MEASURING UP
A GUIDE TO PEOPLE METRICS AND PERFORMANCE FOR THE CITY

People Performance
Organisational Benchmarking
HR Information Systems
Employee Engagement
People Data Analysis
Measures
Remuneration Planning
Diversity Monitoring
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Key Contributors of Knowledge and Written Content:

- **Caroline Buckley**, Employment Lawyer, Charles Russell LLP
- **David Clifford**, Managing Director, RewardPlus
- **Damian Docherty**, Formerly Senior Reward Manager at Lloyds Banking Group, now Ricoh Europe
- **Andrea Eccles**, Managing Director, City HR Association Limited (Editor)
- **Sian Evans**, HR Director, European Credit
- **Paul Holstead**, HR Regional Manager, CarVal Investors
- **Nick Hurley**, Employment Law Partner, Charles Russell LLP
- **Faith Jenner**, Director, Faith Jenner Consulting Ltd
- **Linda Linehan**, Managing Director, Abbeville Associates
- **Lindsay Pulford**, Regional PRD Manager, Europe, Standard Chartered Bank
- **Louise Redmond**, Director, Law Debenture Governance Services Ltd
- **Wendy Reeve**, HR Business Partner, Societe Generale
- **Carolyne Ruffle**, Director, City Pay Associates Ltd
- **Gerry Peyton**, Director of HRPlus, Squire Sanders (UK) LLP
- **Duncan Tompsett**, HR, ICAP
- **Rosie Warner**, Director HCM Business Development, Oracle
- **Stuart Woollard**, Director, Management Learning Board, Kings College London

Special Contribution:

- **Richard Barfield**, former CEO Spring Group Plc and Chair, ARC International Plc
- **Philip Broadley**, Group Finance Director, Old Mutual PLC
- **Michael Brooke**, Director Learning and Development, BNP Paribas
- **Clare Harding**, HCM Solutions Director, Oracle
- **Cindy Mahoney**, Director Global Talent Management, BlackRock
- **Otto Thoresen**, Director General, Association of British Insurers
- **Andrew Tinney**, Chief Operating Officer, Barclays Wealth and Investment Management

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**Please note**: The views expressed by all of those who have contributed to this best practice guide are given in good faith and does not always reflect the views, experiences or practices of their organisation. This booklet has been devised to help employer members of the City HR Association to consider those People Metrics which are relevant to their own organisation. However, organisations should seek guidance from their professional advisors to ensure compatibility with their existing procedures.

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INTRODUCTION

The desire for more HR information is gathering momentum as people issues take higher precedence on the board and organisations become more sophisticated in the way that HR metrics are used. This creates a real opportunity for HR to ‘make its mark’ at Board level, not only by collating key data, identifying trends and aiding decision-making, but by providing internal intelligence and external comparisons on human capital trends, costs, performance, risk and talent strategies which can in turn underpin the success of highly competitive businesses.

In this City HR Association best practice guide, HR Directors, HR Specialists, Employment Lawyers, Human Capital Information Technologists and Market Experts consider the growing trend for more HR information and the reasons behind it. The research team takes into account the size, business and complexity of the organisation, the rationale for needing to analyse and report specific types of HR data and where the organisation sits within its business or life cycle (whether this be in an upturn or downturn relating to its fortunes). The team also looks at the requirements of different stakeholders.

Most importantly, the research also explores the applications of the metrics being sought, the insights to be gained from such data and how the explosion of data requirements can be better harnessed for the benefit of different stakeholders by the best use of technology.

Against this backdrop, is the need for HR to be circumspect about the information required and reported. Each organisation needs to identify the measures that add value to the operational efficiency and success of their firm and which may, in turn, lead to the recognition of the performance of the HR function. Therefore considerable attention is given within this guide to who are the key stakeholders, what do they need and why. Consideration is also given to the legal framework in which such information is used and Chapter 4 fully explores this area.

HOW TO USE THIS GUIDE

One of the most important features of this best practice guide, is the classification of HR metrics into three zones which have been named the red, amber and blue zones. Each zone can be described as follows:

The Red Zone

Historically, at the most fundamental level, HR metrics have been used by organisations to hold crucial employee information, to comply with statutory and regulatory requirements and for the administration of pay and benefits. This has included the assimilation of employee data for the annual salary and bonus plan, in most cases linked to employee performance data. In times of cost-cutting, the headcount report becomes a key focus of attention by the finance function, whilst HR considers talent management measures such as the attraction, retention, development and attrition of staff. In compiling this guide, HR metrics guidance has been given for issues that are fundamental to employee record-keeping, HR function performance and for board decision-making.
**The Amber Zone**

Moving from the fundamental level to more mainstream is the desire for HR metrics relating to absence, sickness, reasons for attrition and any reporting which can highlight issues, determine trends, reinforce best practice and identify unnecessary costs with the opportunity to redress the situation where feasible. Organisations in this category continue to recognise the benefits of exceeding their minimal reporting duties and are now looking to add-value by using HR Metrics to inform their stakeholders of trends and insights.

At this level, the emphasis is on measuring efficiency and impact. Taking Talent Management as an example, HR metrics would involve how talent is attracted and at what cost; regular employee engagement monitoring and the effect this has on retention, productivity and profitability and how talent is developed within the organisation, both in terms of the identified top talent pool, and the wider population.

Diversity also makes a large impact on talent management as well as underpinning the values of the organisations with regard to trust and respect. Organisations regularly measure and assess that internal policies are being applied fairly and appropriately particularly in terms of equal pay, resourcing and succession planning, training opportunities, personal development and promotion and the like.

Moreover, engagement surveys – or staff satisfaction or attitude surveys of old – seek to affirm that employees are generally happy with their lot ranging from their understanding of corporate values and company strategy through all facets of human resources and culminating in their relationship with their line manager. This data, along with external benchmarking of employee remuneration and HR policies, provides a snapshot of how the organisation stacks up against a wide range of issues against external comparators, usually aligned to specific markets and peer groups.

Finally organisations also look at HR efficiency measures. This could be the time it takes on average to fill posts within the organisations, or the effectiveness of the implementation of certain HR initiatives such as outsourcing a particular task or function or improved attendance and productivity statistics emanating from a new Wellbeing Programme.

**The Blue Zone**

For some large organisations, this is a new phase in corporate analytics and Board level decision-making but for others this is aspirational which is why it has been referred to as blue-sky thinking in formulating the zone classifications. In this zone there is an equal emphasis on collating and analysing internal metrics and then contrasting these with external activities – either through benchmarking and norming against industry, market or profession standards aligned to competitor or peer groups – or by paying closer attention to competitor practices through public information, not least of which is the Annual Report.

The emphasis here is not only on the range and depth of information but to facilitate more sophisticated data analysis to improve decision-making from the Board down but also to facilitate some perspective on the positioning of the organisation regarding certain activities. At this stage, the HR metrics are classified “influencing and direction” and are used to help drive the strategy of the organisation.

Looking first at internal metrics in this zone, these include talent assessment such as leadership development measures relating to the identification of next generation leaders and future workforce planning aligned to the needs of the business. It also includes the identification and assessment of employee risk through individual behaviours and values and the probability of these having adverse consequences. An evaluation of the impact of HR programmes on organisational effectiveness is also often a consideration in this category.

However, sophisticated firms are also considering external metrics to assess their rank in the market against their peers. This could include brand awareness exercises at University Campus to see whether undergraduates understand the nature of the business and are likely to be attracted to a particular firm. It could also include measures contained in the annual report such as those relating to sustainability or to the number of women making progress in senior management positions up to, and including, the Board. Certain enlightened companies may assess the competition further by looking at cultural and environmental statements in the Annual Report which may enhance employee or customer attraction and therefore will provide a useful insight on how the organisation can align itself against its competitors.
KNOW YOUR AUDIENCE

Earlier in this introduction, it was acknowledged that the extent of metrics required depends on the size, business, complexity and sophistication of the organisation and where it is in its business or life cycle. Clearly, an organisation that is going through a “boom” relating to its products and profitability will have different needs to one that is consolidating, due to a downturn in its fortunes or as the result of a merger.

However, this study found that it also very much depends on the target audience. Specifically: who needs the information, why do they need it and what added-value can be provided by the metrics presented. Here is one view expressed during the research phase of this publication.

“The City HR Association does not advocate ‘metrics for metrics sake’. Rather is it believed that HR needs to understand the aims of the person requesting the information, how the information will be applied and what future tracking of these metrics might be of benefit to the organisation or to those individuals working for the organisation.

DEFINITIONS

Words such as headcount, employee engagement and staff turnover sound simple enough, but there are lots of ways of defining or measuring these elements. Throughout this guide, the words HR Metrics are often used alongside the People Metrics. Why? Sometimes there is a difference between reporting on the issues relating to people (eg absenteeism, numbers hired, employee turnover) all of which relate to individual people versus the measurement of Human Resource efficiencies such as the ratio of HR staff to the population that they serve, which relates to the measurement of the function itself. Most of the time, the two are interchangeable, which is the approach taken in this publication, but there has been an occasional need to be more specific.

A special section on ‘Definitions’ follows this Introduction so that organisations can align themselves to the meanings and measurements which are most effective for them.

THE AGE OF TECHNOLOGICAL ADVANCEMENT

It became very clear during the research phase of this guide that the degree to which an organisation can collate and analyse metrics and the sophistication of their reporting was down to the range of the information stored, the data storage and maintenance method and the ability to interrogate this data.

For many small organisations, data is kept on spreadsheets. Larger firms have market-leading HR Systems which can produce real-time information and provide pre-approved levels of information to the manager and employee alike. Oracle, a leading global provider of Human Capital Management Systems, has contributed a chapter to address the growing capability of HR systems in supporting HR metrics.

In summary, it is hoped that this guide will help HR practitioners to address the right type of metrics to the right stakeholders in a way that supports or adds-value to the performance of HR, the business and the individual.
In this chapter, Stuart Woollard of Kings College London, looks at what different words mean to different organisations and the impact that this can make on the people metrics being collated and analysed.

The ways in which organisations define HR metrics vary considerably. Indeed, there are often a number of different definitions used within most large organisations relating to fundamental HR metrics such as “headcount”. Consistent definitions are however, of critical importance as they form a foundation for the generation of high quality data that is necessary in creating added value management information. Definitions can vary based upon a number of key challenges, including:

- **Size and nature of growth** – large organisations that have grown through merger and acquisition may face complex challenges with integrating systems, definitions and data set up in very separate entities.

- **Business division** – diversified organisations which have a wide variety of business interests and self-autonomous business divisions, may find it difficult to define key metrics that can be universally applied across the group.

- **Business function** – the acceptance and correct use of definitions may be easier to enforce in certain business units. HR business partners for instance will likely be more able to apply definitions that are communicated to them from group level HR, to whom they are directly reportable, rather than those which may originate from finance or another business unit.

- **Legal frameworks** – for international organisations certain legal jurisdictions may prevent the reporting of data around metrics such as age or ethnicity. Similarly, what may constitute a full-time worker in one country may legally be classified as something different in another.

- **Geography** – there are challenges associated with developing a cohesive, recognised set of definitions that can be applied across borders. Differences in language, culture and integration may impede the widespread adoption of centrally defined metrics.

The collection of data around something which is seemingly simple within head office may prove to be a highly complex undertaking at a group-wide level, where the issues and challenges of enforcing accuracy and consistency become more demanding as the scope and scale of operations increase. It is therefore imperative that organisations invest sufficient time and resource in developing and implementing an accepted framework that is suitable for widespread roll-out.

The following section identifies some of the key metrics which organisations often attempt to measure and which are typically seen as important from a data perspective. It highlights why the definition has importance, areas where definitions may be subject to misinterpretation, and what can be done to mitigate the risks associated with inaccurate reporting.

**Headcount**

Headcount is a fundamental HR metric and has huge significance when used in conjunction with other key measures (e.g. to generate ratios) such as employee cost, productivity metrics and other business performance indicators. An accurate representation of headcount is also of key interest to finance and decision makers, in addition to being a legal requirement for annual reports of publicly listed companies. It is therefore critical for organisations to ensure that one definition is utilised across the entire group to generate high quality, credible data.

To ensure a high level of consistency, HR functions need to embed a standardised definition of headcount across the business. Organisations must be very clear as to which categories of worker are included and which are not in their own definition. Below is a non-exhaustive list of some of the types of employee that may present an issue when an organisation is trying to measure the size of its workforce.

- Fixed term workers
- Part-time workers (e.g. when does a part-time worker become full-time and how do you categorise part-time workers?)
- Joint ventures
Once a decision has been made regarding what categories of worker are to be included in the definition of headcount, organisations should ensure that every effort is made to communicate this across the business. If the basic principles of headcount reporting are not adhered to, inaccurate figures for other metrics e.g. staff turnover and performance related metrics are likely produce a distorted picture. This could have negative consequences for the HR function where its ability for producing good management information may be undermined.

It is essential that organisations ensure clear, defined responsibility for definitions. As HR is generally the first point of contact for new hires and last point of contact for those exiting the organisation, it should take responsibility (as opposed to finance for example) for populating (or auditing) any system and maintaining an accurate, up-to-date record of headcount. Problems often occur when there is a lack of clarity over this very important issue and organisations should be mindful of any internal tension where different functions are seen to be vying for control over the data.

### Front Office versus All Other Categories of Staff

A regular term that is currently heard within Financial Service and City firms is that of Front Office staff. This traditionally refers to those employed in revenue generating positions within the organisations and examples of this in a bank would be traders, corporate financiers, structured finance staff, investment managers and client relationship managers. A similar principle applies to the world of insurance in the form of underwriters, brokers and reinsurance brokers. Whilst the definition of Front Office staff is not limited to these roles, it can be seen that the term applies to those who generate an income for the organisation. A later chapter in this book which looks at the metrics applied to Professional Service Firms would highlight this category of staff as Fee Earners.

There are multiple names for those that support the front office. For example, those who act as intermediaries in processing the transactions emanating from the dealing room in any product or currency are often termed the Middle Office. Those who settle the transactions are referred to as Back Office, whilst the functions that support the whole organisation – IT, Legal, Finance, HR and Facilities Management are referred to as Functional Staff.

To keep matters simple in this guide, the terms Front Office versus All Other Categories of Staff have been taken from the City HR Policies Benchmarking Survey, which is undertaken every other year. The All Other Categories of Staff encompassed the Middle Office, Back Office, Functional, Clerical and Secretarial populations so that senior management can see the impact of policies, costs or activities affecting its revenue generating staff against the non revenue generators in the organisation.

### Staff turnover (or attrition)

“The relationship between turnover and performance is likely to be the complex result of multiple contingencies and dependent on the institutional, organizational, and market context of firms and on how performance is measured. Despite theoretical ambiguities, however, the preponderance of evidence suggests that total turnover and voluntary turnover are both negatively related to operational performance.” (Batt & Colvin, 2011)

Losing people is clearly detrimental to an organisation's health and well-being. While some level of staff turnover can be good – for example; when poor performers are replaced with higher performers, or when leavers may become future customers or advocates of a business, or when firms can inject new thinking or creativity into long-standing existing teams or units - leavers typically generate costs for an organization. In some cases the departure of key staff can cause serious or even fatal damage to operations.

Staff turnover should firstly be defined according to the same category of worker that is included in headcount e.g. if Joint Ventures and insourced staff are headcount, they need to be recorded as turnover if they exit the organization. It is often important for many organizations to further breakdown and define sub-categories of turnover, enabling their HR functions to develop a better understanding of the collective reasons behind individual exits. In this case, for example, there may need to be a focus on making a clear...
distinction and definition between regretted and non-regretted turnover. For some organizations regretted leavers are classified as high-potentials and high performers, or those who were deployed in strategic roles. Other organizations may alternatively consider all voluntary turnover (resignations) as regretted. In the financial services sector a large number of organizations continue to directly associate regretted and non-regretted turnover with voluntary and non-voluntary turnover. However, it is important to define what this includes e.g. employees who are forced to leave but do so via a compromise agreement i.e. they resign, could be grouped as regretted turnover even though their real reason for leaving was given as non-voluntary.

**Absence**

It is important for organisations to consider the measurement of absence for two key reasons:

- Absence data is an excellent predictor of employee withdrawal and attrition. The disengagement of employees is often viewed as a process gradually leading to voluntary termination or involuntary performance related termination where an individuals' performance is managed. Levels of absence can therefore be used as a means of identifying underlying management and employee problems within an organisation.

- Absence is also significant from a cost perspective, in terms of both direct payroll costs and use of temporary staff to cover longer absences, but also in terms of the indirect costs imposed on the remaining team. Recent studies of presenteeism highlight how additional pressures resulting from absence can have a detrimental impact on wellbeing and team effectiveness. It is therefore crucial to understand and minimise absence from a business cost perspective.

There are a huge number of ways in which absence data can be categorised (or defined) e.g. vacation, maternity leave, time off for childcare etc. It can also be measured in terms of days off or by working time. Again, a decision on absence categorisation might be dependent on local, host country legislation or commonly adopted practices. However, HR functions are typically only concerned with unauthorised absence and should focus their efforts around identifying these. In this context, a definition around absence is of particular importance. For example, this could be defined as any unauthorised absence as a result of stress, sickness and the general degradation in an individual's mental and physical state that directly affects performance.

Absence levels in the following categories are some examples of ones that could be monitored and compared to ensure that certain populations of the workforce are not experiencing unnecessary levels of poor health which may require HR intervention.

- Critical illness
- Stress related sickness
- Hospitalisation leave
- Job related injuries
- Short-term sick leave
- Long-term sickness

**Employee engagement**

The importance of building an organisational culture that instils a sense of meaning in job roles in addition to encouraging self-worth and commitment amongst employees has been well documented, as have the benefits of an engaged workforce in terms of increased performance and profitability. Engagement, as a concept however is very much open to interpretation and can have a very different meaning from one organisation to the next. HR should therefore be very clear from the outset about how they define engagement in their own organization.

For example, in King’s College London’s 2012 State of HR survey it was found that organizations use a wide variety of measures, including the following:

- Commitment to the organization
- Identification with organisational values
- Intention to stay
- Job satisfaction
- Employee health and wellbeing
- Employee attendance
- Additional and discretionary job related effort
- Citizenship
- Positive mindset
- High energy and enthusiasm for the job
- Concentration and absorption in the job
- Organisational support
- Clarity of job role and objectives

It is evident from survey data that the notion of employee engagement is defined very broadly and a number of very different concepts are used by organisations in an attempt to quantify it. However, despite a range of varying definitions most survey respondents conceptualise and utilize employee engagement through a more traditional lens. Over 75% of those that measure engagement do so using measures of job satisfaction, organisational commitment and identification with values.

Surprisingly, significantly fewer organisations (around 33%) use engagement measures that include additional or discretionary effort, or organisational citizenship (working for the benefit of others or the organisation as a whole). Slightly more look at psychological attributes such as positive mindset (43%) or high energy and enthusiasm (51%) but less look at the idea of the extent to which an individual is ‘absorbed’ in their work and ‘concentrates’ in carrying out their role.

In this respect, it appears that most measurement of employee engagement is through re-using old concepts, and may even contradict how an organization defines it, i.e. there is likely to be a difference between how it is defined and conceptualised and how it is actually measured. In this sense, while all organisations recognize how important engagement is, most are not necessarily using it in the same way.

This has implications in terms of whether they are capturing credible and valuable data and to what extent it can be useful in informing HR strategies designed to drive engagement. It also has implications around whether such data can be used to identify key drivers of engagement within an organisation and performance outcomes, for individuals and organisations.
This chapter, by Damian Docherty of Ricoh Europe (formerly at Lloyds Banking Group), will examine some of the common types of reports that stakeholders expect to see and the way in which the range of HR data available can be presented so that it meets and preferably exceeds their expectations. It will cover the stakeholders in two main groups; internal and external. These are broad categories with a certain amount of overlap. It will also look at who needs the data, for what purpose and how further information might aid decision-making. For example, before a report is shared with an external stakeholder such as a regulator or a tribunal, HR would certainly want to make sure that the appropriate internal stakeholders understood the data to be presented. It will also look at the value that can be derived from working with the Internal Communications function before information is publicised to employees or the external market.

In these times of tightening costs, greater focus on return on investment and ever increasing scrutiny from third parties it is becoming ever more important for HR functions to be able to produce timely and relevant data that meet the needs of a growing number of stakeholders. This means that HR needs to be able to understand and to some extent anticipate the requirements of the divergent stakeholder groups who will be the audience for their data output.

Before examining the stakeholder requirements it is worthwhile covering some of the general elements of the information that is provided to stakeholders. The points below may seem like common sense, however they are worth repeating as while they are essential they are sometimes easy to forget when there is pressure to produce the data. So here are some issues that need to be considered:

- **Who is the audience?** Do you know the personalities of the people you are producing the data for? Some senior employees may be highly detail orientated, so you may have an amazing summary document, but the first thing they will do is ask for the supporting data. Other employees will just want the high-level points and assume if they need any more data you will have this at your fingertips. To manage this effectively, try to get hold of any reports you know that they liked; if possible discuss the layout they want to see, sketch it out if you can.

- **What is the story?** Every piece of data you provide is adding to or subtracting from a narrative. Make sure you know what the report is saying; are the points that need to be made standing out clearly. We have all been on the receiving end of a report that has left us scratching our heads wondering what it means; generally before we bin it and move onto the next urgent thing on our desk. On the flipside we have all seen a report that has delivered its message clearly and concisely. Whenever you come across one of these reports, keep it somewhere you can access easily. If you can, build up a decent reference library of reports you like, this will give you a great head-start when you need to produce your own.

- **Do I know my own data?** Otherwise known as you only get one chance to make a first impression. The more confident and comfortable you become with your data the more creative you can be; allowing you to put together reports that really make an impression, and that’s what this is really about. A note of caution though, if you are asked to provide a report or data-set and your system or data sources aren’t up to the task let the stakeholder know immediately; they do not want to become aware of the systems inadequacies on the day you deliver the report. If you are aware of system issues or data gaps, you don’t need to be negative in explaining the challenge, as long as you understand your data you can explain what you can provide and ways to address the gaps (now may be the time to ask for that eternally overdue upgrade).

- **Am I adding value?** When you produce a report you should always see this as an opportunity to sell your own and HR’s abilities to a wider audience. HR is a hub for an enormous amount of data that has business critical implications. HR is also generally staffed by experienced professionals who know their business areas. The combination of these two factors should allow HR to be at the front of the queue when it comes to informing debates about the overall business. It is all about being confident in your own knowledge, being comfortable with the data, and having an end product that underscores this rather than detracts from it.

- **Find out if there is someone who regularly prepares reports for the particular stakeholder you are going to be engaging with.** While it’s always useful to learn from your mistakes it makes life a lot easier if you can learn from others. Typically with the stakeholder categories listed below there will be someone in Finance or an MI team that regularly produces reports. As mentioned above, find out what reports are seen as successful, what templates do they use, the typical length of the report, etc.
INTERNAL STAKEHOLDERS:

Leadership / Finance Director / Chief Operating Officer

Looking first at the need for people metrics from internal stakeholders, here are some questions that need personal consideration.

Again, the critical element here is to know your audience. If you are not presenting the report yourself to the stakeholder/s, always try to identify at least one person who will be a party to the meeting or discussion about the report who can champion your work. This will enable you to engage with a member of the recipient group who can then help to mould the work into the right format. At some senior leadership meetings your data may only have a few minutes on the agenda so it is vital that it makes the maximum level of impact in the shortest amount of time.

In order to do this effectively, make sure that you know the business. Whatever information you provide to senior employees it will always be viewed through the prism of ‘what does this mean in terms of our goals’. For example you may be working for an organisation that is looking to reduce its staff costs, and on your report by business area there are two which show an increase in costs.

Before presenting the report you need to know why that is happening. It may be the case that these are growth business areas so the additional spend represents an investment that will have a medium term return but a short-term cost hit. The business area involved will need to justify the costs, but you should be able to provide context for them in your report. It could be that these are business areas that are being wound-down so the ratio of staff costs (which include termination payments) appears higher as the revenues for this area reduce. If senior employees from these areas are going to be attending the meeting or questioned about the report, engage with them beforehand. No senior colleague wants to be surprised or blind-sided by a question from a CEO or FD. Discuss anomalies with them in advance, as this will help to tighten up your report. On the back of those discussions you can add commentary which demonstrates your knowledge of the business and in addition you will have buy-in from those areas you talked to as they will feel some ownership as they gave you the additional information.

Another example of an anomaly in the data could be where you are asked to provide a turnover report, and the report shows a spike in a particular business area. Can you clearly articulate whether this is due to unexpected voluntary turnover which may be highlighting an underlying problem or whether it is part of the business strategy; they may have a low pay strategy and accept the potentially higher level of turnover as a consequence.

A list of some of the reports that may be required or you may wish to consider preparing for you senior internal stakeholders is included in Appendix 1.

Employees

There is a large variety of information within HR that can provide excellent opportunities to inform and engage with the organisations’ employees.

The starting point for providing any information to employees is to find out what they want to know. This can be done through formal (Unions, works councils, engagement surveys) or informal (ad-hoc feedback, employee complaints) feedback channels.

It can be very tempting for any function that is near the top of the data-management curve to provide a wide-level of information without necessarily checking to ensure that the information is useful or in a format that works. The best way to make sure it works is to check-in with a neutral group of employees that are the target audience. By neutral this means those employees not in HR, Communications or part of Senior Management. While you definitely need to obtain their views on the materials, never lose sight of who the customer is for this data. Again the key with providing the information is to keep it clear and concise. If you have some really important messages you want to get across do not let them get lost in a deluge of data; if required you can always provide supplementary information either as an appendix or available through some other means. Use a test group as a sounding board to understand what are the salient points for them and what presentation format will help to get that information across.
Good quality provision of data to employees can be an excellent engagement tool, it can also help to reinforce the organisation culture and values; and anything that is sent out to employees should be viewed in this way.

The primary challenge with providing data to employees is the accuracy of the information you hold on your systems. When you send out incorrect information to an employee you create a concern in the mind of that employee and they may inform their colleagues, line manager etc. damaging the credibility of the HR function. One way to manage this is by identifying data areas where you feel there may be a problem at the start of the process and going to the owners of the data and ask them to verify the information. This could involve the employees themselves, as they have a vested interest in getting their information correct as well. Always build in some time to allow for this kind of checking; if you are running up against a tight delivery time it is much better to kick yourself at the end of the process because the format was not quite how you would have liked than to find yourself on the receiving end of a barrage of emails from employees who do not recognise their information.

**EXTERNAL STAKEHOLDERS:**

**Regulators**

The majority of the information in this section relates to the Financial Services Authority (FSA). It is appreciated that this is obviously geared to the Financial Services sector. However their data requirements from a HR perspective can form a good model for information that Remuneration Committees and Shareholders at a wide range of companies may be interested in. Full details of the FSA reporting requirements are set out in their Handbook under Regulatory Processes.

The categories where the FSA will look for HR evidence and reports to show that companies are complying with its regulations are:

- Employees in positions of Significant Influence; this includes the senior decision makers within the company and the senior Audit and Risk employees. The remuneration for these colleagues will come under particular scrutiny with a particular focus on the fixed and variable components and how those components fit in terms of the risk drivers that may affect commercial decisions.

- Employees receiving any type of guarantee award. The view of the FSA is that these types of awards should be provided on a limited basis as a guarantee in effect breaks the link between pay for performance.

- Employees receiving a payment or award as part of a retention mechanism. The FSA will expect to be notified of any planned retention awards as part of the firm’s general return which outlines their remuneration plan for a given year.

- The FSA also looks to ensure that all deferred remuneration should be subject to a degree of claw-back. Where there are instances of misconduct or inappropriate selling which leads to the company and its customers being impacted then the company should consider whether claw-back is appropriate. In these circumstances a very clear and concise reporting process needs to be in place to demonstrate that all appropriate steps have been taken.

- Payment on termination. The FSA is looking for companies to be able to demonstrate that there is a framework in place to determine and explain the criteria for any termination payments.

As part of the FSA requirements all companies covered by the Remuneration Code need to be able to self-assess their compliance. This means that data collection and reporting based on the above categories plus any others that are deemed appropriate need to be accurately maintained.

In addition the FSA will seek evidence from companies which demonstrate the link between pay and performance.

While all of the above points are made in the context of the FSA Remuneration code, the ideas that underpin these reports will be of equal interest to the business in terms of managing and reviewing staff costs, shareholders, customers and the media.
Customers, Shareholders, the Public and the Media

The HR Metrics that can be developed for these groups covers a very wide area. Some of the categories where HR Metrics will be played out in public are:

- The levels of pay for senior employees
- The levels of pay in general for colleagues
- Equality related statistics
- The conditions of employment
- Recruitment information

During the course of 2012 there has been an increased focus by shareholders on Executive Pay and this topic is covered in more depth in the next chapter.

