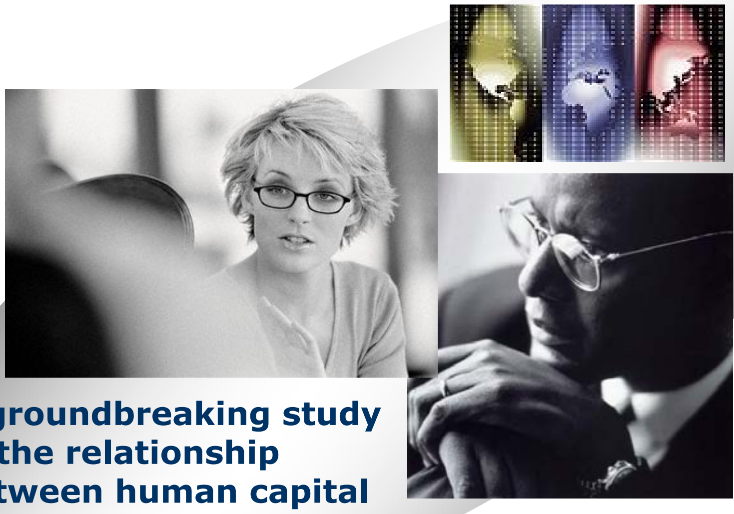
'Organisation performance through a human capital lens'

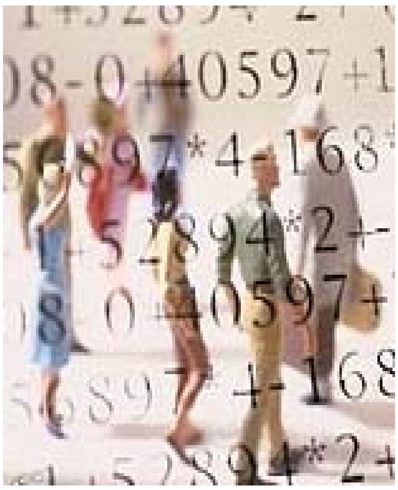
INTERNATIONAL SCHOOL OF HUMAN CAPITAL MANAGEMENT

A joint publication of VaLUENTiS professional services firm and The International School of Human Capital Management



A groundbreaking study of the relationship between human capital and organisation performance

06 September 2006

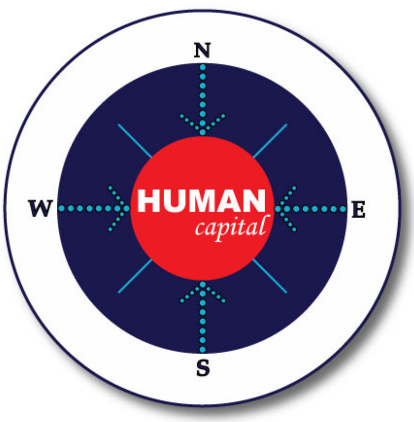


Cracking the Human Capital Code Volume I

Introducing the VaLUENTiS Human Capital Composite Index (HCCI™)

Release Schedule

Cracking the Human Capital Code Volume I	**UK Private sector** (FTSE350 & sample private)	Released 06.09.06
Cracking the Human Capital Code Volume II	**UK Public sector** (Health, Local Government, Higher Education)	Release date 30.09.06
Cracking the Human Capital Code Volume III	**UK NFP sector**	Release date 30.09.06
Cracking the Human Capital Code Volume IV	**UK Private sector** (Top 100 private)	Release date 31.10.06
Cracking the Human Capital Code Volume V	**UK Private sector** (FTSE350 & Top 100 private)	Release date 31.10.06
Cracking the Human Capital Code Volume VI	**UK FTSE All-share**	Release date 30.11.06
Cracking the Human Capital Code Volume VII	**FTSE EURO 300**	Release date 31.01.07
Cracking the Human Capital Code Volume VIII	**FTSE GLOBAL/S&P500**	Release date 2007



'Put Human Capital on the map'

CONTENTS

Page

A EXECUTIVE SUMMARY 8

1.1 Key findings and outputs 9

1.2 Summary overview 11

B MAIN REPORT 19

2 Organisations and Human Capital: The search for meaningful comparative measurement 20

3 The Return on Human Capital (The HC Return Curve®) 27

4 A model to explain the HC Return Curve® Beta (performance variation) 30

5 HC Reporting: A review of OFR and CSR practice 32

6 The VaLUENTiS Human Capital Composite Index (HCCI™) 35

7 The VaLUENTiS Human Capital Composite Index (HCCI™) Rankings (FTSE350) 38

8 A review of VaLUENTiS Human Capital Reporting Standards 63

9 Human Capital Measurement 65

10 Expected impact on management, HR functions and the organisation overall 69

11 Macroeconomic insights from the HC Return Curve® and the HCCI™ 71

12 Planned developments 72

C APPENDICES 73

Appendix I Reporting Human Capital: Twelve key questions 74

Appendix II Classification of intangibles 77

Appendix III HR Core domains 79

Appendix IV HCIR calculations 80

Appendix V FTSE350 analysis – companies excluded 81

Appendix VI FTSE350 analysis – private companies included 82

Appendix VII HCR Operating statements 83

Appendix VIII VaLUENTiS HC Corporate Solutions Wheel 88

Appendix IX VaLUENTiS VB-HR™ Rating (www.vbhr.com) 89

Appendix X Int'l School of Human Capital Management 90

Appendix XI The HCMI Standard (www.hcmiglobal.org) 91

Appendix XII Company rankings by alphabetical sort 93

"Human capital management is the term which is used to describe an organisation's multi-disciplined approach to optimising the capabilities and performance of its management and employees."

International School of Human Capital Management 2006

VaLUENTiS plc is the leading global professional services firm providing clients with human capital management, human capital measurement, organisational effectiveness and organisational measurement solutions to enhance performance.

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VaLUENTiS plc
2nd Floor, Berkeley Square House, Berkeley Square, London W1J 6BD
Tel: +44 20 7887 6108 Fax: +44 20 7887 6100
www.valuentis.com/www.ishcm.com

A EXECUTIVE SUMMARY

1.1 Key findings and outputs

(A full list of company rankings together with commentary is published in a separate document as well as in the main report)

1. 'Cracking The Human Capital Code', (in its multi-volume format) extends our previous contributions to industry with further groundbreaking research and the construction of a 'Human Capital Composite Index' (HCCI™). Future volumes will provide sectoral coverage including UK public sector (due to be published on 30.09.06), UK not-for-profit sector, UK top 100 private companies, UK listed companies, top European listed and top global/US listed companies.

2. The inaugural HCCI™ covered within this report (Volume I) evaluates UK companies listed in the FTSE100 and FTSE250 indices plus a sample of leading private companies. The Index presents an evaluation of a company's human capital related organisation performance, human capital reporting and human capital management practice. This will be of interest for all stakeholders, namely management, HR functions, analysts, investors, employees, unions and Government with invaluable insight on performance of companies from different perspectives.

3. The HCCI™ combines public domain information with internally derived evaluation (through the VB-HR™ Rating). The Index makes use of nine separate assessment parameters, each given a relative weighting to reflect their importance. Further, a Standard (www.hcmiglobal.org) is already in place that provides an audit to compliment the HCCI™ and ensure parity. This is a far more powerful approach than current alternatives.

4. Macro-economic parameters are also included to acknowledge that successful companies contribute to the economic good of society through tax contributions, as well as through employing a workforce.

