

Just as the VB-HR™ Rating identifies HCM Architecture as being a driver of value, so does VB-EP™ treat Architecture in a broader context. 'Architecture' would be identified as the organisational systems

²¹ As evidenced through the recent award of £5m of funding by UK businesses to the Oxford University Centre for Business Taxation, *Financial Times*, 6 October 2005



and processes that underpin specific functional activity and allow for information to be accessed and shared within the organisation.

We identify this as being separate from the IT or IS function, treated IT as the technical platform supporting the architecture. Architecture does, however, include how IT systems are managed, maintained and upgraded, as this may well be regarded as yielding intangible value to the organisation, particularly in organisations where technology and strategy are closely linked (e.g. those in digital media or providing trading platforms).

(Business) intelligence

Within the context of VB-EP™, Intelligence encompasses all aspects of organisational intelligence. Whilst the term 'business intelligence' can often relate to the specific application or platform that supports the collation and analysis of required information, we regard Intelligence as relating to the application of data within the five main Assets.

For example, linking employee engagement to customer satisfaction scores is a particular application of Intelligence carried out by retail organisations that rate highly in this area. Equally, interviewing new joiners to gain access to current information on competitor organisations (subject to the terms of any confidentiality agreements) would be an example of linking Human capital management with Strategy and potentially other domains.

Operational Effectiveness

This encompasses all aspects of an organisation's core processes related to the delivery of its products or services. This will typically include approaches and processes relating to effective supply chain, logistics, sourcing, distribution, and quality – the activities that turn inputs into the organisation's outputs. Japanese automotive companies have been

renowned for some time for their 'continuous improvement' approach and its impact on plant layout and role design. This exemplifies an approach that would receive a high rating within the framework for its ability to review and enhance processes required for production. One thing to note is that organisations which tend to have little in terms of intellectual property tend to focus on this area as a means of deriving intangible value.

Strategy

In the context of enterprise performance, Strategy assesses the organisation's ability not just to develop a coherent plan (or set of plans) towards retaining or growing market share or achieving KPIs, but also the ability of the organisation to execute against its chosen strategy. Whilst strategy definition and planning can often be seen as the 'glamorous' aspects of strategy, an organisation that can execute against its chosen plans will perform at a higher level, and exhibit higher levels of resilience, than one that cannot. The consequences of failing to deliver against a stated strategy can be severe, both for individuals and for organisations. For example, analysts on the stock-market take corporate earnings as a proxy for the effectiveness of strategy execution. This is why, if a listed company announces a profit warning, the share price will immediately fall, reducing the company's market value and potentially restricting its access to funds.

'Strategy' in the context of VB-EP™ assesses effective execution. In reality, whether at corporate or business unit level, strategy is an umbrella term for the myriad of organisational strategies that exist, for example, the financial strategy, the marketing/brand strategy, the HR strategy, operational strategy etc.

An organisation's resilience 'level' will result from the way in which these various organisational strategies are executed and how complementary in their objectives and thus any derived value that is obtained.



"...it did seem to reflect well our own understanding of what we do well and where we need to improve in a way that should help us build confidence with our internal customers."

**Manager, Organisational Development
UK subsidiary of global financial services**



Appendices



<i>Appendix I</i>	<i>HCM 100 Index constituents</i>
<i>Appendix II</i>	<i>VB-HR™ benchmark comparison table</i>
<i>Appendix III</i>	<i>VB-HR™ dedicated website reference</i>
<i>Appendix IV</i>	<i>VB-HR™ reference</i>
<i>Appendix V</i>	<i>VaLUENTiS client related services</i>



Appendix I

HCM100 index constituents

5 Boroughs Partnership NHS Trust
Ajilon
Alcon Laboratories (UK) Limited
AMEC
Anglo American plc
Ashford & St Peter's Hospitals NHS Trust
AstraZeneca plc
Baker & McKenzie
Barclays Bank Plc
BNP Paribas Securities Services
The BOC Group plc
Booker Cash & Carry Ltd
Bradford & Bingley plc
BT plc
Cabinet Office
Cable & Wireless plc
Chelsea & Westminster Hospitals NHS Trust
City of Edinburgh Council
Companies House
CSR plc
DEFRA
Diamond Trading Company (De Beers)
Doncaster Metropolitan Borough Council
DTZ
Durham Constabulary
DWF
EAGA Partnership
Ecolab Limited
Emap Communications (part of Emap plc)
First Choice Holidays plc
Friends Provident
Ineos Chlor Limited
John Lewis Partnership
J Sainsbury plc
Liverpool John Moores University
London Stock Exchange
Lonmin Plc
Manchester Metropolitan University
Marks & Spencer plc
Maritz Europa Ltd
Marshall Aerospace Ltd
Monster
National Grid Wireless (formerly Crown Castle UK)
Nomura International
Norwich Union (part of Aviva plc)
O2 Airwave (part of O2 plc)
PZ Cussons Ltd
Portman Building Society
Rangemaster (part of AGA Foodservice Group plc)
Reckitt Benckiser Healthcare Ltd
Research International Ltd (part of WPP plc)

Reuters Group plc
Robert Wiseman Dairies plc
Royal Free Hospital NHS Trust
Royal Mail Commercial
Sage Group plc
Sandwell and West Birmingham Hospitals NHS Trust
Sanofi Pasteur MSD
Schwarz Pharma Ltd
Scottish Ambulance Service
Skandia UK
South Yorkshire Police
STA Travel Ltd
Sthree Ltd
Surrey County Council
Tower Hamlets Primary Care Trust
Travis Perkins plc
University of Derby
University of Gloucestershire
University of Leicester
University of Lincoln
University of Luton
University of Salford
University of Westminster
Whitbread Pub Restaurants
Woolworths plc