Furthermore, some organisations – particularly those tendering for business with local authorities – may decide to include people metrics in their annual report relating to involvement in their local community. For example, an organisation could describe its Corporate Social Affairs programme as:

43% of our employees were involved in local volunteering programmes, each of these providing – on average – 5.3 days per annum of support to local schools and community centres.

There is also an increasing trend for organisations to make similar statements in terms of their contribution to the environment or sustainability initiatives. One such example could be the involvement in local purchasing initiatives to increase prosperity and support employment in the local community. Another could be measures employed by the organisation regarding carbon emissions and their off-set against carbon footprint arising from international travel undertaken by staff visiting overseas locations.

When you are required to or wish to communicate with this group of stakeholders you need to make sure that you are in alignment with your communications team.

There is a growing trend within many organisations for HR and PR to work closely together to help manage the public perception of the business.

On the positive side this may come in the form of engaging with the media to publicise initiatives that are being undertaken. Such an initiative will require a good level of HR Metrics about the initiative which can provide talking points to build the article around.

On the other side, where a company is engaged in a programme of redundancies it is essential to have evidence and information that explains what steps it is taking to reduce the number of effected employees or providing assistance through outplacement programmes, etc. This information will be used for both internal and external communications.

In order to establish what HR Metrics may be required for the external audience you should arrange to have regular contact with your Communications team. This will help you to plan for what is likely to be coming up and define the Metrics you will need to have available in order to make sure your communications deliver the right message in the most effective way.
### HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES

<table>
<thead>
<tr>
<th><strong>RED</strong></th>
<th><strong>AMBER</strong></th>
<th><strong>BLUE</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum level</td>
<td>Added value level</td>
<td>Influencing and directing level</td>
</tr>
</tbody>
</table>

**The HR metrics and data that all organizations should maintain for statutory or base reporting reasons.**

**The HR metrics and data that all organizations should maintain to improve the integrity of data and decision-making.**

**The HR metrics and data that many organizations should aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making from the Board down.**

### THE KEY STAKEHOLDERS

- Who is the audience? The Board, Finance, HR, other?
- What story should these HR metrics tell?
- Know your own data well
- Understand why the metrics are needed and what decisions will be made
- Ensure that HR metrics meet compliance requirements.

For most financial service organisations, the Financial Services Authority (FSA) will want data and metrics on:-
- Significant Influence Function (SIF) Employees
- The limited number of guaranteed payment awards and the rationale
- Retention Payments, on a strictly limited basis
- Termination Payments
- Evidence of the link between pay and performance including the ability to make a claw-back

### THE KEY STAKEHOLDERS

- Does the data add value?

### THE KEY STAKEHOLDERS

- Find a Champion for your metrics and reporting, particularly if presenting to the Board, Executive Committee or an external source
- Liaise with the Internal Communications team on any HR metrics which may have a positive or negative message for employees or external sources.

### REFERENCES

1 The Financial Services Authority: www.fsa.gov.uk/handbook
CHAPTER THREE

PEOPLE METRICS FOR THE BOARD

This chapter, by Louise Redmond, Director of Law Debenture Governance Services, looks at the people metrics that a company board needs to fulfil its duties. It focuses on three key areas: the culture of the company; the quality of the talent pipeline and the extent of employee risk.

INTRODUCTION

Under UK company law (the 2006 Companies Act), the main board’s overriding duty is to promote the company’s success. Boards should also comply with the 2010 UK Corporate Governance Code (‘the Code’) which stipulates the good practice that boards should adopt in the way they go about their work. So, in looking at people metrics, it is important to consider what information the board needs to support this important legal duty and the Code requirements. If the company is not a UK registered company, for example, because it is a subsidiary of an overseas company, it is likely to be subject to another legal framework that will pose similar obligations on the directors. Boards of operating companies typically follow the practices of main boards perhaps less rigorously or thoroughly but the good practice principles are still relevant.

Fundamentally, a board of directors will need to ensure that the company’s strategy and operations are set to provide the optimum return to shareholders and wide stakeholder groups. Does the business model look correct for the markets served? Will the strategy deliver the returns needed? Have the risks been identified that could jeopardise results? Does the business have the capability to deliver the strategic objectives? Is the business being run in an effective and efficient manner? These are the questions on directors’ minds. The board will also ensure that various compliance activities from the financial statements, the external auditors’ comments, and regulatory requirements are in place – whether these derive from the Stock Exchange, the Financial Services Authority (FSA) or other supervisor, the Financial Reporting Council or regulators from other countries.

Clearly, in considering what people metrics are relevant to boards’ deliberations, these metrics need to answer the questions that are likely to arise. A board has a lot of work to do with relatively little time. Its composition is likely to include the top executives in the business but also a dominance of non-executive and independent directors who bring wider experience to bear. The non-executive directors need to know enough about the business in a highly concentrated manner so that they can challenge the executive directors who are full time and thoroughly immersed in the ins and outs of the business. The full set of metrics provided to the board must therefore enable sufficient exploration of how the business is run and the state it is in at any one. Are the most critical metrics provided and do they tell board directors a clear story?

WHAT PEOPLE METRICS DOES THE BOARD NEED?

So what kind of people metrics does the board need to reassure itself that the senior executives are running the business appropriately and for the longer term? Quite naturally the board will not view the people metrics as distinct from any other business metrics. The people metrics will be part of the information pack that they will routinely monitor and are likely to be combined with other metrics – particularly finance and risk metrics – in order to give board directors a clear picture of what is happening in the business. The information pack is likely to be prepared by the finance department or the company secretary’s office. Hence reporting formats are often centrally set perhaps to fit a handy dashboard.

THREE AREAS FOR BOARD PEOPLE METRICS

Generally speaking there are three main areas where People Metrics will have a key place in the board packs. These are:

- Is the Culture of the company right to create the right behaviours?
- Does the company have the quality of Talent Pipeline needed to support succession?
- What is the extent of Employee Risk that could damage the business?
One other set of metrics that is critical for a board is remuneration metrics but these have been dealt with elsewhere in this guide. They deserve a chapter in their own right as there is quite a debate about the performance metrics and the level of rewards to match. But clearly as the board determines the pay and benefits for top executives they must have the right metrics to carry out that specific function. The question that boards address in relation to remuneration is: do remuneration structures and levels ensure the success of the company? Whilst that includes the question of whether remuneration structures and levels attract and retain the key employees needed it also includes the issue of whether the shareholder group believe that employees’ rewards from the business are not excessive vis-a-vis their own returns through improvements to the share price and dividend payouts. This is a challenging topic for boards but not one which is addressed here.

1. Culture of the company to create the right behaviours

Boards take an interest in the culture of the company. They need to know whether the culture of the company, as led by the executive directors, will be one which drives forward the business and delivers the business strategy without prompting unacceptable risk taking. So a good board will want some specific metrics that tell them about the culture. However, company culture is difficult to measure so sometimes other measures are used. Frequently measures of employee engagement are used to give some idea of the culture of the company. Employee engagement measures might give some idea of: whether or not the employee intends to keep working for the company, whether they would recommend working there to a friend, whether they look forward to coming in to work every day, whether management behaves in the way they would hope, and whether they would go out of their way to help the company succeed. These are useful things to measure but may need to be supplemented with other data.

Many companies describe what culture they seek in their external publications, for example on their website or in their annual reports. In internal publications, companies are often even more explicit about the culture possibly through Values statements. So are there ways in which they can track whether the actual culture is close to the desired culture – where are the gaps, what are the trends?

In the table below, some examples of statements about culture are shown against some possible metrics. This is intended to act as a guide as to how to go about measuring culture, it is not an implied list of the kind of culture required in financial services companies.

<table>
<thead>
<tr>
<th>Desired cultures in financial services companies</th>
<th>Metrics to Match</th>
</tr>
</thead>
<tbody>
<tr>
<td>An open, collegial and collaborative culture to give clients straight answers.</td>
<td>Collaboration between different parts of the company. Client feedback.</td>
</tr>
<tr>
<td>A culture of high employee engagement to develop the business.</td>
<td>Employee engagement metrics – but be clear on the definition of engagement in your company.</td>
</tr>
<tr>
<td>A culture which attracts and retains highly talented people.</td>
<td>Turnover, attraction and retention measures of key talent reveal the outcome but perceptions of the culture would also be needed to see the link between culture and attraction/retention.</td>
</tr>
<tr>
<td>A high expectation culture.</td>
<td>Stretching targets and high behaviour standards – perceptions about these could be measured.</td>
</tr>
<tr>
<td>An embedded and effective risk management culture. A strong risk culture.</td>
<td>Metrics of compliance with policies and procedures. Effectiveness of whistleblowing policies and procedures. Perceptions from surveys.</td>
</tr>
<tr>
<td>An ethical approach to business conducted by and towards all our stakeholders.</td>
<td>Ethical business conduct – metrics of compliance and non-compliance.</td>
</tr>
<tr>
<td>People with entrepreneurial energy and enthusiasm. Greater energy injected into the business to build further.</td>
<td>Energy levels - surveys could report perceptions of energy levels and enthusiasm.</td>
</tr>
</tbody>
</table>
Measuring culture is not easy and survey methods have to be carefully selected to be useful to the company at all levels. Some top level metrics that could work straightforwardly at board level with relative ease of collection and adoption are described in the table below.

**Culture Metrics for the Board**

<table>
<thead>
<tr>
<th>Must have Metrics</th>
<th>Nice to have Metrics</th>
<th>Blue Sky Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>% ‘Intention to stay’ across the workforce. (Could include this metric for the high potentials and high performers only)</td>
<td>'Must have metrics' by division, business unit, job level or country</td>
<td>Entrepreneurial culture measures. Risk culture measures. Other culture measures that link to strategic objectives eg attitude to excellent standards, energy levels, commitment to customer</td>
</tr>
<tr>
<td>% High discretionary effort across the workforce. (Could include this metric for high potentials and performers only)</td>
<td>360 feedback metrics for each senior leader – watch the sensitivity of this but goes well with must have metrics for their unit</td>
<td>Predictive measures of behaviour in relation to risk</td>
</tr>
<tr>
<td>A metric for risk culture – could include % completing training compliance record</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2. Quality of the Talent Pipeline to support succession

The importance of succession planning by boards is highlighted in the UK Corporate Governance Code. Under the Code’s Main Principle B.2, there is a Supporting Principle that states “the board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management.” So with this requirement in mind, it is no wonder that boards are extremely concerned to review the succession planning process and to have metrics which tell them the quality and readiness of the talent pipeline for all senior positions. Succession planning is an important part of risk management for the board. Like any other risk area, good metrics are needed.

Boards seek to minimise succession risk by ensuring the company has a strong supply of capable people who have developed appropriate expertise and experience to drive the business forward. If there is a need to recruit senior people from outside due to experience gaps in the internal talent pool, the board will need to be reassured that the impact on the current talent pipeline will not be too destabilising, that the new leader will manage the transition in the company, and that the company will accept the new leader. There are some serious risks in bringing in senior externals so a strong internal pipeline is needed.

The company will want many detailed metrics on the talent pipeline but for the board a snapshot of how well key roles (usually the executive team jobs but perhaps a few others) are covered with a strong pool of internals. Should a job holder in a key role leave or suddenly or become ill, how effectively can the job be covered? There have been recent instances of this within the financial services and wider professions and an effective and instant remedy is required if an adverse impact on the share price, and overall financial performance of the organisation, is to be avoided.

Shareholders will put pressure on Chairman and their boards if they have any concerns about succession and the talent pipeline at the top of the company. The Association of British Insurers, the ABI, is the trade association for over 300 insurance companies who individually and collectively form some of the largest investors in UK listed companies. The ABI produced a guide to board effectiveness which includes a section on good practice in succession planning. This guide includes a number of examples of good practice of planning for succession for senior management (at least as disclosed in the company annual report).
The board will also want to know the quality of the longer term succession pool for key executive jobs – say in 3-5 years time. The quality of the pool will need to include metrics on the chances of the people in the pool being ready in that time period. For example, it might be dependent on good performance in a new stretch role.

The company will need to bring in some senior external people from time to time. For some companies this is more urgent as significant change is needed and this is best led by an external appointment. But the board needs to be reassured that an external hire will work out – which is never a guarantee. Sometimes senior people are brought in ‘safer’ roles – less senior but with the expectation of rapid progress.

The board will be interested in high potential mid level leaders – their retention rates, their annual performance rating/bonus levels are the measures which will reassure them that there are sufficient of these and they are being treated correctly. The board will want them to be tracked to ensure that they are still performing and are staying in the company (relative to general turnover rate). Whilst some of them will leave there should plan for the leaving rate to be at a lower level than for the general employee group.

**Talent Metrics for the Board**

<table>
<thead>
<tr>
<th>Must have Metrics</th>
<th>Nice to have Metrics</th>
<th>Blue Sky Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>% key executive roles covered by at least one immediate successor.</td>
<td>% Other roles covered by at least one immediate successor.</td>
<td>Success rates for senior external hires (still in company after 3 years). What efforts impact the success rates of senior external hires?</td>
</tr>
<tr>
<td>Number and quality of people in the longer term succession pool (3-5 years)</td>
<td>Trends in quality of the new talent pool eg on the graduate analyst career track.</td>
<td>Diversity metrics which reveal where support efforts have been successful and lasting.</td>
</tr>
<tr>
<td>General retention rates or turnover rates for employees.</td>
<td>Retention rates of high potentials and for high performers – should be a better rate than for the general workforce</td>
<td>Success of development initiatives for high potentials. Engagement data from high potential respondents.</td>
</tr>
<tr>
<td>Diversity metrics to track % high potentials are female and other diverse categories. A regulatory requirement for listed companies.</td>
<td>Success rates for initiatives to support high potential diverse employees.</td>
<td>Benchmarking data on the effectiveness of new diversity programmes.</td>
</tr>
</tbody>
</table>
3. Extent of Employee Risk that might damage the business

There are a number of risks of employing people and the board will simply want to know that these are in general under control. The HR department will want a more detailed set of metrics to track the number and types of disputes, grievances, litigation cases and the associated costs and reputational risks. The board is likely to want to know those that will create external reputational risks that will impact the company, its reputation with regulators, with customers, potential employees and the general public. Hence the board is likely to be concerned about fraud and market abuse cases that will go to the regulator, cases going to tribunal or court where there has not been a settlement, whistleblowing reports that go outside the company. Although there are usually not so many of these and they are usually reported on a case by case basis, some metrics are useful particularly for the times when there ‘seem to be quite a spate’. The Board needs some context when reviewing individual cases.

Some regulators are increasing their enforcement capability – the FSA is an example. Market abuse cases are being pursued and the fines are increasing. There are similar moves in other countries. For example, in mid February 2012 a major international bank, headquartered outside of the UK, suspended a number of senior traders as part of an international probe into potential manipulation of the London Interbank Offer Rate (Libor).

As the board cares about mitigation as well as tracking of risk, HR departments will need to track the effectiveness of their mitigation efforts. For example, how effective is the whistleblowing policy – do whistleblowers report concerns through an approved internal route rather than going to the press?

**Employee Risk Metrics for the Board**

<table>
<thead>
<tr>
<th>Must have Metrics</th>
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<th>Blue Sky Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numbers of reputational employee risk cases per annum eg grievances, disciplinaries, tribunal cases</td>
<td>Employee risk cases per division, business unit or operating company</td>
<td>Impact on reputation, costs by type of incident.</td>
</tr>
<tr>
<td>Use of whistleblowing line</td>
<td>Trends in use of whistleblowing line, if there are sufficient numbers</td>
<td>Metrics from employee surveys that indicate conduct risk in the business</td>
</tr>
<tr>
<td>Health and Safety – minor incidents and major incidents for reporting period</td>
<td>Detailed breakdown on Heath and Safety incidents by division, business unit or operating company</td>
<td>Metrics on near misses or issues that could create problems in future.</td>
</tr>
</tbody>
</table>

**Helping the board make sense of the metrics**

Finally, it is worth emphasising that boards will expect a story that supports the metrics. Simply reporting good data is usually insufficient for boards who expect senior managers and advisers to be able to create a story that explains the trends, the reason for the trends, the relevance of mitigating actions and controls. It is useful to think of this as ‘intelligence’ or ‘insight’ rather than just metrics. Board directors will be looking for the narrative - the ‘story’ - that goes with the metrics; what does the metric tell us about strengths and weaknesses, about trends, about potential emerging challenges or opportunities? They will then test this story to ensure it is valid, challenge it to see if some aspect is missing or if some bias is present in the senior manager telling the story. So the HR department must be ready with a narrative on the People Metrics in the business, answering: what do the numbers tell us, what is really going on, what is causing a trend or an emerging pattern, and what actions are required?
SUMMARY OF KEY METRICS AND ISSUES

HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES

**RED**  
Minimum level  
The HR metrics and data that all organizations should maintain for statutory or base reporting reasons.

**AMBER**  
Added value level  
The HR metrics and data that all organizations should maintain to improve the integrity of data and decision-making.

**BLUE**  
Influencing and directing level  
The HR metrics and data that many organizations should aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making from the Board down.

### HR AND THE BOARD  
**Culture Metrics for the Board**
- % ‘Intention to stay’ across the workforce. (Could include this metric for the high potentials and high performers only)
- % High discretionary effort across the workforce. (Could include this metric for high potentials and performers only)
- A metric for risk culture – could include % completing training, compliance record

**Talent Metrics for the Board**
- % key executive roles covered by at least one immediate successor.
- Number and quality of people in the longer term succession pool (3-5 years)
- General retention rates or turnover rates for employees
- Diversity metrics to track % high potentials are female and other diverse categories. A regulatory requirement for listed companies.

**Employee Risk Metrics for the Board**
- Numbers of reputational employee risk cases per annum eg grievances, disciplinary, tribunal cases
- Use of whistleblowing line
- Health and Safety – minor incidents and major incidents for reporting period

**REFERENCES**

CHAPTER FOUR

THE LEGAL FRAMEWORK

Employers need to ensure that any use of data retained for HR metrics, whether to measure against targets or to flag up potential issues is done within legal parameters. This chapter, by Nick Hurley and Caroline Buckley of Charles Russell LLP, looks at the legal requirements and restrictions in respect of the types of data that employers are required to keep, data which is not compulsory to retain but is advantageous for the employer to use and analyse and lastly data which is not essential but their use in HR metrics is in the furtherance of ‘blue-sky thinking’.

OVERVIEW

The most important legislation in this area is the Data Protection Act 1998 (‘DPA’) which sets out the principles for the collection and use of personal data. This applies in most circumstances to the data which HR would be using in relation to analysing for example, information from equal opportunities monitoring, information relating to pay, information relating to pay, information to help with planning and restructuring, exit interview notes and absence and health records. Other legal considerations include complying with statutory requirements in relation to record keeping such as under the Working Time Regulations 1998 (‘WTR’) and the National Minimum Wage Act 1998 (‘NMW’).

DATA PROTECTION RULES

This is not intended to be by any means a comprehensive summary of the DPA and the related Codes and Guidance. However, the main principles are detailed below and a link to the Information Commissioner’s Office (‘ICO’) website is set out below which has full details.

The DPA provides for when and how personal data can be lawfully processed. The definition of data is fairly wide and includes information held in filing systems, regardless of location i.e. manual, paper-based and computerised. Personal data is defined as information which relates to a living person who can be identified from that data alone or from that data and other information in the possession of, or likely to come into the possession of the data controller and is about that living person, whether in his personal or family life, business or professional capacity. The data controller is the employer and the data subject will include a job applicant and an employee.

‘Processing’ is also widely defined and includes obtaining, recording, holding, retrieving, organising, destroying or disclosing information or data or carrying out ‘any operation or set of operations on the information or the data’. Therefore, this does not only cover the processing of actual data but also the disclosure of data to third parties. Examples of personal data include a worker’s personnel file, emails relating to a named worker and details of an employee’s salary and bank account.

There are eight data protection principles which are central to compliance with the DPA. These are that data must be:

- fairly and lawfully processed;
- processed for limited purposes;
- adequate, relevant and not excessive;
- accurate and up to date;
- not kept for longer than necessary;
- processed in line with the data subject’s rights;
- secure; and
- not transferred to other counties without adequate protection.

SENSITIVE PERSONAL DATA

The DPA has special provisions for the processing of ‘sensitive personal data’ which is defined as information relating to racial or ethnic origin, political opinions, religious or other beliefs, trade union membership, physical or mental health or condition, sexual life, the commission or alleged commission of any offence or any court record or allegations of such. Where any sensitive personal data is involved, as well as complying with the eight principles, at least one of the following other conditions must be complied with for processing which include:
that the worker has given their explicit consent;
- it is necessary for purposes of exercising or performing any right or obligation conferred or imposed by law on the employer in connection with employment;
- it is necessary in connection with any legal proceedings or for the purpose of obtaining legal advice;
- it is necessary for the administration of justice; or
- if the processing relates to racial or ethnic origin it is necessary for the purpose of monitoring equality of opportunity or treatment with a view to enabling such equality to be promoted or maintained and is carried out with appropriate safeguards for the rights and freedoms of data subjects.

Sensitive personal data is likely to be found in sickness records (physical or mental health), on an equal opportunities monitoring form, pension scheme or private health insurance records (this might reveal information about a person’s sexual life if the beneficiary is a partner) and payroll information (for example, this might reveal trade union membership if a subscription is deducted).

The second and last conditions are the most likely to apply to processing of sensitive personal data in respect of metrics relating to equality and diversity on the basis it is necessary to ensure compliance with discrimination legislation. The second condition is also likely to apply to retaining data in relation to an employer’s compliance with legal obligations such as record keeping under the WTR, NMW, the proper administration of statutory sick pay or statutory maternity pay, to ensure a safe working environment to comply with health and safety legislation and disciplinary records to ensure any dismissal is not in breach of unfair dismissal legislation.

**CODE OF PRACTICE**

The Information Commissioner who is responsible for the enforcement of the DPA has also published an Employment Practices Data Protection Code aimed at helping employers comply with the provisions of the DPA. It is divided into four parts: part 1 covers recruitment and selection; part 2 deals with employment records, this includes collecting, storing, disclosing and deleting records; part 3 covers monitoring at work and part 4 deals with health at work. Although the code itself is not legally enforceable, it contains good practice recommendations or benchmarks and is designed to help employers meet the legal requirements of the DPA. In the context of HR metrics – part 2 of the Code is likely to contain the most useful guidance for employers in respect of information held on employment records and their use in formulating and the analysis of metrics. Employers need to consider carefully time limits for holding and deleting records taking into account legislative requirements and best practice.

**SUBJECT ACCESS REQUESTS**

It is also important to remember that workers have the right to gain access to information kept about them and make subject access requests. These must be responded to promptly and (subject to certain conditions) within 40 days of receiving the request. These are sometimes made by employees as a means of obtaining information prior to bringing an employment tribunal claim. The worker may also ask for rectification of errors and claim compensation for damage caused by any breach of the DPA. This right applies to, for example, sickness records, disciplinary or training records, appraisal or performance review notes, emails, information held in general personnel files and interview notes.

**Confidentiality**

Any data collected and stored should be protected and securely stored in line with data protection rules.

If the employer does publish data it is important to ensure it does not breach confidentiality or reveal anything which might enable someone to work out information about another person which was provided in confidence. This is particularly the case in smaller organisations or departments where it is possible to identify someone even if their names are not used.

**Enforcement**

The employer is under an obligation to notify the ICO that it is processing personal data and renew its notification annually. Failure to do this is a criminal offence.
The ICO also has the power to carry out checks, serve information notices, serve enforcement notices and prosecute those who commit offences under the DPA. From April 2010, the ICO has had the power to issue penalties to data controllers of up to £500,000 for serious breaches of the DPA. Employers should consider carrying out a data protection audit on a regular basis to ensure compliance with the DPA as well as ensuring it has in place a data protection policy which will minimise the risk of it being in breach.

**Statutory records**

There are certain records which employers are required to maintain including those showing compliance with WTR, in relation to pay and hours under the NMW, PAYE, payroll and wage records, sickness records for SSP purposes, maternity records, reportable accident, death or injury at work records, Criminal Records Bureau checks and disclosures and records of immigration checks.

**Other records**

Other records employers keep containing personal data are likely to include personnel records which will cover personal details, employment history, terms and conditions, absence details, training, disciplinary action and termination of employment. These must be kept in compliance with the DPA.

**PRUDENT MONITORING FOR DIVERSITY PURPOSES**

It is good practice to ask workers and prospective workers for information on a voluntary basis on their sex, ethnic origin, religion or belief, age, disability and sexual orientation to monitor the effectiveness of the employer’s equal opportunities policy. The DPA must be complied with and these individuals must be told why the information is being asked for and it should be treated as confidential. Where this is done at the recruitment stage monitoring forms should be kept separately from the main application so that those making the decision or short-listing do not see the information before deciding who to interview or appoint.

If the information is provided on an anonymous basis or is subsequently anonymised it will no longer be personal data because the data subject cannot be identified from it. However, in order to use this information to best advantage for metrics purposes it may be necessary for the information to be attributable to individuals in which case the DPA must be complied with.

Although equal opportunities monitoring is not compulsory for private sector employers, it provides the employer with an opportunity to assess whether equal opportunities policies have been successfully implemented and whether their aims and objectives are being met. The EHRC Equality Act 2010 Code of Practice recommends monitoring is carried out in the key areas of the employment relationship including recruitment, promotion, pay and remuneration, training, appraisals, grievances, disciplinary action and dismissals and other reasons for leaving. Employers are strongly advised to ensure they are familiar with the provisions of the Code and a link to this is set out below.

Monitoring can be used to compare the position and treatment of workers with certain protected characteristics with those who do not have those characteristics and where there are differences, take appropriate action. For example, it can assist employers to analyse whether they are recruiting employees who are disadvantaged or under-represented. If it reveals an under-representation of recruitment of people with certain protected characteristics then the employer should consider whether it is advertising in the right places and whether there needs to be change to the application process.

Effective monitoring can also assist employers to ensure they are promoting people fairly whatever their protected characteristic; to look at whether disciplinary action is disproportionately taken against workers with a particular protected characteristic, to consider the implementation and effectiveness of family friendly policies on gender equality including reviewing the take-up of any schemes or policies such as flexible working, maternity, home-working, to analyse whether pay is comparable for men and women in similar or equivalent jobs; to analyse who is being selected/taking part in training opportunities and consider whether any positive action measures are appropriate.

Monitoring and analysing as set out above will also put the employer in a strong position to defend any tribunal claim for discrimination and answer any questions through the discrimination questionnaire procedure. These questionnaires often contain requests for a statistical breakdown of information relating...
to people with protected characteristics in the workforce. If the employer not only has these statistics readily to hand but has clearly taken steps to obtain these and is using them to analyse the effectiveness of its equal opportunities policies and objectives, this will help rebut any suggestion of discrimination. If the employer does not reply to the questions raised in discrimination questionnaires or gives an evasive or equivocal response, the tribunal may draw an adverse inference from this.

Monitoring and metrics will also help the employer establish a defence to any tribunal claims under the Equality Act 2010 that it has taken all reasonable steps to prevent discrimination occurring.

Case study

An employee who works for a bank raises a complaint of sex discrimination against her line manager. She makes a subject access request and also issues a sex discrimination questionnaire requiring the bank to confirm details of its equal opportunities policy and the number of claims it has received for sex discrimination in the past 3 year period. The bank, in compliance with its legal obligations and best practice, has retained details of its litigation and complaint history in this area and is able to provide details demonstrating a positive claim record and an informed and enlightened approach to equal opportunities. Accordingly it is able to avoid an adverse inference that it has discriminated against her in relation to this issue.

Equal Pay

The gender pay gap continues to be a live issue and metrics can be used to identify the disparities to enable an organisation to address this. At the moment employers in the private sector are not legally required to carry out equal pay audits to identify gaps and it remains unclear whether the Coalition Government will use the power available under s78 of the Equality Act 2010 to force employers with more than 250 employees to publish information about pay and gender in their annual accounts. The Government's approach appears to be to give organisations a chance to address this on a voluntary basis before deciding whether to force the issue by imposing a legal requirement.

Unequal pay has been found to be a particular problem for the financial services sector. In 2009 the Equality and Human Rights Commission (EHRC?) carried out an inquiry under its statutory powers into sex discrimination and unequal pay in that sector. It looked at the extent and nature of sex discrimination in relation to recruitment, terms and conditions, promotion, career paths, retention and workplace culture across the sector. It found a significant pay gap (women working full time earned up to 55% less than their male colleagues) across and within pay grades (particularly in relation to bonuses). The EHRC follow-up report published in 2011 concluded that companies need to make gender pay gaps visible and pay systems transparent. Lack of transparency on pay will leave an organisation vulnerable to claims.