5. Our assessment and ranking of company OFR/CSR documents showed that, with regard to human capital, the general standard was poor (with very few exceptions). Our key findings were: (i) No organisation reaches the 'Standard' level; (ii). Current approaches are typically unstructured; (iii) Current approaches are predominantly narrative; and, (iv) Many organisations have yet to start.

6. We introduce the concept of Human Capital Intensity (HCI) which is an indicator reflecting the importance of people relative to other inputs of the business model and proportionally link this to company revenues and other performance metrics. We also introduce the 'HCIR' metric which enables the generic and relatively meaningless 'revenue per FTE' to be recalculated to better represent revenue generation attributed to people.

7. Our derivation of the HC Return Curve® provided us with a striking relationship (efficiency frontier) which enables us to predict HC related revenues to an accuracy of 90% if we know its people costs, or vice versa. Knowing the ratio of people costs to total costs means we can also predict total company revenues.

8. All organisations can be assessed in relation to the HC Return Curve® and are ascribed with a relative HC return beta ('β') to express whether that company's return on human capital is above, below or at the market norm, and by how much. Within the FTSE350, there are currently more than twice as many companies under-performing the curve as those over-performing.

9. We have provided a practical model that can explain the different factors related to a company's beta and through the use of the VB-HR™ Rating and the Human Capital Reporting Standards, we can estimate their effect and provide corrective actions (routemap) to improve performance.

10. In January 2006, we released our Human Capital Reporting Standards which were designed to provide industry with a well-constructed template as a baseline to adopt on an 'open-source' basis. We have since provided an initial working infrastructure through the setting up of user groups with the inaugural set of workshops taking place in September 2006. These are fronting our *'Put human capital on the map'* campaign (see www.valuentis.com).

11. We have published a number of papers on HR measurement, several of which have challenged existing 'perceived wisdom' in the market-place around the validity of a number of commonly used/reported HR metrics. We show that performance metrics such as revenue per FTE and profit per FTE are either unsafe or invalid.

12. We would caution that those claiming shareholder value performance as a means of correlating with certain human capital performance are either being statistically dishonest or have a naïve understanding of the complexity of organisation operating models.

13. We provide frameworks that describe four main classifications of measurement. These are:
    13.1. Metrics related to aspects of human capital/human capital management performance, such as employee engagement, turnover etc
    13.2. Analytics that look to combine various metrics and data to provide further insight, for example looking to find relationship between engagement and turnover, employer brand and recruitment success, talent index etc.
    13.3. Enhanced (modelling) analytics that look to combine macro and micro measures to provide 'performance models'
    13.4. Metrics to do with the operational efficiency and effectiveness of the HR function/process, such as delivery expertise or recruitment cycle time.

14. Executives need to embrace the organisation performance-human capital axis as more than just another 'photo-opportunity' to hype employer brand – the so called 'hijacking of HR'. Whatever the relative importance of people in their organisational model, managers now have tools enabling them to assess their own human capital performance against others in their sector and the market generally. This will require line managers, in many cases, to become better versed in human capital management practices and terminology, as well as potentially accepting greater accountability for their role as 'agents' of the HR function in delivering effective human capital management services.

15. The development of a more sophisticated framework for human capital evaluation represents a major and substantial opportunity for HR. In recognition of this, we anticipate the emergence of the Chief Human Capital Officer (as a board member) who has a different set of competences than that of the current typical HR Director role currently encountered.

Useful related data

16. Annual revenues of the FTSE350 total £1,373bn, with top 15 companies accounting for 50% of the total.

17. The FTSE350 employ 7.2 million employees worldwide with largest 10 companies employing 33% of this total.

18. The FTSE350 has combined human capital investment of £182.9bn. The top 10 companies account for 30% of this total.

19. The FTSE350 paid a combined total of £57.5bn in tax. The top 15 contribute 66% of this total.

20. The average human capital intensity across the FTSE350 is 25.9%.

1.2 Summary overview

Summary overviews
Introduction
Organisations and Human Capital: The search for meaningful comparative measurement
The Return on Human Capital (The HC Return Curve®)
Explaining the HC Return Curve® performance variation
A Review of Company OFR and CSR practice
The VaLUENTiS HCCI™
The VaLUENTiS HCCI™ Rankings
A Review of The Human Capital Reporting Standards
Expected impact on management, HR functions and the organisation overall
Macroeconomic insights from the HC Return Curve® and the HCCI™
Planned Developments

Introduction

'Cracking The Human Capital Code – Volume I' we believe is a groundbreaking event in the field of human capital measurement and reporting.

Our previous research and work, culminating in the launch of the VB-HR™ Rating[1] last year and the HC Reporting Standards this year, have resulted in a number of advances in approaches and methodologies to evaluate and solve human capital management and measurement issues.

The Rating was the first of its kind, providing organisations (both public and private) for the first time with a cross-sectional view of human capital management performance across an organisation. Its unique reporting construct together with its ability to provide a deep diagnostic insight earmarked it as a major advance in the HR field.

Our HCM100 study[2] provided a fascinating insight into the practice of large organisations, both global and domestic, highlighting the lack of consistency in certain areas, most notably measurement.

'Cracking The Human Capital Code', Volumes I-VIII, extend our previous contributions to industry with fundamental research and the construction of a 'Human Capital Composite Index' (HCCI™) which for the first time provides a robust ranking of the performance of organisations, both public and private, from a human capital perspective.

1 See www.vbhr.com for specific information
2 VaLUENTiS VB-HR™ Rating HCM100 report, 2005. http://www.vbhr.com/about/index.htm

Organisations and Human Capital: The search for meaningful comparative measurement

As a professional services firm, from a human capital standpoint, we have been concerned, for some time, at the lack of progress and robustness around measurement and reporting. Our extensive research and work with clients has provided us with a cross-sectional view of the issues and constraints that exist and the prevalent thinking/reasons for measurement and reporting in companies.

We have published a number of papers on HR measurement, several of which have challenged existing 'perceived wisdom' in the market-place. These have asked searching questions around the validity of a number of commonly used/reported HR metrics, and the apparent over-use of benchmarking.

In January 2006, we released our Human Capital Reporting Standards which were designed to provide industry with a well-constructed template as a baseline to adopt on an open-source basis. We have since provided an initial working infrastructure through the setting up of user groups with the inaugural set of workshops taking place in September 2006. These are fronting our *'Put human capital on the map'* campaign[3].

However, we have recognised that a dedicated index representing an evaluation of a company's human capital related performance, human capital reporting and human capital management practice will help

3 See www.valuentis.com

to 'educate' the process, as well as providing interested stakeholders, such as management, HR functions, analysts, investors, employees, unions and Government with invaluable insight on performance of companies.

The Human Capital Composite Index (HCCI™), without doubt, is the most advanced and informative Index in existence in its field.

This report highlights a number of issues with measures that have previously been provided as useful indicators of comparison. We show that metrics or comparisons linking shareholder value, revenue per FTE, profit per FTE are either unsafe or invalid.

Further that these metrics can do more harm than good by encouraging management to reduce employee numbers purely to increase these ratios if they are adopted as leading performance metrics.

Specifically with regard to linking shareholder value and human capital we believe that providing a robust working model of the relationship between intangibles and share value is akin to mapping the human genome – not impossible but at the current time the industry collectively does not yet have the requisite knowledge.

For these reasons, we would caution that those claiming shareholder value performance as a means of correlating with certain human capital performance are either being statistically dishonest or have a naïve understanding of the complexity of organisation operating models.

We return to basics, by revisiting the concept of business as an *'input-throughput-output'* model. This provides us with a baseline for relating human capital to organisation performance.