Those organisations wishing to remain confidential:

S&P 500 Retail
UK Passenger Transport Executive
S&P 500 Investment Bank
European Investment Bank
FTSE 250 Utilities
London Borough Council
S&P 500 Pharmaceutical
UK private company - Hotels
Euro300 Pharmaceutical
FTSE 100 Retail Banking
UK University
European Investment Bank
UK private company - Manufacturing
UK Transport company (subsidiary of NYSE listed parent)
FTSE 100 - Media
UK University
Financial Services - Media
Public sector - Emergency Services
FTSE 100 - Beverages
FTSE 100 - Confectionery
International Law Firm
FTSE 250 - Leisure & Entertainment
NASDAQ - Medical equipment manufacturer
FTSE 100 - Media



Appendix II

VB-HR™ Metric Benchmark Comparison Table

Key:

Metric	Type of measurement
Domain	Classification of metric; (i) financial related (ii) HCM – human capital management related (iii) HC – human capital related (iv) HR-F - HR functional specific
Reference	Where metric is used or referenced (i) 'VBHR' indicates that the metrics form part of the VB-HR™ core metrics suite, incorporated within the Rating construct (ii) 'OFR' indicates current 'Operating & Financial Review' guidance
Application	Two categories: (i) cross-industry or (ii) organisational specific
Collatability rating	The rating ascribed to the ease in which metric data can be ascertained: 5 = easily available, 1 = hard to extract/collate
Usability rating	The rating ascribed to the capability of the particular metric to be used in conjunction with other metrics to provide greater level of insight 5 = Multiplicity of usage, 1 = Discrete (stand-alone, very limited application)
Comparability rating	The rating ascribed to the extent that the metric data in question can be used as a means of comparison: H = High, M = Medium, L = Low
VB-HR™ Level indicator	Mapping of the particular metric that relates to the VB-HR™ 'metric' pyramid (L1) data analytics (L2) activity/efficiency metrics (L3) outcome metrics - leverage (L4) Performance
Overall rating	A mathematical calculation combining the various weighted ratings into an overall relative score



Core VB-HR™ metrics suite [Level 1 only]								
Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
PRIMARY								
VB-HR™ Rating score	HCM	VBHR	X-industry	5	5	H	4	★★★★
HCM Performance	HC/HCM	VBHR	X-industry	5	5	H	4	★★★★
Human capital intensity	HC	VBHR	X-industry	5	5	H	1	★★★★
HC revenue per employee	HC	VBHR	X-industry	5	5	H	3	★★★★
HC leverage	HC/HCM	VB-HR	X-industry	5	5	H	3	★★★★
HCM investment ratio	HCM	VBHR	X-industry	4	5	H	3	★★★★
Employee engagement	VBHR/OFR	General	X-industry	4	5	H	3	★★★★
HR spend/people costs	HCM	VBHR	X-industry	5	3	L	2	★★
SECONDARY								
HR budget	Financial	VBHR	X-industry	3	4	M*	1	★★★
Total HR spend including any HR outsourced contracts	Financial	VBHR	X-industry	3	4	M*	1	★★★
Training budget	Financial	VBHR	X-industry	3	4	M*	1	★★★
Management Development budget	Financial	VBHR	X-industry	3	4	M*	1	★★★
Ratio of number of management positions filled internal to external	HCM	VBHR	X-industry	4	4	H	1	★★★
Degree of success with formal job offers over the past 12 months (approximate %)	HCM	VBHR	X-industry	4	4	H	2	★★★
Voluntary turnover rate - overall	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Voluntary turnover rate - management	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Voluntary turnover rate - employees	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Annual absenteeism rate - management	HCM	VBHR/OFR	X-industry	5	4	M*	3	★★★
Annual absenteeism rate - employees	HCM	VBHR/OFR	X-industry	5	4	M*	3	★★★
Annual accident injury rate (RIDDOR)	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Number of industrial tribunals in the past 12 months	HCM	VBHR	X-industry	5	4	H	1	★★★
Percentage of staff who are members of a union	HCM	VBHR	X-industry	4	4	M	1	★★
Percentage of staff covered under collective bargaining agreements	HCM	VBHR	X-industry	4	4	M	1	★★
% of HR service delivery based on mix of technology solution/integrated/non-integrated e.g. ERP/ASPs/in-house etc	HR-F	VBHR	X-industry	4	3	M	1	★★
TERTIARY								
Involuntary turnover rate - overall	HCM	VBHR	X-industry	5	4	M*	3	★★★
Involuntary turnover rate - management	HCM	VBHR	X-industry	5	4	M*	3	★★★
Involuntary turnover rate - employees	HCM	VBHR	X-industry	5	4	M*	3	★★★
Voluntary turnover rate - overall within 1 st year	HCM	VBHR	X-industry	4	4	H	3	★★★
Voluntary turnover rate - management within 1 st year	HCM	VBHR	X-industry	4	4	H	3	★★★
Voluntary turnover rate - employees within 1 st year	HCM	VBHR	X-industry	4	4	H	3	★★★
Number of managers with direct people responsibility	HCM	VBHR	Org-spec	4	5	L	1	★★
Number of management levels (from 1 st line to CEO)	HCM	VBHR	Org-spec	5	4	L	1	★★
Number of full-time employees	HC	VBHR	X-industry	5	4	L	1	★★
Number of part-time employees	HC	VBHR	X-industry	5	4	L	1	★★
Overall FTE (full-time equivalent)	HC	VBHR	X-industry	5	4	L	1	★★
Number of managers/partners (1 st line and above)	HC	VBHR	Org-spec	4	4	L	1	★★
Average % pay rise over preceding 12 months	Financial	VBHR	X-industry	5	4	M	1	★★
No of HR Full-time employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of HR Part-time employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of HR temporary and contract FTEs	HR-F	VBHR	Org-spec	5	4	L	1	★★
No of Interim HR employees	HR-F	VBHR	Org-spec	5	4	L	1	★★
Total HR FTE	HR-F	VBHR	Org-spec	5	4	L	1	★★
Percentage of staff on flexible employment contracts	HCM	VBHR	Org-spec	4	4	L	1	★★
Percentage of staff with a university or equivalent education or a recognised professional qualification	HC	VBHR/OFR	Org-spec	3	4	L	1	★★
Percentage of staff salaried and not eligible for overtime	HCM	VBHR	Org-spec	4	4	L	1	★★
Percentage of staff covered by a national minimum wage (or equivalent)	HCM	VBHR	Org-spec	4	4	L	1	★★
Percentage of staff is employed on a fixed term or other temporary basis rather than on a permanent basis	HCM	VBHR	Org-spec	4	4	L	1	★★
Average years of service (aggregated)	HCM	VBHR	X-industry	4	4	M	1	★★
Number of job families	HCM	VBHR	Org-spec	5	2	L	1	★
Number of current (legacy) payrolls	HR-F	VBHR	X-industry	5	2	na	1	★
Reward scheme linked to absenteeism	HCM	VBHR	X-industry	5	2	na	1	★