Job evaluations and equal pay audits are the most comprehensive way of tackling and addressing the problem of unequal pay in respect of all the protected characteristics. An audit should compare the pay of men and women; minority ethnic groups and white people, disabled and non-disabled staff doing equal work, different contractual status and then look at any gaps and close ones which cannot be explained on non-discriminatory grounds. The benefits of doing this include ensuring that unequal pay should be identified and eliminated and with that any potential legal vulnerability to claims.

However, employers should be aware that if they seek to put this information together, they have to be prepared to deal with any potential issues it brings out including possible claims for back-dated pay for up to six years.

Board diversity

There are also initiatives to address the under-representation of women at board level in UK companies following the recommendations in the Davies report. These involve the use of metrics and show how important it is for organisations to retain and analyse certain data.

The Financial Reporting Council (‘FRC’) has proposed changes to the Corporate Governance Code so that for financial years beginning on or after 1 October 2012 listed companies will be required to include in the annual report a description of their board’s policy on diversity, including gender, any measurable objectives.
that it has set for implementing the policy and progress on achieving the objectives. The Code also requires an explanation to be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or non-executive director. The Code also has a new supporting principle which means that it has to consider the diversity of the board including gender when evaluating board effectiveness. The FRC is strongly urging all companies to comply with this on a voluntary basis and report on these changes. BIS, the ABI and the executive search community are also taking steps to address gender diversity on corporate boards. These are the types of issues which metrics can be used to pick up and ensure the organisation is taking the appropriate steps and putting in place the measures it should be undertaking.

The EHRC report referred to above also re-enforces the need for board-level scrutiny of gender inequality.

**Equality Impact Assessments**

Forward-thinking private sector employers may also want to consider carrying out equality impact assessments on any proposed changes to organisational policy, particularly those affecting pay so that an analysis of a proposed change is carried out to assess whether it has a disparate impact on any protected characteristic. Data from old and proposed new structures should be compared and the impact of the proposals on for example, gender, age, race or disability should be analysed. If this reveals any differences arising from the proposals the employer can then decide whether any disparate impact is justified and if not, amend the proposals. If this is not addressed, the employer faces the risk of equal pay claims or other types of discrimination claims.

**Restructuring/termination of employment**

It is well established that when carrying out any restructuring the redundancy selection criteria are objective and clear. Commonly used criteria include disciplinary records, time-keeping, sickness absence records (however, taking into account any disability discrimination issues). These are all personal data and in some cases sensitive personal data which are subject to the provisions of the DPA.

Exit interviews provide another means of keeping information which may help analyse problems of high staff turnover, look at the effectiveness of recruitment, raise awareness of any equal opportunities and supervision issues.

**Stress and health information**

Sickness records will constitute sensitive personal data and employers will need to ensure they comply with the DPA conditions for collecting, storing, using, disclosing or otherwise processing this information. The Employment Practices Code suggests keeping sickness and injury records which record specific information about an employee’s illness separate from absence records which record that the employee was not at work.

Analysing sickness records and reasons for absence should flag up if there are any particular issues which need addressing. For example, if stress is given as a reason for absence for a number of employees in a particular department or group this may indicate at an early stage that there is a problem which needs to be addressed such as an issue with management and/or work levels and/or bullying/harassment. If the employer can identify issues early it is in a better position to deal with them before the situation is irretrievable, whether this involves referrals to occupational health or dealing with bullying and harassment under the disciplinary procedure or any other measure. This is preferable to the employer facing an expensive claim at a later stage when matters have progressed too far to be resolved combined with continuing absence and performance problems. The employer is under a duty of care to ensure the health and safety of its employees and is therefore potentially liable if it is in breach of that duty where it does nothing to deal with any issues which it is aware of. Again, proactive steps will put the employer in a better position to defend any claim.
### SUMMARY OF KEY METRICS AND ISSUES

#### HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES

<table>
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#### THE LEGAL FRAMEWORK

**RED**  
- Compliance with DPA at all times in relation to all data kept and used for metrics purposes  
- Compliance with statutory requirements (WTR, NMW, SSP, SMP)

**AMBER**  
- Absence monitoring – to identify patterns revealing potential issues such as stress/bullying  
- Equality monitoring – to ensure equal opportunities objectives being met  
- Data protection audit – to ensure compliance with DPA  
- Review of Grievances and Disciplinary action to identify any recurring issues or themes

**BLUE**  
- Equal Pay audits sooner rather than later to head off potential claims and/or establish that there are no issues. However, complete agreement to this must be obtained from senior management because once the organisation has the information – any pay disparities should be rectified.  
- Equality impact assessment – to analyse the impact of policy changes on protected characteristics, particularly changes to pay  
- Carry out job evaluation study  
- Consider whether any positive action measures are appropriate

#### REFERENCES:

1. Data Protection Act  
2. Equality and Human Rights Commission, Equality Act  
CHAPTER FIVE

THE RANGE OF DATA UNDER THE HR MICROSCOPE

This chapter, by Paul Holstead of CarVal (part of the Investment arm of Cargill), will examine the range of HR data that is being demanded of the HR function with a particular focus on the UK financial services sector. Reference is made to the opinions of the City HR Association’s working party on HR metrics as well as practitioner and academic research. A case study is included that shows how the implementation of a new performance management platform contributed to a quantifiable improvement in organisational performance.

In recent years the demand for organisations to produce data that measures HR’s effectiveness and impact has become a key topic for most HR Executives. A number of factors appear to be driving the demand for meaningful HR metrics, including: the need for the HR function to demonstrate its value; a desire for the HR function to move from being reactive to proactive in decision-making relating to hiring, talent management and workforce planning; falling technology and data costs; and a new generation of data-savvy HR leaders.

Adopting a balanced scorecard approach, a business organisation must satisfy the requirements of three key stakeholders in order to be successful. These are investors, customers and employees. Of these stakeholders, it is the employees – or human resources – that are often the most difficult to measure. Those HR metrics that are used are often much less accepted and less rigorous than investor and customer measures. With relatively few exceptions, there are currently no industry-wide prescriptions or legally required HR data requirements, unlike the requirement for regular audited accounts.

A wide range of HR metrics have been proposed for businesses and these appear to fall into three broad areas:

- Efficiency: metrics having to do with the efficiency of the HR function, including the function’s productivity and cost base.
- Effectiveness: metrics intended to assess the extent to which HR programmes and practices have had the intended effect on a target population (e.g. a particular segment of the workforce or a specific talent pool).
- Organisational Capability: Metrics that assess the impact of how HR contributes to the development of the firm’s capabilities and core competences so as to build competitive advantage.

A further way to classify or categorise HR metrics is by looking at the organisational area (or level) of the business that a particular measure seeks to assess. This is the approach that was adopted by the members of the City HR Association who contributed to this publication.

Organisational Metrics: These are measures that can be used to evaluate the performance or contribution of the firm’s human resources at an organisational level. The metrics and data requirements cited by the City HR Association as being used to measure performance at the organisational level include:

- Revenue per employee
- Contribution per employee
- Overtime amount
- Contracting expenses
- Employee benefit cost
- Average cost per employee
- Direct employee cost
- Indirect employee cost
- Average cost per direct employee
- Average cost per indirect employee
- Average base compensation
- Overtime compensation
- Average bonus
- Average variable compensation
- Average gross compensation
- Net pay
- Deductions
- Compa ratio
- Total annual base compensation
- Fixed annual base salary
- Previous fixed annual base salary
- Employee overtime expenses
- Employee benefit expenses
- Employee support expenses
- Equal opportunities monitoring
- Diversity and inclusion measures
- Maternity monitoring
- Agency workers records

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**Individual Metrics**: These measures are intended to assess the effectiveness and efficiency of the contribution to the business made at the level of the individual employee. In many cases, individual metrics assess the same aspect of performance or contribution as organisational metrics, albeit with reference to a specific employee or a subset of employees. For example, the revenue generated by a particular sales person or a specific sales team. These individual metrics may in turn be compared with the same measures at an organisational level to assess the relative efficiency or effectiveness of a particular employee or team.

**People Management Metrics**: Organisations will often seek to measure how well they are managing their human resources. Businesses in the financial services sector recognise that human capital, as part of intellectual capital, is their key source of competitive advantage. Therefore, it is not surprising to find that financial services businesses are particularly keen to ensure that their human capital is properly managed. Metrics that were cited by the City HR Association as being useful in this respect include:

- Employee engagement scores
- Dissatisfied termination ratio
- Involuntary count
- Voluntary count
- Turnover rate %
- Performance ratings
- Potential ratings
- Special disabled veteran headcount
- Total annual monetary compensation of non-minority females
- Employee-supervisor ratio
- Average tenure of minority male employees
- Completion rate for performance appraisals
- Average number of training days per employee

**HR Efficiency Metrics**: These measures attempt to provide an insight into the contribution made to the business by the HR function. They may include both output (e.g. productivity) and input (e.g. cost) measures. The City HR Association identified a number of different metrics in this domain, including:

- Ratio HR employees to total headcount
- Total number of HR employees
- Variance in HR expenditure (budget vs actual)
- Cost per employee of the HR function
- HR satisfaction survey scores
- Average time to hire
- Average cost per hire
- Turnover for employees with less than 2 years service (to measure recruitment effectiveness)
- Performance ratings for employees with less than 2 years service (to measure recruitment effectiveness)
- Percentage take up of HR programmes
- Percentage of eligible employees enrolled in benefits programmes
- Percentage of HR programmes delivered within budget

It is apparent from the work undertaken by the City HR Association and also from a review of the academic literature, that there are many different factors that determine which specific HR metrics will be recorded and monitored by a particular organisation. This may not be surprising to HR professionals working in business who recognise the limitations of ‘one size fits all’ or universalistic approaches to people management.

There appear to be a wide range of contingencies or influences that determine which HR metrics a particular organisation will produce and monitor. Some of the main influences are:

**Legal and Regulatory requirements**: Certain HR metrics and data must be recorded and maintained by a business if it is to comply with its legal obligations. Examples would include the employee data needed to maintain accurate payroll records to satisfy HM Revenue and Customs requirements.

Within the financial services sector in the UK, additional regulatory requirements mean that organisations need to maintain accurate and up to date information in respect of those employees who are the Financial Services Authority’s (FSA) Approved Persons. This would include data relating to performance appraisals, assessments of competence and records of qualifications.
**Firm size:** The size of an organisation will influence the extent to which it has a dedicated HR function and has invested in systems and procedures for recording and monitoring HR data and metrics. In larger organisations the HR function may have employees whose roles are dedicated to data management and analytics, whilst in smaller firms these responsibilities may fall to an HR generalist or the payroll function. Similarly, larger organisations with significant headcounts are more likely to provide for a wider range of HR services and activities than smaller organisations. Each HR service or activity that an organisation provides will require (or lend itself towards) a particular set of metrics.

**The degree of senior management support:** Senior management support for systems of HR measurement can be seen to be a key influence on what type of metrics and data, if any, are recorded and monitored. Research indicates that more sophisticated metrics are associated with firms where the CEO and senior managers embrace the role of HR metrics in strategic decision making. Conversely, where senior management were less concerned with HR metrics, those that are produced tend to be retrospective and focus mainly on efficiency measures rather than effectiveness measures or measures of organisational capability.

**The role, structure and culture of the HR function:** Notwithstanding the impact of firm size (see above), the demands placed on the HR function may either limit or promote the resources that are available to implement and develop the extensive use of HR metrics. HR practitioners themselves may also be reluctant to accept that such metrics are able to adequately measure a firm’s human assets. However, there does seem to be a significant shift in the culture and leadership of many HR functions, especially in larger organisations. The new leaders are often well versed in data-driven analytical techniques and want to move their workforce decision-making beyond instinct and ‘gut feel’.

The specific HR metrics that are recorded and tracked by a firm will be affected by all these contingencies. The CIPD has highlighted that there appears to be no single measure or set of measures that can uniformly provide a value for human capital, a conclusion that was also confirmed by the Task Force on Human Capital Reporting. This was the task force set up by the UK government in 2003 to investigate the lack of reporting on human capital by the business sector as it was considered that it might be impeding competitiveness.

The actual range of HR metrics and data that a particular organisation records and monitors may evolve over time in response to changing internal and external demands. This was the case in CarVal Investors, the alternative investment management business that forms the basis of the case study below. Elizabeth Ogren, CarVal’s HR Director, comments that: “We have developed our range of metrics and analytics in recent years. As the Board have come to see the value that such measures can add to their decision-making, then their appetite for more sophisticated metrics and analytics to support CarVal’s people strategy has grown. This has been important for the HR function in demonstrating its credibility as a business partner.”

**Case Study:** Performance metrics in the alternative investment management sector

CarVal Investors is a leading global alternative investment fund manager focused on distressed and credit-intensive assets and market inefficiencies. Today, CarVal Investors employ 250 people worldwide, including 90 investment professionals managing over $9 billion in assets under management in both credit and real estate strategies.

In 2010, the business invested in a new performance management process to drive forward its corporate strategy by building a sustainable performance culture to promote employee accountability and a unity of vision. At the heart of the new philosophy was the ability to provide employees, managers and the board with real time data and measures of how they are performing against stated corporate objectives both as individuals and as a business as a whole.

These performance measures included progress towards individual and team goals and also behavioural metrics using the CarVal competency model that promotes excellence in four key areas of performance – ‘How We Think,’ ‘How We Conduct Our Business,’ ‘How We Work’ and ‘How We Lead Our People’. As well as improving the speed and efficiency of decision making, the provision of these metrics and data to employees and managers provided the foundation for enabling higher quality performance reviews and development planning.

The new approach resulted in improvements to other key metrics maintained by CarVal’s HR team. Operationally, the positive impact was reflected by the 51% increase in appraisal completion rates. Furthermore, employee engagement, another key performance metric monitored by HR improved.

“Developing a more user friendly, measurable approach to performance management had a tremendously positive impact on our culture of giving feedback in CarVal.” says Elizabeth Ogren, CarVal’s...
Global HR Director. “This culture is one we had been working on but needed better tools to support and measure. The metrics we have access to today allow us to drill down by manager on the effectiveness of our program. Our Engagement Survey metrics allow us to evaluate how the employee experienced the process. We were very pleased when, following its implementation, our engagement survey highlighted Performance Management as the area with the single largest increase (46%) in employees’ positive perceptions. Giving and receiving feedback will always be an area of focus for us. And, today we have the tools and metrics to evaluate how we are doing in this important discipline.”

CarVal is now building on this success by including a range of talent management metrics and analytics in its key HR performance measures. Paul Holstead, CarVal’s European HR Manager, comments that: “The performance and potential metrics that are now routinely captured through our performance management processes have enabled HR to structure and facilitate high quality dialogue with our senior leaders around key talent. This has provided a great opportunity for HR to contribute to CarVal’s corporate strategy in the areas of succession planning and the development and deployment of high potential employees in pursuit of our business goals.”

The City HR Association’s working party identified a ‘zone’ system for those HR metrics that firms would be advised to be required to maintain for legal or regulatory reasons, those that they should retain for good quality decision-making and those they may aspire to maintain for the purposes of building organisational capability and competitive advantage. Table 1, below, summarises the type of HR metrics and data that may fall in to each of these categories.

### SUMMARY OF KEY METRICS AND ISSUES

**HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES**

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### THE RANGE OF DATA UNDER THE HR MICROSCOPE

- **RED**
  - Payroll data (e.g. records of employees’ gross earnings, tax, NICs, student loan repayments, P11D expenses and benefits in kind, etc).
  - Records of periods of absence due to incapacity, maternity and paternity leave, etc.
  - Pensions data
  - Records of accidents and injuries at work
  - Records required by regulators (e.g. evidence of ‘fitness and probity’ for FSA Approved persons)
  - Hours worked

- **AMBER**
  - Compensation and reward metrics (e.g. average fixed compensation, average variable compensation, employee benefit expense, etc)
  - Individual employee metrics and data (e.g. performance ratings, training records, potential ratings, etc)
  - HR effectiveness and efficiency measures (e.g. cost per employee of the HR function, average time to hire, etc)
  - Satisfaction/Engagement scores

- **BLUE**
  - Leadership development measures (e.g. who are your next generation leaders, what is the probability of their success, etc)
  - Future workforce planning and forecasting (e.g. the types of talent required in the future, the key demographic trends that may impact your business, etc)
  - Assessments of the impact of HR programmes on organisational effectiveness
  - External benchmarking
REFERENCES

CHAPTER SIX

THE HR METRICS ASSOCIATED WITH MANAGING RESOURCES

The previous chapter addresses the Range of Data Under the HR Microscope. This chapter, by Wendy Reeve of Societe Generale, will drill deeper by addressing the HR metrics to use for managing Absence, Headcount and Turnover, as well as looking at Return on Investment (ROI) for Human Capital.

“What’s measured improves” Peter F. Drucker

As HR professionals, we have all heard and probably said ourselves that “our people are our most important resource”. These resources design, deliver or operate the mechanisms that enable us to run our businesses and be successful. Few organisations design, deliver or operate the mechanisms that enable us to run our businesses and be successful. Few organisations exist without these ‘human’ resources and within financial services, we rely on having the exact number of people and the right ratio of categories of people to maximise our profits. It is therefore business critical that we measure and manage those resources accurately, constantly and in the context of our short, medium and long term business strategies.

ABSENCE

According to the 2011 Absence Management conducted by the CIPD involving 592 companies nation and industry wide, the average annual cost of absence per employee is £673. Yet, fewer than half of the organisations surveyed reported that they regularly monitor the cost of absence.

Guarding the well-being of employees is in fact essential to organisational success. It enables firms to be productive, to achieve targets and to retain talent yet few organisations consider the impact of the cost and disruption of an unfettered approach to absence management.

Most large organisations record absence and many calculate the absence rate. Methods of calculating the absence rate vary, its interpretation or comparison with industry peers even more so. Understanding the trends of absence, the triggers and the hot-spots is key to identifying the absence culture in an organisation and then finding solutions and strategies to improve it.

As with all metrics, the accuracy of the data captured is critical. For the purposes of this chapter, it should be assumed that the organisation has an HRIS or other robust mechanism capable of recording the data and with the focus being on why and how that data can be used to best effect.

The most effective strategy for managing absence in an organisation is one that can support employees who are genuinely sick and take action against those who are disingenuous or take advantage of the sickness benefits the organisation provides.

What to measure and why

Tools for measuring absence and sickness allow an organisation to establish:

- how much working time has been lost
- where absence occurs the most, e.g. among particular types of employee or department
- how often individual employees are absent
- whether there is a pattern of absence, e.g. where an employee regularly calls in sick on a Friday

They also show whether the absence is:

- due to short-term sickness and certificated
- due to short-term sickness and uncertificated
- due to long-term sickness
- not sickness-related and authorised
- not sickness-related, but unauthorised

“People are our most expensive resource, a major investment that needs to be nurtured and developed to encourage the best possible return on equity. Like any investment, the people also need to be in the right quantity, at the right place and at the right time” Wendy Reeve, HR Business Partner, Societe Generale
The most common measure of absence is the lost time rate. This shows the percentage of the total time available which has been lost because of absence from all causes in a given period. The formula is as follows:

\[
\text{Lost time rate} = \frac{\text{Total absence (hours of days) in the period}}{\text{Possible total (hours or days) available in the period}} \times 100
\]

There are a number of weaknesses in this method in that it;

- Fails to differentiate between genuine and spurious reasons for absence.
- Is a crude measurement – absence could be the result of a large number of people absent for a short time or a small number of people absent for a long time. It is possible that more staff take short absences without affecting the overall absence rate, as long as there are fewer long-term absences in the same period.
- Does not identify trends, reasons for absence etc.

However, it can be effective for simple comparisons period-on-period or between departments, groups of employees etc. Once problem areas are identified other methods can be used to obtain more detail.

A clearer picture of absence can be gained by the use of frequency and duration measures:

- The absence frequency rate which can be described as:
  \[
  \frac{\text{Number of absence events}}{\text{Number of employees}} \times 100
  \]

- The individual frequency rate which can be described as:
  \[
  \frac{\text{Number of employees with one or more absence event}}{\text{Number of employees}} \times 100
  \]

The Bradford Factor\(^2\) is a very simple and useful metric in providing this type of data. It is used to identify frequent, short-term leave. Those cases identified with a ‘high’ Bradford score can then be further investigated and the appropriate policies and procedures applied, whether a recurrent underlying illness is the issue or a persistent misuse of the company’s sick pay scheme.

The Bradford Factor is calculated as follows:

\[
S \times S \times D = \text{Bradford score}
\]

- \(S\) = # of periods of absence in period to be measured
- \(D\) = total number of days of absence in period measured

**Example:**

John is absent on 10 occasions during 2011, each time for one day.

\[
10 \times 10 \times 10 = \text{Bradford score of 1000}
\]

Emily is absent on 2 occasions in 2011, once for 8 days and once for 2 days.

\[
2 \times 2 \times 10 = \text{Bradford score of 40}
\]

The Bradford Factor should never be used as the only method for measuring and reporting absence as it may mask underlying health issues or other reasons for absence. However, it can be used as an indicator to identify attendance problems. In some organisations, there is a reduction in sick leave once the Bradford Factor is implemented because it is an obvious differentiator of absence levels between individuals.

Whatever the metric used for measuring absence, care must be taken to interpret results carefully. For example, the use of averages is not advocated. Unauthorised absence does not follow usual distribution – there will be a small group of persistent perpetrators.

**The Cost of Absence**

If absence has a direct impact on our bottom line, then organisations should make optimum use of its HR metrics to highlight this and to back that up with robust absence management policies and employee welfare programmes.

The CIPD Absence Management report 2011 is one of many studies that demonstrate that work-related stress is one of the biggest causes of long-term absence and it is a trend that is growing at an alarming rate. The current environment of economic downturn has resulted in many organisations being forced to make redundancies, the threat of which may decrease absence in some cases, but in turn has increased the rate
of stress and mental-health related illness. Our HR metrics should be helping to identify those hot-spots and enabling HR and line managers to provide the appropriate support to employees.

**How we can use HR Metrics to monitor and address absence**

In addition to calculating the absence rate and the Bradford Factor, we can use our HRIS or absence management programmes to measure and report:

- Who has been absent, when and how long
- Reason (most organisations use broad categories to protect privacy)
- Triggers or workflows for line managers to conduct return to work interviews – known to be very influential in decreasing short-term absence
- The cost of each period of absence and an annual cost per individual
- The cost of absence to the company

Such metrics cannot be used in isolation or only discussed with senior management. They need to be disseminated to the line managers to demonstrate how their staff absence levels impact the bottom line and be encouraged to manage those issues that may be left to become a bigger problem in the future. However, to enable and support managers in this goal, HR must provide a toolkit which will include training those managers to handle absence in a consistent, fair and sensitive manner.

Surveys indicate that of the three most important factors in reducing sickness absence, two were improved monitoring and the provision of statistics to line managers.

**HEADCOUNT**

All organisations need to constantly reassess their resources to ensure supply matches demand – human resources are no different. Our organisations need systematic processes to help them adapt to the changing demands of their businesses. Product life-cycles change, functions become product-line driven, support services are centralised or off-shored, any number of changes take place in an organisation that require it to change the structure or number of its staff. In order to closely monitor the composition of its workforce, an organisation needs effective HR metrics and statistics.

Headcount data is key to most other HR metrics and is the starting point for strategic human resource planning for most organisations. Most HR dashboards will headline with the employee headcount. All Finance departments depend on reliable headcount data for forecasting, internal charging and the company accounts.

**What is reported in HR reports?**

The most important things when designing headcount metrics are to agree on a standard definition of headcount and any qualifiers. Qualifiers include:

- Full time vs. Part-time headcount
- Full-Time Equivalency (where a fraction is assigned to the head counted based on the percentage of a work week typically assigned as this person’s work responsibility)
- Contractor vs. Employee
- Seasonal vs. Permanent
- Outsourced workers
- Salaried vs. Hourly
- Active vs. On-leave

Without these definitions agreed throughout the company you will never have consistent metrics.

**What added value can HR headcount reports add?**

Headcount reports can and should be used to plan the composition of the workforce in the short, medium and long term. Useful additional data might include:

- Ratios between functions, e.g. front office vs back office
- Forecasting based on contract dates
- Trend analyses, e.g. in comparison with company revenue
- Headcount per unit of productivity – per function
- Diversity and demographics – e.g. what % of women are represented at senior level

As strategic business partners, HR must ask their senior management how the current data is used, is it useful/meaningful? The data we collect and provide enables fact-based decision making that influences the future strategy of the organisation.
EMPLOYEE TURNOVER OR ATTRITION RATE

The ‘Definitions’ section at the beginning of this guide looks at how organisations variously describe employee turnover or attrition.

Employee Turnover is measured as the % of employees leaving the company in a given period against the total headcount.

Turnover can be used to gauge the health of the company. High turnover is expensive in terms of money (recruitment, training and lost productivity), service delivery (new staff take time to provide optimal performance), and staff morale. On the contrary, low turnover can also bring its own issues – there is no new blood coming into the company and poor-performers are not being identified and encouraged to leave.

The metrics can also identify the different type of turnover.

Turnover metrics:
- Voluntary Turnover Rate. A high level of voluntary turnover indicated that the company is not as attractive as others in the marketplace. This could be due to low salary levels, low morale, bad management or a buoyant job market.
- Cost of Voluntary Turnover. This is the average cost to replace an employee. This can be compared over time to indicate trends.
- Involuntary Turnover Rate. This will include underperforming staff, redundancy, medical reasons etc.
- Retirement Rate. As well as actual reporting on average retirement rate, this can be used to project any future skill gaps.

What added value can Employee Turnover reports provide?

Turnover metrics can be a vital tool in helping senior management and HR identify and address underlying trends and problems. High turnover left to continue can result in significant reputational damage and can lead to future recruitment and retention problems, effectively creating a vicious circle. Turnover metrics should pre-empt that and identify trends across divisions, categories of staff – for example highlighting if graduates are leaving after short periods, or a disproportionate number of one sex is leaving.

Turnover costs are often overlooked in HR reports. High voluntary turnover is likely to be having a significant cost impact; recruitment costs, management and HR time, the cost of training new hires. HR metrics can provide this information by using an average cost to hire which focuses managers on making the right decision on recruitment.

Turnover and maternity leavers

The number of women who return from maternity leave can be a useful indicator of the success of an organisation’s maternity policies and benefits. Turnover reports should identify those voluntary leavers who are not returning from maternity leave, and ideally, anyone leaving after returning from maternity leave in the previous 12 months. An increasing trend of leavers in this category may mean that flexible working policies are not effective or even that the organisations are overlooking this as a significant factor affecting their gender diversity, particularly at more senior levels. Organisations should be paying attention to these types of hidden risks – HR can provide the metrics to identify them and to work with their management teams to retain their valuable talent.

This invaluable trend is tracked by the City HR Benchmarking Survey and in addition to showing the number returning for the year under review – and still in situ one year later – it also gives a historical trend analysis so that organisations can see if improvements are being made. A further good source for HR Metrics is the BusinessLink website.

RETURN ON INVESTMENT (ROI) OF HUMAN CAPITAL

This chapter opened with a statement that “People are our most expensive resource, a major investment that needs to be nurtured and developed to encourage the best possible return on equity.” So this begs the question: how do organisations measure their Return on Investment (ROI) for their Human Capital?

This is a question that has engendered much debate amongst academics over the last 40 years. The HR author, Andrew Mayo, Professor of Human Capital Management at Middlesex University and Director of Mayo Learning International has examined the many schools of theory which have been published in his books and articles. In his work, Professor Mayo has looked at the valuations outlined by major academics such as Eric Flamholz and Jac Fitz-enz. He says that:
“Measures relating to people are far more complex than the single dimension of money and that’s one reason why this is an underdeveloped area. But if people, or some of them at least, are truly our most important assets, this is a nettle HR must grasp. “What gets measured gets managed” is so true in a numbers-driven world. You cannot be called a business partner without the numbers that relate to your human capital”.

Professor Mayo points out that there are two ratios that will appeal to the Finance Department in this respect, namely:

1. Human Economic Value (HEVA) which can be defined as:

\[
\text{HEVA} = \frac{\text{Net Operating profit after tax} - \text{Cost of Capital}}{\text{FTE's or Total cost of human capital}}
\]

2. Human Capital Value Added (HCVA) which can be defined as:

\[
\text{HCVA} = \frac{\text{Revenue} - (\text{expenses} - \text{pay and benefits})}{\text{FTE's or Total cost of human capital}}
\]

Professor Mayo suggests another way of measuring the ROI of Human Capital as he believes that HR initiatives are aimed at ‘increasing the value of our people’ and so has developed the following formula – which is set up as Ratio 3 - to capture this.

3. Human Asset Worth (HAW) can be defined as:–

\[
\text{HAW} = \frac{\text{Employment Cost} \times \text{Individual Asset Multiplier}}{1000}
\]

The division by 1000 is to ensure that the result does not resemble a monetary amount that can be directly compared by cost.

