

The Value of Human Capital

RCC

Design and Communications for HR

July 2003

Caledonian House, Tatton Street, Knutsford, Cheshire WA16 6AG.
T +44(0)1565 621118 F+44(0)1565 626790

Contents

Situation

Background

Why it is Important

Organisation Commitment

What Makes a Great Brand

Why Branding is Important

The Benefits of Branding

Measures of Success

Situation

A central element of any business strategy is to raise the capability of the people to create a high performing organisation able to compete successfully with FTSE 100 companies. The purpose of this piece of work is to show how HR can assist in raising performance, particularly in the area of resourcing, which is key to any organisations' HR strategy.

Objectives

- The right people
- In the right jobs
- At the right time

Implications

The right people:

- Attracting high calibre people at all levels
- Having effective selection processes which ensure that you employ the best, available people
- Ensuring that induction and training & development processes are in place to enable your people to reach maximum performance level as quickly as possible

The right jobs:

- Ensure that jobs are designed, evaluated and priced to meet the company's needs now and in the future
- Ensure that the organisation structure mirrors the business processes

The right time:

- Ensure that the resource plans and succession plans are up to date and that supply of people meets the organisation's demands
- Resource planning should be forward looking and match business needs

Attracting the right people – the vision

Define and communicate the employment brand.

Caledonian House, Tatton Street, Knutsford, Cheshire WA16 6AG.

T +44(0)1565 621118 F+44(0)1565 626790

It is important that employees fully understand the company culture, values and business objectives so that they can share the goals.

The recruitment message communicated to potential employees should embody the culture, values and goals of the organisation. It is only the start of the relationship with a recruit and should run through every form of communication during their employment with the company.

Strategy

To create a single proposition, applicable internally and externally, that is leveraged from, and linked to, the business goals.

It needs to be relevant to the key behaviours and supported by pillars of the benefits to the various target audiences (customers, stakeholders, employees and suppliers). These pillars need to be underwritten with hard evidences of the Company offering.

From here we can build a look, feel and tone of voice.

Background

Increasingly, city analysts are looking at the value of human capital on the balance sheet and the contribution HR strategy makes to delivering the company's business objectives.

No matter how a company competes on price or product range, there are other companies who can deliver choice to the customer. So how you differentiate yourselves is achieved through the people you employ.

So why is it that in any company's annual report there is the usual statement on people being the most valuable asset and a few lines on how they are managed and developed whilst the greatest part is dedicated to executives' rewards and company financial performance.

So how do we measure human capital value and why?

Firstly WHY?

Businesses have come to recognise the importance of attracting, retaining and developing individuals who can meet and improve standards of customer service. These individuals are confident, out-going people who naturally provide outstanding service and are key to the future success of any business.

This is only one side of the coin. The other is employee engagement.

Employee satisfaction is simply not enough. According to Sue Hayday, Research Fellow, Institute from Employment Studies, points out that pioneering employers are coming to understand the need to rethink what they measure. As a result, commitment, which is sometimes translated as engagement, is increasingly becoming the focus of HR attention.

Case Study 1.

Using data from 65,000 employees and 25,000 customers of a major retailer, it was found that employee commitment had a higher correlation to customer satisfaction than employee satisfaction.

More importantly, commitment has doubled the impact of employee satisfaction on customers' future spending intentions. A one-point increase in employee commitment led to a monthly increase of £200,000 in sales per store and reduced absenteeism.

So what is commitment?

Commitment has several components: compatibility and communication of values, pride in the organisation, loyalty, job satisfaction and feeling fairly rewarded. Understanding and improving commitment is the key to maximising bottom line performance.

Case Study 2.

B&Q have launched an employee engagement programme claiming that the company will save around £3 million a year in absenteeism and around £2.5 million a year in recruitment. Having measured employee engagement throughout the stores via staff surveys and mystery shopper exercises, they are now seeking to raise the level of employee commitment to the level of their best stores. This will see a rise in profits of around £24 million.