Naturally, we are interested in how effectively people are utilised and managed rather than their explicit value as we feel this is a redundant question.

We introduce the concept of Human Capital Intensity which is an indicator reflecting the importance of people relative to other inputs of the business model; and proportionally link this to company revenues and other performance metrics.

We also introduce the HCIR metric which enables the generic and relatively meaningless 'revenue per FTE' to be recalculated to better represent revenue generation attributed to people.

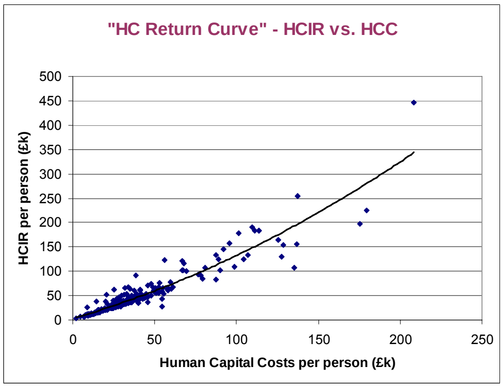
In conclusion, the use of HCIR provides a comparison across organisations and business models of the contribution of human capital to revenue generation, with linkage to HR functional and human capital management priorities. This is a core component of or Human Capital Composite Index (HCCI™).

The return on human capital (The HC Return Curve®)

In order to analyse the relative performance of different companies, we compared the HCIR, or revenue generated by human capital, with Human Capital Costs (HCC), which is the total organisation's direct investment in people. Comparison of these two figures allows, for an objective calculation of an organisation's 'return on human capital'.

In order to analyse companies' typical return on human capital, we plotted HCIR per head versus HCC for the FTSE350 (excluding property companies and investment trusts) and selected private companies.

In so doing, we discovered the existence of a normative return on human capital ('efficiency frontier') - the HC Return Curve®. This curve means that, given a company's HCC, we can predict its HCIR with around 90% accuracy.



All organisations can be assessed in relation to curve and ascribed a Human Capital return β to express whether that company's return on human capital is above or below the market norm, and by how much.

As noted earlier, we propose the use of HCIR per head as a much more meaningful performance metric than revenue per head. We demonstrated this by analysing the respective variability of revenue per head, HCIR per head and HC return for companies of differing Human Capital Intensity (HCI).

This showed that revenue per head was much more variable for companies with low HCI than high HCI. The HCIR measure was relatively stable, while HCC was constant at all levels. This shows the comparability of the HCC measure across many different business models.

Explaining the HC Return Curve® performance variation

The Human Capital Return curve® is based on a review of 300+ of the UK's leading companies. It examines the relationship between an organisation's revenue attributable to its people, and the cost of this human capital to the company (linking organisational performance and people contribution).

The relationship between the two is very strong, and allows a curve (efficiency frontier) to be constructed covering the market. Just as in stock indices, an individual company can be on the curve, above the curve (representing a relatively high return on people costs) or below the curve (representing a relatively low return on people costs). The position of an individual company will change over time as its performance is seen as relative to other companies.

VaLUENTiS have identified different factors that explain why an individual company appears above or below this curve, relating to different aspects of organisational performance and related costs. Through use of the VB-HR™ Rating and the Human Capital Reporting Standards, companies can isolate factors that place them above or below the curve, and identify corrective actions to gain performance increases through their people.

A review of OFR and CSR practice

Despite considerable effort in recent years, there has been no official guidance on reporting human capital measures. Some organisations have been experimenting with reporting approaches, either through their Operating and Financial Review (OFR)/ Business Review or through the Corporate Social Responsibility (CSR) Report.

We would argue that HC Reporting should not be part of the CSR, as good human capital management is not a matter of 'social responsibility' but of organisational performance. However, we have reviewed both in our assessment.

We have assessed the HC reporting of all companies within our study, using the framework set out in our model HC Reporting template[4]. The key areas of assessment include whether the approach is structured, narrative reporting of policies and initiatives, utilisation of the Standard Human Capital Reporting Operating Principles, meaningful quantification of human capital KPIs and segmental analysis.

We identified four levels for the assessment: *Pre-Standard*, *Standard*, *Intermediate*, *Advanced*. 'Standard' represents an acceptable level of disclosure. The evaluation included coverage of these parameters and also the level of detail supplied.

Our key findings were:

- **No organisation reaches the 'Standard' level.**
- **Current approaches are typically unstructured**
- **Current approaches are predominantly narrative**
- **Many organisations have yet to start**

As set out in our previous work, we would strongly advocate that organisations need to move on from their current, disparate and predominantly qualitative approaches and to adopt a structured and consistent approach towards human capital reporting (such as that established in the Standards) – until then it is pretty much 'all talk'.

The VaLUENTiS HCCI™

The Human Capital Composite Index (HCCI™) provides a ranking that measures human capital related organisation performance for over 300 of the UK's leading companies. The index is designed to provide a 360 degree view of organisation performance through a human capital lens, human capital management practice and human capital reporting.

Through use of nine separate assessment parameters, each given a relative weighting to reflect their importance, the HCCI™ combines multiple perspectives on human capital

[4] See VaLUENTiS' Human capital reporting white paper, 31 January 2006

management practice, performance and reporting. It combines financial and human capital measures.

The assessment parameters are based on a combination of external assessment of company performance and contribution (derived from information in the public domain), as well as internal indicators of company performance (derived from information not in the public domain).

Macro-economic parameters are included to acknowledge that successful companies contribute to the economic good of society through tax contributions, as well as through employing a workforce.

The HCCI™ therefore carries far more weight than other indices focusing on single areas (such as attractive workplaces or work-life benefits) through evaluation of organisation performance. The rankings within the nine assessment parameters, in addition to the overall HCCI™ ranking, will be of interest to a wide range of stakeholders in listed companies.

The VaLUENTiS HCCI™ rankings

We introduce the Human Capital Composite Index (HCCI™) and show the resulting 'ranking' of organisations. To recap, we have ranked each of the 308 companies within our sample according to seven different measures (two not included at this stage of analysis).

There are a total of nine measures constituting the HCCI™ in all; however two of them, the VB-HR™ Rating score and Human Capital leverage, are not published here.

Overall ranking top 20

HCCI™ Top 20	OVERALL RANKING
Barclays	1
Northern Rock	2
GlaxoSmithKline	3
BG Group	4
Bradford & Bingley	5
Royal Bank of Scotland	6
Rio Tinto	7
Alliance & Leicester	8
Kelda	9
Standard Chartered	10
Associated British Ports	11
Man Group	12
AstraZeneca	13
Punch Taverns	14
McCarthy & Stone	15
BHP Billiton	16
Venture Production	17
Northumbrian Water Group	18
Tullow Oil	19
Soco International	20

A full breakdown of rankings by category with commentary is provided in this Chapter.

A review of the HC Reporting Standards

The Human Capital Reporting Standards are designed to provide industry with a common template of reporting for both internal and external purposes. As such, the Standards contain:

- A reporting taxonomy together with appropriate rationale
- A general statement of HCR principles
- Three core pro forma statement templates:
    - The Human Capital Operating Statement (HCOS)
    - The PeopleFlow™ Statement
    - The HC Productivity Statement
- A set of supporting 'standard HCR operating principles' (SHCROPs)
- A model HC Reporting template
- A reporting infrastructure
- An introduction to standardised ratio analysis
- A proposition to establish a wider support network.

Taken together, these provide a structured framework for reporting which will assist organisations in providing the required levels of transparency.