* Adoption of standardised definition/template would improve level of rating



Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level Indicator	Overall rating
HR Governance								
Business performance measures (ROI, etc)	Financial	General	X-industry	5	5	M	3	★★★
External (with business strategy) alignment index	HCM	General	X-industry	1	5	M	3	★★★
Revenue per FTE	Financial	General	X-industry	5	3	L	2	★★
Cost per FTE	Financial	General	X-industry	5	4	L	2	★★
Profit per FTE	Financial	General	X-industry	5	4	L	2	★★
Wealth creation per FTE	Financial	General	X-industry	5	4	L	2	★★
Ratio of compensation to revenue	Financial	General	X-industry	5	4	L	2	★★
Ratio of HR expenses to operating expenses	Financial	General	X-industry	5	3	L	2	★★
Operating costs per FTE	Financial	General	X-industry	5	3	L	2	★★
Cost of goods sold/total costs	Financial	General	X-industry	5	3	M	2	★★
Corporate HQ costs to total costs	Financial	General	X-industry	3	3	L	2	★★
Ratio of HR expenses to total company expenses	Financial	General	X-industry	4	3	L	2	★★
Organisational outsource rate	Financial	General	X-industry	4	2	L	1	★★
Productivity rate	Financial	General	X-industry	3	3	M	2	★★
Range in merit increase granted by classification	Financial	General	X-industry	5	4	M	1	★★
Percent of HR budget that is spent on outsourced activities (e.g. recruiting and payroll)/HR outsource rate	Financial	General	X-industry	5	3	L	1	★★
Ratio of HR employees to total company employees	HCM	General	X-industry	5	3	L	2	★★
HR department costs over total costs	Financial	General	X-industry	3	3	M*	2	★★
HR average remuneration	Financial	General	X-industry	5	3	M*	1	★★
Internal charge rate	Financial	General	Org-spec	3	3	L	1	★★
Compliance with legal requirements	HCM	(OFR)	X-industry	3	4	M	2	★★
Compliance with technical requirements	HCM	General	Org-spec	3	4	M	2	★★
HR process cycle and cost improvements	HR-F	General	Org-spec	3	5	M	1	★★
Rate of new product introductions	Other	(OFR)	Org-spec	5	4	L	1	★★
New product revenue per FTE	Financial	General	Org-spec	3	2	L	2	★★
FTEs per HR FTE (by department)/ Headcount per HR FTE (by department)	HR-F	General	X-industry	5	3	L	2	★★
Human Capital Management Index	HCM	General	X-industry	1	5	L	3	★★
Intellectual capital per FTE	Financial	General	X-industry	4	1	L	4	★★
Return on market value premium	Financial	General	X-industry	3	1	L	4	★★
Customer satisfaction with HR processes/services	HCM	General	X-industry	3	3	L	3	★★
Performance against strategic HR plan	HCM	General	Org-spec	2	3	L	1	★★
Quality of customer brand awareness	Other	General	Org-spec	1	5	L	1	★★
Ratio of time spent on HR Governance to total HR activity	HR-F	General	X-industry	3	2	M	2	★★
HR involvement in critical strategic planning	HR-F	General	Org-spec	2	2	L	1	★★
Cost to support each service area	Financial	General	Org-spec	1	4	L	2	★★
Senior manager and board member diversity	HC	OFR	X-industry	5	1	M	1	★
Competency assessment results of the understanding of business	HCM	General	Org-spec	1	2	L	1	★
Line manager satisfaction with culture change initiatives	HR-F	General	Org-spec	1	3	L	31	★★
Extent to which employees see the performance management system as clearly linked to the firm's strategy	HCM	General	Org-spec	1	2	L	1	★
Focus group findings on line executives' (and line managers') perception of HR alignment index	HR-F	General	Org-spec	1	1	L	1	★
Extent to which HR measurement systems are seen as credible	HR-F	General	Org-spec	2	1	L	1	★
Female diversity	HC	General	Org-spec	4	1	na	1	★
R&D investment rate	Financial	General	Org-spec	3	2	L	1	★
% HR Managers & Professionals to total HR FTEs	HR-F	General	Org-spec	3	1	L	2	★
Cost per HR function report	Financial	General	Org-spec	3	1	Na	1	★