All being said, there is still no perfect way to value human capital, as Professor Mayo says:

“Understanding how to value our human capital is still a major gap. We know their costs, but cannot balance these with their value to us. Attempts at financial valuation such as through “Human Resource Accounting”(Flamholz) have not taken root”.

These valuations and the commentary around them have been reproduced by permission of Andrew Mayo. For more detail on this topic it is worth looking at Professor Mayo’s two books - ‘The Human Value of the Enterprise’ (Brealey 2001) and ‘Human Capital or Human Resources? Managing People as Assets’ (Gower, 2012) for ways in which this can be done.

**SOURCING EXTERNAL BENCHMARKING DATA FOR COMPARATIVE PURPOSES**

The majority of financial and professional service firms participate in Salary and Benefit Surveys where they match the base salary, bonus and total remuneration – together with the employee benefits package – for specific job holders in every occupation and at most levels. This is to ensure that their pay and benefits are compatible with the external market.

Similarly, many HR departments within financial services participate in the City HR Policies Benchmarking Survey® which analyses and measures a wider range of issues. These include:-

- Organisational demographics including the percentage of total permanent employees who are expatriate, female, in a protected characteristic group and the size and nature of the UK operating company;
- HR demographics including the numbers employed in HR, in which functions, whether any parts of HR are outsourced and the ratio of HR employees to the total number employed within the organisation;
All HR Policies including Reward, Pension Schemes, Recruitment, Graduate Recruitment, Learning and Development, Redundancy and Outplacement with a detailed benchmarking analysis of policy details and spend;

Employee statistics which measure the health of the organisation, including absenteeism, employee turnover and headcount changes all of which are supported by data on causality;

All Family Friendly policies relating to maternity and paternity leave and pay, alongside flexible working opportunities;

Talent Management in terms of its application and measurement of success including employee retention devices;

Diversity Policy application and the progress being made within the organisation across all protected characteristics, with gender diversity obviously being a key feature of this;

International HR and the impact of globalisation on the local HR workforce;

Key HR trends relating to what occupies HR most in times of action and thinking.

This latter issue is also covered in depth by the annual survey undertaken by Kings College, London on ‘The State of HR’ and from which trends are cited in Chapter 7.

**SUMMARY OF HR METRICS**

All of the metrics described in Chapter 5 apply to this section, although greater detail has been given to the topics of Headcount, Absenteeism and Employee Turnover which are amongst the most important and fundamental reporting carried out by any organisation. The Red, Amber and Blue zones for ‘HR Under the Microscope’ are consolidated with the key points from this chapter in Appendix 1.

**REFERENCE AND RESEARCH SOURCES**

2 The Bradford Factor http://bradfordfactor.com
3 Useful site for HR Metrics overview http://www.businesslink.gov.uk
5 Fitz-Enz, Jac The ROI of Human Capital Amacom New York 2000
6 Andrew Mayo, The Human Value of the Enterprise (Brearley 2001)
7 Andrew Mayo, Human Capital or Human Resources? Managing People as Assets (Gower, 2012)
9 The State of HR, published every year by Kings College London, www.kingscollege.ac.uk

Other Recommended Sources for HR related metrics calculations are:-
www.cipd.co.uk/NR/rdonlyres/3A208FB0-3484-4CE7-B8DD-907FF660850/0/Wellbeing_sample_chapter_02.pdf
www.acas.org.uk/media/pdf/q/e/B04_1.pdf
In this chapter Faith Jenner, of Faith Jenner Consulting, considers how the life cycle of the organisation drives the need for differing people metrics. The chapter also examines how the performance of HR itself can come under the microscope and how HR can justify its relevance and worth to the Board and all stakeholders both in terms of what it can deliver and how it can justify its own cost.

The Organisation Life Cycle

It is inevitable that the demand for people metrics will be driven by the life cycle of the organisation, market conditions and the ability of the organisation’s leadership to make the right decisions for sustainable growth.

There are numerous factors which drive the life cycle which can be seen thus:-

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This illustration does not suggest that the organisation will always go through every phase of the cycle but it does realise that the information required from HR with regard to people issues will vary dependent on where in the cycle it resides and how its strategy, trading/market conditions and fortunes may result in changing information needs.

People Metrics behind the Organisation Life Cycle

Taking each of the phases above, these are the likely metrics required by HR and the Board.

1 Start-Up Phase

In forming a new business the owners, shareholders and stakeholders will particularly want to know the following:-

- Talent Acquisition: The number of staff required to operate the organisation effectively, the cost of hiring such staff (from zero budget upwards) and the total likely payroll inclusive of costs arising from Employer National Insurance Contributions and any P11D expenses and benefits in kind.
- People Productivity: The revenue generated by 'front office' staff against the cost incurred in terms of salary, bonus, benefits and operational expenses such as floor space.

“High quality metrics are becoming even more important to drive evidence based decision-making when agreeing a successful HR and business Strategy. The ability of HR to provide value added insight using these metrics to help shape opinion is one of the key levers we have”.

Sarah Grice, Regional Head of Human Resources, UK and Europe, Standard Chartered Bank.
Incentives: What needs to be in place to incentivise staff to do their best for the firm in the start-up and early growth phases. What are the options (eg equity, stock options, performance bonus etc) and what will this cost the firm.

Other metrics that may be required will depend on the size of the Start-Up and whether it is a brand new entity or a subsidiary/off-shoot of an existing firm in which case other important issues such as monitoring diversity and health and safety become important. Please see the Red Zone in Appendix 1 ‘The Range of Data under the HR Microscope’ for the wealth of other metrics which may be relevant to Start-Ups.

2 Growth Phase

As the organisation grows, the people metrics requirements become more complex. In this phase the issues are more around ensuring that there is effective leadership in place, that the composition and competence of the workforce is right and that there is a common vision and strategy in place to position the organisation for success. Retention also becomes a critical issue. The senior management team are therefore likely to focus on:-

- Individual performance measurement at leadership, managerial and general employee levels. People metrics might involve ranking exercises, potential assessments and checks on the number of performance appraisals and ratings undertaken and that these correlate to pay awards.
- Understanding of strategy, visions and values and the buy-in of employees to company policies and practices. Employee engagement data becomes a strong focus.
- Talent Management from the acquisition to the development and retention stages. People metrics may involve the cost of hires, cost of training and cost of retention (through pay incentives or sabbatical costs).

The Red and Amber Zones in Appendix 1 across most HR categories give a wide range of metrics that may be selectively required by organisations in this phase.

3 Outsourcing Phase

As organisations grow and become highly ‘people resourced’; many look at alternatives for service delivery and start to consider whether certain activities can be outsourced. Key examples of this are: the provision of customer service via dedicated call centres; the engagement of an external IT consultancy to deliver the operations and systems requirements; and the establishment of an HR service centre to manage employee questions and routine HR activities such as reference checking. At this crossroads, the HR department has a vital role to play in terms of conducting a Cost vs. Benefits analysis.

Over time, there are certain measures that HR and the senior management team will want to consider in terms of the effectiveness of the outsourcing partner. These are:-

- Is the outsourced arrangement achieving its target in terms of the costs – and financial efficiency – of providing a consolidated service? What are these costs – are they a reduction in people and premises costs or are there other savings such as technology?
- Are Key Performance Indicators and Service Level Agreements being met? The retention of customers (in the case of outsourcing customer services) or users (if this is the outsourcing of HR activities such recruitment or employee helpdesk operations) is a particular issue as dissatisfied customers may transfer their allegiance elsewhere leading to a reduction in revenue or raise constant queries due to a poor understanding of the issue both of which may negate the cost saving.
- Are there any further efficiencies which can be deployed, such as customer or employee ‘factsheets or FAQs’ as a handout or on the website which saves the same questions being asked hundreds of times over.

During 2012 City HR has heard occasional speak of near-sourcing or right-sourcing, where organisations have recognised there is a benefit to having outsourced services located closer to the hub.
4 Challenging Market Conditions and Distressed Organisations

This part of the cycle arises when organisations are affected by the economy, when customers require different products or the organisation has grown too quickly and there has been poor control of costs to continue on a sustainable level. Challenging market conditions have been evident in the financial services sector since 2007/2008 as banks struggled with the credit crunch, and later as the markets have fluctuated due to uncertainty around European debt and the ability of certain countries to meet their obligations as part of the single currency (Euro).

One of the first analytics to come under the microscope is restructuring and the associated people costs. The Board — particularly the CEO, Finance Director and/or Chief Operating Officer will want metrics on:-

- Activities and costs which can be reduced. People metrics might involve advising the number and costs relating to temporary and contract hires; the identification of non-critical costs such as a hiring freeze or restraint on training; the cost of providing certain employee benefits and whether these can be reduced by switching or negotiating with a supplier (e.g., the cost of providing medical insurance to employees and whether by introducing an excess fee the overall premium can be reduced) and ultimately the identification of jobs which could be cut.
- Redundancy. HR will need to outline a process for identifying potential job redundancies and will need to outline the costs associated with voluntary and compulsory severance, outplacement, compromise agreements, legal fees and re-deployment to other parts of the business necessitating a re-training fee. Legal fees will be crucial for firms who operate internationally in order to comply with the employment rights of each jurisdiction.
- Restructuring Risk. The provision of a budget for potential litigation costs arising from unfair dismissal claims or discrimination.
- Proof of strategy. Most importantly, the Board will want to see that real cost savings have been achieved, and over what timeframe, to position the organisation for re-growth.

At the more progressive end of the spectrum are HR metrics on the costs associated with:

- Manager and employee representative training to manage the redundancy process.
- Improving the psychological contract of those remaining with the organisation. This is often termed ‘Survivor Training’ and is utilised to help individuals come to terms with what has happened, why and to re-engage them with the organisation.
- Maintaining an alumni for individuals who have left the organisation and may prove to be future friends and clients. This is about reputation management.

A certain amount of pressure is likely to prevail on HR as the Board set out to expedite matters. For a company in distress, whilst there are legal obligations to consult with employees, once the “distress flare has gone up” speed is of the essence, primarily due to the on-going monthly payroll costs.

Appendix 1 sets out the Red, Amber and Blue Zones for organisations in restructuring mode.

5 Mergers and Acquisitions

The reason for the merger will determine the people metrics required. If an organisation is acquiring to develop its business and to expand its market share then there will be different pressures from one that is merging to survive. In both cases, however, there may be economies of scale to be realised and HR metrics will be pivotal in this respect.

It is probably during mergers and restructuring that HR gets constant access to the CEO and FD and often justifies its worth to the organisation. Significant people metrics and details need to be reviewed in order to:-

- Identify the senior management team.
- Identify the business lines to be maintained from the in-coming and then combined organisation. For example, if two banks are merging and only one has an Asset Management team in London, the options are to: keep, sell, merge or restructure.
- Identify the roles to be fulfilled throughout the combined businesses.
Assess and retain key talent to fulfil critical functions. One way may be to calculate the cost of the employee versus the revenues produced.

Lock-in those employees who are instrumental and vital to the continuance of the business and assess the costs for achieving this.

Engage those staff who are remaining with the organisation. Consider initiatives such as an internal communication and marketing campaign and assign a budget to accommodate these costs.

Restructure the business to be fit for the future

Identify those who are surplus to requirement, to explore re-deployment opportunities and – if all else fails – to proceed with restructuring and redundancy plans as already highlighted above in ‘Challenging Market Conditions and Distressed Organisations’.

Establish a Risk Fund for any claims which may be made against the company – including a contingency fund for claims arising from the in-coming organisation which may become a liability of the acquiring firm. Examples would include unfair dismissal claims, discrimination claims, whistleblowing claims and outstanding bullying and harassment claims. There may also be claims in the pipeline for injury at work or stress.

Identify any other costs relating to people issues, such as the cost of advisors (e.g. on integrating two HR systems or Outplacement Fees).

Appendix 1 sets out the Red, Amber and Blue Zones for organisations in restructuring mode.

6 Sustainable Success

The key to any successful organisation is to develop the business in a profitable way to meet the demands of customers and stakeholders whilst keeping a strong watch on expenses. As a consequence, there will always be a necessity for people metrics in order that the Board can be assured that it is growing on a sustainable basis and is being prudent in the management of its business.

For organisations in this phase, most of Appendix 1 People Metrics could apply, hopefully with the exception of those relating to restructuring.

Looking at the International Dimension

Many HR Business Partners and HR Directors in the City have global responsibilities and need to take a global or regional view of the activities that they measure and deliver for their Business Head. As a consequence, there are many facets of the Organisation Life Cycle that are universal. For example, Business Heads will want to know the headcount, attrition rates, employee costs, employee engagement levels, succession plans and performance measures for everyone who falls within their sphere of management. However, there are some intrinsic aspects of HR which will vary between international locations and these include employment law, local culture and customs as well as the working practices that ‘hold good’ for those regions. For this reason, it is imperative to consult with the local HR Department and local lawyers when making key business decisions which impact employees.

City HR asked Philip Broadley, Group Finance Director, Old Mutual Plc what measures he felt HR should pay attention to when operating across international jurisdictions.

Mr Broadley highlighted that operating on a global basis, one needs to measure people issues in accordance with the customs and practices, and laws, of the different countries of operation; but there are also common factors that can be viewed on a worldwide company basis.

These are

- scientific measurement of employee attitudes and organisational cultural values
- measurement of the people in one’s own team in relation to customers, risk and people
- measurement of women and minorities on Boards and Senior Management positions
Mr Broadley stated that

“As Group Finance Director, one of the greatest values that I derive from our people metrics relates to our annual survey, and being able to assess and understand the attitudes and aspirations of our people throughout the world.

Every year we assess the health of our culture as experienced by our people and work to close the gap to desired culture as expressed in the survey. Although there is a local feel to each of our businesses, clearly customer satisfaction, teamwork and accountability are evident in the way we work across Old Mutual today.

We believe that successful companies are vision-led and values driven. Our attention to the values and behaviours that make up our culture helps to ensure that people can bring more of themselves to work, not only helping to make Old Mutual a great place to work, but also ensuring that we continue to deliver great things over the long-term.”

Philip Broadley, Group Finance Director, Old Mutual plc

THE PERFORMANCE OF THE HR FUNCTION

The profile of the HR function has risen significantly over the past decade and therefore has the ability to carry more influence with senior management and the workforce. In challenging times, heavy reliance is placed on the HR Director and the entire team as the Board looks to minimise their risk exposure through employee claims. However, as costs are a constant consideration across all business, there are still occasions where the function is required to justify its own existence.

How this can be achieved falls into two categories:

1. By getting the basics right and therefore demonstrating that it is positioned to deal with more complex challenges and data and thus has greater ability to contribute and influence; and
2. By the way it is structured to deliver an effective service to the workforce, mindful that it is perceived as a ‘cost centre’ and must not be a drain on financial resources.

Other chapters and Appendix 1 have already addressed the basics, the value-added and the influencing metrics, so it is sensible to focus on the second of these.

HR Metrics can illustrate the value/cost of the HR function to the business

As already said, HR can often be required to justify its activities and costs. This can be done in a number of ways.

It can be helpful to benchmark HR activities and costs to ensure value for money for the organisation.

- The City HR Policies Benchmarking Survey of 2010 tracked the number HR staff to the employees they supported. Looking at 56 financial service firms in investment banking, corporate banking, asset management and insurance, it found that for the majority of organisations, each member of the HR team supports between 30 and 60 employees in London. This is depicted in the graph overleaf.
The vertical axis is the number of employees supported by each member of the HR team, the horizontal axis plots each participating organisation. It should be noted that 5 organisations did not provide sufficient data for this analysis.

- The structure of the department according to the City HR Benchmarking Survey 2010 (Graph below) was also important with some using the Ulrich Model – a structure favoured by the larger firms as routine administration can be delivered by a regional or global HR Service Centre – whilst others still use the ‘traditional or single team model’ or a combination of both. Looking at 56 financial service firms in investment banking, corporate banking, asset management and insurance, the survey found that financial service organisations were structured in a myriad of ways which depended on the size of their organisations, the number of users and the regional spread of their staff.

How is HR structured?

Anecdotal evidence also suggests that many of the larger firms who do use the Ulrich model in the financial services sector have off-shored their HR Service Centre to locations where labour costs are significantly cheaper such as Eastern Europe and India.

- The same survey also looked at the activities covered by the HR function, which clearly depended on its size. Each organisation had a graph and ranking which depicted the range of activities in which its HR department engaged, and the graph below reflects the outcome for the total population of 56 firms surveyed:
Many organisations use the City HR Benchmarking Survey to show their senior management team how effective they are in the use of the function's resources. This information is enhanced, as the survey provides each organisation with a ranking against the total number of financial services participants and then against the organisations peers in terms of size and business.

Another interesting metric from this survey, which is also captured in 'The State of HR Survey' published by Kings College London on an annual basis is the major issues facing HR functions which can also demonstrate to the Board the people concerns of organisations in the external market.

The following graph, covering the period 2009 to 2012, has been reproduced from the Kings College Survey below:

**Major issues facing HR Functions over the past four years**
“In general, .... the more HR metrics are collated and used, the more valuable they are perceived to become in terms of informing management decision-making. In essence, the gathering and use of data and evidence around HR and people management is seen to be a positive step and one that should drive better strategy and more informed management decisions.”

Stuart Woollard, Director Management Learning Board, Kings College London

THE POWER OF PEOPLE METRICS ACCORDING TO HR ITSELF

As David Ulrich said:

“I like HR analytics because they document the value that HR creates”

“It is no longer possible to sidestep data, evidence and analytics that bring rigour and discipline to HR. Statistics should become de rigueur for HR professionals”

Interestingly, this view also seems to be shared by the profession itself. Referring again to ‘The State of HR Survey 2012’ it found that:

“In general, .... the more HR metrics are collated and used, the more valuable they are perceived to become in terms of informing management decision-making. In essence, the gathering and use of data and evidence around HR and people management is seen to be a positive step and one that should drive better strategy and more informed management decisions”

Figure 19 from the survey shows that a staggering 74% of HR professionals surveyed from 350 different organisations felt that HR metrics were of moderate use to very useful, as depicted below:

<table>
<thead>
<tr>
<th>Figure 19. How useful do you think HR metrics are in supporting decision making?</th>
<th>%</th>
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<tbody>
<tr>
<td>Not useful at all</td>
<td>1</td>
</tr>
<tr>
<td>Useful to a limited degree</td>
<td>22</td>
</tr>
<tr>
<td>Moderately useful</td>
<td>37</td>
</tr>
<tr>
<td>Very useful</td>
<td>37</td>
</tr>
</tbody>
</table>

Finally, the Chartered Institute of Personnel and Development (CIPD) has produced a toolkit for HR professionals entitled ‘Using HR metrics for maximum impact’ which helps individuals to ‘identify meaningful measures of HR performance in the context of your own organisation.’ This is available to CIPD members through their website at www.CIPD.co.uk
<table>
<thead>
<tr>
<th>RED</th>
<th>Minimum level</th>
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<tbody>
<tr>
<td>The HR metrics and data that all organizations should maintain for statutory or base reporting reasons.</td>
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<tr>
<th>AMBER</th>
<th>Added value level</th>
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<tbody>
<tr>
<td>The HR metrics and data that many organizations should aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making.</td>
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<tr>
<th>BLUE</th>
<th>Influencing and directing level</th>
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<tbody>
<tr>
<td>The HR metrics and data that all organizations should maintain to improve the integrity of data and decision-making.</td>
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</tbody>
</table>

## METRICS ABOUT HR

The Organisation Life Cycle: Identify, collate and analyse the metrics and data required to support the organisation through the appropriate phase such as:

### Start-up phase
- Headcount at business formation and peak; salary and benefits costs; hiring costs: the cost of providing incentives for growth including equity and share options. Consider all of the HR metrics covered in the red zone of this appendix.

### Outsourcing:
- Conduct a Cost vs Benefit Analysis looking at the proposed new location in terms of availability of human capital, cost of local hires, cost of training, cost of potential double salaries during transitional period. Set up Service Level Agreements and monitor.
- Set up a redeployment fund in the exiting company or region to include re-training, severance pay and outplacement.
- If off-shoring activities, manage new location in line with amber and blue zones of this appendix.

### Challenging Market Conditions:
- Analyse activities and costs which can be reduced including headcount freezes, headcount reductions and re-negotiation of the cost of

## METRICS ABOUT HR

The Organisation Life Cycle: Identify, collate and analyse the metrics and data required to support the organisation through the appropriate phase such as:

### Growth phase:
- Measure efficiency, productivity and performance of resources as well as costs of hiring, training, personal development; measure employee engagement. Consider all of the metrics covered in the amber and blue zone of this appendix.

### Challenging Market Conditions:
- Plan and budget to manage the workforce remaining with the organisation and measure, analyse and manage their needs in accordance with the amber and blue zones of this appendix.
employee benefits such as medical insurance.

- Identify potential job redundancies, ensuring a fair selection process and employee consultation. Examine the costs relating to voluntary and compulsory severance, legal fees, compromise agreements and outplacement (including additional cost of legal advice for overseas locations).
- Restructuring Budget including a contingency against risk of employee claims.

**Distressed and Failing Companies**

- See red zone above.

**Mergers and Acquisitions**

- Conduct or present HR Due Diligence (depending on whether the firm is acquiring or being acquired) based on the red zone above. If the acquirer seeks data about the amber and blue zones of this entire appendix 1.
- Understand the new business plan and model the HR costs accordingly.
- Analyse the cost and budget for restructuring including HR related legal fees and a risk of employee claim fund.
- Analyse the cost and plan for employee retention in the merging and merged organisations.
- Manage the merged organisation in light of the amber and blue zones of this entire Appendix 1.

**Sustainable Growth and Maturity**

- Consider the metrics in light of the red, amber and blue zones of this entire Appendix 1.

**What HR Should Know About the Business**

- Headcount: Permanent and Temporary/Contract staff (see “Definitions”)
- Number of Expatriates and

**Mergers and Acquisitions**

- Manage the mergers and acquisitions in light of the red, amber and blue zones of this entire Appendix 1.

**Sustainable Growth and Maturity**

- Consider the metrics in light of the red, amber and blue zones of this entire Appendix 1.

**What HR Should Know About the Business**

- Headcount: Front Office vs All Other Categories of Staff (see “Definitions”)
### What the Business Should Know About HR

1. **Employee engagement levels**
   - Productivity
   - Succession Planning

2. **HR performance data including number of hires per annum, including the average time from first interview to hire**
3. **Percentage of performance appraisals completed**
4. **Number of disciplinaries undertaken and the percentage leading to dismissal. Key reasons for dismissal based on analysis of those leaving to see if lessons can be learnt.**
5. **the number of grievances settled in a satisfactory manner**
6. **Annual attrition rate and the ratio of voluntary to involuntary leavers, particularly the number leaving by way of redundancy**
7. **Cost-savings derived from innovative HR initiatives: e.g.; employee benefit savings derived for successful supplier negotiations; reduced absenteeism and improved productivity through the introduction of wellbeing programmes; savings made on outsourcing certain HR activities.**

### What the Business Should Know About HR

- Ranking of the organisation in external surveys such as those relating to diversity and corporate social responsibility
- Ranking of the organisation against all HR policies (The City HR Policies Benchmarking Survey) by total population and by peer group comparison
- Awards received for outstanding contribution such as The Lord Mayor's Dragon Award for corporate social responsibility or an award judged for a professional magazine

### REFERENCES

1. City HR Policies Benchmarking Survey 2010, City HR Association
2. Are We There Yet? What’s Next for HR, David Ulrich, Professor, Stephen M Ross School of Business, University of Michigan and Partner, the RLBPF Group, 2010
3. The State of HR Survey 2012, Kings College London
4. Using HR Metrics for Maximum Impact, CIPD
CHAPTER EIGHT

REMUNERATION

The issue of remuneration in City-based firms is currently a ‘hot topic’ and the attentions of the media, government and regulatory bodies are likely to continue. Finance-sector organisations are now required to report details of certain employee’s packages to the Financial Services Authority (FSA) and, to obtain its approval of their remuneration policies and pay mechanisms. Therefore, it has become even more essential that all aspects of the remuneration package are recorded, accurately costed and correctly reported for internal requirements and for those of external bodies.

This chapter, by Carolynne Ruffle of City Pay Associates, David Clifford of RewardPlus and Lindsay Pulford of Standard Chartered Bank, sets out the key components of remuneration; the remuneration data that needs to be maintained and reported; the internal and external applications of pay and benefits analysis and the ability to undertake meaningful comparative analysis through pay, benefit and remuneration surveys.

WHAT IS REMUNERATION?

Remuneration/reward packages provided by most City-based firms are extensive and comprehensive. Organisations will not provide all of their employees with all the elements outlined below; typically there is a range of different types of ‘reward’ available. Many organisations provide different elements of remuneration and levels of benefit to different groups of staff usually dependent on seniority or length of service. In principal the proportion of remuneration ‘at risk’; whether through annual or longer-term variable pay arrangements, will rise with the seniority of the role.

Whatever the combination of elements they are likely to be drawn from the following:

Cash remuneration
- Base Salary
- Additional fixed allowances such as London weighting
- Cash bonus awards typically paid annually and, for larger awards, often subject to deferral
- Variable cash payments such as paid overtime, Commission plans, typically Sales plans (for certain roles such as brokers)

Longer Term Incentive Arrangements
- Multi-year share and/or cash awards
- Share options

Benefits in Kind (some paid in cash)
- Insured benefits (including life assurance, private medical insurance and permanent health/long-term disability insurance)
- Company car or car allowance
- Gym/sports club membership
- Subsidised restaurants or luncheon vouchers
- Mortgage subsidy payments
- Medical check-ups/eye tests
- Holiday annual leave
- Training/professional qualification support

Increasingly these elements of the package will be structured as part of a flexible benefit scheme offering employees a variety of options from which they make their own selection

Pension Scheme
- Employer contributions/accrual rates
- Employee contributions
- Reporting on current fund valuations and estimated benefits at retirement

For each element of the package there are various parameters for which data must be recorded and are likely to be required in various forms to aid in HR and/or management decision-making. This ranges from the simple recording of base salary information by individual, including all historical data, to keeping information
on benefits costs by type and by individual. Family private health care will cost more than single membership; staff will have different levels of pension contributions and holiday entitlement.

**REQUIREMENTS FOR REMUNERATION RELATED DATA**

Remuneration data is by its very nature, confidential and emotive resulting in limits on access to individual pay data within an organisation. It is vital that all remuneration data is held securely and released only to those with the authority to see and use it. Typically remuneration data applicable to any individual employee will only be made available to him/her, relevant HR employees, the line manager and the senior management team/Remuneration Committee.

Combined or consolidated remuneration data is likely to be made available more widely to other senior management, such as employee cost per department or the cost of providing medical insurance or pension contributions across the company as a whole.

It is essential that remuneration related data metrics are available to senior management and to the HR department to enable effective decision-making. Larger organisations will have comprehensive HR management systems which combine many data metrics and allow complex report building. Smaller organisations may have simpler HR systems and are likely to use a variety of methods such as spreadsheets to record certain HR data or to undertake analysis.

The ability to present remuneration-related data in a variety of ways is advantageous. It can be easier for the users of the data, whether the Remuneration Committee, line management or the employee him/herself to see data presented in graphs and tables and in formats that allow comparison with other data. Access to a wide range of analysis and reports is essential to enable senior management, the Remuneration Committee, Human Resources department and line management to be fully informed when making decisions about pay, incentive arrangements, internal equity and performance.

An example of a Salary and Bonus Plan is contained in Appendix 2 of this publication and contains the range of data that is likely to support decision-making at both the individual and departmental level. The Salary and Bonus Plan for the entire organisation is likely to be held by the Country or Regional HR/Compensation Department and when consolidated will show the average salary increase for each department, business function, country or region.

Data must be accurate and up-to-date. All aspects of the package, not just cash, must be costed to ensure a full picture can be obtained not only on the costs of employing someone but also to assess the value of the package, how it compares to those of internal comparator/roles with similar value to the organisation, and to packages offered by similar organisations, competing for similar staff.

Benefits may be evaluated in different ways - the actual cost of providing the benefit or, to allow employees to understand the value of that benefit in comparison with the cost of having to purchase that benefit privately without the buying power of the employer.