To assist companies in adopting the standard reporting framework, we have set up a supporting infrastructure of user groups to ensure continuing development, and are looking in time to form The Human Capital Reporting Council and the Human Capital Reporting Board which will act as industry steering groups, having overall responsibility for overlooking the whole process of policy and implementation.

We have also identified a lack of relevant expertise among HR professionals in measurement and reporting, which is one of the reasons for the poor quality of reporting prevalent today.

To meet the need for specialised training and development for HR professionals identified above, the International School of Human Capital Management has been created to provide specialist courses covering the themes such as human capital reporting (internal and external), HR effectiveness & audit and employee engagement.

HC Measurement

From our client work and involvement in industry, it is evident that the theme of 'measurement' is becoming pervasive for organisations and their HR functions. Despite the growing prevalence of this approach, the diverse range of terms used in its description, such as 'measuring HR's effectiveness', 'calculating training ROI', 'people reporting' suggests the breadth, complexity and scope for confusion.

An increasing number of HR professionals are coming under pressure from organisations to provide more evaluation and assessment through what the function and human capital management practice provides.

In their response to the organisation, we often find certain fundamental questions are not always asked, that is: why are we measuring this? What are we measuring (and its limitations)? How are we measuring?

Two key issues typically arise:

1. Separation of the different classifications and types of measurement
2. Inherent challenges within human capital measurement.

The review of human capital reporting conducted in this report (see chapter 5) revealed a lack of structure and high level of confusion around which people metrics to measure and report.

Before the question of internal versus external reporting arises, organisations and HR functions need to be clear as to what types of metrics they are seeking to measure and report.

There are four main classifications of measurement:

- Measurement to do with the efficiency and effectiveness of the HR function/process, such as delivery expertise or recruitment cycle time
- Metrics related to aspects of human capital/human capital management performance, such as employee engagement, turnover etc
- Analytics that look to combine various metrics and data to provide further insight, for example looking to find relationship between engagement and turnover, employer brand and recruitment success, talent index etc.
- Enhanced (modelling) analytics that look to combine macro and micro measures to provide 'performance models'.

The essence of these classifications is to debate the type ‘mix’ rather than to over-invest in arguing as to what category a metric is in. Too often HC metrics are drawn up in isolation to the business rather than integrating them.

There is a further differentiation as to whether the metrics are ‘business as usual’ or ‘project/programme’ type metrics which can cause confusion over reporting. Further confusion can arise as certain project/programme metrics may become ‘business as usual’.

Finally, there needs to be clear guidelines as to what needs to be externally reported through such documents as annual reports, as against internal reporting across business units etc. External reporting metrics are normally a subset of internal reporting metrics (just as in finance).

The whole exercise can be extremely challenging when consideration of organisation structure and the issues of data ownership, availability and integrity are added. Measurement is like any other discipline in that it requires a degree of understanding and expertise in order to be able to provide a solution to the challenges being addressed.

As HR functions migrate towards a greater understanding of organisation dynamics and impact, the profession’s capability in the area of measurement will evolve to the extent that multi-factor models specific to the company will be developed, and use of frameworks such as the VB-HR™ Rating for comparative review and external validation will proliferate.

Expected impact on management, HR functions and the organisation overall

Well-constructed indices and powerful evaluation tools based on quantitative data as much as qualitative data are assets to any company wishing to derive competitive advantage from its human capital. With growing availability of such tools, companies will therefore find it more difficult to resist calls for better human capital reporting and also to engage in practices of ‘flaky’ HR awards that are merely dressed-up marketing efforts.

Executives need to embrace the organisation performance-human capital axis as more than just another ‘photo-opportunity’ to hype employer brand – the so called ‘hijacking of HR’. Whatever the relative importance of people in their organisational model, managers now have tools enabling them to assess their own human capital performance against others in their sector and the market generally.

Managers of high-performing companies will seek to understand where their human capital advantage comes from and look to maintain it. Managers of lower-performing companies will be challenged to improve their performance, working with their HR functions to better understand the ‘levers’ they must pull to improve and developing action plans. This will require line managers, in many cases, to become better versed in human capital management practices and terminology, as well as potentially accepting greater accountability for their role as ‘agents’ of the HR function in delivering effective human capital management services.

The development of a more sophisticated framework for human capital evaluation represents a major and substantial opportunity for HR. In recognition of this, we anticipate the emergence of the Chief Human Capital Officer (as a board member) who has a different set of competences than that of the current typical HR Director role currently encountered.

The HCCI™ can help shift the focus of the HR function to a more value-adding mindset. Rather than, “how much can we save on the HR functional spend?” the issue becomes, “where should we be investing to get the greatest impact on the performance of our human capital?” HR functions will need to develop capabilities in measurement and financial analysis and deepen their commercial understanding if they are to make the most of this opportunity.

For many HR practitioners this all may sound slightly disconcerting, as their main focus is often stated as relating to people. As people permeate the organisation, so an understanding of the organisation’s operating model, cost and value drivers is important. There has been an increasing call for the HR profession to become ‘more commercial’ in the last few years; an acknowledgement that HR functions need to understand ‘business’ and, specifically, their own industry and organisation.

Macroeconomic insights of the HC Return Curve® and The HCCI™

The HC return curve® provides us with an interesting insight into utilisation of human capital and potential wealth creation within a national economy.

National economies gain from more of their firms being higher ‘up the curve’. This would imply greater wealth distribution as human capital is a main driver of business revenues and gets rewarded for its contribution. Its knock-on effect is that Governments would be beneficiaries of both larger tax returns both corporately and individually (all things being equal with regard to optimum tax incentives).

Following this logic, governments should encourage policies which reward higher added-value human capital intensive industries. Low-value added jobs cannot provide enduring prosperity and, at a national level, the outsourcing of jobs through off-shoring only works if they can be replaced by higher value-add grade jobs at home.

Businesses cutting human capital costs, as a strategy, and without a corresponding increase in revenues are ultimately doomed to travel down the ‘curve’. Though this strategy may initially improve short-term profits, ultimately, it will not be enough to sustain performance. This observation has already been made by a number of more eminent economists.

Several components of the HCCI™ are also of particular value when evaluating the contribution of companies to the economy. This contribution is quite often overlooked in the media and by governments.

We believe that society in general as well as companies concerned should respect the contributions made, particularly represented by taxes paid and payments to employees.

Planned developments

This report represents the first ‘volume’ of expanded coverage across organisations and sectors, to be accompanied with reports and briefings for analysts and investors.

The inaugural HCCI™ index covered within this report (Volume I) evaluates UK companies listed in the FTSE100 and FTSE250 indices plus a sample of leading private companies.

Future volumes will provide sectoral coverage including UK public sector (with linkage to related KPIs), UK not for profit sector, UK expanded private companies, UK listed companies, top European listed companies and top global/US listed companies.

The current presentation of the HCCI™ rankings is based on publicly available information. To complete the picture, it is necessary to add insight into human capital management practice and efficiency of spend on people-related activities. This can be captured through the VB-HR™ Rating and its associated measure, HC Leverage. The Rating will also provide a diagnostic and routemap to organisations looking to improve their utilisation of human capital and so their HCCI™ ranking.

We expect the ranking and sub-indices within the HCCI™ to be of considerable interest for company analysts and investors. Specialist reports and briefing sessions are planned to provide additional communications and insight for these particular corporate stakeholders, who may choose, with appropriate support[5], to develop their own proprietary approaches and insights.