* Adoption of standardised definition/template would improve level of rating



Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
Organisation design								
Average economic value (NPV) of employee suggestions	Financial	Other	X-industry	1	5	L	4	★★
Line manager satisfaction on HR strategy alignment with business strategy (survey scores)	HR-F	General	Org-spec	1	3	L	3	★★
Number and quality of cross-functional teams	HCM	General	Org-spec	1	1	L	1	★
Extent to which the firm has developed a set of behavioural competencies for hiring, developing, managing and rewarding people	HCM	General	X-industry	4	1	M	1	★
Extent to which HR does a thorough job of pre-acquisition soft-asset due diligence	HR-F	General	Org-spec	1	3	L	3	★
Extent to which HR is helping to develop the necessary leadership competencies	HR-F	General	Org-spec	2	2	L	1	★
Resourcing								
External job offer acceptance rate/offer to acceptance ratio	HCM	VBHR/OFR	X-industry	4	4	H	2	★★★
Turnover costs	Financial	General	X-industry	2	5	H	3	★★★
Graduate turnover rate/resignation rate	HCM	General	Org-spec	4	4	L	3	★★★
Cost per external hire by job family/level	Financial	General	Org-spec	2	4	M	1	★★
Performance of new employees versus base	HC	General	Org-spec	4	3	L	3	★★
Graduate cost per hire	Financial	General	Org-spec	3	2	L	2	★★
Ratio of candidates hired to number of applicants (selection ratio)	HCM	General	X-industry	3	3	L	2	★★
Percent retention of high-performing key employees	HCM	(OFR)	Org-spec	4	4	L*	3	★★
Turnover rate by job category and job performance	HCM	(OFR)	Org-spec	1	5	L*	3	★★
Cost per hire by job family/level	Financial	General	Org-spec	1	3	L	2	★★
Labour forecasting accuracy	HR-F	General	Org-spec	3	3	M	2	★★
Cost per hire by process step	Financial	General	Org-spec	3	2	M	1	★★
Quality of applicants provided by recruiting channel	HR-F	(OFR)	Org-spec	3	3	L	2	★★
External time to fill job	HR-F	General	Org-spec	3	2	L	1	★
Applicants interviewed per recruiting source	HR-F	(OFR)	Org-spec	2	2	L	1	★
Early turnover (first six months) by recruiting source	HR-F	(OFR)	Org-spec	2	3	L	3	★
Internal job posting to acceptance time	HR-F	General	Org-spec	4	3	L	1	★
Relocation costs	Financial	General	Org-spec	3	1	Na	1	★
Candidates' reasons for applying to the organisation	HC	General	Org-spec	1	4	Na	1	★
Time needed to orientate new employees	HCM	General	Org-spec	5	2	L	1	★
Internal job posting application volume	HR-F	General	Org-spec	5	2	L	1	★
% of staff with <2 years service	HC	General	Org-spec	3	2	L	1	★
Graduate starting compensation	Financial	General	Org-spec	5	2	L	1	★
Percent of employees willing to recommend our firm to friends as a great place to work	HC	General	X-industry	4	1	Na	3	★
External recruitment/addition rate	HCM	General	Org-spec	4	2	L	1	★

* Adoption of standardised definition/template would improve level of rating



Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
Training & Development								
Customer satisfaction with courses and results (employees and managers)	HR-F	General	Org-spec	3	3	L	3	★★
FTEs per Training & Development FTE/Training function FTE/Line Trainer/FTE	HR-F	General	Org-spec	5	3	L	2	★★
Training costs/total compensation	Financial	General	Org-spec	2	1	L	2	★
Training cost per hour	Financial	General	Org-spec	1	2	L	2	★
Percent of new skills acquired within a specific time period	HC	General	Org-spec	1	4	L	3	★
Learning penetration	HCM	General	Org-spec	3	1	L	1	★
Employee satisfaction with advancement opportunities	HCM	(OFR)	Org-spec	3	2	L	1	★
Cost of training per employee (overall, in-house, external, developmental, technical)	Financial	General	X-industry	2	2	L	2	★
Degree of financial literacy amongst employees	HC	General	Org-spec	3	2	L	1	★
Percent of employees with development plans completed	HCM	(OFR)	X-industry	3	1	L	1	★
Time to competence for new hires	HCM	General	Org-spec	2	1	L	1	★
Percent of executive time spent on mentoring and coaching	HCM	(OFR)	Org-spec	4	2	L	1	★
Total hours of training per employee (in-house, external)	HR-F	OFR	X-industry	3	1	M	2	★
Total hours of training per employee (technical, developmental)	HR-F	OFR	X-industry	3	1	M	2	★
Training days per year	HR-F	(OFR)	X-industry	4	1	M	2	★
Number of hours of training typically received by a new employee in the first year of employment	HR-F	(OFR)	Org-spec	5	1	L	1	★
Quality of training content delivered	HR-F	General	Org-spec	1	3	na	2	★
Number of training days per programme	HR-F	General	X-industry	5	1	L	1	★
Knowledge sharing of best practice	HR-F	General	Org-spec	1	3	na	3	★
Percent new materials in training programmes each year	HR-F	General	Org-spec	3	1	na	1	★



Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
Performance management								
Internal talent strength; availability index	HCM	General	X-industry	2	4	M	3	★★★
Turnover rates of high potential/fast track employees	HCM	(OFR)	Org-spec	2	4	M*	3	★★
Percent of workforce that is promotable	HCM	General	Org-spec	2	4	L	3	★★
Executive stability ratio	HC	General	Org-spec	4	2	L	3	★★
Effectiveness in dealing with poor performance	HCM	General	Org-spec	2	5	L	3	★★
Proportion of employees receiving an increase in evaluation during latest performance review	HCM	General	Org-spec	3	4	L	3	★★
Range (distribution) of performance appraisal ratings	HCM	General	Org-spec	4	4	L	3	★★
Number of qualified candidates for key leadership positions	HCM	General	Org-spec	4	3	L	1	★★
Percent of workforce that is regularly (i.e. quarterly or annually) assessed via a formal performance appraisal	HCM	General	Org-spec	4	3	M	1	★★
Percent of employees not meeting basic skill requirements	HCM	General	Org-spec	2	4	L	1	★★
Extent to which most employees feel that the performance appraisal process is fair	HCM	General	Org-spec	3	2	L	1	★★
Percent of employees who are recognised by customers for outstanding performance	HC	General	Org-spec	5	2	L	1	★
Percent of performance appraisals completed on time	HCM	General	X-industry	4	1	L	1	★
Percent merit increase a low-performing employee could normally expect as a result of a performance review	HCM	General	X-industry	5	2	M	1	★
Percent of all employees involved in 360-degree feedback process	HCM	General	Org-spec	4	1	L	1	★
Extent to which employees are held accountable for their own performance	HCM	General	Org-spec	1	4	L	1	★
Vacancy duration for key leadership positions	HR-F	General	X-industry	5	1	L	1	★

* Adoption of standardised definition/template would improve level of rating



Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
Reward								
Average remuneration	Financial	General	X-industry	4	2	M	1	★★
Average compensation	Financial	General	X-industry	4	2	M	1	★★
Average benefits	Financial	General	X-industry	4	2	L	1	★★
Change in average base pay over time	Financial	General	X-industry	5	4	M	1	★★
Compensation as a percent of revenue	Financial	General	X-industry	5	4	M	2	★★
Firm salary/competitor salary ratio	Financial	General	Org-spec	1	5	L	2	★★
Incentive compensation differential (low vs. high performers)	Financial	General	X-industry	4	4	M	2	★★
Average differential in merit pay awards between high-performing and low-performing employees	HCM	(OFR)	X-industry	5	4	M	1	★★
Overall cost of promotion as a percentage of other costs per year	Financial	General	X-industry	3	2	M	2	★★
Benefit cost as a percent of operating expenses	Financial	General	X-industry	5	2	M	2	★★
Benefits costs as percent of payroll or revenue	Financial	General	X-industry	5	1	M	1	★★
Average merit increase granted by job classification and job performance	HCM	General	Org-spec	2	4	L	2	★★
Extent to which employees are rewarded for their desired behaviours	HCM	General	Org-spec	2	4	L	3	★★
Extent to which the level of reward is appropriately matched with the level of accomplishment	HCM	General	Org-spec	1	5	L	4	★★
Percent of employees who report leaving for compensation reasons	HCM	General	Org-spec	4	3	L	1	★★
Reward administration process cycle time	HR-F	General	X-industry	3	1	M	2	★★
Administrative costs of benefits as a percent of total benefit costs	Financial	General	X-industry	5	1	M	2	★
Benefit cost per employee	Financial	General	X-industry	4	1	M	1	★
Percent of workforce that owns shares of the company's stock	HCM	General	X-industry	3	2	M	1	★
Percent employees whose pay is performance-contingent	HCM	General	Org-spec	4	2	L	1	★
Number of recognition awards	HR-F	General	X-industry	5	1	na	1	★
Percent of payment accuracy	HR-F	General	X-industry	3	1	M	1	★
Number of benefit plans	HR-F	General	Org-spec	5	1	L	1	★
Total benefits over total compensation	Financial	General	X-industry	3	1	L	1	★
Variable compensation rate	Financial	General	Org-spec	3	1	L	1	★
Rate of incentive premium/attendance premium	Financial	General	Org-spec	3	1	L	1	★
Ratio of highly incentivised workforce	HC	General	Org-spec	2	1	L	1	★



Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
Employee Relations & Communications								
Number of grievances/grievance rate	HCM	General	X-industry	5	4	L	3	★★★
Resignation rate	HCM	General	X-industry	4	5	M	3	★★★
Labour relations cost as a % of total HR budget	HCM	General	X-industry	4	4	H	2	★★
Employee relations cost per employee	Financial	General	X-industry	4	3	H	2	★★
Cost per arbitration	Financial	General	X-industry	3	1	M	2	★★
Staff suggestion rate	HC	General	X-industry	3	3	L	1	★★
Staff suggestion success	HC	General	Org-spec	2	3	L	3	★★
Voluntary turnover rate compared to industry	HCM	General	Org-spec	1	3	L	3	★★
Number of informal complaints per employee	HCM	General	X-industry	3	3	L	1	★★
Extent to which information is communicated effectively to employees	HCM	General	Org-spec	2	4	M	1	★★
Extent to which the average employee understands how his or her job contributes to financial results (e.g. profitability and shareholder value)	HCM	General	Org-spec	3	3	M	3	★★
Extent to which the senior executive team is seen by the workforce as effective in communicating a mission and vision	HCM	General	Org-spec	4	2	L	1	★★
Number of grievances resolved prior to arbitration	HR-F	General	X-industry	5	2	na	1	★
Percent of women and minorities in senior management	HC	General	X-industry	5	1	H	1	★
Percent of employees making suggestions	HC	General	X-industry	1	2	L	1	★
Selection ratio of a minority group compared to that of the majority group	HCM	OFR	Org-spec	5	1	L	1	★
Number of employees who participate in special awareness training programs on non-discrimination, diversity training, etc	HCM	(OFR)	X-industry	5	1	na	1	★
Frequency and quality of employee survey and feedback	HCM	OFR	Org-spec	3	2	L	1	★
Consistency and clarity of messages from top management and from HR	HCM	General	Org-spec	1	2	L	1	★
Number of arbitrations won	HR-F	General	X-industry	5	1	na	1	★
Response time per benefit information request	HR-F	General	X-industry	3	1	na	1	★
% of staff with recorded IT qualification	HC	General	X-industry	3	1	L	1	★
Health & Safety								
Sick days per FTE per year (absence rate)	HCM	VBHR/OFR	X-industry	5	5	M*	3	★★★
Incidence of injuries	HCM	VBHR/OFR	X-industry	5	4	H	3	★★★
Number of stress-related illnesses	HCM	General	X-industry	4	4	M	3	★★
Cost of HR-related litigation	Financial	General	X-industry	4	3	M	1	★★
Absence cost per FTE	Financial	General	X-industry	3	3	M	2	★★
Lost time due to accidents	HCM	OFR	X-industry	4	2	H	1	★★
Lost time per incident	HCM	General	X-industry	3	2	M	2	★★
Number of safety training and awareness activities	HR-F	General	X-industry	3	3	na	1	★
Total H&S costs per FTE	Financial	General	X-industry	3	1	L	2	★
Preventative/rehabilitation costs per FTE	Financial	General	X-industry	3	3	L	2	★