Mike Cutt, Personnel Director for B&Q, says, "Measuring and quantifying employee engagement is a great opportunity for HR to prove its worth."

Case Study 3.

Tesco has taken a slightly different tack and realised that they knew more about their customers than their staff. They have also acknowledged that there is no such thing as an average member of staff. Instead they have identified five categories of worker – want it all, live to work, work to live, pleasure-seeker and work-life balancer. They are now developing 'what's in it for me' solutions for each category.

They are also surveying staff twice a year to identify a link between good staff morale and other areas such as retention, attendance and productivity per square foot.

Organisational Commitment

There are companies who have strong values and an inclusive culture, others who have one of these aspects and some that have none. The ideal is to have something that customers, suppliers, shareholders and employees understand and is meaningful.

It is then down to the individual companies to define what 'good' looks like to each of these audiences and the types of behaviour that ensure the values are part of the everyday working life. These behaviours need to be exercised from the top down and have been measured as making a real difference to employees' attitudes. Too much freedom is given to leadership style.

In some organisations, looking at the desired behaviours has led to revisiting competence profiles of their line managers. This includes London Underground and Selfridges. For other companies like Tesco, then their evidence shows

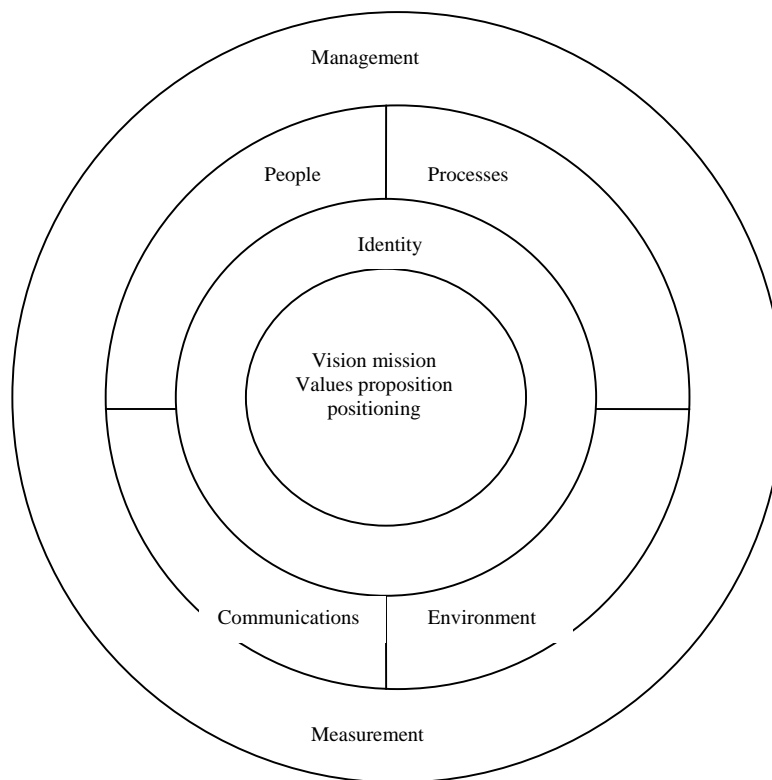
marked variations in the financial and operational performance of stores where there are differences in how each store management team treated its staff.

What makes a great brand?

A great brand is everything a company does and everything it says.

It is not simply a name and a logo.

The model below defines all the elements of a brand, both the visible and behind-the-scenes parts, and what they mean for how the brand thinks, speaks, looks and acts.



Great brands connect with something inside people at an emotional level.

Nike connects with the desire to be spontaneous and achieve great things – just do it.

Virgin connects with the feeling that people deserve a fair deal. It's perceived as being maverick and entrepreneurial.

Selfridges are no longer the 'Are you being served?' sitcom but have relaunched themselves as a store of the next century.