5 For example, VaLUENTiS’ HC Analyst Services Practice

B MAIN REPORT

2. Organisations and Human Capital: The search for meaningful comparative measurement
3. The Return on Human Capital (The HC Return Curve®)
4. A model to explain the HC Return Curve® performance variation (β)
5. HC Reporting: A review of OFR and CSR practice
6. The VaLUENTiS Human Capital Composite Index (HCCI™)
7. The VaLUENTiS HCCI™ Rankings (FTSE350)
8. A Review of VaLUENTiS Human Capital Reporting Standards
9. HC measurement
10. Expected impact on management, HR functions and the organisation overall
11. Macroeconomic insights of the Human Capital Return Curve® and the HCCI™
12. Planned developments

2 Organisations and Human Capital: The search for meaningful comparative measurement

Human Capital Reporting
The focus on intangibles
Why market value isn't necessarily a good indicator for measuring human capital
Correlational research and findings
Issues with previous and current measurement comparisons
The problem with revenue per FTE
Human Capital Intensity (HCI)
Business as '*input-throughput-output*' models
The HCIR premise
The apportionment of revenues to costs and the human capital proxy HCIR
HCIR as a metric

'........Organisations cannot exist without people. People design and build products, they dig stuff out of the ground, they invent, they serve meals, they save lives, they administrate, they design and build systems, they do the Marketing, the IT, Finance – hell, they even do Law!

People get hired and people get fired. People make organisational decisions, they spend budgets, they overspend budgets, they create shareholder value, they destroy shareholder value. Occasionally some of them become managers, and some even become shareholders! Organisations can exist without products and customers. They can even exist without finance (admittedly not easy). But they cannot exist without people. So lest we forget, people are fundamental to organisations. Thus they are valuable.'

The Human Capital Management Manifesto, forthcoming

Human Capital Reporting

From a human capital reporting standpoint, we have been concerned, for some time, at the lack of progress and robustness around measurement and reporting. This is despite a number of attempts from within the industry to produce some form of solution.

Our extensive research and work with clients has provided us with a cross-sectional view of the issues and constraints that exist and the prevalent thinking/reasons for measurement and reporting in companies.

We have published a number of papers on HR measurement, some of which challenge certain 'perceived wisdom' that exists. These have asked searching questions around the validity of a number of commonly used/reported HR metrics, and the apparent over-use of benchmarking, given its limitations.

In January 2006, we released our white paper on Human Capital Reporting which included an analysis involving twelve key questions (see appendix I on page 74).

The answers and insight from these questions provided us with a logical argument from which our proposed baseline reporting solution was based. Given the particularly 'one track' expectation in the market, i.e. a portfolio of ratio based HR metrics, our solution may have caused some surprise with its apparent simplicity.

However, like most reporting solutions, there are multiple layers with deepening complexity. The reporting solution was underpinned with a structured framework in association with operating principles (SHCROPs) for both private and public enterprises. It was designed for both internal and external reporting approaches.

We would acknowledge that there needs to be a distinction between reporting metrics and enhanced analytics, which are more complicated use of metrics to model a more 'in-depth' understanding of the working environment (for example isolating factors that influence employee engagement with performance and/or turnover).

As such, our Human Capital Reporting Standards were designed to provide industry with a well-constructed template as a baseline to adopt on an open-source basis.

To that extent, the solution provided was based on practicality, taking a lead from the way in which organisations report their financial data and subsequent analysis. Our HCR solution was not so much revolutionary as evolutionary, applying well-used principles (from financial accounting) to the emerging discipline of human capital management.

Thus organisations now have a structured framework within which to report, inform and compare human capital related data; and there is an ongoing support structure to help develop and expand this initial framework over time.

"…..our Human Capital Reporting Standards were designed to provide industry with a well-constructed template as a baseline to adopt on an open-source basis."

We have provided an initial working infrastructure through setting user groups of our open-source HCR standards with the inaugural set of workshops taking place in September 2006. These are fronting our *'Put human capital on the map' campaign*[6].

However, we have recognised that a dedicated index representing an evaluation of a company's human capital related performance, human capital reporting and human capital management practice will help to 'educate' the process, as well as providing interested stakeholders, such as management, HR functions, analysts, investors, employees, unions and Government with invaluable insight.

The focus on intangibles
For the last decade or so, there has been a market acceptance that organisations are increasingly reliant on intangible assets to derive superior or 'successful' performance.

Though we cannot ignore the importance of tangible assets, intangibles such as human capital, intellectual property, brand, innovation, customer relationships, and knowledge, have become an increasing focus of attention. In fact there are over 38 main classifications of intangibles[7] for valuation purposes. These can be further broken down into over 100 separate categories.

Given that firms combine both intangible and tangible assets and resources to generate earnings, one can see the complexity in drawing a 'working model' to map the 'market value' of a firm (some describe it as being similar to the human genome).

More recently, industry collectively has been engaged in the pursuit of valuing (isolating) human capital as a means of answering a number of searching questions around differentiation of organisational performance.

However, we have to acknowledge that human capital though important, is not the only intangible and a number of business models are as (or even more than) reliant on other intangibles/ tangibles to generate superior performance and competitive advantage.

"In fact there are over 38 main classifications of intangibles…… These can be further broken down into over 100 separate categories."

Though evaluating 'human capital', in market value terms, is a worthy pursuit (having settled on the definition), we believe that this is notoriously difficult to achieve and that there are other simpler and more effective ways.

Why market value isn't necessarily a good indicator for measuring human capital
There is a natural tendency for professionals to link market value of a company with human capital as a number of previous attempts would testify. However, there are a number of problems associated with this type of measurement methodology. Main problems associated with this route are:

- As already mentioned the model linking human capital to market value is extremely complex and suffers from many variables, some of which are external to the organisation and not related to human capital. This renders any eventual number fairly meaningless.
- The stock market, itself, is only what is called 'semi-efficient'. This means that it is subject to volatility and distortion from a number of both microeconomic and macroeconomic factors. These affect the particular share-price, whether it is on a specific day or time period, rendering the eventual metric limited in its validity.
- Any market value is subject to time dilation, i.e. the point of value creation or recognition of value creation may not necessarily relate to current period from a human capital standpoint, or indeed there may be a number of time periods.
- Ways of circumventing these problems, for example, taking

[6] See www.valuentis.com
[7] See Appendix II on page 77 for an example list

multiple share-price ranges creates further issues of complexity.

- Market value is, of course, irrelevant for any company that is not listed (unless subject to a bid). It is also problematic for any public sector organisations – a fact that seems to have been overlooked in a number of previous research attempts.

Thus, from a measurement perspective, using market value as an instrument to measure human capital contribution suffers from specificity, ambiguity, reliability, relevance and validity issues.

In essence, providing a working model of the relationship between intangibles and share value is akin to mapping the human genome – not impossible but at the current time the industry collectively does not yet have the requisite knowledge.

For these reasons, we would caution that those claiming shareholder value performance as a means of correlating with certain human capital performance are either being statistically dishonest or have a naïve understanding of the complexity of organisation operating models.

> "In essence, providing a working model of the relationship between intangibles and share value is akin to mapping the human genome."

Correlational research and findings

Unfortunately, academic research can give the illusion of authenticity given big samples and statistical techniques. Whilst we don't wish to rubbish much existing research, the human capital/intangible field seems to have attracted certain statistical sleights of hand – e.g. given sufficiently large samples, certain correlations can always be found.

This has underpinned a number of studies in the last few years and has ultimately limited their practical application (notwithstanding the appropriateness of techniques in data derivation). Thus, though a particular piece of research may show correlational findings across a sample, further investigation at the next level down, e.g. by sector, invariably invalidates the overall correlation, therefore making its application very difficult.