* Adoption of standardised definition/template would improve level of rating



Metric	Domain	Reference	Application	Collatability rating	Usability rating	Comparability rating	VB-HR™ Level indicator	Overall rating
HRIS & Measurement								
Total HR investment/revenues	Financial	VBHR/General	X-industry	4	4	H	2	★★★★
Employee engagement survey scores	HCM	VBHR/OFR	X-industry	4	5	H	3	★★★★
Productivity gains through use of HRIS (£ and response time)	Financial	General	Org-spec	2	3	M	3	★★
Workforce cost as a percent compared with industry index	Financial	General	Org-spec	2	4	M	1	★★
Sales per employee	Financial	(OFR)	X-industry	5	3	L	2	★★
Number of customer complaints resolved satisfactorily	HC	General	Org-spec	3	3	M	1	★★
Average employee tenure	HCM	General	X-industry	3	4	L	1	★★
Employee commitment survey scores	HCM	(OFR)	X-industry	3	3	H	1	★★
Measures of cycle time for key HR processes by level of customer satisfaction	HR-F	General	Org-spec	2	2	M	2	★★
Report/output timeliness	HR-F	General	Org-spec	5	1	na	1	★
FTE headcount by gender in HR	HR-F	General	Org-spec	5	1	na	1	★

Payroll								
Processing cost per benefit transaction	Financial	General	Org-spec	3	2	L	2	★★
Payroll expense per employee	Financial	General	Org-spec	4	1	L	1	★
Accuracy of personnel records	HCM	General	Org-spec	1	1	L	1	★
Payroll administration accuracy/timeliness	HR-F	General	X-industry	2	1	M	2	★
Costs per payslip	Financial	General	Org-spec	2	1	L	2	★

HR Service Centre specific								
Call effectiveness, e.g. number of repeat inquiries, repeat investigations (HRSC)	HC	General	Org-spec	3	3	L	2	★★
Phone queue time (HRSC)	HR-F	General	X-industry	4	1	M	1	★
Calls per day (HRSC)	HR-F	General	X-industry	5	1	M	1	★
Rate of inquiry resolutions within 48 hours (HRSC)	HR-F	General	X-industry	4	1	M	1	★
Voice mail response time (HRSC)	HR-F	General	X-industry	4	1	M	1	★

There are many Service centre 'operational' metrics which have call centre characteristics, of which a sample is presented.



Appendix III

VB-HR™ dedicated website

A dedicated website, www.vbhr.com, has been developed to provide a 'reference portal' to the Rating system and its outputs.

A screenshot of the homepage is reproduced below for reference.





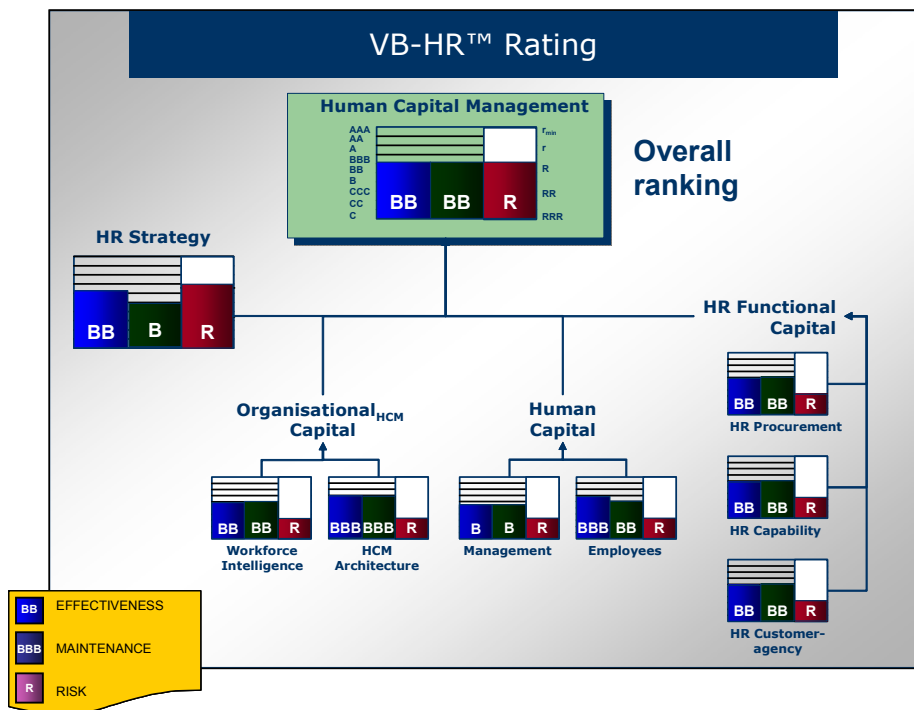
Appendix IV

VB-HR™ reference

Overall VB-HR™ Rating

For ease of reference, the overall VB-HR™ Rating output is presented below, illustrating how each of the eight value drivers is allocated a rating on the three dimensions of Effectiveness, Maintenance

and Risk. These ratings are aggregated into the overall ranking for Human Capital Management within the overall organisation (or relevant division).