**Internal Users of Remuneration Data:**

- Each employee – likely to be targeted to show their individual package only. Includes monthly payslip, annual tax-related reports such as P11Ds and employee benefit statements
- Line managers – individual and department wide metrics for cost centre budgeting and pay review process
- HR department – all levels of data by individual, department, company-wide. Able to access, analyse and monitor all aspects of the remuneration package.
- Remuneration Committee/Senior Management – likely to have access to individual data (though not their peer group); company-wide data and comparator data from external sources

**External Users of Remuneration Data:**

- HMRC – tax returns related to PAYE
- The Financial Services Authority (FSA) and other regulators (UK and/or overseas). Organisations included under the FSA’s Remuneration Code are required to report on the pay of code staff. In addition to providing information on pay policy and practices, data on the remuneration packages of selected individuals must be recorded and reported in the manner prescribed by the FSA (see later paragraph).
- Other government appointed bodies such as the Equality and Human Rights Commission – voluntary reporting of gender pay under the Equality Act 2010
- Benefits Advisors/Providers
- Pensions Admin/Providers
- Shareholders (via published annual reports – directors remuneration is in the public domain
BONUS PLANS

The calculation of bonus awards is likely to require other business metrics to determine the level of award set. These may include group/business performance measures; team and/or individual profitability; shareholder return, share price, etc. These metrics need to be combined accurately with HR metrics to determine incentive awards by team and individual.

Once an individual’s bonus has been determined, then financial service firms need to consider how to structure the payout of the individual’s bonus in light of the FSA’s Code on Remuneration. It should be noted that Code Staff (ie employees covered by the FSA’s Code on Remuneration) are usually in the minority of the organisation’s total population – with just the occasional exception – and yet the principles are often adopted for non-Code staff qualifying for bonuses above a certain amount which varies dependent on the Remuneration Policy for each organisation.

Deferrals are increasingly used to ensure that the employee’s reward is tied in to the longer-term success of the business. Whether cash or shares, careful consideration needs to be given to what level of deferral is appropriate and the timescale in which the deferral will be paid. For banks, specific rules on deferrals are set out in the FSA Remuneration Code guidance. Typically the level of deferral will increase with higher levels of reward reflecting the higher contribution to the business that those employees will have made and therefore the need to both ensure that business risk and employee retention are taken into consideration.

An example of an Annual Bonus Deferral Mechanism is given below:

**EXAMPLE ANNUAL BONUS DEFERRAL MECHANISM**

<table>
<thead>
<tr>
<th>Range</th>
<th>Cash Percentage</th>
<th>Immediate Cash Payment</th>
<th>Deferred Cash Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 50,000</td>
<td>cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50,00-99,999</td>
<td>60 percent</td>
<td>40 percent in deferred</td>
<td>40 percent in deferred</td>
</tr>
<tr>
<td></td>
<td></td>
<td>cash after 2 years</td>
<td>cash after 2 years</td>
</tr>
<tr>
<td>100k-249k</td>
<td>40 percent</td>
<td>20 percent in immediate</td>
<td>40 percent in deferred</td>
</tr>
<tr>
<td></td>
<td></td>
<td>stock and 40 percent in</td>
<td>cash paid after 2 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>deferred cash</td>
<td></td>
</tr>
<tr>
<td>250k-499k</td>
<td>40 percent</td>
<td>20 percent in immediate</td>
<td>20 percent in deferred</td>
</tr>
<tr>
<td></td>
<td></td>
<td>stock, 20 percent in</td>
<td>cash paid after 2 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>deferred stock with</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>performance conditions</td>
<td></td>
</tr>
<tr>
<td>Between 500k and 999k</td>
<td>35 percent</td>
<td>20 percent in immediate</td>
<td>15 percent in deferred</td>
</tr>
<tr>
<td></td>
<td></td>
<td>cash, 15 percent in</td>
<td>cash paid after 2 years, 30 percent in deferred stock with</td>
</tr>
<tr>
<td></td>
<td></td>
<td>deferred cash</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>stock with performance</td>
<td></td>
</tr>
<tr>
<td>Above 1m</td>
<td>30 percent</td>
<td>10 percent in deferred</td>
<td>60 percent paid in</td>
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<tr>
<td></td>
<td></td>
<td>cash or immediate stock</td>
<td>deferred stock with</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and 60 percent in</td>
<td>performance conditions</td>
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<tr>
<td></td>
<td></td>
<td>deferred stock</td>
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</tr>
</tbody>
</table>

One key criteria of the FSA Code on Remuneration is the ability to claw-back some, or all, of a bonus award if it subsequently turns out that the bonus decision was based on individual (or group) performance figures that were inaccurate or inflated for a particular reason. For example, if a bonus was paid on the achievement of excellent sales results relating to a financial product, and these sales figures were flawed due to mis-selling of the product or a mis-calculation of the profit derived by the organisation, then this could have a detrimental impact on the individual’s bonus award. In this case, the individual may see a claw-back on part or all of the bonus awarded.

An added complication for HR and Remuneration Directors is the tracking of bonuses paid over a deferred period and the communication of the bonus award – deferral included – to the employee.

Many financial institutions manage this issue through a bonus tracking system, which can be as simple as a spreadsheet or managed as part of the organisation’s HR system. However this is managed, it is critical that the Finance Department is informed of the deferral arrangements, as this clearly has an impact on the future financial accounting of the firm.

In terms of managing communication with the individual, most firms issue bonus letters which explain to the individual how their bonus will be treated, depending on the size of the payout and the nature of the individual’s job role. A claw-back clause is usually included in this letter.
At a more advanced level, some financial services organisations issue the bonus recipient with a chart which outlines how their bonus will be treated, and an example is given below.

This worked example is based on a bonus award of £300,000 and paid out over a three year period using a combination of cash, immediate stock, deferred cash and deferred stock as follows:

**Example deferral £300,000**

From the above worked example it can be seen that the hypothetical organisation has depicted the individual's bonus as follows:-

- **Year 1:** 40% Cash (£120,000) and 20% immediate stock (value £60,000)
- **Year 2:** 20% deferred cash (£60,000)
- **Year 3:** 20% deferred stock (value £60,000)

Total of bonus paid over 3 years = £300,000

**Bonus Buy-Outs**

One consequence of the need to defer bonuses has arisen as individuals change firms before they have received their full bonus allocation and therefore seek a 'bonus-buyout' from their new employer. In the case of financial service firms, the FSA has stipulated that the hiring firm must treat the bonus of their in-coming employee in the same way as if the individual had continued working for the firm that made the bonus award.

In such cases, it is usually the practice of the hiring firm to seek written evidence of the bonus deferral terms. This can be achieved by asking to see the original bonus letter and also any communication which sets out precisely how the deferral is to be paid. The worked example above is one such communication which would assist the hiring firm. Once again, in assuming this bonus commitment, the HR or Remuneration Director would need to ensure that the Finance Department is informed of this on-going liability.

**Share Schemes and Other Long-Term Incentive Plans**

One of the most complex data requirements for an organisation is likely to be around incentive arrangements. An organisation may operate a number of incentive or bonus schemes for different categories of staff. Some may have complex performance conditions and calculations to determine the award to be made; others may require some element of management discretion. HR will need to ensure awards are made correctly and fairly, and within the parameters and policies set.

Performance share plans are a type of Long-Term Incentive Plan (LTIP) in which participants are allocated shares or, more commonly, rights to acquire shares. The vesting of these shares is subject to the satisfaction of performance conditions typically measured over a period of at least three years. Typically a Performance Share Plan will be used for the retention of the most senior managers and will have between two and four business measures which need to be met in order for the shares to be granted. As part of the set up of any such scheme it is essential to ensure that the measures are appropriate and take into consideration the longer term success of the business.
Any schemes where awards are to be paid at a later date, often several years ahead, need to be considered as a liability on the company’s accounts, and additional awards or claw-backs (malus) built in where these are dependent on future performance. Share options waiting to vest have a variable value dependent on market conditions. Many companies may wish to track these particularly as vesting approaches. HR will need to record and utilise all parameters associated with incentive arrangements to ensure all are calculated, awarded and paid out correctly.

Where organisations have performance related incentive arrangements, particularly where these are complex, they are likely to need to model different group and individual performance scenarios to fully comprehend the bank’s potential liability for paying out on various incentive arrangements in the near and longer-term. Although such modelling may take place in departments other than HR (Risk or Finance for example) the remuneration-related metrics are likely to be supplied by HR.

**RECORD KEEPING & DATA SOURCES**

Secure recording and maintenance of remuneration-related data is an essential requirement for all organisations and, whatever their size, they must keep records of current and historic pay details for every employee, including leavers. Employees would expect their employer or previous employer to have a record of annual salary over the period of their employment, bonus payments and any other cash awards made, pension contributions by employer and employee, plus any share-based awards.

Many organisations outsource the running of their payroll, and pension arrangements and benefits management, yet will need access, via these providers, to any data pertaining to their current or ex employees relevant to their period of employment.

It is extremely unlikely that any organisation would use data on remuneration in isolation. Typically they will need to review such outputs against other HR or wider business metrics, for example performance management and appraisals will impact on likely remuneration decisions; or senior management will want to review how remuneration levels and incentive arrangements impact on business performance and vice versa.

It is essential that all organisations regardless of size can review and assess the cost of employing an individual, a team/department, plus overall employment costs for all staff. Larger organisations will utilise complex HR management systems which combine many HR related data metrics and allow for complex analyses, reporting and modelling.

Smaller organisations may have simpler HR systems and utilise add-ons such as spreadsheets and other documents and databases to record and review various aspects of the company’s remuneration package; base salary, bonus payments, pension contributions, employee benefit costs. However, they will still need to review these across the board; combine and analyse data from various sources and provide reports for HR and management use.

**PARTICIPATION IN REMUNERATION SURVEYS AND THE USE OF SURVEY DATA**

Understanding the pay market is vital to organisations in setting pay policy and individual pay rates. Most organisations will participate in, and receive the result of, one or more salary surveys. To ensure that the company is selecting the correct survey, matching jobs correctly and using the results appropriately can be very challenging, especially when survey results and line manager expectations diverge. However, used with care and understanding, external pay data is an essential tool in validating internal pay rates and other internal data.

The compensation specialist/manager needs to review the sources of data used considering the peer group of companies to ensure they are appropriate, the geographical location and the timeline involved (survey data is historical by nature – there is always a time lapse between the date to which it applies and date of publication). Market data gives a valuable view of the pay market but should be used as a guide not a definitive source. The user needs to allow for variations in matching jobs across multiple organisations (not every survey participant is likely to have been as conscientious in their job matching as you); the age of data and robustness of the data provided (a sample of 25 or more individuals is likely to provide more reliable data than is a sample of 10 or less).
Survey data is often supplied electronically and can be fed into your organisation’s remuneration review systems. Many larger organisations will have sophisticated modelling systems where in-house remuneration data can be compared to market data from a number of sources. Other organisations will use spreadsheets, downloading internal pay data from payroll or HR systems and combining with incoming survey data. This allows cross-referencing across a number of sources.

Opportunities for error could occur at every stage from your own job matching to aligning appropriate market data with the correct roles internally.

Benchmarking involves both objective and subjective information comparing survey job descriptions against internal ones. Availability of reliable information both internally and externally is important. The ability to validate all such information is essential.

SUMMARY

HR data, used to create benchmarks and metrics can be very powerful. Organisations hold, in one form or another, all the data referred to above but often fail to exploit it effectively. The opportunities to make better use of the data we have can be summarised as:

- Basic use of data for example in using salary and benefits data to benchmark internal levels/practices
- Supporting management decisions for example in exploring the outcome for a particular policy or benefit. Most organisations have some form of overtime policy but do not always analyse the cost of overtime, the who and when of overtime claims etc to help develop a picture of the pinch points in resources
- ‘Marketing’ the tangible benefits of employment through employee pay and benefits statements, creating a realistic summary of what is provided in total as part of the employment package
- Identifying trends, weak spots etc where a change in the ‘direction’ signals a potential problem. For example, where a department or unit is experiencing increased attrition, often identified using resignation tracking rather than waiting for a headcount report to show the employee has left.
- Looking at areas which are experiencing a degree of ‘stagnation’ with longer than average service, time in grade etc often highlighting a lack of opportunity
- Developing key ratios such as revenue per £100,000 of employee cost or total cost of employment as a percentage of pre-employment cost profits; ideally this data is benchmarked but even where this cannot be achieved it can be a useful tool for internal comparison, establishing changes over time etc

People costs often represent the largest operating expense for a financial services firm. By combining data, by understanding what drives people costs and by developing some element of forecasting the rich source of data available to HR can be transformed into useful, relevant information.

EMPLOYEE BENEFITS STATEMENTS

It is probably as important to ensure your employees recognise the value of their whole package as it is for the organisation to understand the cost benefit implications of providing a range of employee benefits.

The value of private cover, for example, to an employee who receives family cover is different to the cost incurred by the organisations that will achieve much better rates from the insurer than would any individual buying privately, regardless of any tax implications of receiving the benefit.

Employee benefit statements are the employer’s opportunity to emphasise the value of an individual employee’s package and ensure they recognise that there is more than simply the cash element they see on their pay slip each month. They need to see the cost to the organisation, any tax implication for themselves and perhaps a comparison of each element so they can compare what it may cost them to provide for these benefits themselves.

The Employee Benefit Statement is likely to also include information on employer and employee pension
contributions. Although information on pension fund values, accruals and likely pension values at retirement will be provided by the pension provider to each member, the employer should also have access to information to be able to indicate the sizeable contribution they are making to an employee’s pension fund. A sample Benefits Statement can be found in Appendix 3 of this publication.

### SUMMARY OF KEY METRICS AND ISSUES

**HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES**

<table>
<thead>
<tr>
<th>RED</th>
<th>AMBER</th>
<th>BLUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum level</td>
<td>Added value level</td>
<td>Influencing and directing level</td>
</tr>
<tr>
<td>The HR metrics and data that all organisations should maintain for statutory or base reporting reasons.</td>
<td>The HR metrics and data that all organisations should maintain to improve the integrity of data and decision-making.</td>
<td>The HR metrics and data that many organisations should aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making from the Board down.</td>
</tr>
</tbody>
</table>

**REMOUNERATION**

- Employee Payslips listing all payments and deductions made;
- Historical Pay-related data for current and past employees;
- Pension scheme contributions for employer and employees;
- Employee benefits costs (e.g. private medical insurance premiums etc.);
- Data required for tax returns such as P60s, P11ds, P45s etc.;
- Data required by regulatory authorities, e.g. FSA, on remuneration policies, mechanisms; details of the packages paid to specified employees (e.g. Code staff);
- Director’s pay and packages to be reported in published annual reports (plcs)

**REMOUNERATION**

- Employee Benefits Costs by individual/department etc.
- Market data to aid remuneration decisions (e.g. salary surveys);

**REMOUNERATION**

- Data on employee benefits available on staff intranet – selection of flexible benefits, individual’s package, value and usage;
- Analysis of remuneration data against company financial performance (internal vs. external comparators);
- Ability to report remuneration data in a variety of formats, e.g. graphical analyses which enable management to visualise different scenarios

### REFERENCES

http://www.equalityhumanrights.com
Sophisticated organisations will evaluate the amount of influence that high potential individuals exhibit alongside the trust that they exude from those around them.

Michael Brooke, Head of Learning and Development at BNP Paribas

CHAPTER NINE

MEASURING TALENT

This chapter, by Andrea Eccles of the City HR Association, explores how organisations can measure, assess and track their talent through all aspects of the talent cycle and how - throughout this process – retention, succession planning and employee engagement can be improved leading to enhanced performance at both the individual and organisational level.

Ever since McKinsey & Company coined the expression ‘The War for Talent’ in 1997 organisations have been aware of the need to effectively manage the attraction, assessment, development, engagement and retention of their resources. Since then, most organisations have deployed a talent strategy. For some organisations this is about identifying top talent, using a variety of performance and potential assessment methods, and putting these in the ‘talent pool’. Other organisations perceive all their staff as talent and have a strategy which addresses the management of talent across the board. What is becoming clear is that from small to large organisations, talent management is here to stay and that measurement in this area ranges from minimal to highly sophisticated, as will be demonstrated in this section.

THE TALENT CYCLE

The best way to consider talent management is in the context of the talent cycle. In other words, looking at how organisations attract, identify, engage, retain and develop their staff and the measurements that underpin these key interventions.

TALENT ATTRACTION

There are some fundamental measures that apply to the hiring of new employees. These encompass the:

1. Workforce or Manpower Plan
   - What resources are required and where. For those who are undertaking or reviewing their staffing requirements for the first time, the CIPD publication ‘Workforce Planning: Right people, right time, right skills’ CIPD Spring 2010 presents a worthwhile model.

2. Global/Local Succession Plan
   - Identification of internal resource with the ability to progress or to be developed into key roles within the organisation.

3. Headcount Report
   - Number of employees employed on a permanent basis (or supplemented by temporary and contract staff, in line with definitions outlined in the introductory Section of this publication) and usually agreed with Finance.

4. Departmental Budget
   - Approved income and expenditure plan against a wide range of operational activities for the fiscal year, against which the actual spend is measured against the forecast spend and an analysis is undertaken of the variance to plan.

5. Resourcing Budget
   - Budget allocation for hiring purposes including whether this be for headhunter/agency fees, campus recruiting, advertising, web-based recruitment sites or the deployment of an in-house resourcing implant (traditionally outsourced to a third party provider).

At the basic level, organisations can measure how many vacancies they are filling internally and externally and to measure the cost. One way to do this simply is to aggregate the number of vacancies and divide this into the total spent on attracting talent into the organisation, either using just headhunter, agency and temp to permanent recruitment fees, or by factoring in other attraction methods such as total advertising, company recruitment brochures, internet fees and – where applicable – the cost of the in-house recruitment implant. This would yield the cost per hire.
A further calculation is evident in some financial and professional service firms and that is the cost of hiring front office staff vs all other categories of staff. Front office staff are typically defined as Revenue Generating employees such as traders, corporate financiers, corporate bankers, private bankers, asset managers and client relationship managers. For insurance companies this would typically entail underwriters, brokers and reinsurance brokers, whilst professional service firms would typically deem these as fee earners. This is then compared to the total cost of hiring ‘all other categories of staff’ which would then produce a percentage figure for the cost of hiring front office staff vs. all others. Alternatively this can be presented as a ratio.

The City HR Benchmarking Survey uses this calculation to examine the cost of hiring front office staff vs all other categories in order to ascertain the collective cost of hiring ‘rainmakers’ versus the cost per hire in this category.

The cost per hire is an indicator regularly reviewed by Financial Control when looking to reduce expenditure.

For organisations who are looking to measure the effectiveness of their hiring, and to go beyond the basic level there are further indicators that should be considered. For example:-

1. **Diversity Monitoring**
   Is the organisation attracting and hiring a diverse workforce?

2. **Effectiveness of Recruitment**
   Does the resourcing method work successfully and represent fair value. Are suitable rates being derived from the Headhunter or Recruitment Consultancy?

3. **Company Website**
   Is effective use being made of the Company Website not only to attract potential hires but to recruit too? How many applications are received and of these, how many translate into hires. Many firms further calculate the cost-saving of using the company website against the former source that was used to attract the new hire.

4. **Resourcing Benchmarking**
   How does the organisation stack up against the external Market on average cost per hire, numbers hired and job functions recruited. Also against fees paid to external sources for hiring purposes.

5. **Remuneration Surveys**
   What are other companies paying in terms of base pay and and total compensation and what about benefits?

All of these metrics are addressed in the City HR Benchmarking Survey which takes place every other year and helps organisations to optimise their own internal metrics and to make external comparisons, both against the total market (ie all participants in the survey) and against their own peer group (eg investment banks, international banks, retail banks, asset managers, insurers etc).

There are, however, more sophisticated trends emerging amongst the larger or more ‘talent competitive’ firms and these measures include:-

1. **Market research**
   Assessment of brand awareness to establish whether potential recruits identify with the name, business, products and values of a particular organisation. This is most prevalent at campus level as part of the graduate recruitment programme.

2. **Ratio Checks**
   At the end of a recruitment campaign the number of male vs female applicants can be monitored to see if the organisation is attracting the right numbers and to see if any enhancements can be made to future campaigns to redress any imbalance. This can be applied to other diverse groups.

   A similar measure can be taken to check the ratio of females who applied for a job role vs the number of females actually hired.

3. **Evaluation of talent tests**
   A further evaluation is the review of assessment methods used as part of the recruitment process to ensure that these are not accidentally skewed to rule out a particular group. For example, it has long been known that certain psychometric tests can be impacted by the individual’s nationality and culture and that
female candidates can often fare less well than male on numeracy tests. Therefore in order to secure top talent, consideration needs to be given to the selection tests deployed.

4. Social Media

Attraction of recruits via Organisational LinkedIn Networking Groups. In this way organisations can measure the number of individuals interested in joining their organisation and over time can monitor the cost effectiveness of this method. So establishing spend on external hiring fees is essential in being able to analyse future cost savings.

It is interesting to note that several leading organisations also have a Company Facebook page. This is used to engage and retain summer interns and hi-potential graduates who have been recruited – but not yet joined – the organisation.

For highly organised companies, talent attraction can be enhanced and costs reduced by using Social Media to connect with future hires.

TALENT IDENTIFICATION

The constant question here yet again is how do organisations define talent management? Is this solely for those highly ranked in terms of their performance and potential and therefore deemed to be in the talent pool, or is this a wholesale approach where talent management applies to all individuals (except perhaps poor performers) irrespective of their performance or potential ranking.

At the minimalist level, talent identification can be rather ad hoc, using performance appraisal ratings, rankings against a performance distribution model (eg Top 10%, Next 20%, Middle 50%, Lower 20% and Bottom 10%) and manager opinions to identify strong performers, high potentials and next generation leaders. At this level, careful consideration needs to be given to those who do not fall within the talent pool, yet who are often the backbone of the business. Their needs are worth checking through the performance appraisal process and also through the employee engagement survey.

At the more robust level, organisations have internal systems to align talent with emerging business needs, and this is often linked to bespoke or market recognised information technology.

One of the best known ways of identifying talent is through the Nine Box Grid Matrix which helps Managers to categorise their employees against a grid which measures both performance and potential.

According to Dan Jackson, Director of Executive Development Programmes at the Whittemore School of Business and Economics (University of New Hampshire, USA)4 “The performance and potential matrix, commonly referred to as ‘the nine box’, is a simple yet effective tool used to assess talent in organizations. It assesses individuals on two dimensions – their past performance and their future potential.”

“The X axis (horizontal line) of 3 boxes assesses leadership performance and the Y axis of 3 boxes (vertical line) assesses leadership potential. A combination of Y and X axis makes up the box within the grid that the leader is placed. 1A - High Performance/High Potential, 3C - Low Performance/Low Potential.”
In terms of talent identification, one question that comes up time again is whether talent management strategies apply to all staff or just those who are selected to be in the pool. The City HR Benchmarking Survey of 2010 showed that 56% of all participants applied this to all staff.

One such firm who considers their entire population to be in the talent pool is BlackRock, a leading Asset Management firm employing 9700 people on a global basis.

According to Cindy Mahoney, Talent Director EMEA, at BlackRock “You drive a high performance culture by having well articulated, rigorous and robust talent processes”.

At BlackRock, the talent pool is wholesale and encompasses all staff who are aligned to an internally defined talent programme which reflects the following:

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**Performance management at BlackRock**

- **Driven by our mission, Values and Behaviors for Success**
  - Objective Setting (Feb-Mar)
  - Year-end Review (Oct-Dec)
  - GEC Talent Review & Succession Planning (Sept)
  - Executive Talent Review (Aug)

- **Mission Values Behaviors for Success**
  - Global Talent Reviews (Mar-Jun)
  - Mid-year Check in & Development Planning (Jun-Aug)

- **Ongoing focus:**
  - Hiring the best
  - Onboarding effectively
  - Giving timely feedback
  - Developing for success
  - Leveraging diversity

---

At the more defined level, organisations such as BlackRock utilised their HR system, in tandem with specialist software such as Success Factors, to link individual performance, revised objectives and career aspirations to development opportunities arising within the organisation.
CASE STUDY

An example of an organisation that operates a dual talent identification programme is BNP Paribas. Their global Top Talent Programme identifies and tracks individuals who have the qualities and potential to make international business leaders, either based in Head Office, or in key roles around their global network. This system operates on a centralised basis, is highly structured, has stringent criteria and provides developmental opportunities to internal top talent. There is also a locally operated, complementary Emerging Talent Programme in the UK which identifies emerging talent and which encourages managers to spot and report talent using their in-house Talent Identifier system.

Looking at the selection process for their Talent Development Programmes, managers use the 9 grid box to identify Top Talent, and for Emerging Talent complete a Talent Identifier Questionnaire to ensure that the individual meets the criteria.

A selection and filtering process takes place, in conjunction with the Manager’s HR Business Partner, and the Bank then considers up to 60 individual join the UK Emerging Talent Programme. The individual is invited to join the programme once the nomination and selection process has been completed and HR has confirmed the availability of a place.

TALENT ENGAGEMENT AND RETENTION

Many organisations are pro-active in measuring the engagement or satisfaction of their employees through formal engagement surveys. This beats the alternative of measuring attrition, sickness, absence and lost productivity which are indicators of a disengaged workforce.

The issues that regularly arise in an engagement survey are:-

- Demographical information which allows the survey to be analysed in a variety of ways such as by home location, office location, business function and profession. More personal details can also be collated relating to, say, gender, sexual orientation, age, marital status etc to ensure that diversity and inclusion policies are operating effectively and to be able to take remedial steps if any population is being adversely affected by company policies.
- Organisational information which determines whether key messages are reaching employees with regard to corporate strategy, company products, organisational values/ethics, business results and communication.
- Managerial information which determines the relationship that exists between the manager and employee. An example would be “How supportive do you perceive your manager to be?”
- HR Information relating to general satisfaction with people policies such as pay, benefits, training, personal development, career development and equal opportunities programmes. This may also “test” employee satisfaction with specific policies such as flexible working.
- Environmental Information such as individual comfort within the office environment through to satisfaction with the organisation’s own sustainability programmes or volunteering opportunities under the organisation’s Corporate Social Responsibility programmes, the latter of which seems increasingly important to Generation Y onwards.
- General comments area for individuals to annotate their thoughts or concerns. Many engagement surveys finish with the question: “How likely is it that you would be happy to work for this organisation in 3 years time?”

By analysing the data gained from employee engagement surveys, senior management is able to identify and address potential issues which should result in lower attrition and higher employee morale and motivation. Just as importantly, any policies that inadvertently affect staff in a certain category (whether this be a location/business function, or a protected characteristic such as gender, age or sexual orientation) can be investigated and remedied.

Employee Engagement Surveys are an excellent tool for taking the pulse of the business at any one time and being able to share with employees and senior management where the organisation is perceived to be doing well and where more attention should be directed.

It is also useful for predicting trends. For example, if the survey shows that employees working for a particular manager are very unhappy, then preventive action can be taken to stop them leaving. For the employee such
interventions may include the facilitation of informal, but constructive conversations between the Manager and employee to get the relationship ‘back on track’, team building exercises or a transfer to another area where their skills and values may be better matched. For the Manager, the organisation can consider interventions such as management training, mentoring and coaching. Clearly, the action taken by the HR team will reflect the wish to retain their talent and to avoid unnecessary employee relations issues.

**Historical Analysis of Employee Engagement Data**

There is much value to be derived from the historical analysis of employee survey data. Comparing data at regular intervals, such as year-on-year, maps out where enhancements have been made and helps to concentrate the mind on where further interventions need to be focused.

This is a strong device for enabling HR – or the survey analysts – to inform senior management on the effectiveness of the business communications, to re-visit any past problems and to thereby measure any potential improvements and to further identify any trends.

**External Comparison of Employee Engagement Data**

There are external organisations who specialise in the structuring and execution of employee surveys on behalf of their clients with the added benefit of being able to benchmark this data against other organisations of similar size or market standing. This data comparison can help organisations to understand where their real strengths and weaknesses lie.

**Indicators as to whether retention strategies work**

Whilst employee engagement is a key driver of retention, there are other indicators – apart from negative feedback – which determine whether retention strategies are working. These entail:-

- the examination of attrition rates looking at voluntary attrition vs involuntary;
- employee presenteeism vs productivity; in other words, a demoralised or unhappy employee will attend work but not operate at a fully functioning level – often an issue that can be resolved by any well-being initiatives which may exist;
- the re-footprinting of the organisation. This is where a department is off-shored to another location meaning that whilst this has an impact on the redeployment or attrition of staff in the relocating country there is a net gain in terms of overall headcount on a global basis;
- the analysis of exit interview data.

The City HR Association has witnessed the appointment of third party consultants to conduct structured interviews on those employees who have left the organisation regarding i) their reasons for leaving and ii) would they ever consider re-joining the firm in the right future circumstances and iii) be prepared to join the firm’s alumni or iv) recommend it to a friend. The sponsoring HR Director has found this information invaluable in being able to understand the ‘real’ reason for employees leaving and feels better positioned to remedy any difficulties for the retention of existing employees.

One organisation that puts a strong emphasis on talent management measurements is Barclays Wealth, as summarised by Andrew Tinney, Chief Operating Officer at Barclays Wealth and Investment Management:

“Our metrics are designed in agreement with our infrastructure heads, and are all brought together in one place.