Co-operative Bank has connected with the ethical and ecological members of our society by delivering an ethical approach to profitability.

B&Q has established its own foothold in customer service and established a strong diversity rule that it lives and breathes much to the advantage of its customers.

Why branding is important

A brand seeks to engage and persuade its audience of its vision, mission and approach to service. It engages and persuades through the heart rather than the head by leveraging an emotional connection with individuals.

Branding does not act like a magic wand. It will not work without continuing efforts to match the offer with the deliverables.

The benefits of branding

Internal benefits

In an organisation that encompasses a myriad of activities and different types of expertise and that has goals and processes to match, a brand vision, mission and values provides a common purpose around which all employees can unite and focus.

If the meaning of the brand is communicated properly to staff, it can result in motivated and proud employees, sense of direction and belonging, strengthening of existing culture and a platform for performance management.

It also improves retention rates by ensuring less leave for the wrong reason, more leave for the right reason, acts as a shock absorber during change, reduces recruitment costs and retains those who fit.

External benefits

From an external point of view, the brand can connect with people in a way that is over and above the functional service that A company delivers.

A strong brand also appeals to third parties and can attract alliances and new initiatives. This is the equity of the brand.

Measures of success

Employee performance

The government has set up a task force to measure the effects of human capital management on company performance. The results of which will hopefully be published in the next couple of months.

This report is looking into the size and composition of the workforce, including age, gender and ethnicity; employee motivation, including turnover, absenteeism, views; training and development – in particular the match between skills acquired and business objectives; remuneration and fair employment – looking into the approach to pay and incentives.

When it comes to measuring employee performance, then the primary indicators are:

- Market capitalisation per employee
- Revenue per employee
- Profit per employee
- Value-added per employee
- Sales per employee

Secondary indicators are:

- Unit productivity per employee
- Measures of customer satisfaction
- Measures of employee commitment

Company performance

Many companies have taken to adopting the balance scorecard method of achieving and measuring culture changes.

Tesco is one such company who has identified people, finance, customers and operations as the four quadrants each store is measured against. Each quadrant breaks down into a number of performance objectives. The people quadrant includes recruitment and retention, employee development and morale,

The importance is placed on knowing your objectives from the top down and across every possible deliverable. Everyone knows what they are working to, why and how it fits into the bigger scheme of things – the overall business objectives and direction of the company.

HR performance

Example recruitment metrics might be:

Recruiters

- 100% vacancies signed off before being actioned
- 100% CVs reviewed within 2 days of submission
- All managers to interview within 5 days of request
- 100% offers to be made and signed off within 24 hours of interview
- Recruitment supporting systems availability 99%

Hiring Managers

- 3 CVs per role
- 2 interviews per hire
- 100% vacancies filled by deadline
- Salary costs +/- 5% of target
- No leavers within 12 months of employment

HR

- 100% equal opportunities required data trapped
- 100% references obtained prior to offer
- 100% recruits start on scheduled day
- 100% recruits through induction within two weeks of joining

Marketing

- Company viewed as 'Employer of Choice'
- 100% of collateral branded appropriately

Board

- Recruitment management information reports delivered in timely and accurate manner
- Recruitment costs to budget

IT

- Database maintained to agreed level of currency and completeness
- Support limited to 5 hours per month

Suppliers

- Organisation viewed as employer of choice
- All vacancies received with full specification
- Feedback on all candidates within agreed timescales
- 100% invoices paid within 30 days

Recruit

- Speed of process
- Comparative quality of information
- Perception of company
- Professionalism of recruiters
- Quality of advert (if appropriate)
- Quality of agency (if appropriate)

Customer Satisfaction Summary

- As with all satisfaction surveys, perception is reality. If you believe you are working effectively but this is not recognised there may be a communication issue to be dealt with.
- Remember the maxim that a satisfied individual may tell one person, a dissatisfied individual will tell ten!