Issues with previous and current measurement comparisons

We have already shown the difficulties inherent with previous attempts at providing a valid market value/human capital metric. However, there are other metrics which are used or put forward as reliable measures relating to human capital. We would again caution as we believe these suffer from an over-simplification which unfortunately renders them virtually meaningless or irrelevant.

'Revenue per employee', 'profit per employee' and 'value-add per employee' are three common but ultimately unreliable metrics which suffer from a fundamental flaw – they rely on one big assumption that all business operating models are the same from a people perspective. One cannot draw a direct comparison generically, for example, between a professional services firm and a food supermarket chain unless the numbers are, at least, adjusted to take account of their different utilisation of human capital (i.e. the proportion to which people contribute to revenue generation).

More seriously, they can wrongly encourage management to reduce employee numbers purely to increase these ratios if they are adopted as a leading performance metric.

The problem with revenue per FTE

Revenue per FTE has been commonly used as an 'output' marker for human capital productivity. The equation is simple enough, but that is its drawback. Experts in organisational performance will instantly recognise its flaws.

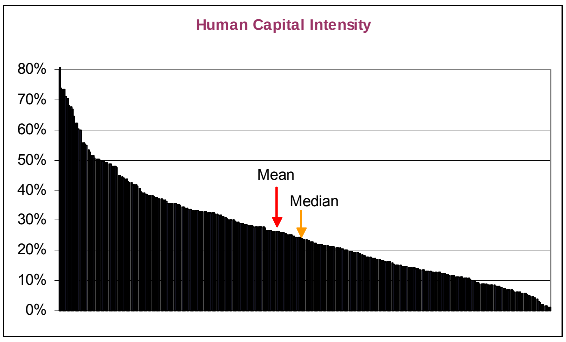
Unless all organisations exhibit the same operating model with the same people cost to operating cost ratio, then this equation will be of no relevance. However, what may be of value is to adjust the revenue per FTE figure to take account of the people cost/operating cost ratio (what we term human capital intensity) to give a more relative comparison.

Even then this figure is only a 'proxy' as organisation operating models that generate revenue contain a multiplicity of inputs. Similarly, 'costs per FTE' suffers the same severe limitations for the same reason. These particular metrics highlight the problem with simplicity, in that dividing any potential financial metric by the number of employees does not necessarily constitute an 'HR metric' – an example of 'denominator misappropriation.

Human Capital Intensity
Human capital intensity reflects the expenditure on people as a proportion of overall operating costs within an organisation. As such, it suggests the relative importance of the contribution of human capital to revenue generation or the achievement of the organisation's key performance indicators.

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

The chart, to the right, shows the differing levels of employee costs relative to total operating costs, i.e. human capital intensity, of the 300+ organisations reviewed as part of this study.



With a mean 'human capital intensity' of 26%, this suggests that people typically account for one quarter of an organisation's overall costs.

The range in the sample reviewed, however, runs from 1% to over 80% - an enormous degree of variation.

Naturally, what is of prime importance is not so much the degree to which an organisation is reliant on people within its operating model, but how effectively these people are utilised and managed to deliver the company's outputs to the required level of quality.

In the review and calculation of human capital intensity, it is important to utilise appropriate timelines. In line with financial reporting, human capital intensity can be calculated on an annual, biannual, quarterly or monthly basis.

Businesses as input-throughput-output models

Returning to basics, understanding businesses as input-throughput-output models provides us with a baseline for relating human capital to organisation performance.

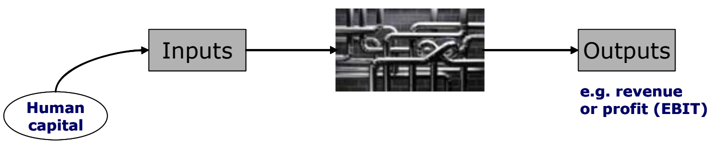
In reality, the 'throughput' phase is a complex whirl of dynamics, but is represented here in a linear fashion for ease of understanding.

Human capital collectively is an important input to the business model. Typically we measure this in terms of employees (FTEs) or the collective investment that is made in employing people (total people remuneration and benefits).

It is also important to remember the logistics of people support – the related 'ancillary investment or cost' in terms of managing people effectively – i.e. in terms of optimising productivity and efficiency, which is where the HR function comes in. Investment related to the ten core HC management domains (see appendix III) reside in this category.

Through its internal processes, an organisation utilises the related inputs to develop 'outputs'. Depending on the nature of the organisation, outputs are everyday products and services we experience.

The value of these outputs is quantified in terms of revenue. Revenues are perhaps the purest form that a business can relate to in measuring its output.



Finally, the difference between the cost of producing the outputs (from a human capital and all other cost perspective) and the sales revenue contributes to the company's profits or earnings. These are typically taken as a proxy for the success of the company in producing desirable outputs at a cost that is lower than the various inputs.

The HCIR Premise

If we return to the premise that if people weren't important or valuable to the organisation, they wouldn't be employed, then for any organisation, human capital has to be of 'value'.

The question is to what degree can we attribute human capital to the output of the firm?

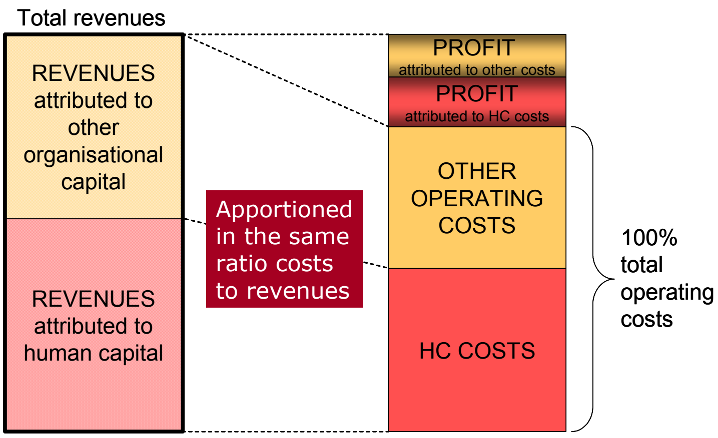
We know that this is not necessarily the same across companies given the context of each organisation's operating model, as explained earlier. The Human Capital Intensity (HCI) metric provides us with a marker.

The HCI measures the degree to which human capital as 'input costs' are relative to other input costs – for example, a mining company might have to invest in drilling, mine maintenance and heavy machinery, as well as paying a workforce, whilst a financial services firm might typically find that the cost of its workforce is its single largest overall cost category.

The apportionment of revenues to costs and the human capital proxy HCIR
For the purposes of measurement we propose that the operating costs are the best proxy to reflect the input and throughput of an organisation.

Consideration of the typical costs in a company's accounts will illustrate how they relate to inputs. For example, purchase of raw materials or goods for resale represent key physical inputs into the business, spending on sales and marketing represents sales input and so on.

Depreciation and amortisation serve as a proxy for the use of tangible and intangible fixed assets within the organisation. Organisations will expect to earn a return on these assets that will, in most cases, be based on the relevant depreciation charge. This includes impairment charges to goodwill or other assets. Such charges indicate that the company needs to earn a return on its acquisition.



Payments to staff therefore represent the human capital input into an organisation, and indicate the level of return required to be earned from that input.

On the firm assumption that an organisation's operating model is efficient given market-place forces, our premise is that it is reasonable to apportion revenues earned in the same proportion as inputs.