The intellectual rigour behind the VB-HR™ Rating has involved over ten years research together with collated data/experience from over 200 client projects. We have researched over 1500 seminal journal papers and reports stretching back over 40 years, covering

topics such as high performance work systems, employee engagement, organisational behaviour, leadership, value based management, performance measurement, financial economics, HR function effectiveness and outsourcing to name but a few.



Survey extract

The overall survey construct used to collate related data is structured into eight sections, each examining aspects of HCM within the organisation from a different perspective. This overall survey is utilised for HR completion of the survey, whilst a shortened format is utilised for line manager or non-HR completion.

One of the features of the VB-HR™ Rating system methodology is

the face-to-face meeting to complete the survey construct. This allows a VaLUENTiS practitioner to contextualise the survey for consistency of completion, and interpret where terminology or application may not be immediately apparent.

On average, the full survey has taken participants in the order of 25-40 minutes to complete, with a minimum of reference.

The following diagram shows an extract from the main survey construct.

VB-HR Rating QS Inventory 2005

Section B
Please answer the following data questions with the corresponding organisational perspective with which you chose in completing sections 1 through 7. Please use estimates where necessary (indicating with letter 'E')

1. What is your organisation's financial year end?
2. What date is your latest set of accounts?
3. Are these publicly available? (If not can access be gained?)
4. Are you a listed company? (Please state which Exchange)
5. Does your organisation have a website?
6. Annual turnover (in £/€/\$/¥/R\$/A\$/S\$/NZ\$/HK\$/C\$/IN\$/R\$/K\$/M\$/AU\$/N\$/S\$/Z\$/D\$/G\$/F\$/C\$/I\$/A\$/E\$/O\$/N\$/P\$/Q\$/R\$/S\$/T\$/U\$/V\$/W\$/X\$/Y\$/Z\$)

7. Please indicate the degree to which you believe to be true for your organisation:

The degree to which.....	Not at all	To some extent	To a moderate extent	To a large extent	To a great extent
A. Managers / team leaders encourage constructive relationships with people outside their immediate team.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
B. Employees have a good understanding of the organisation's values	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
C. Managers use available workforce data effectively when making decisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
D. Management make decisions as a team/manager	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

3.3 Please indicate the degree to which you believe to be true for your organisation:

The degree to which.....

A. Managers / team leaders encourage constructive relationships with people outside their immediate team.

B. Employees have a good understanding of the organisation's values

C. Managers use available workforce data effectively when making decisions

D. Management make decisions as a team/manager

3.4 Please indicate the degree to which you believe to be true for your organisation:

The degree to which.....

E. Managers staff's confidence in the overall view of your management population from the perspective of competence and confidence in the following areas:

- Managing people/teams
- Performance management
- Absence/Discipline/grievance matters
- Insight/sounding/knowledge of HR legislation
- Understanding of reward/recognition principles
- Coaching
- Recruitment interviewing
- Communication techniques
- Decision-making

The following three graphs show typical distributions of management populations together with associated explanations.
DIB Competence is used here in its correct terminology as threshold high competence in terms of skills and has no relationship whatsoever to performance for this exercise)

Graph 1: The distribution of managers is relatively normal with a vast majority clustering around the average with as many who are competent/confident in HCM as not. There is a smaller number of highly competent (at one end) and novices (at the other) but similar numbers at each end.

Graph 2: The distribution of managers is skewed positively, i.e. there are a higher number of competent/confident managers than there are less competent.



Methodology

The VB-HR™ Rating contains the following core technical features:

- The data model consists of 93 HR sub-activities (inputs) categorised by 10 activity domains, individually linked to 3 outcome dimensions (EMR) and 8 HCM value drivers creating a 3-dimensional matrix with nearly 22.5 million permutations.

- Each sub-activity additionally has a further 3-dimensional weighting termed its 'OCF' factor in calculating the score.

- The survey construct provides over 3000 data points to populate the various data engines.
- A further 2-dimensional outcome analysis of each HCM value driver is undertaken to provide a complementary perspective prior to the awarding of the overall rating.

Data privacy

Given the nature of the data, the question-statements relate to information that is highly specific to an organisation. Accordingly, all data supplied will be held securely within the confidential VB-HR™ database, and will not under any

circumstances be released to third-parties outside VaLUENTiS without prior consent. VaLUENTiS will utilise the data only to generate reports for the organisation or individual providing the specific data, and for high-level benchmarking at the aggregate level only (i.e. not at the level of specific question-statements).



Appendix **V**

VaLUENTiS client related services

Organisation Effectiveness

Measurement

Human Capital Management

HR Function





ORGANISATION EFFECTIVENESS

Organisation capabilities: we use our unique OC tool to assess the capabilities of the organisation and/or specific business units, linked to value creation. This evaluation exercise can be used in conjunction with scorecard design and/or corporate performance management exercises to enhance current/future performance.

Organisation design: we provide guidance to clients on design issues regarding organisation structure, roles, teamwork, reward strategies, and integrating people practice initiatives to achieve measurable performance improvement.