We have HR metrics on staff attrition, and employee satisfaction, as well as metrics concerning our hiring trends – internal and external.

We utilize a three-by-three grid for tracking talent and potential. We also have a 5-point assessment system and a recommended rating distribution curve. All these measures provide us with clarity across the business.

We take employee engagement very seriously. This is a key HR metric for us as we recognise the strong linkage between employee satisfaction, our employees’ service to our clients, and customer satisfaction.

We have over 10 million client interactions in a year, and it is about getting all those right. That level of employee engagement really differentiates us for our clients.”
EMPLOYEE DEVELOPMENT

HR metrics which identify and support the development needs of their employees tend to emanate from a number of sources.

These are:-

- The Business Strategy: issues such as new products being launched, the re-branding of products and services and the relocation of business departments to a new base will determine the skills and knowledge requirements of the existing workforce.
- Organisational Values: the mission, values and underlying behaviours required from the workforce will also determine some ‘softer skills training’ requirements.
- Leadership: the identification of Next Generation Leaders will add to the training requirements of individuals or groups of employees.
- Diversity: ensuring that the organisation engenders equal opportunities and reflects the values and cultures of its customers and stakeholders to foster an environment of respect may lead to an organisational wide approach to individual and management development.
- Performance Management through the adoption of an appropriate performance appraisal scheme which captures the strengths, weaknesses, behaviours, training needs and aspirations of each employee will drive developmental needs as well as
- Individual Career Plans which more enlightened firms are using as part of their engagement and development strategy
- Development Centres in which individuals are invited to undertake a ‘battery of tests’ to identify their aptitude and training needs for more senior – or different – roles. The HR metrics deployed here include psychometric testing, observed discussion groups, case study discussions, role plays based on business based scenarios and team exercises (such as outward bound courses) which identify those with leadership potential.

One of the distinctions that needs to be made when looking at leadership and development is the difference between Leaders and Producers.

When constructing a succession plan for senior managers, HR needs to think about who is being evaluated for a management role and why. It has long been recognised that individuals who produce significant revenues, enjoy a high personal profile and maintain a large number of client accounts do not necessarily become the most successful managers. Organisations need to devise strategies for both identifying these individuals and then providing the right time of positive reinforcement (eg cash remuneration, equity, share options, carried forward investment vehicles, personal PR, expert recognition and personal development) which ties them to the business. It may however mean that a less prolific individual is appointed to lead an overall team, freeing these ‘rainmakers’ from the wider constraints of management and allowing them a wide berth to do ‘what they do best’.

In terms of blue sky thinking, Michael Brooke, Head of Learning and Development at BNP Paribas, thinks that the measurement of behaviours and creativity in terms of shaping leadership and innovation are the next steps for talent management, with many major firms using world renowned psychometric tools in place to facilitate this process. During the research phase of this chapter, tools that were mentioned included the Herrmann Brain Dominance Instrument (HBDI) which is described as the ‘core of the Herrmann International’s Whole Brain Thinking Approach’.

Michael also believes that “sophisticated organisations will evaluate the amount of influence that high potential individuals exhibit internally and externally alongside the trust that they exude from those around them”.

Michael Brooke, Head of Learning and Development at BNP Paribas

“A FRAMEWORK FOR MEASURING THE TALENT PROCESS

In order to measure the effectiveness of their talent strategy, some firms like to evaluate their talent process, looking at the benefits for the individual and the organisation and then understanding how the talent process can best be deployed across the organisation.

Andrew Mayo has developed “A Framework for Measuring the Talent Process” for one of his earlier books which also provides a talent distribution chart format and a mechanism for identifying talent risk, in other words employees who might leave the organisation. This is been reproduced in Appendix 4 with Andrew Mayo’s kind permission, and provides a useful vehicle for assessing and deploying an internal talent process.
CONCLUSION

Talent Management means different things to different organisations. Some talent strategies are wholesale and include the entire workforce, others are more selective and create a talent pool of those who are likely to succeed in certain roles. There are numerous ways of identifying talent once it is in situ: from performance appraisals, 360 degree appraisals, skills testing, psychometric testing and development centres. The HR team has the ability to measure each individual’s performance and potential and to make recommendations to the Board or senior executive on its succession plan and talent pipeline to meet business needs both now and in the future.

Through engagement surveys and the analysis of attrition and its causality, HR can also predict retention trends and deploy the appropriate interventions to reduce the wastage of trained resources.

Above all, through effective talent management on issues such as career planning, coaching, mentoring and developmental training, organisations can have a productive workforce that exudes energy and innovation rather than the stagnation that occurs through presenteeism.

SUMMARY OF KEY METRICS AND ISSUES

HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES

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<thead>
<tr>
<th>RED</th>
<th>AMBER</th>
<th>BLUE</th>
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<tbody>
<tr>
<td>Minimum level</td>
<td>Added value level</td>
<td>Influencing and directing level</td>
</tr>
<tr>
<td>The HR metrics and data that all organizations should maintain for statutory or base reporting reasons.</td>
<td>The HR metrics and data that all organizations should maintain to improve the integrity of data and decision-making.</td>
<td>The HR metrics and data that many organizations should aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making from the Board down.</td>
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### Attraction of Talent

- Headcount Report
- Organisational / Departmental Budget
- Resourcing Budget

### Attraction of Talent

- Manpower Plan
- Global or Local Succession Plan
- Monitoring of effectiveness of external Recruitment Methods
- Tracking of applications via the company website, conversion rate to hire and cost saving against hiring from original sources
- External benchmarking on cost per hire; numbers hired generically and by function; fees paid to external sources
- Remuneration analysis to ensure employee attraction on appropriate rates
- Diversity monitoring to ensure the attraction, hiring, promotion and development of a diverse workforce

### Attraction of Talent

- Market research to assess product and brand awareness in order to attract ‘the right hires’ (particularly prevalent on campus)
- Ratio checks to ensure that the firm is attracting and hiring the best recruits from all backgrounds including male vs female applications
- Evaluation of talent tests to ensure ‘fairness’ to all participants irrespective of gender, culture or nationality.
### Identification of Talent
- Examine the performance and potential of all employees using performance appraisals and objective feedback
- Identification of emerging talent by either:
  - Plotting of talent pool against a Nine Box Grid or other performance, potential or ranking method to identify talent distribution from lowest to highest ranked employees and/or
  - Data derived from Development Centres
- Devise a programme for self-selected development opportunities as part of an overall personal skills portfolio

### Talent Engagement and Retention
- Analysis of attrition and exit interview data
- Analysis of employee engagement surveys
- Historical analysis of survey data
- The impact of internal well-being strategies in enhancing employee productivity and attendance

### Talent Development
- Annotation of development needs from performance appraisal
- Individual career plans
- Development Centres for skills development and succession planning

### Talent Engagement and Retention
- Internal market research on company values, products, business results and brand
- External Benchmark of employee engagement survey data
- Nurturing of internal networks and evaluation of success
- External collation of structured interview data from recent leavers to determine ‘real’ reasons and to assess re-hire capability

### Talent Development
- Correlation between performance and management principles
- The measurement of an individual’s influence and trust

### REFERENCES
2. Workforce Planning: ‘Right people, right time, right skills’ CIPD Spring 2010
3. The City HR Policies Benchmarking Survey, 2010 (undertaken every two years)
4. Dan Jackson, www.greatleadershipbydan.com, Director of Executive Development Programmes at the Whittemore School of Business and Economics (University of New Hampshire, USA)
5. Success Factors www.Successfactors.co.uk
6. Herrmann Brain Dominance Instrument (HBDI) www.hbdi.com
CHAPTER TEN

MEASURING AND MONITORING DIVERSITY

This chapter, by Linda Linehan of Abbeville Associates, is designed to support organisations in the City and financial services sector with developing and setting out clear and appropriate diversity metrics. It looks at the rationale for diversity metrics, including the expectations of Government Bodies and Regulators, and makes suggestions about the metrics that should be considered as part of organisational best practice.

INTRODUCTION

“Our strength is the diversity of our people, who mirror our customers and communities, enabling us to better understand their needs.”

Source: Standard Chartered Bank PLC website.

As the above quote shows, City and financial service organisations, like other sectors, increasingly understand the importance of diversity to underpin successful businesses. Market leaders will set themselves goals to ensure they are developing, delivering and growing in ways that promote diversity and actively seek it as part of the way they recruit, retain and develop their people. But diversity extends beyond the people themselves, to include the way business is done and the opportunities presented to all to ‘think outside the box’, to offer ideas and to be innovative.

In order to assess how they are doing in terms of diversity, firms will naturally want to set goals and monitor and evaluate them. This requires identifying measures of success – based on what it will look, sound and feel like if they are truly promoting and valuing diversity. The resulting metrics (‘indicators’ of progress which can be measured, recorded and evaluated) will, of course, need to take into account the varied nature of businesses and specific contexts. Once tailored to suit different corporate environments and needs, metrics will help organisations assess where they are currently in terms of their diversity journey and then to set, measure and monitor progress against a benchmark for where they want to be in the future. This is not only good practice, increasingly it is a necessary and expected part of the requirement placed on City firms, both in their day to day practice but also in their annual reporting to customers, shareholders and financial regulators, alike.

What do we mean by diversity?

As we have already seen, diversity is about the ways in which we are different and, more than that, about positively valuing and respecting those differences in ways that enhance:

- Organisational culture, making it more inclusive and fair
- The working environment, making it more attractive and motivating
- The bottom line, providing the best business offering and returns on the investment in Human Capital.

The FSA says the following about diversity1:

“The concept of ‘diversity’ is about valuing and respecting differences and understanding that people have varied needs. Understanding diversity is essential to the FSA being an employer of choice and an effective regulator.”

In its diversity vision the Regulator states its dedication to valuing diversity and creating a positive culture within the FSA. One that is vibrant, fair, inclusive and diverse, and where there is respect and understanding.

Our own City HR guidance includes the following2:

“People differ in a myriad of ways – for example their backgrounds, education, experience and skills, their gender, religion, nationality and sexuality, and many more ways. We have taken diversity to capture all of these aspects and more; any differences that we notice in each other and that can potentially impact adversely the quality and quantity of work we can offer our employers. When different perspectives and energies are harnessed to meet the objectives of the business, performance and innovation can be high as well as the ability to meet different clients’ needs.”

Louise Redmond, Editor, City HR Association Diversity Guide 2010.
Diversity can therefore, be defined most simply as ‘the ways in which we are different’. At one level we are all different in many ways, we are all unique. However, there are a number of defined characteristics that businesses will find it helpful to pay attention to:

- gender
- age
- race/ethnicity,
- disability
- sexual orientation
- religion or belief
- civil partnership or marital status
- part-time working
- pregnancy/maternity/paternity
- caring responsibilities

Other common aspects of diversity that companies may find it helpful to consider when setting metrics include:

- Languages spoken
- Experience of living and working in different cultures
- Having a long term health condition
- Working patterns
- Non-job related skills/experience e.g. conducting research, facilitation, coaching and mentoring
- Charity or voluntary involvement (relevant to CSR for example)

Just as importantly though, as already outlined, diversity includes less tangible aspects of difference such as allowing for a variety of ways to achieve desired results. In this case, so called qualitative metrics might helpfully include information on whether employees or teams feel they are able to do things ‘their way’ or how free they feel to propose an alternative route to achieving agreed outcomes.

Why is diversity monitoring important to the financial services sector?

Whilst all aspects of diversity are important, the area of diversity which has been of particular relevance to the City in recent years is the position of women, especially women's representation on Boards. Speaking at the 2012 City HR International Women's Day event, Virginia Bottomley, in her role as Chair of Board Practice at executive headhunting firm Odgers Berndtson, referred to a number of research reports pointing to the business benefits of greater gender diversity on Boards. The benefits found from having women on Boards include higher performance on key financial measures such as return on investment, sales and invested capital, as well as strong oversight, together with management and control of risk.

The Co-operative Asset Management Group in 2009, carried out a survey into the number of executive director positions held by women in FTSE 350 companies. This found that only 242 of 2,742 such positions were held by women, even though women account for over half of graduates in the EU and US, reflected in “significant talent being lost through poor boardroom diversity”. Lord Davies’ 2011 Report on Board Diversity states:

“Currently 18 FTSE 100 companies have no female directors at all and nearly half of all FTSE 250 companies do not have a woman in the boardroom. Radical change is needed in the mind-set of the business community if we are to implement the scale of change that is needed ... This is not about aiming for a specific figure, it is not just about promoting equal opportunities ... it is about improving business performance. There is growing evidence to show that diverse boards are better boards, delivering financial out-performance and stock market growth.”

The position is improving but real change is currently taking a long time to realise, with potential negative consequences for all.

Whilst there is clear evidence of the need for a focus on gender diversity, this is not to say that other aspects are less important and should be neglected. Firms will wish to examine their own circumstances to determine their priorities for monitoring. However, commentators and regulators alike seem to be in agreement that action on gender diversity is a key concern.
More widely, emphasising the breadth of diversity needed, research also points to the benefits of a diversity of business models in the financial sector with resulting positive impacts on e.g. governance, behaviours and practices, as well as customer choice:

“Diversity of ownership types and business models creates a corresponding diversity in forms of corporate governance; risk appetite and management; incentive structures; policies and practices; and behaviours and outcomes. It also offers wider choice for consumers through enhanced competition that derives in part from the juxtaposition of different business models.”

Why monitor?

Any commitment to valuing diversity and promoting equality and fair treatment will, like any other business goal, include setting objectives and measuring progress against them. So monitoring diversity is no different to the whole range of activities that companies will wish to report on, as part of their normal business practice.

The Equality and Human Rights Commission (EHRC) in its 2011 Financial Services Inquiry report recommends a range of reporting on gender equality – including equal pay - as part of annual and periodic reporting by Boards and Remuneration committees. The EHRC has also indicated that voluntary reporting will remain acceptable if companies show willingness to engage with it. Failure to do so could result in further use of its investigative or legal powers of enforcement in relation to equalities legislation.

Similarly, the Government Equalities Office Think Act Report publication released in September 2011 outlined the voluntary measures which it hoped that organisations would adopt. An extract from the report highlights that:

“Organisations undertaking voluntary gender equality reporting should choose to report on the transparency measures which they consider to be the most relevant, comparable and understandable.

However the Government encourages organisations to periodically undertake analysis on measures including pay to ensure their systems are fair and do not discriminate against men or women, even if they opt not to report them publicly. Participating organisations would be expected to:

1) Think about gender equality;
2) Take action; and
3) Report on narrative measures and
   • Workforce measures; and/or
   • Pay measures.

It is worth looking at the Home Office website as the Government Equalities Office provides a useful framework for employers to consider when reviewing their own organisation.

Whilst there is no specific legal requirement for private sector companies to monitor e.g. recruitment, training, pay, promotion, gender balance at senior levels, firms that do so are likely to be in a stronger position if challenged under employment protection or equalities legislation. Monitoring of diversity, and action taken where this highlights areas of concern, may be used as evidence of a commitment to equality and diversity if mediation or employment tribunal cases are involved. See Chapter 4 for more detail on the legal position.

Private firms who provide services to the public sector are also expected to support compliance with the public sector duties under the Equality Act 2010, which require workforce monitoring and an evidence based equality strategy.

The FSA is clear that progress on diversity, especially gender diversity, is expected:

“We are all aware of the growing focus on diversity, particularly in relation to gender, and the increasing risk of legislative intervention if no progress is made - for example, there are currently diversity benchmarking proposals in the latest EU Capital Requirements Directive (CRD IV)."
The FSA has recently conducted its own Diversity Demographics Survey amongst regulated firms and the results are due in mid 2012.

Finally, the Financial Reporting Council’s (FRC) UK Corporate Governance Code will, as recommended in the Lord Davies Report, from October 2012 require diversity reporting.

What should be monitored?

Monitoring diversity is a topic that can give rise to concern in organisations. Small and medium businesses worry that they simply don’t have the resources to manage and monitor the issues. They are likely to employ fewer people, from a narrower pool and may fear the loss of a single person in a particular company role or level can skew metrics around diversity (age, race, gender, disability for example).

So the size of the company or group of companies and maturity of the market place will clearly be relevant. It would not be reasonable, for example, to expect a small financial services business with 50 employees to devote as much time, effort and resource as a large bank with many thousands in its workforce. What matters, therefore, is that there is a proportionate response to the need to monitor and make progress on diversity.

However, diversity is everyone’s business and may provide the edge against competitors to ensure successful recruitment, retention, and growth and to maintain an excellent reputation with customers and stakeholders alike. And, for the reasons previously stated, it is in the interests of all firms - whatever their size or composition - to consider their stance on diversity and to begin to collect information (with appropriate checks to maintain individuals’ confidentiality) that tells them how they are operating in respect of valuing and actively promoting diversity.

THE BOARD AND DIVERSITY MONITORING

From a regulatory standpoint, the new FRC Code on Reporting, referred to in the previous section and within Chapter 3 of this guide, will require Boards to have a diversity policy and to have set out how it is measuring progress towards its diversity goals, including those relating to the gender mix and steps to improve it at senior levels in particular:

“A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. This section should include a description of the board’s policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives”.

The EHRC has also provided specific guidance (see Applying Best Practice section below) to the financial services sector on what it considers priorities for action – and therefore monitoring – some of which refers specifically to Board level scrutiny.

SUGGESTED BASELINE MONITORING

Whilst not a legal requirement for private sector employers, it would seem advisable that, as a minimum, firms in the financial services sector should conduct monitoring of workforce data by level in the organisation based on gender, disability, age and race/ethnic origin, adding other protected groups (sexual orientation, transgender, religion or belief) over time. This will then form the basis for assessing where there is under-representation at senior levels or where there are other differences which are or could have a negative impact on the so-called ‘protected groups’, with a focus on gender reporting.

RECOMMENDED REPORTING – Advanced level

For those firms with systems in place, the EHRC has highlighted three key areas for priority monitoring by financial services firms, with the expectation of annual reporting:

1. Women’s progression rates and action to improve these
   Monitoring under this heading will include collection of workforce data and analysis of the position of women compared to men at different levels (including senior management and Board level) and in different parts of the organisation, as well as the time it takes women to progress compared to male counterparts.
EHRC is particularly interested in seeing action plans to redress any imbalances between the positions of men and women, so tracking and reporting progress over time will be important.

2. Practices to improve support for working parents
The EHRC has made it clear that it expects the financial services sector to monitor issues such as return to work after child-birth or adoption – including tracking and comparing (with those who have not taken a career break) the career trajectory of women returners 3-5 years after they return. As before, the focus over time will be on action to improve support for working parents and to narrow any gaps identified.

3. Transparency of reward
Firms should monitor pay (including bonus awards) by gender, so that they can identify any significant discrepancies across the business in levels of pay and reward for similar jobs done by men and women. The EHRC has suggested that Boards should require “formal and rigorous analysis of a company’s gender pay gap every second or third year”.

However, as already mentioned in Chapter 4 under the heading Equal Pay it is recognised that whilst equal pay audits are good practice, there is a difficulty here too. Employers should be aware that if they seek to analyse this information they have to be prepared to deal with any potential issues it brings out, including possible claims for back-dated pay for up to 6 years.

APPLYING DIVERSITY BEST PRACTICE
The EHRC has emphasised that data is a ‘tool’ to support change and to make progress towards approaches that are more inclusive, fair and supportive of equal opportunity for all. In terms of broader diversity principles – e.g. innovative thinking and a readiness to seek new ideas – monitoring provides a vehicle to assess how well firms are doing. It will not, of itself, bring about change.

At this level the Commission will expect to see qualitative as well as quantitative evidence of progress, with monitoring and reporting providing information on, for example, what the organisational culture is like for women and men. This is likely to come from the results of employee engagement surveys or specific employee diversity questionnaires. Primarily, however, the Commission will expect a focus on demonstrating how companies are analysing and responding to what the data is showing, with Board level monitoring of plans year on year, for progressive improvement.

The key differences, therefore, for organisations operating at the ‘best practice’ end of the monitoring spectrum is that data has been collected systematically for some time and, more importantly, that priority is given – with very clear leadership from the top – for action to improve. So evidence of strong leadership is also vital to good/best practice.

For those firms with 150 or more employees and/or who wish to do more in relation to gender equality reporting, the Government’s Think Act Report Framework provides some very useful examples of what can be reported by different sized enterprises – including SME’s. The guidance covers:

**Narrative - Context and Issues**
- Any existing data/information about the sector/business
- Staff survey results (especially discrimination and satisfaction issues)
- Details of areas for focus/action

**Workforce Measures**
- Senior level representation of women
- Workforce composition
- Promotion rates by gender
- Uptake of flexible working
- Maternity returners
- Representation of women at different occupational groups

**Pay Measures:**
- Difference between average basic pay and total average earnings of men and women by grade and job type
Difference between men and women’s starting salary
Reward components at different levels
Full time gender pay gap
Part-time gender pay gap
Overall gender pay gap
Percentage change in gender pay gap.

PUBLIC SECTOR EQUALITY DUTIES - EQUALITY ACT 2010

This chapter would not be complete without considering Public Sector Equality Duties arising from the Equality Act 2010 and the impact that this has on organisations in the financial services sector and wider City firms. This has major repercussions for the procurement of services and therefore the ability of an organisation to be a ‘supplier or provider’ to public sector bodies. An example might include a bank which wins a contract to administer or manage the funds arising from a Local Authority’s pension plan on behalf of its employees.

It is therefore probable that HR will receive requests from internal Business Managers to provide policy statements and even internal statistics relating to diversity measurements to demonstrate within tender documents that the organisation is committed to diversity and inclusion and actively monitors its own activities in this field.

Public sector bodies may go further, depending on the nature of the service provided, wanting to see how the proposals for service provision support their compliance with duties under the Equalities Act. This may apply to the way that information about, or take up of the service offered, promotes equal access by different employee groups such as women on maternity leave/career breaks or people with hearing or sight impairments.

One public sector body who has published its objectives in tandem with the Equalities Act is the FSA.

The FSA recognises its public sector duty obligations and has published the following objectives:-
1. To raise the FSA profile as an employer of choice by addressing barriers to recruitment and retention.
2. To engage with the industry (using the survey and future survey results) to identify key trends within the sector demographics and work with stakeholders to address these.
3. To ensure that our staff who have contact with the sector or consumers deliver an inclusive service taking account of the diversity of those we interact with.

The FSA, May 2012

A purple zone has been added to the end of the Diversity Metrics chart and also to the consolidated HR Metrics chart in Appendix 1. This identifies the type of information that is likely to be required by Public Sector Employers as part of their procurement process, and in brief, these are:-

1. An HR strategy and policies covering all protected characteristics
2. Workforce data analysis with improving employee trends for those covered by the protected characteristics
3. Equal recruitment, selection, pay, training and career development opportunities
4. The availability of flexible working patterns where these are sustainable in the business
5. Succession planning and leadership development and progress made by those within the protected characteristics, and particularly with regard to gender equality.
### SUMMARY OF KEY METRICS AND ISSUES

**HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES**

<table>
<thead>
<tr>
<th>RED</th>
<th>AMBER</th>
<th>BLUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum level</td>
<td>Added value level</td>
<td>Influencing and directing level</td>
</tr>
<tr>
<td>The HR metrics and data that all organizations should maintain for statutory or base reporting reasons.</td>
<td>The HR metrics and data that all organizations should maintain to improve the integrity of data and decision-making.</td>
<td>The HR metrics and data that many organizations should aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making from the Board down.</td>
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</table>

#### DIVERSITY

<table>
<thead>
<tr>
<th>Protected Characteristics: Analyse employee population</th>
</tr>
</thead>
<tbody>
<tr>
<td>By race, age, gender, disability</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Workforce Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employees by:</td>
</tr>
<tr>
<td>- Full time</td>
</tr>
<tr>
<td>- Part Time</td>
</tr>
<tr>
<td>- Contractor/temporary</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Recruitment and Selection</th>
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</thead>
<tbody>
<tr>
<td>Record number of individuals</td>
</tr>
<tr>
<td>- Applying for a post</td>
</tr>
<tr>
<td>- Successful at interview</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Employer, Employee Behaviour &amp; Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review and analyse the number of</td>
</tr>
<tr>
<td>- Discipline cases</td>
</tr>
<tr>
<td>- Grievance cases</td>
</tr>
</tbody>
</table>

#### AMBER

<table>
<thead>
<tr>
<th>Protected Characteristics: Analyse employee population</th>
</tr>
</thead>
<tbody>
<tr>
<td>By race, age, gender, disability, sexual orientation, religion or belief, transgender (not if it could identify individuals)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Workforce Data</th>
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</thead>
<tbody>
<tr>
<td>Taking numbers outlined in the red zone, assess the following:</td>
</tr>
<tr>
<td>- Comparison against expected % by race, gender and disability</td>
</tr>
<tr>
<td>- Set goals to be more representative</td>
</tr>
<tr>
<td>- Consider plan to improve level of declaration by workforce</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recruitment and Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Record number of individuals</td>
</tr>
<tr>
<td>- Applying for a post</td>
</tr>
<tr>
<td>- Successful at interview</td>
</tr>
<tr>
<td>- Sifted through to interview</td>
</tr>
<tr>
<td>- Successful at interview</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employer, Employee Behaviour &amp; Experience</th>
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<tbody>
<tr>
<td>Review and analyse the number of</td>
</tr>
<tr>
<td>- Discipline cases</td>
</tr>
<tr>
<td>- Grievance cases</td>
</tr>
<tr>
<td>record number of disciplinary and grievance cases by protected characteristic</td>
</tr>
<tr>
<td>Satisfaction and Engagement levels (e.g. employee survey findings)</td>
</tr>
</tbody>
</table>

#### BLUE

<table>
<thead>
<tr>
<th>Protected Characteristics: Analyse employee population</th>
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</thead>
<tbody>
<tr>
<td>Add marital status and civil partnership (again protecting individual confidentiality)</td>
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</table>

<table>
<thead>
<tr>
<th>Workforce Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive action to improve any under-representation of groups</td>
</tr>
<tr>
<td>with evidence of improved declaration over time in majority of categories</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recruitment and Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further analyse data regarding:</td>
</tr>
<tr>
<td>- Annual trend analysis against targets set</td>
</tr>
<tr>
<td>- Action Plans to improve where targets not met</td>
</tr>
<tr>
<td>- Annual review of targets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employer, Employee Behaviour &amp; Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trends on discipline and grievance over time showing changes in representation of different groups with an analysis and plans to improve.</td>
</tr>
<tr>
<td>Culture audits to examine how different staff feel about prevailing customs/practices and behaviours</td>
</tr>
</tbody>
</table>
Training, Development, Promotion and Transfer
- Record number of individuals receiving training, promotions and transfers and monitor to ensure equal opportunities

Pay and Benefits
- Ensure equal opportunities are included in policy

Top Team and Talent Pool
- Ensure equal opportunities are included in policy

Working Patterns
- Ensure conformance with flexible working policies and consider applications for flexible working in line with legal, and organisational policies in light of business needs.

HR Strategy and Policies
- Ensure they are non-discriminatory (on grounds of protected characteristics)

Gender Diversity
- Diversity metrics to track % of high potentials are female (and other diverse categories)

Training, Development, Promotion and Transfer
- Continuing monitoring of training, promotions and transfers against protected characteristics

Pay and Benefits
- Equal Pay audits – voluntary pay reporting (see Government’s Think Act Report guidance) ensuring early stage monitoring and thinking about greater transparency

Top Team and Talent Pool
- Board and Senior Management Team composition

Working Patterns
- Flexible working
- By gender, disability, work team/location

HR Strategy and Policies
- Regular monitoring of diversity and inclusion strategy and policies to ensure there is no discrimination

Gender Diversity
- Female career progression rates for Board/Senior Management positions and outlined in annual report
- Return to work rates after childbirth or adoption
- Career trajectory of women returners over three to five years

Training, Development, Promotion and Transfer
- Ongoing analysis to ensure equal opportunities

Pay and Benefits
- Equal Pay audits – voluntary pay reporting (see Government’s Think Act Report guidance) continuing with monitoring looking at greater transparency

Top Team and Talent Pool
- Detailed succession planning and monitoring of progress to meet government and organisational diversity targets

Working Patterns
- Flexible working patterns extended to support caring or other family responsibilities

HR Strategy and Policies
- Analysis of Equality Impact for different groups, with engagement of stakeholders and actions to mitigate and negative impacts, remove discrimination, promote good relations (between groups) and involvement in public life (of all groups)

Gender Diversity
- Use of the government’s Think Act Report framework to assess effectiveness of internal actions
- External benchmarking - measurement of the effectiveness of organisational policies and progress against external benchmarks (eg. Opportunity Now, Race for Opportunity, Stonewall, Disability Rights Commission etc.).
PUBLIC SECTOR EQUALITY DUTY (Acting in accordance with The Equality Act 2010 for organisations providing services to – or on behalf of - public sector bodies).