This also explains why certain items have **not** been included in our analysis as they do not relate directly to the operating model. These are:

1) Interest costs
These represent a return on the financing of the business, not its operations. The return will partly be represented by interest and partly by dividends – the amount paid out under these two headings will reflect decisions related to financing. They do not inherently relate to the business' operations.

2) Profits/losses on disposal of fixed assets, investments etc.
Use of fixed assets and investments is already accounted for via depreciation/amortisation as noted above. Any gains or losses incurred on disposal will relate to market values and not the operations of the business

Note that our categorisation operates independently of how a company defines 'exceptional items' (there is in any case some inconsistency in definition). Exceptional gains or losses on disposal of assets will be excluded, but goodwill impairment, which is often treated as an exceptional item, <u>is</u> included.

Restructuring costs are generally been included because they relate directly to the operating model. These costs often relate to redundancy or write-downs of assets.

HCIR as a metric

The HCIR metric enables the generic and relatively meaningless 'revenue per FTE' to be recalculated to better represent revenue generation attributed to people.

Though not a perfect match, it is the closest proxy to providing the most accurate representation and comparative benchmark as using asset-based or shareholder value based calculations becomes a trickier operation fraught with complications due to accounting interpretations and inconsistencies.

In the Human Capital Operating Statement (HCOS), the revenue metric is adjusted to take account of the people contribution factor (i.e. percentage applied equal to people cost percentage of total operating costs – referred to as human capital intensity or 'HCI'). The resulting metric is referred to as HCIR per FTE. This provides a far greater measure of comparison by taking account of organisational operating models.

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

This point is very important, when acknowledging the increasing 'trade-offs' that organisations, mainly through their HR functions, face in terms of current spend and expected return with regard to performance.

The same argument holds in terms of minimising risk through compliance. For many organisations and their HR functions this is now a constant challenge.

In conclusion, the use of HCIR provides a comparison across organisations and business models of the contribution of human capital to revenue generation, with linkage to HR functional and human capital management priorities.

We define HCI*R as:
[(Revenue*Human capital intensity) per FTE]

where, human capital intensity is the degree to which people are utilised relative to other operating costs to derive revenue (and therefore proportionate).

For example, if people costs are a quarter of overall operating costs then we attribute a quarter of overall revenues as an indicative output contribution.

3 The Return on Human Capital (The HC Return Curve®)

The fundamental change
Methodology
Comment and observations
Notes to data calculation

The fundamental change
As set out above, we consider HCIR (Human Capital Intensity Revenue) per head to be a significantly more useful measure of human capital performance than revenue per head. By adjusting for companies' different operating models, it provides a measure across most organisations.

Methodology
Within this report and in other VaLUENTiS publications, questions have been raised about the relevance of measures such as Revenue per FTE with linkage to organisational performance.

Our hypothesis is that relating costs, revenue and profit to human capital intensity will provide a more effective measure of corporate performance, and provide more meaningful comparison.

We identified three measures that could be taken as reporting proxies for corporate performance: Revenue per head, HCIR (Revenue attributable to human capital) per head and HC Return (HCIR over Human capital costs).

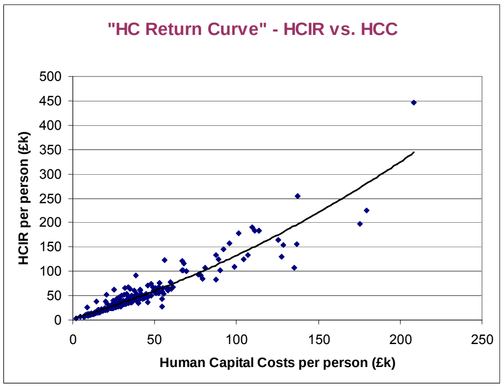
[N.B. As we have already mentioned our intention is to measure FTE related numbers, something which our HCR Standards encourage. However, this can only be done with more accurate corporate reporting and/or through the use of the VB-HR™ Rating, thus 'per head' is used as the most appropriate proxy].

The next step was to relate HCIR[8] to Human Capital Costs (HCC), which is the total organisation's direct investment in people. Comparison of these two figures allows, for an objective calculation of an organisation's 'return on human capital'.

In our calculations, we expressed this return as a ratio, i.e. a score of 1 indicates that a company's HCIR is equal to its HCC – it is generating revenues sufficient to cover people costs, but no margin. A score of 1.2 indicates that, for every £1 spent on human capital, the organisation is generating revenues £1.20, and so on. This ratio is the same whether calculated per head or for the organisation as a whole. Expressed as a formula, the calculation is as follows:

$$\frac{\text{HCIR per head}}{\text{HCC per head}} = \text{Return on human capital spend}$$

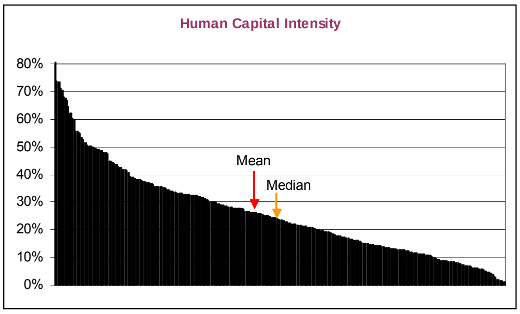
In order to analyse companies' typical return on human capital, we plotted HCIR per head versus HCC. In so doing, we discovered the existence of a normative return on human capital ('efficiency frontier') - the HC Return Curve® (see below).



As can be seen there is a large clustering towards the lower end of the curve.

[8] See appendix IV on page 80 for information and adjustments

The related human capital intensity (i.e. the proportion of people costs to overall operating costs) distribution for the sample was:



For the purposes of analysis we split the respective firms into five bands of human capital intensity:

<u>**Band**</u>	
1-10%	(i.e. for every £10 input costs, £1 spent on human capital)
11-20%	
21-30%	
31-40%	
40%+	(i.e. for every £10 spent on input costs, £4 or more is spent on human capital)

Within each of these five bands, the mean and standard deviations were calculated for the three corporate performance reporting proxies.

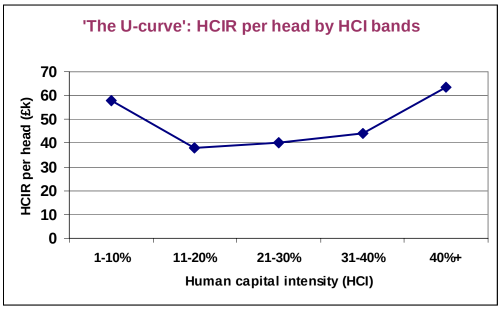
Results are shown in the table below.

	Revenue per head		HCIR per head		HC Return	
HCI %	Mean (£k)	SD	Mean (£k)	SD	Mean	SD
1-10	1,134	909	58	38	1.2	0.3
11-20	267	252	38	31	1.2	0.3
21-30	166	251	40	53	1.2	0.2
31-40	130	96	44	32	1.2	0.3
40+	115	84	64	56	1.3	0.3

Revenue per head
Not surprisingly, revenue per head shows a vast range of potential values with an extremely large standard deviation. This reinforces our view that as a metric it is not reliable when considered that it relies on all companies possessing the same human capital intensity (which is plainly not the case).

It is also interesting to note that the standard deviation is dramatically reduced the higher the human capital intensity, somewhat reinforcing our view that 'HCI' related metric provides a more robust measure.

HCIR per head
Findings relating to HCIR per head show a 'U' curve pattern.