Value-based change management (VBC): we apply our innovative value based change methodology to assist clients in business transitioning either as an exclusive discipline or as part of other implementation solutions. Our extensive inventory provides flexibility in application combining both 'hard' and 'soft' approaches in an integrated fashion including the following areas: strategy clarification; communication; programme management; soft system mapping; options design process; implementation planning; organisational driver engagement; risk assessment; and measurement.

Value-based management development (VB-MD) programmes: we provide both design and delivery of integrated management development programmes through our '*Licence to Manage*' portfolio, that enhance business performance together with associated measurement frameworks.

VBM implementation support: we provide this for the introduction of value-based management to an organisation. Too often, VBM implementation resides at the top echelon rather than permeating through the whole organisation, resulting in a limited realisation of the benefits. We apply a number of approaches to effect an organisational transformation and thus a base for sustainable VBM benefits.

MEASUREMENT

Employee engagement surveys: these are designed to measure employees' levels of engagement. There are 4 standard benchmark designs (20Q, 30Q, 40Q, and 50Q) which populate our employee engagement index across the five domains and used to track the changes in employee perceptions and behaviours in relation to the business and its impairment on human capital performance (20Q, 30Q, 40Q, and 50Q are incorporated within VB-HR™ Rating).

HCM scorecard design: we provide a structured approach to HCM scorecard design (and re-design) projects which provide clients with working measurement frameworks. These can be individual

projects or part of other measurement projects or wider HR programmes.

Human capital reporting HCR™: we provide a structured approach to reporting human capital. We look at both external and internal reporting requirements of HC/HCM for the particular client organisation, recognising the need for both perspectives (output of VB-HR™ Rating).

Human capital risk: HR risk measurement projects normally form part of other measurement projects but can also be executed on an individual basis where clients require particular risk based assessments in terms of human capital (derivative of VB-HR™ Rating methodology).

Human capital value measurement: these projects provide organisations with working human capital value models that link corporate value with human capital. A suite of metrics can be developed, customised to the individual client circumstances that can be fed into a wider HC reporting template and/or corporate scorecard.

Intangible valuation modelling: we provide our unique measurement methodology (Organisation Resilience/IC Rating™) to provide organisations with a comparative value picture of their intangible assets, leading to an advanced VBM scorecard design.

Value driver/tree models: we apply structured methodologies to construct value and cost driver business models and their respective metrics trees to help management and employees understand and focus on their respective contributions. We also provide diagnostics and structured methodologies (troubleshooting) to investigate performance measures and metrics issues which block organisational performance.



HUMAN CAPITAL MANAGEMENT

HCM investment/business case generator: the VB-HR™ Rating diagnostics, associated metrics and output are also used as a means to assist in generating robust business cases for HCM investment and interventions, particularly where outsourcing is involved. A derivative service can provide evaluative benchmarking for current outsourcing arrangements (derivative of levels 1 & 2 VB-HR™ Rating).

HCM audit: the HCM audit is designed to measure the effectiveness of HR activities and their contribution to the business. This in-depth evaluation will provide a basis for benchmarking for corporate HCR reporting purposes (derivative of level 3 VB-HR™ Rating).

HCM due diligence: the HCM audit can also be used as a means of an in-depth assessment of HR performance, its impact, and associated risks and costs (derivative of level 3 VB-HR™ Rating).

Performance management effectiveness (VB-PM): using our performance management inventory, we assess the effectiveness of an organisation's performance management and its integration with related HCM architecture exposing any actual/potential value destroying misalignment and providing value-enhancing solutions.

Rewards/benefits optimisation assessment (RBOA): RBOA measures the degree to which organisations' remuneration programmes/reward elements has the greatest impact on employee acquisition, development, retention and performance; providing alternative-use options to maximise effectiveness.

HR FUNCTION

HR strategic option/routemap device: the VB-HR™ Rating diagnostics and structured methodology can be used as a means of providing strategic options for the organisation/HR function to pursue for improving organisational performance, delivered as a route-map based implementation programme (derivative of levels 1 & 2 VB-HR™ Rating).

HR cost reduction programmes: we conduct HR cost reduction programmes using our proven approach. We recognise that these programmes can be undertaken in various guises that are part of other programmes and our multi-faceted offerings provide flexibility in execution (done independently or in conjunction with the VB-HR™ Rating).

HR delivery effectiveness: these programmes assess the effectiveness of HR delivery whether in traditional delivery structures such as shared services, business partnering and/or centres of excellence, or within the new VB-HR™ delivery framework (done independently or in conjunction with the VB-HR™ Rating).

HR functional value cost activity analysis: we undertake these various analyses on behalf of clients to provide a breakdown of the various activity/value/cost perspectives into informative based actions to increase efficiency/effectiveness/value creation (derivative of VB-HR™ Rating methodology).

HR process value analysis: we assess the various end-to-end HR processes in terms of their effectiveness and value contribution and provide recommended improvements (derivative of VB-HR™ Rating methodology).

HR shared services: we provide a variety of assessment/implementation tools with regard to HR shared services whether constructing the base business case, designing delivery structure options or implementing a shared service/centre of excellence model (derivative of VB-HR™ Rating methodology).

VB-HR™ capability profiler: our approach using our unique VB-HR™ capabilities assessment tool measures the capability of HR as a function in its capacity to deliver value to the expectation of the business.

VB-HR™ transformation programme: this provides a comprehensive, structured approach enabling HR functions to transition themselves to a HR business unit employing VB-HR™ principles and measurement.

NEW HR Outsourcing/vendor procurement 'value evaluator': A derivative service from levels 1 & 2 VB-HR™ Rating which can provide evaluative benchmarking for current outsourcing arrangements.



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