- HR metrics can demonstrate ‘due regard’ to:
  - eliminating discrimination, harassment and victimisation
  - advancing equality of opportunity for persons with a protected characteristic against those who do not have the characteristic
  - fostering good relations between those who do – and do not – have a protected characteristic.

- HR Metrics can further demonstrate that diversity and respect will be delivered to “consumers” of the public service

- Such metrics, as covered in the red, amber and blue zones could be used as evidence that diversity monitoring is in force and that progress will be made within the ‘providing organisation’.

- Analyse the impact of Diversity Strategy and Policy of different protected characteristic groups against the key diversity areas outlined in this Diversity Section to ensure that these support equal opportunities and treatment of employees and customers.

REFERENCES

1 FSA website www.fsa.gov.uk
2 City HR Diversity Guide 2010
3 Mckinsey 2010 - http://www.mckinsey.com/locations/paris/home/womenmatter.asp,
   Co-operative Asset Management Report 2009 P.55 - www.co-operative.coop
   Catalyst 2008 Census of the Fortune 500 - www.catalyst.org
   CalPERS (2008) Board Diversification Strategy: Realising Competitive Advantage and Shareowner Value -
5 Cranfield University School of Management’s Female FTSE Board Report 2012
6 Promoting Diversity in the Financial Services Sector by Jonathan Michie
   (Joint research between Oxford University and Kellogg College)
7 Financial Services Inquiry: Follow-up report
8 THINK ACT REPORT - www.homeoffice.gov.uk/equalities
10 In addition to sex (gender), race/ethnicity, age and disability, protected characteristics under the
   Equality Act 2010 include religion or belief, sexual orientation and transgender
CHAPTER ELEVEN

PEOPLE METRICS FOR THE PROFESSIONAL SERVICES SECTOR

Gerry Peyton of Squires Sanders (UK) LLP outlines the unique people metrics which are applied within professional services organisations in addition to the traditional HR metrics which are referred to in earlier chapters of this publication.

In addition to the metrics referred to earlier in this chapter and in other chapters, it is important to note that professional services organisations report additional HR metrics which are described below. Professional services organisations would also report on HR metrics over time and benchmark with external measures as outlined in the other chapters. The nature of professional services work is that its success or failure is largely, sometimes entirely, based on the specialists who work in the organisations, for example, advisors, experts, technicians and consultants, and on their respective knowledge, skills and experience.

There are two main types of HR metrics used in the professional services organisations; (i) performance metrics and (ii) growth and development metrics. The normal methods of reporting historical data, external benchmarking and providing appropriate forecasts apply.

PROFESSIONAL SERVICES PERFORMANCE METRICS

There are two traditional areas of performance that professional services businesses focus on, these being utilisation and the ratio of client-facing or fee-earning staff to support staff.

Utilisation can show how efficiently and effectively employees are used. Utilisation is usually analysed by:

- recording the hours worked to provide services to clients and the fees billed for those services

These two measures are analysed to confirm how much of an employee’s potential working time is actually worked on client services (utilisation rate) and how much of that time worked on client services is converted into fees billed to the clients (conversion or recovery rate). Neither is a useful guide to efficiency without the other.

Traditionally professional services firms set a benchmark for these two measures, which is usually expressed as percentages. The utilisation rate is calculated by:

- identifying how many work hours/days an employee can reasonably be expected to work against the actual output

The total potential working hours/days available can be refined further to allow for time that an employee is attending work-related events (e.g. training courses) or may not be available for work (e.g. sickness absence). This leads to the benchmark conversion rate expressed as a percentage, e.g. 90% of the number of hours/days available to work. Subject to the type of services provided and the commercial basis for provision of the services, this can be refined further to record hours and fractions of hours. Ultimately the utilisation of hours is linked to the HR plan (numbers and types of employees required), business plan (services, projects, client demands) and budget (forecast and actual resources, revenues and volumes) for the organisation.

The other metric that professional services organisations tend to keep an eye on is the ratio of fee earning staff to support staff. This is calculated by forming a ratio based on:

- the number of employees who are directly involved in the provision of the services commonly referred to as revenue generators to those who are only indirectly involved namely the support staff.

The reality of defining in practice the boundary between revenue-generating and support staff is that the degree of involvement in the services to clients can vary from staff who are entirely involved in client services, staff who play a role but are less involved in client services and staff who have no direct involvement in clients service but who are still important to the sustainability of the firm. Not only will this vary from role...
to role and business to business, but also from time to time, since peaks and troughs of client demand versus internal administrative obligations will always occur.

However, recording and analysing time and fees is one dimensional. It can be misleading and short-sighted as a set of HR metrics leading to knee-jerk decisions made without the benefit of the full picture. It is important to have regard also to other HR metrics that provide a wider and deeper perspective on the business.

Knowledge

Professional services organisations are largely knowledge-based organisations and the quality of services provided is very largely based on the skills, knowledge and experience of the employee. The services supplied are mostly advice, systems, support services, access to a solution for a key process or outsourcing services. This means that it is important for the professional services organisation to record and analyse the value of the knowledge or services. Valuations can be based on the market value of the services, the time input by employees to provide the services, the perceived value to the client or service users or the value of the outputs and end results. This will be based on the business plan for the organisation, the market it operates within and the benchmarks that apply to the market.

Standards of Service

In addition to the quantitative performance metrics above there are additional performance measures, including technical accuracy, well presented outputs and reliability. These are more complex metrics to assess and usually involve recording and assessing more qualitative data such as feedback reports from clients, peer reviews and 360º appraisals.

GROWTH AND DEVELOPMENT

It is important for professional services organisations to grow and develop, not just in terms of income and market share, but also in terms of knowledge and competence. There are two main themes for this: (i) knowledge, both technical and business-related, and (ii) behaviours, i.e. how employees perform their work. Growth and development starts with individuals and teams and the HR function is key in designing appropriate frameworks for collating and measuring the growth and development of knowledge, skills, experiences and behaviours.

Competency models and frameworks are the most popular method for recording and measuring growth and development in professional services organisations. The competency models usually include key areas of competency, e.g. client service, business development and self-management. Each competency is set out in levels, say, Foundation, Intermediate, Advanced levels.

Evidence used to record growth and development includes continuing professional development (CPD), attendance at training events, working on key projects, work-based assessments, peer reviews, and training assignments. In some professional services organisations, development of individuals is regulated by a professional body. For example, lawyers and many others are required to record a minimum level of CPD hours each year and have supervised work-based assignments as part of their professional development.

Other reasonably reliable evidence of knowledge and development falls under the heading of ‘thought leadership’ in the relevant field of professional service. This is usually evidenced by attendance at conferences and events as guest speakers; contributions to wider economic, technological, social or legal developments via governmental, regulatory and ‘think tank’ consultation papers; submitting articles and commentaries (and blogs, tweets, webinars) for media distribution.

Innovation

A significant differentiator between good professional services organisations and excellent organisations is the ability to create novel and original ideas and implement these into new or more effective or efficient services to clients. The main test of this is of course evidence of outputs and new services. However, the HR function is key to ensuring that the right conditions are in place to support and encourage innovation. The HR metrics and evidence used to check these conditions include time invested in new service development,
forums for generating new ideas, feedback mechanisms to collate and analyse ideas and demands from clients for service improvement.

**Summary and Importance of HR Metrics**

As mentioned at the beginning of this chapter the HR metrics described in other chapters also apply to professional services organisations. This chapter describes the HR metrics that apply specifically to professional services organisations.

The table below summarises the importance of the HR metrics.

**SUMMARY OF KEY METRICS AND ISSUES**

**HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES**

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<td><strong>Added value level</strong></td>
<td><strong>Influencing and directing level</strong></td>
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<td>The HR metrics and data that all organizations should maintain to improve the integrity of data and decision-making.</td>
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</tr>
</tbody>
</table>

**PROFESSIONAL SERVICE SECTOR - ADDITIONAL METRICS**

**Performance metrics**
- Utilisation rates determine how effectively people resources are being used
- Conversion rates to measure how people resource time is converted into fee paid services to the client

**Growth and development metrics:**
- Knowledge valuations based on the market value of the services, the time input by employees to provide the services, the perceived value to the client or service users or the value of the outputs and end
- Growth metrics using competency frameworks and evidence of continuing professional development
- Service development and standards contrasted with service level agreements and client feedback, including 360 degree individual performance appraisal

**PROFESSIONAL SERVICE SECTOR - ADDITIONAL METRICS**

**Innovation and creativity metrics**
- through ensuring that time invested in new products and ideas results in client service enhancement

**PROFESSIONAL SERVICE SECTOR - ADDITIONAL METRICS**

**Client lead innovation and development metrics**
- (e.g. clients investing time and effort to report back what services they most value and how best they would like them delivered)
CHAPTER TWELVE

COLLATING AND ANALYSING HR DATA

This chapter, by Rosie Warner of Oracle, looks at the methods by which organisations can collate, analyse and store their data dependent on the size of their firm and their in-house technology capability. Oracle takes the reader through a range of options including next generation data analysis technology which allows the predictive analysis of data and facilitates reporting screens at various different user levels and allows data to be stored on the premises or on high-tech clouds. The graphics in this section are illustrative and not meant to be read in fine detail.

HR professionals recognise that reporting and metrics are crucial for planning, managing, measuring and predicting the contribution of People to the success of the organisation. How can we collate and analyse this information? What are the tools at our disposal? What are the challenges?

What Are The HCM Solution Challenges?

Organisations report that they often face two issues underlying the quality of the metrics they are able to produce. Firstly, the quality of the information recorded and the effort which might be needed to cleanse that data. Secondly, how to physically access and report on the information. The underlying challenge here is that most organisations have numerous disparate HR systems within their organisation. It is worth taking a moment to consider this.

Organisations often have many disparate HCM solutions due to legacy, the diversity of the organisation or the need to supplement the main HRMS with additional HR functionality, either on-premises or in the Cloud.

Disparate Systems without a unified data model do not facilitate effective reporting and analytics. If systems have originated from different development organisations they may not share the same data structures. Therefore a great deal of effort has to go into mapping and translating data elements. This requires IT support and can be costly.

Disparate systems also often mean that the data held in these systems is not always accurate. Unless your organisation has invested heavily into integrating the systems it is likely that key systems such as payroll are kept up to date in a very timely manner whilst other systems may not be in such an optimal state. This however should not prevent the use and further development of HR Metrics, in fact usually the organisations that produce reports and metrics have better quality data as analysis and accountability are the by products of the process.
The Gartner Hype Cycle For Human Capital Software 2011 describes that a key emerging trend is for the adoption of master data management (MDM) for HR information. MDM of a HR data solution creates and manages a persistent system or index of record and enables the delivery of a single version of the truth for HR data across channels, systems and lines of business and business partners. This can greatly assist an organisation’s ability to manage its HR data in an environment where there are numerous fragmented sources of HR data and no one system has the facilities to provide the necessary enterprise view and governance throughout the life cycle of the data.

However as very few organisations are in the most optimal state of HR system deployment and data quality how can we get the information we require? There are a number of tools which can be used to assist.

**Spreadsheets**

Spreadsheets are a very useful tool for combining information from multiple sources, enable further analysis of information and can be used to produce pivot tables and graphical representation. Excel skills are generally prevalent in an organisation. Spreadsheets however are not scalable enough to provide analysis for the full set of requirements of a larger organisation.

The primary concern is security around spreadsheets containing sensitive HR information. This is a risk factor for many organisations. A key time of year for using spreadsheets is pay review time – highly sensitive pay, bonus and stock information is very insecure in a spreadsheet even if password controlled.

**Real-time and Self-Service Reporting**

HR systems provide information to your HR community, Line Managers and Employees. There should be an easy-to-use interface to perform current state analysis. For ad-hoc reports, business users may need to drill on predefined hierarchies, enable action links, compose a dashboard, schedule reports or dashboards for delivery and export the data or reports – all in real-time.

New generation HR systems provide embedded analytics; this means that real time information is available at the point of performing a transaction. For example an employee wants to see their current vacation status at the point of requesting their holiday. When the line manager receives the request they want to see the holiday status of other people in the team, again at the point of action. Users do not want to have to navigate to other parts of the system or outside the main system to check this information. Other examples would be the real time calibration of performance scores or compensation awards at the time of entry. In addition the HR Business Partner or Line Manager may have preferences as to how information is presented - graphically or tabular, pie charts, funnels or pivot tables.
Modern day report writers should provide both HR and IT employees with the ability to create, modify or distribute their own ad hoc reports. There are two aspects to consider. Firstly the system should ensure compliance with data protection policies, users must only be able to access the information they are entitled to when writing reports. On the other hand users do not want to be limited to only writing reports using a small number of fields, this can happen when organisations use reporting and analytics tools which do not share the security configurations established in the HR system and therefore has to be maintained separately by IT.

The second consideration is ease of use. HR Professionals and even Line Managers need to be able to use the tool with minimal support.

The downside of using a HR Solution reporting tool is where organisations have many disparate systems. Some tools, though not true in every case, can only be used against transactional information for that solution or the group of solutions common to the supplier. Therefore the benefit of being able to analyse information across systems may be lost. A key example might be tracking your top talent, what source were they recruited from, what indicators in their application pointed to them being your top talent. This would potentially require information from the core HR system, the recruiting system and the performance management or talent review system.
The world of analytics has shifted emphasis over the past two decades – from looking at the past to looking at the future. Imagine if you could look ahead and be prepared for upcoming workforce trends. Most organisations do not have the analytic capability to do predictive human capital analysis, yet the worker information needed to make educated forecasts already exists today. Aging populations, shifting demographics, rising and falling economies, and multi-generational issues can have a significant impact on workforce decisions – for employees, managers and HR professionals. Not being able to accurately predict how all the moving parts fit together, and where you really have potential problems, can make or break an organisation. Predictive analytics give you the ability to finally see into the future, analysing worker performance potential, risk of attrition, and enabling what-if analysis on ways to improve your workforce. Additionally, modelling capabilities provide you with extra power to bring together information from sources unthinkable in the past. For example, imagine understanding which recruiting agencies are providing the highest-quality recruits by comparing first year performance ratings with sources of hire. Being able to see potential problems before they occur and take immediate action will increase morale, save money, and boost your competitive edge. Result: You are able to look ahead and be prepared for upcoming workforce trends.

With Human Resource organisations having difficulty delivering fully robust and accurate head-count reports, predictive scenarios may seem like something that should be explored at some point in the distant future, but this would be the wrong approach. Human Resources typically struggles to get basic funding for important analytics initiatives, demonstrated by the 2009 Forrester Report showing that companies spend less than one percent of their business intelligence budget on HR. With HR (organisation’s workforce labour expense) making up, on average, 31 percent of a company’s total operating costs, the assumption is that this should be one of the top three funding areas. The reality, though, is that all other functional areas have been able to quantify a business case by showing that their analytics initiatives lead to actions that the business must take and/or didn’t know about before, such as increasing sales, competitors stealing customers, reducing spending, and improving productivity. The current model for today’s human capital management (HCM) analytics just does not provide that strong, credible ‘business driver’ for investment. As discovered by other functional areas, the business driver for HR comes from an ability to tell the organisation what it does not already know, why it is happening, and how to fix or exploit it. All of this is predictive analytics and without it, HR can struggle to obtain the funding and support for their ‘must have’ analytics initiatives.

HR Executive Reporting

By using analytics type reporting HR Executives can more effectively manage and improve performance, becoming best practice organisations. HR analytics solutions can help an organisation improve its profitability through more effective workforce cost control, balancing the lowest effective headcount while ensuring satisfactory service delivery, thereby appealing to the CFO. HR Executives and line managers can see top and bottom-performing employees to better develop and retain key talent pools, addressing any retention
trouble spots or looming gaps in needed competencies. Executives and managers can better understand the causal effect of workforce investment on operational results; for example, balancing contact centre performance, such as average cost per call and abandonment rates with and without additional training to customer satisfaction levels and service delivery costs.

Now, more than ever, action on issues must be immediate. Organisations need analytic solutions that provide proactive, event-based, and scheduled alerts, delivered directly by email, cell phones, or to personalised dashboards.

Analytical tools provide organisations with detailed analysis on workforce performance and HR programs. They provide complete, real-time and enterprise-wide insight for all users, enabling fact-based actions and intelligent interaction.

Organisations often have large enterprise data warehouse projects. HCM metrics may be a part of this however many organisations choose to purchase a pre built HCM data warehouse which in turn can take and provide key data to the enterprise level data warehouse. These prebuilt solutions have tools which allow organisations to modify the delivered metrics and to build additional metrics. These solutions are comprised of dashboards and logical analytical workflows; they are designed for rapid deployment at a low cost of
ownership. For HR, these cover best practices and areas of analysis. Although these types of analytical application are based on a separate (though can be real time update) data store it is possible to a common reporting tool into the transactional systems as described earlier and the warehouse method with the enriched capabilities described here. There are four components to a data warehouse.

- A Pre-built warehouse with a structure which takes data from relational databases and enriches and organises the data in a way more suitable for powerful analytics.
- A 'best practice' library of pre-built role-based intelligence reports, dashboards, and alerts for HR managers, analysts, and business unit executives.
- Pre-built ETL (extract, transform, and load) to extract data from operational tables and load it into the data warehouse, sourced from HCM and other systems and sources. Suppliers of these solutions will provide integration to their own applications but they can also have universal adaptors to other standards based, or commonly used solutions. This enables information from disparate systems and spreadsheets to be combined. This is how Financial and Customer service information can be combined with HR data for cross LOB metrics.
- Pre-mapped metadata, defining real-time access to analytical and operational sources, embedded best practice calculations and metrics for the HCM practitioner.

Heads of Centres of Excellence such as Recruiting, Rewards and Talent would also require dashboards tailored to their role.

**Mobile Metrics**

HR professionals and Line Managers expect to perform more of their tasks on a tablet or smartphone. HR Metrics and alerts are a key area that solution providers are making available for their customers.

**Structured and Unstructured Information**

Taking a lead from our sales and marketing functions HR reporting is now moving to looking at unstructured data and combining it with the structured data held in the HR relational databases. Unstructured data might be from internal social networking, surveys, HR intranet use. Organisations using this type of approach are finding richer information about their people. The tools available to provide unified unstructured data preparation – cleanse, parse, extract, tokenize, lexical analytics, sentiments, semantic processing and ontologies to achieve meaningful results.

**HCM Solutions – HR in the Clouds**

The latest technological advancement to emerge for people metrics is Human Capital Cloud Applications. These are geared to the needs of modern, agile and competitive organisations. They are fast to implement, come at a predictable monthly cost, integrate readily with other business applications and offer a full range of HCM functionality.

High quality metrics are becoming even more important to drive evidence based decision-making when agreeing a successful HR and business Strategy. The ability of HR to provide value added insight using these metrics to help shape opinion is one of the key levers we have.

Sarah Grice, Regional Head of Human Resources, UK and Europe
HR in the Cloud means that HCM software is provided as a service, with the application and the data being hosted by a third party. The organisation subscribes for the service for a particular period, usually around three years, and for a certain range of numbers of staff. This gives HR the ability to make HR systems an Operational Expense, rather than a Capital Expense, and negates the need for a systems upgrade whilst still enjoying the benefits of latest technology.

As this is a highly complex area, Appendix 5 ‘HCM Looks Cloudy’ has been developed to outline the detailed advantages of this ‘state-of-the-art’ method of collating, analysing and reporting HR information.

**Conclusion**

Most organisations are moving along a journey of optimising the analytical information available to help HR manage the People in their organisation and provide business value. In summary here are some final points for organisations to consider:

- Master HR data management and reducing disparate systems improve the quality of data and the ability to derive meaningful metrics. Whether the HR solutions are delivered through the cloud or on-premise or a blend is not an issue so long as there is a unified data model and open standards based integration.
- Spreadsheets have their useful place but take care with security aspects of distributed information.
- New generation HCM solutions provide embedded analytics within the transaction, providing HR professionals, Line Managers and Employees with key information just when needed.
- It is possible to implement prebuilt analytics based on best practice, which can be modified to meet your organisations exact requirements.
- The current and future trends for analytics include increased predictive capability, mobile access to metrics, KPIs and alerts, the use of unstructured information in reporting.
- The next major innovation is cloud technology which has been described in Appendix 5.

**SUMMARY OF KEY METRICS AND ISSUES**

**HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES**

<table>
<thead>
<tr>
<th>RED</th>
<th>AMBER</th>
<th>BLUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum level</td>
<td>Added value level</td>
<td>Influencing and directing level</td>
</tr>
<tr>
<td>The HR metrics and data that all organizations should maintain for statutory or base reporting reasons.</td>
<td>The HR metrics and data that all organizations should maintain to improve the integrity of data and decision-making.</td>
<td>The HR metrics and data that many organizations should aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making from the Board down.</td>
</tr>
</tbody>
</table>

**HR TECHNOLOGY TO SUPPORT HR METRICS**

- Employee information database with pre-requisite personal details
- Spreadsheets containing employee data and metrics such as the salary and bonus plan
- Spreadsheets showing bonus deferrals
- Payroll Information
- Employee Benefits database

**HR TECHNOLOGY TO SUPPORT HR METRICS**

- Real-time HR system with self-service reporting
- Manager Information Database
- HR Executive Reporting
- Technology which integrates special applications into main HR system

**HR TECHNOLOGY TO SUPPORT HR METRICS**

- Monitoring of Human Capital initiatives and actions against Key Performance Indicators (KPIs)
- Predictive Reporting
- The utilisation of Cloud Technology to host HR data with possible efficiencies in terms of HR Infrastructure spend and greater functionality.
HR METRICS: AN ANALYSIS OF THE DATA THAT ORGANISATIONS SHOULD, COULD, OR SHOULD ASPIRE TO MAINTAIN FOR STATUTORY AND DECISION MAKING PURPOSES

THE KEY STAKEHOLDERS

- Who is the audience? The Board, Finance, HR, other?
- What story should these HR metrics tell?
- Know your own data well
- Understand why the metrics are needed and what decisions will be made
- Ensure that HR metrics meet compliance requirements.
- For most financial service organisations, the Financial Services Authority (FSA) will want data and metrics on:
  - Significant Influence Function (SIF) Employees
  - The limited number of guaranteed payment awards and the rationale
  - Retention Payments, on a strictly limited basis
  - Termination Payments
  - Evidence of the link between pay and performance including the ability to make a claw-back

THE KEY STAKEHOLDERS

- Does the data add value?

THE KEY STAKEHOLDERS

- Find a Champion for your metrics and reporting, particularly if presenting to the Board, Executive Committee or an external source
- Liaise with the Internal Communications team on any HR metrics which may have a positive or negative message for employees or external sources.

HR AND THE BOARD

Culture Metrics for the Board

- % ‘Intention to stay’ across the workforce. (Could include this metric for the high potentials and high performers only)
- % High discretionary effort across the workforce. (Could include this metric for high potentials and performers only)
- A metric for risk culture – could include % completing training, compliance record

HR AND THE BOARD

Culture Metrics for the Board

- Red zone metrics by division, business unit, job level or country
- 360° feedback metrics for each senior leader – watch the sensitivity of this but goes well with red zone metrics for their unit

HR AND THE BOARD

Culture Metrics for the Board

- Entrepreneurial culture measures.
- Risk culture measures.
- Other culture measures that link to strategic objectives eg attitude to excellent standards, energy levels, commitment to customer
- Predictive measures of behaviour in relation to risk
Talent Metrics for the Board
- % key executive roles covered by at least one immediate successor.
- Number and quality of people in the longer term succession pool (3-5 years).
- General retention rates or turnover rates for employees.
- Diversity metrics to track % high potentials are female and other diverse categories. A regulatory requirement for listed companies.

Employee Risk Metrics for the Board
- Numbers of reputational employee risk cases per annum eg grievances, disciplinaries, tribunal cases.
- Use of whistleblowing line.
- Health and Safety – minor incidents and major incidents for reporting period.

THE LEGAL FRAMEWORK
- Compliance with DPA at all times in relation to all data kept and used for metrics purposes.
- Compliance with statutory requirements (WTR, NMW, SSP, SMP).
- Equality monitoring – to ensure equal opportunities objectives being met.

THE RANGE OF DATA UNDER THE HR MICROSCOPE AND THE MANAGEMENT OF RESOURCES
- Payroll data (e.g. records of employees’ gross earnings, tax, NICs, student loan repayments, P11D expenses and benefits in kind, etc).

Talent Metrics for the Board
- % Other roles covered by at least one immediate successor.
- Trends in quality of the new talent pool eg on the graduate analyst career track.
- Retention rates of high potentials and for high performers – should be a better rate than for the general workforce.
- Success rates for initiatives to support high potential diverse employees.

Employee Risk Metrics for the Board
- Employee risk cases per division, business unit or operating company.
- Detailed breakdown on Health and Safety incidents by division, business unit or operating company.

THE LEGAL FRAMEWORK
- Absence monitoring – to identify patterns revealing potential issues such as stress/bullying.
- Review of Grievances and Disciplinary action to identify any recurring issues or themes.
- Data protection audit – to ensure compliance with DPA.

THE RANGE OF DATA UNDER THE HR MICROSCOPE AND THE MANAGEMENT OF RESOURCES
- Compensation and reward metrics (e.g. average fixed compensation, average variable compensation, employee benefit expense, etc).

THE LEGAL FRAMEWORK
- Equal Pay audits sooner rather than later to head off potential claims and/or establish that there are no issues. However, complete agreement to this must be obtained from senior management because once the organisation has the information – any pay disparities should be rectified.
- Equality impact assessment – to analyse the impact of policy changes on protected characteristics, particularly changes to pay.
- Carry out job evaluation study.
- Consider whether any positive action measures are appropriate.

THE RANGE OF DATA UNDER THE HR MICROSCOPE AND THE MANAGEMENT OF RESOURCES
- Leadership development measures (e.g. who are your next generation leaders, what is the probability of their success, etc).
- Future workforce planning and
### Records of periods of absence due to incapacity, maternity and paternity leave, etc.
- Pensions data
- Records of accidents and injuries at work
- Records required by regulators (e.g., evidence of fitness and probity for FSA Approved persons)
- Hours worked

### METRICS ABOUT HR

**The Organisation Life Cycle:** Identify, collate and analyse the metrics and data required to support the organisation through the appropriate phase such as:

#### Start-up phase
- Headcount at business formation and peak; salary and benefits costs; hiring costs; the cost of providing incentives for growth including equity and share options. Consider all of the HR metrics covered in the red zone of this appendix.

#### Outsourcing:
- Conduct a Cost vs Benefit Analysis looking at the proposed new location in terms of availability of human capital, cost of local hires, cost of training, cost of potential double salaries during transitional period. Set up Service Level Agreements and monitor.
- Set up a redeployment fund in the exiting company or region to include re-training, severance pay and outplacement.
- If off-shoring activities, manage new location in line with amber and blue zones of this appendix.

#### Challenging Market Conditions:
- Analyse activities and costs which can be reduced including headcount freezes, headcount reductions and re-negotiation of the cost of employee benefits such as medical insurance.
- Identify potential job redundancies, ensuring a fair selection process and employee consultation. Examine the costs relating to voluntary and compulsory severance, legal fees, compromise agreements and...
outplacement (including additional cost of legal advice for overseas locations)
- Restructuring Budget including a contingency against risk of employee claims.

Distressed and Failing Companies
- See red zone above.

Mergers and Acquisitions
- Conduct or present HR Due Diligence (depending on whether the firm is acquiring or being acquired) based on the red zone above. If the acquirer, seek data about the amber and blue zones of this entire appendix 1.
- Understand the new business plan and model the HR costs accordingly.
- Analyse the cost and budget for restructuring including HR related legal fees and a risk of employee claim fund.
- Analyse the cost and plan for employee retention in the merging and merged organisations.
- Manage the merged organisation in light of the amber and blue zones of this entire Appendix 1.

Sustainable Growth and Maturity
- Consider the metrics in light of the red, amber and blue zones of this entire Appendix 1.

What HR Should Know About the Business
- Headcount: Permanent and Temporary/Contract staff (see “Definitions”)
- Number of Expatriates and ratio to local population
- Employee ratios relating to diversity

What the Business Should Know About HR
- The number of HR staff and the ratio of these to the total population supported

Mergers and Acquisitions
- Manage the mergers and acquisitions in light of the red, amber and blue zones of this entire Appendix 1.

What the Business Should Know About the Business
- Headcount: Front Office vs All Other Categories of Staff (see “Definitions”)
- Employee engagement levels
- Productivity
- Succession Planning

Sustainable Growth and Maturity
- Consider the metrics in light of the red, amber and blue zones of this entire Appendix 1.

What HR Should Know About the Business
- Ranking of the organisation in external surveys such as those relating to diversity and corporate social responsibility
- Ranking of the organisation against all HR policies (The City HR Policies Benchmarking Survey) by total population and by peer group comparison
- Awards received for outstanding contribution such as The Lord Mayor’s Dragon Award for
REMUNERATION
- Employee Payslips listing all payments and deductions made;
- Historical Pay-related data for current and past employees;
- Pension scheme contributions for employer and employees;
- Employee benefits costs (e.g. private medical insurance premiums etc);
- Data required for tax returns such as P60s, P11ds, P45s etc.;
- Data required by regulatory authorities, e.g. FSA, on remuneration polices, mechanisms; details of the packages paid to specified employees (e.g. Code staff);
- Director’s pay and packages to be reported in published annual reports (plcs);

- Annual attrition rate and the ratio of voluntary to involuntary leavers, particularly the number leaving by way of redundancy;
- Cost-savings derived from innovative HR initiatives: eg: employee benefit savings derived for successful supplier negotiations; reduced absenteeism and improved productivity through the introduction of wellbeing programmes; savings made on outsourcing certain HR activities.

TALENT MANAGEMENT METRICS
Attraction of Talent
- Headcount Report
- Organisational / Departmental Budget
- Resourcing Budget

- Market research to assess product and brand awareness in order to attract ‘the right hires’ (particularly prevalent on campus);
- Ratio checks to ensure that the firm is attracting and hiring the best recruits from all backgrounds including male vs female applications;
- Evaluation of talent tests to ensure ‘fairness’ to all participants irrespective of gender, culture or nationality.

TALENT MANAGEMENT METRICS
Attraction of Talent
- Manpower Plan
- Global or Local Succession Plan
- Monitoring of effectiveness of external Recruitment Methods
- Tracking of applications via the company website, conversion rate to hire and cost saving against hiring from original sources
- External benchmarking on cost per hire; numbers hired generically and by function; fees paid to external sources

- Data on employee benefits available on staff intranet – selection of flexible benefits, individual’s package, value and usage;
- Analysis of remuneration data against company financial performance (internal vs. external comparators);
- Ability to report remuneration data in a variety of formats, e.g. graphical analyses which enable management to visualise different scenarios

REMUNERATION
- Employee Benefits Costs by individual/department etc.
- Market data to aid remuneration decisions (e.g. salary surveys);

- Data on employee benefits available on staff intranet – selection of flexible benefits, individual’s package, value and usage;
- Analysis of remuneration data against company financial performance (internal vs. external comparators);
- Ability to report remuneration data in a variety of formats, e.g. graphical analyses which enable management to visualise different scenarios

Cause and Effect
- Corporate social responsibility or an award judged for a professional magazine
<table>
<thead>
<tr>
<th>Identification of Talent</th>
<th>Identification of Talent</th>
<th>Identification of Talent</th>
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</thead>
<tbody>
<tr>
<td>Examine the performance and potential of all employees using performance appraisals and objective feedback</td>
<td>Identification of emerging talent by either:</td>
<td>Usage of questionnaires, on-line tools and psychometric tests to measure values and behaviours particularly in the context of Next Generation Leaders.</td>
</tr>
<tr>
<td></td>
<td>Plotting of talent pool against a Nine Box Grid or other performance, potential or ranking method to identify talent distribution from lowest to highest ranked employees and/or</td>
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<tr>
<td></td>
<td>Data derived from Development Centres</td>
<td></td>
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<tr>
<td></td>
<td>Devise a programme for self-selected development opportunities as part of an overall personal skills portfolio</td>
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<thead>
<tr>
<th>Talent Engagement and Retention</th>
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<th>Talent Engagement and Retention</th>
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<tbody>
<tr>
<td>Analysis of attrition and exit interview data</td>
<td>Analysis of employee engagement surveys</td>
<td>Internal market research on company values, products, business results and brand</td>
</tr>
<tr>
<td></td>
<td>Historical analysis of survey data</td>
<td>External Benchmark of employee engagement survey data</td>
</tr>
<tr>
<td></td>
<td>The impact of internal well-being strategies in enhancing employee productivity and attendance</td>
<td>Nurturing of internal networks and evaluation of success</td>
</tr>
<tr>
<td></td>
<td></td>
<td>External collation of structured interview data from recent leavers to determine ‘real’ reasons and to assess re-hire capability</td>
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<tr>
<th>Talent Development</th>
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<th>Talent Development</th>
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<tbody>
<tr>
<td>Annotation of development needs from performance appraisal</td>
<td>Individual career plans</td>
<td>Correlation between performance and management principles</td>
</tr>
<tr>
<td></td>
<td>Development Centres for skills development and succession planning</td>
<td>The measurement of an individual’s influence and trust</td>
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<tr>
<th>DIVERSITY</th>
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<tbody>
<tr>
<td>Protected Characteristics: Analyse employee population</td>
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</tr>
<tr>
<td>By race, age, gender, disability</td>
<td>By race, age, gender, disability, sexual orientation, religion or belief, transgender (not if it could identify individuals)</td>
<td>Add marital status and civil partnership (again protecting individual confidentiality)</td>
</tr>
</tbody>
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<td>By race, age, gender, disability, sexual orientation, religion or belief, transgender (not if it could identify individuals)</td>
<td>Add marital status and civil partnership (again protecting individual confidentiality)</td>
</tr>
</tbody>
</table>
**Workforce Data**
- Total number of employees by:
  - Full time
  - Part Time
  - Contractor/temporary

**Recruitment and Selection**
- Record number of individuals
  - Applying for a post
  - Successful at interview

**Employer, Employee Behaviour & Experience**
- Review and analyse the number of
  - Discipline cases
  - Grievance cases

**Training, Development, Promotion and Transfer**
- Record number of individuals receiving training, promotions and transfers and monitor to ensure equal opportunities

**Pay and Benefits**
- Ensure equal opportunities are included in policy

**Top Team and Talent Pool**
- Ensure equal opportunities are included in policy

---

**Workforce Data**
- Taking numbers outlined in the red zone, assess the following:
  - Comparison against expected % by race, gender and disability
  - Set goals to be more representative
  - Consider plan to improve level of declaration by workforce

**Recruitment and Selection**
- Record number of individuals
  - Applying for a post
  - Successful at interview
  - Sifted through to interview
  - Successful at interview

**Employer, Employee Behaviour & Experience**
- Review and analyse the number of
  - Discipline cases
  - Grievance cases
- record number of disciplinary and grievance cases by protected characteristic
- Satisfaction and Engagement levels (e.g. employee survey findings)

**Training, Development, Promotion and Transfer**
- Continuing monitoring of training, promotions and transfers against protected characteristics

**Pay and Benefits**
- Equal Pay audits – voluntary pay reporting (see Government’s Think Act Report guidance) ensuring early stage monitoring and thinking about greater transparency

**Top Team and Talent Pool**
- Board and Senior Management Team composition

---

**Workforce Data**
- Positive action to improve any under-representation of groups
- with evidence of improved declaration over time in majority of categories

**Recruitment and Selection**
- Further analyse data regarding:
  - Annual trend analysis against targets set
  - Action Plans to improve where targets not met
  - Annual review of targets

**Employer, Employee Behaviour & Experience**
- Trends on discipline and grievance over time showing changes in representation of different groups with an analysis and plans to improve.
- Culture audits to examine how different staff feel about prevailing customs/practices and behaviours

**Training, Development, Promotion and Transfer**
- Ongoing analysis to ensure equal opportunities

**Pay and Benefits**
- Equal Pay audits – voluntary pay reporting (see Government’s Think Act Report guidance) continuing with monitoring looking at greater transparency

**Top Team and Talent Pool**
- Detailed succession planning and monitoring of progress to meet government and organisational diversity targets
Working Patterns

- Ensure conformance with flexible working policies and consider applications for flexible working in line with legal, and organisational policies in light of business needs.

HR Strategy and Policies

- Ensure they are non-discriminatory (on grounds of protected characteristics)

Gender Diversity

- Diversity metrics to track % of high potentials are female (and other diverse categories)

Working Patterns

- Flexible working
  - By gender, disability, work team/location

HR Strategy and Policies

- Regular monitoring of diversity and inclusion strategy and policies to ensure there is no discrimination

Gender Diversity

- Female career progression rates for Board/Senior Management positions and outlined in annual report
- Return to work rates after childbirth or adoption
- Career trajectory of women returners over three to five years

HR Strategy and Policies

- Analysis of Equality Impact for different groups, with engagement of stakeholders and actions to mitigate and negative impacts, remove discrimination, promote good relations (between groups) and involvement in public life (of all groups)

Gender Diversity

- Use of the government’s Think Act Report framework to assess effectiveness of internal actions
- External benchmarking - measurement of the effectiveness of organisational policies and progress against external benchmarks (eg. Opportunity Now, Race for Opportunity, Stonewall, Disability Rights Commission etc.).

PUBLIC SECTOR EQUALITY DUTY (Acting in accordance with The Equality Act 2010 for organisations providing services to – or on behalf of - public sector bodies).

- HR metrics can demonstrate ‘due regard’ to:
  - eliminating discrimination, harassment and victimisation
  - advancing equality of opportunity for persons with a protected characteristic against those who do not have the characteristic
  - fostering good relations between those who do – and do not – have a protected characteristic.

- HR Metrics can further demonstrate that diversity and respect will be delivered to “consumers” of the public service
- Such metrics, as covered in the red, amber and blue zones could be used as evidence that diversity monitoring is in force and that progress will be made within the ‘providing organisation’.

- Analyse the impact of Diversity Strategy and Policy of different protected characteristic groups against the key diversity areas outlined in this Diversity Section to ensure that these support equal opportunities and treatment of employees and customers.
PROFESSIONAL SERVICE SECTOR - ADDITIONAL METRICS

Performance metrics
- Utilisation rates determine how effectively people resources are being used
- Conversion rates to measure how people resource time is converted into fee paid services to the client

Growth and development metrics
- Knowledge valuations based on the market value of the services, the time input by employees to provide the services, the perceived value to the client or service users or the value of the outputs and end
- Growth metrics using competency frameworks and evidence of continuing professional development
- Service development and standards contrasted with service level agreements and client feedback, including 360 degree individual performance appraisal

HR TECHNOLOGY TO SUPPORT HR METRICS
- Employee information database with pre-requisite personal details
- Spreadsheets containing employee data and metrics such as the salary and bonus plan
- Spreadsheets showing bonus deferrals
- Payroll Information
- Employee Benefits database

PROFESSIONAL SERVICE SECTOR - ADDITIONAL METRICS

Innovation and creativity metrics
- through ensuring that time invested in new products and ideas results in client service enhancement

Client lead innovation and development metrics
- (e.g. clients investing time and effort to report back what services they most value and how best they would like them delivered)

HR TECHNOLOGY TO SUPPORT HR METRICS
- Real-time HR system with self-service reporting
- Manager Information Database
- HR Executive Reporting
- Technology which integrates special applications into main HR system

HR TECHNOLOGY TO SUPPORT HR METRICS
- Monitoring of Human Capital initiatives and actions against Key Performance Indicators (KPIs)
- Predictive Reporting
- The utilisation of Cloud Technology to host HR data with possible efficiencies in terms of HR Infrastructure spend and greater functionality.
<table>
<thead>
<tr>
<th>Employee number</th>
<th>Name</th>
<th>Business Unit</th>
<th>Business Function</th>
<th>Department</th>
<th>Business Title</th>
<th>Grade</th>
<th>Service Date (dd-mm-yy)</th>
<th>Expat (Y/N)</th>
<th>Full Time Equivalent</th>
<th>Current Base Salary</th>
<th>Current Cash Allowances</th>
<th>Current Guaranteed Cash (Base + allowances)</th>
<th>Proposed Base Salary</th>
<th>Proposed Base + Reviewable Cash Allowances</th>
<th>% inc in base salary</th>
<th>Current base vs Market Median</th>
<th>Proposed base vs Market Median</th>
<th>Current Total Compensation vs Market Median</th>
<th>Last Promotion Date (dd-mm-yyyy)</th>
<th>Deferred bonus award (inclusive of deferred cash and deferred shares)</th>
<th>Current year bonus Plan type</th>
<th>Previous year bonus Award</th>
<th>Current year Proposed bonus Award</th>
<th>Cash bonus Award</th>
<th>Deferred bonus award (inclusive of deferred cash and deferred shares)</th>
<th>Proposed Total Compensation</th>
</tr>
</thead>
</table>


APPENDIX 3

SAMPLE EMPLOYEE BENEFITS STATEMENT

Dear Adam,

This is your personalised Employee Benefit Statement. This statement summarises and itemises the benefits you currently receive. It also sets out the annual costs that COMPANY NAME pays on your behalf to provide these benefits to you. The information contained in your Employee Benefit Statement is based on your salary and compensation arrangements as at 31st December 2011, and is subject to your terms and conditions of employment and all other Company rules and policies, as varied from time to time. The figures provided below must be read in conjunction with the explanatory notes provided below.

Please read this information carefully.

<table>
<thead>
<tr>
<th>Personal Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
</tr>
<tr>
<td>Address</td>
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<td>Postcode</td>
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<tr>
<td>Employee Number</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Salary</td>
</tr>
<tr>
<td>Misc Allowances</td>
</tr>
<tr>
<td>Bonus Award</td>
</tr>
<tr>
<td>Car Allowance</td>
</tr>
<tr>
<td>Total Cash</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension (Company Contribution)</td>
</tr>
<tr>
<td>Permanent Health Insurance (Long Term Disability)</td>
</tr>
<tr>
<td>Life Assurance</td>
</tr>
<tr>
<td>Personal Accident Cover</td>
</tr>
<tr>
<td>Private Medical Insurance (BUPA)</td>
</tr>
<tr>
<td>Company Car</td>
</tr>
<tr>
<td>Employee Assistance Programme</td>
</tr>
<tr>
<td>Reeds / Lifestyles Gym</td>
</tr>
<tr>
<td>Total Value of Benefits</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Annual Cost of Cash &amp; Benefits</td>
</tr>
</tbody>
</table>

If any of the above information is incorrect please contact XXXX on XXXXXXXX. For further information on these benefits please visit the company intranet website at www.xxxxxxxxx.
EXPLANATORY NOTES

1) Car Allowance/Company Car
The value of your Car Allowance / Company Car is not taken into account for calculating your pension benefits and contributions. If you receive a Car Allowance (instead of a Company Car) it is subject to PAYE & National Insurance deductions and is paid monthly with your salary. Your P11D will reflect your election to take full Car Allowance or Company Car with residual Cash Allowance as appropriate. The calculated value of the Company Car is the annualised amount of current monthly lease value plus VAT.

2) Private Medical Insurance (BUPA)
The Company provides Group Medical Insurance, which covers eligible employees for private medical treatment. Eligible employees may enrol themselves and their immediate family members into the Group Medical Insurance Scheme. The figure shown represents the premium that COMPANY NAME pays to the medical insurance provider to provide cover for you and your family (if applicable). You are taxed on this amount as a 'Benefit in Kind' and the taxable premium will be included on your P11D.

3) Pension
The figure shown is the annualised employer contribution that COMPANY NAME currently pays towards the cost of the pension you are building up but excludes any employee contributions paid by COMPANY NAME through the UK Pension Contribution Salary Exchange Scheme. If you are a member of the COMPANY NAME Defined Benefit Pension Plan the employer contribution is subject to periodic change following actuarial advice, and will change in accordance with changes in your Pensionable salary each 6 April. For members of the COMPANY NAME Group Stakeholder Scheme the Company will twice match the employee contribution up to a maximum of 10% of salary.

4) Permanent Health Insurance*
This benefit provides you with a replacement income of 60% of your basic salary (at the rate applicable when you were last at work) if you become unable to work due to long term illness or disability. The insurance also covers your pension scheme contributions so these will continue to be paid on your behalf. The cover continues until you are able to return to your own occupation or reach your Normal Retirement date. The figure shown is the cost to COMPANY NAME of providing you with cover under this scheme.

5) Life Assurance*
Under this arrangement you are covered for a tax-free cash sum as a multiple of your basic salary (stated overleaf) in the event of your death in service. The lump sum is payable to your nominated beneficiaries at the Trustees discretion. The figure shown is the cost to COMPANY NAME of providing this cover for you.

6) Personal Accident Insurance*
This scheme provides cash sum benefits payable in the event of death or disablement arising from an accident. In the event of death from an accident an amount equal to 2 x your current basic salary is insured. If disability results from an accident that involves dismemberment or loss of sight, lump sum benefits may be payable dependant on the severity of disability of up to twice your basic salary. The figure shown is the cost to COMPANY NAME of providing you with cover under this scheme.

7) Employee Assistance Programme
COMPANY NAME has an agreement with an independent counselling group to provide this service. The employee counselling service is available to all COMPANY NAME employees and their families in the UK, and up to 6 sessions of face-to-face counselling per year are also available. The figure shown is the cost to COMPANY NAME of providing you with cover under this scheme.

8) Gym
COMPANY NAME offers access to gym facilities for all employees who elect to make use of this benefit. Employees contribute towards this benefit, as does the Company. Our PAYE Settlement Agreement with HMRC covers the employer cost and so this is not reported on your P11D.

Childcare Vouchers
COMPANY NAME offers employees membership of the Childcare Voucher Scheme run through XXXXXX to provide a voluntary salary sacrifice scheme to enable employees to pay for childcare whilst gaining savings in tax and National Insurance Contributions (NICS).

* Please note that eligibility is dependent on Pension Scheme membership
### Outputs of the process

<table>
<thead>
<tr>
<th>for the company</th>
<th>for employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>the costs of unwanted losses (use standard formula – premia for high potentials, special knowledge, going to a competitor)</td>
<td># losses due to dissatisfaction with career progression</td>
</tr>
<tr>
<td>the costs of poor hires</td>
<td>Survey % strongly expecting to STAY with company over next 12 months; and key reasons</td>
</tr>
<tr>
<td>the costs of external hires because no internal candidates available</td>
<td>Survey % strongly expecting to LEAVE company over next 12 months; and key reasons</td>
</tr>
<tr>
<td>success of new hires in terms of RPA and PC</td>
<td>% promoted by grade level</td>
</tr>
<tr>
<td>success of internal appointments in terms of RPA and PC</td>
<td>average length between promotions of talent bank</td>
</tr>
</tbody>
</table>

### Measures of the Effectiveness of the Process

(by sector or region):

- % of critical roles with no successor
- potential cost of undesired external hires due to no succession
- % of managerial appointments which are external (vs target %)
- % of people with ‘developmentally-critical’ experiences
- % of people crossing boundaries – sectors, functions, countries
- % of people at certain levels from minorities
- % of people with each type of potential classification
- % of appointments based on succession plans p.a
- % participation of key managers in the process

### Setting up a Process of Measurement

<table>
<thead>
<tr>
<th>Step</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>at which levels do we want to have scorecards – one central one or by sector/region? Who will own them?</td>
</tr>
<tr>
<td>2</td>
<td>what measures on the scorecard do we want?</td>
</tr>
<tr>
<td>3</td>
<td>for which measures do we have the data already? Do we need to ‘massage/convert’ the measures for our purpose?</td>
</tr>
<tr>
<td>4</td>
<td>which measures will cause difficulty as the data is not available? Should we reconsider them?</td>
</tr>
<tr>
<td>5</td>
<td>what targets will we set?</td>
</tr>
<tr>
<td>6</td>
<td>how will the scorecard (s) be used?</td>
</tr>
</tbody>
</table>
### A Talent Distribution Profile

<table>
<thead>
<tr>
<th>Sector/Region/Function</th>
<th>Types/Grades of staff</th>
<th># with potential A</th>
<th># with potential B</th>
<th># with potential C</th>
<th># with potential D</th>
<th># with potential E</th>
</tr>
</thead>
<tbody>
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</table>

### A Risk Distribution Profile

<table>
<thead>
<tr>
<th>Sector/Region/Function</th>
<th>Types/Grades of staff</th>
<th># with high risk of leaving</th>
<th># with moderate risk of leaving</th>
<th># with no risk of leaving voluntarily that we would like to lose</th>
</tr>
</thead>
<tbody>
<tr>
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HCM SOLUTIONS – THE FUTURE LOOKS CLOUDY

HCM Cloud Applications are geared to the needs of modern, agile and competitive organisations. They are fast to implement, come at a predictable monthly cost, integrate readily with other business applications and offer a full range of HCM functionality.

HR in the Cloud means that your HCM software is provided as a service, the application and the data is hosted by a third party. Your organisation subscribes for the service for a particular period, usually around three years and for a certain range of numbers of staff.

There are a number of possible deployment scenarios available, though many vendors only offer one deployment method. If you consider that your organisation may require the flexibility to move in and out of the Cloud or to retain some HCM Applications on premise and deploy others in the Cloud you should identify a vendor who is best placed to offer this.

Diagram Courtesy of Oracle Corporation 2012

<table>
<thead>
<tr>
<th>Deployment Type</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td><strong>On Premise</strong></td>
<td>This is the traditional way of deploying an HCM solution. The hardware, infrastructure and data are all owned, licensed, and supported by your organisation. A variation of this would be where you own the licence to the software but outsource the running of it to a third party. The definition is that the software licence is held in perpetuity.</td>
</tr>
<tr>
<td><strong>Private Cloud</strong></td>
<td>Also called an enterprise cloud, this offers activities and functions ‘as a service’ deployed through the organisations intranet or a hosted datacenter. This is private product for a company or organisation offering advance security and highly available or fault tolerant solutions not possible in a public cloud. In this scenario, the private cloud owner shares few, if any, resources with other organisations.</td>
</tr>
<tr>
<td><strong>Public Cloud</strong></td>
<td>Services are provided ‘as a service’ over the Internet with little or no control over the underlying technology infrastructure. This cloud is appealing to many decision-makers as it reduces complexity and long lead times in deploying new products.</td>
</tr>
<tr>
<td><strong>Hybrid Cloud</strong></td>
<td>Services are provided in a mixed model. An example of this could be where an organisation has an on premise installation of a core HCM system but wants to deploy a Cloud based Performance or Compensation system. Deploying these types of modules in the Cloud satisfies the cycle timeframe requirements. Alternatively the core HCM system could be in the Cloud, the payroll system outsourced and the Time and Labour solution on premise. These types of combinations are possible in the Hybrid cloud. See the section around integration for some further considerations.</td>
</tr>
</tbody>
</table>
BENEFITS OF HCM SOLUTIONS IN THE CLOUD

Cost Savings and Efficiency Gains
HCM Cloud Applications are available on a subscription, pay-as-you-go, pricing model. With no hardware to buy, software to manage or upgrades to conduct, you can drastically reduce the cost of implementing and running a new HCM and Payroll platform – and achieve ROI much faster.

Cost savings and efficiencies typically come from these areas:

- No upfront investment in hardware to run the HCM system.
- No IT implementation costs external consultants or in-house IT teams to install the system.
- No in-house application management, maintenance or upgrade costs.
- No in-house helpdesk costs to support the applications.
- Faster implementation reduces the opportunity cost of continuing to use old systems.
- No major upgrade costs and always able to take advantage of the latest available functionality in the HCM solution.
- Access to new generation HCM applications providing enhanced HR and Talent management support for your business requirements.

Greatly Reduced Time To Value
Cloud based HCM solutions enable an organisation to accelerate time to value from the solution. If you take an organisation implementing a full suite of HCM solutions for between 5000 and 10000 employees it has been shown that the ROI is typically made in 7 months for deployment in the Cloud compared to around 20 months on premise. Smaller organisations or those deploying single modules such as performance Management or Compensation planning systems should expect to identify ROI within weeks. In addition because the service vendor provides regular updates to the solution you benefit from always being on the current release and having earlier access to powerful features as soon as they become available.

Cloud based solutions are typically more recently developed by the vendors and should offer you templates and set up wizards for:

- Easy data loading to take your existing data into the new application. You will need to discuss with the supplier how much historical data they are able to load and what you actually require for good business decisions moving forward.
- Configurable layouts, reports and processes, get the applications working in the way that best suits your HR and Payroll professionals and business users.
- Out of the box integration with existing applications; check whether these are supported through future releases by the vendor. Look for a standards based flexible integration platform with third-party applications and services.
- A rolling program of product updates mean you can start benefiting from new functionality as soon as it’s available and there’s no system downtime for your users.

OPEX versus CAPEX
The benefit of buying a service rather than a licence means that usually it can be met out of operating budget rather than capital expenditure budget. In many organisation this empowers HR Directors to fund their own HCM solution in timescales that suit their business requirements. Whilst IT departments may still be involved in supporting the procurement of a Cloud HCM solution it is more likely to be led by the HR Business. The next section will suggest some areas for consideration when choosing a new Cloud Based HCM solution.

HCM CLOUD CONSIDERATIONS

Breadth and Depth of the Solution
Not all cloud-based HCM applications are created equal, and some can create as many problems as they solve. While niche cloud applications can give HR executives quick access to much-needed new functionality, if used in isolation they also create even more islands of data that can’t be accessed and used by other HR systems and professionals. The result is that people-related data becomes inconsistent and out of sync,
complex queries can’t be answered accurately (or at all), and processes that may previously have been automated become disjointed and inefficient. Look for integrated modules for core HR, payroll, talent management, performance management, collaboration and analytics, to deliver strategic business value to every person in an organisation – from professional users to employees and managers.

**Data Security Risks**

Data security is a top concern for many organisations considering a move to the cloud. Consider your vendors current and possible future security and governance capability.

Some cloud-based systems are composed of the vendor’s application running on a third-party data infrastructure and hosted in a third-party data centre. Other suppliers own and manage the entire infrastructure of its cloud applications: from the application to the middleware, database, operating system, hardware, and data centre facility itself. You want to ensure a robust, international standards-compliant information security architecture that is tightly woven through every layer of the service, from access management in the application layer down to the potentially embassy-grade physical security. You may also want to consider in which country your data will physically be held.

When selecting your Cloud Vendor ask for the following security reassurances:

- Full reference security implementation, with roles, duties, policies, etc. already defined
- Role-based access control to manage user access privileges to a fine level of granularity
- World-class identity management to ensure only authorised users access your applications and data
- Enforcement of segregation of duties to ensure no approval is conducted by a single person
- Strong database security to prevent internal and external breaches, including SQL injections
- Embassy-grade physical security at every data centre.
- Stringent vetting processes to ensure your software is managed by people of the highest integrity.

**Flexibility and Extensibility**

Not all vendors of Cloud HCM solutions can offer flexibility and extensibility. The ability to do so depends on the underlying design of the software. For example if you need to add a field to hold a necessary piece of information, what are the implications. Consider the following – can the field be put where want it, can it be defined by an HR person or is it an IT or vendor task, can it be controlled through the standard security wizards, is it available for reporting, will there be an impact when updates are provided by the vendor? Even in the public cloud you can retain the freedom and flexibility to configure the applications to the way your organization works best – without the need for IT specialists. With all the configurations you make safely preserved.

**Integration With Other HCM Solutions and 3rd Party Applications**

Over the last few years there has been a consolidation of vendors in the HCM system marketplace. This has primarily been the result of the market demanding greater integration of their HCM solutions. Manually integrating different cloud applications eats up time and money, negating the cost and speed advantages of cloud computing. Using different applications from different vendors also ramps up vendor management costs (by as much as 32 percent, according to PricewaterhouseCoopers) and creates a confusing patchwork of user interfaces and login screens that slow down productivity.

Assessing integration can be confusing. Security, reporting and consistency of user experience are greatly increased when the different elements of the solution have a unified data structure. This is usually only possible where the solutions have been developed by a single vendor. If due to a key business requirement you take solutions from different vendors you should consider the cost of building and maintaining integration as part of the business case and the project plan. Look for integrated modules with a unified data model incorporating core HR, payroll, talent management, performance management, collaboration and analytics, to deliver strategic business value to every person in an organisation – from professional users to employees and managers.
This City HR Association best practice guide considers the growing demand for information relating to people metrics, the reasons behind it and the differing needs of various stakeholders. It explores the role of HR in determining the need for metrics, facilitating the process and aligning people metrics to meet both statutory purposes and the life cycle of the organisation.

Most importantly, the guide explores the application of the metrics being sought, the insights to be gained from such data and how the explosion of data requirements can be harnessed by the best use of technology.

Key features include:-

- An overview of people metrics requirements by: key stakeholders, the different HR disciplines and the HR function in general
- A consolidated chart of the metrics to consider in every facet of HR from a statutory, added-value and aspirational perspective
- The use of technology to process this information from minimal through to sophisticated levels
- Case studies on how organisations are leveraging their metrics
- Commentary from Board members and shareholders on the benefits derived from HR information.

Above all, this guide will help HR professionals to address the right metrics to the right stakeholders in a way that underpins the performance of HR, the business and the individual.

Other publications in the City HR best practice series include:

2011
London and the Summer of 2012: Winning HR Policies

2010
Diversity
A best practice guide for City firms

2008
Bullying & Harassment

2006