This suggests the following key insights:

- Business models that are highly reliant on human capital, as well as business models that have a low reliance, are relatively cash generative through some apparent function of their operating model
- The two thirds of organisations that fall within the 11-40% categories display high 'volatility' as indicated through their standard deviations
- This suggests that organisations in this category are more or less effective at generating a return on the same relative level of human capital intensity – in other words, effective human capital management practice appears to be the contributing factor in performance differentials for these organisations.

HC Return
HC Return displays striking levels of consistency across means and standard deviations, suggesting that this measure is effective in 'flattening' the differences between operating models.

This suggests that, irrespective of the reliance on human capital within the operating model, organisations display relatively similar comparative levels of efficiency in terms of human capital spend – in other words, the 'market', collectively, is generally efficient at setting salaries for roles in relation to their revenue generation (from the perspective of human capital contribution).

Comment and observations
The HC Return curve provides a very good 'efficiency frontier' (R^2 = 89%) to compare organisation performance from a human capital perspective.

The existence of this curve means that, given a certain level of HC costs, we can predict a company's expected HCIR with around 90% accuracy.

All organisations can be assessed in relation to it and all organisations can be ascribed a Human Capital return β to express whether that company's return on human capital is above or below the market norm, and by how much.

It is important to note that this measure, like a financial β, is relative to the market as a whole. As with a financial β, it is also possible to construct a 'sector' curve to compare companies to the norm for their sector only.

However, by using HCI in this way, we allow for different operating models to make the comparison between companies much more meaningful. We are also able to focus more closely on the 'people return'.

The HCI data emphasises the problems with regard to metrics such as Revenue per head, whereas HCIR per head and HC Return present more realistic and reliable measures which provide a more accurate evaluation of performance from a human capital management perspective.

Notes to data calculation

FTSE350 company sample
The starting point for our sample was to take all members of the FTSE350 index, plus a sample of the 20 largest privately-owned companies in the UK (as a precursor to a larger index).

FTSE350 company exclusions
We have excluded specialist asset-based companies such as investment trusts and real estate based companies. These companies by nature derive revenue from sale/purchase of assets and their operating models are quite different to the rest of industry.

In essence, these companies require a different model to reflect the contribution of human capital which is not subject to this analysis. Note that this exclusion does not apply to companies who are producing assets or carrying out advisory work, e.g. fund managers and housebuilders are included.

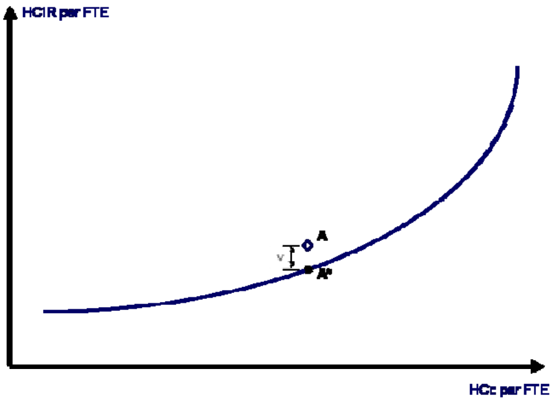
There were also a number of companies which could not be included in the analysis due to the fact that meaningful historic annual reports were not readily available. Some had recently demerged and/or listed, whilst others' accounts were simply unobtainable. (A full listing of exclusions is contained in Appendix V).

The addition of unlisted private companies
As noted a number of well-known private companies were selected for analysis as a precursor to a more expanded volume planned. Companies included are detailed in Appendix VI.

4 A model to explain the HC Return Curve® Beta (performance variation)

Background
Underlying formula
Quantifying beta variation

Background
As we have seen, the HC Return Curve® sets out a normative return on human capital. This suggests a strong relationship between human capital revenue contribution and the overall cost of human capital.



This relationship can be expressed by the following curve, representing an ‘efficiency frontier’:

Thus companies can find themselves in one of three places with respect to the curve. These are:

- Above the curve and therefore performing above the norm set by the efficiency frontier (β greater than 1). This suggests a greater than expected return on human capital, relative to other companies.
- On the curve, suggesting that their return on HC performance is in line with company norms as set by the efficiency frontier (β = 1)
- Below the curve, indicating that their return on HC performance is below the norm and therefore ‘underperforming’ (β less than 1).

Underlying formula
This suggests that variations in human capital performance will exist, relative to the market norm (as expressed by the beta).

The underlying construct for this variation ‘V’ can be expressed as follows:

For any listed company ***‘c’***

$$R_c - R_{EF} = HCM_P + HC_P + HC_D + APC_E + O_L + AT_A + M_E + \varepsilon$$

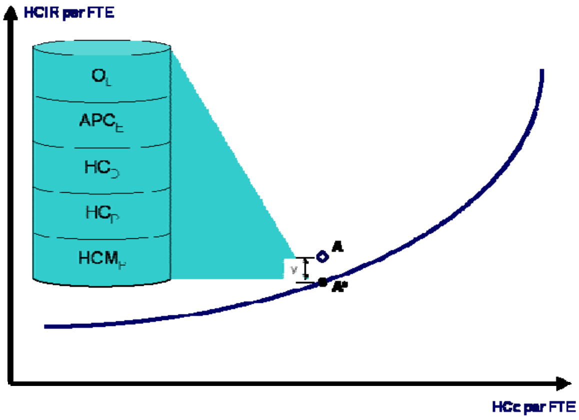
where

R_C = HCIR/HCc per FTE
R_{EF} = HCIR/HCc perf FTE value provided by the efficiency frontier
HCM_P = Human Capital management performance
HC_P = Human Capital performance
HC_D = effects of human capital disruptors
APC_E = effects of ancillary people costs
O_L = effects of organisation leverage
AT_A = effects of accounting adjustments
M_E = General market effects
ε = Non-attributable residual

Thus, the equation can be rearranged to exclude constant elements, giving

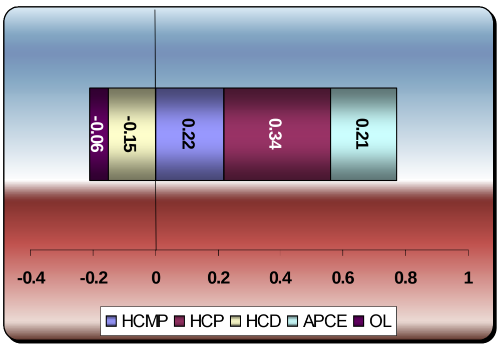
$$V = [R_s \pm AT_A] - R_{EF} = [HCM_P] \pm [HC_P] \pm [HC_D] \pm [APC_E] \pm [O_L]$$

In other words, having adjusted for any accounting inconsistencies or exceptions and that ε, the non-attributable residual can be regarded as equal for all companies, and therefore ignored; we can ascribe the performance variation as the sum of the remaining five variables, as shown overleaf.



It should therefore be possible to quantify each of these five elements to determine their positive or negative contribution to the overall beta performance.

The performance variation model can be viewed in the following way:



Quantifying beta variation
We have seen that beta variation arises through:

- Human capital management performance
- Human capital performance
- Effects of human capital disruptors/ inhibitors (for example, aspects of the business model)
- Effects of ancillary people costs
- HC leverage effects.

Similarly, effects of accounting adjustments, general market effects and residual effects can be reconciled or ignored, as representing a 'constant' effect or systematic/ unsystematic risk.

We put forward the view that the means exists of quantifying the five measurable elements of beta variation through the VB-HR™ Rating, its associated database of value driver performance and through evaluation of metrics contained within the Human Capital Reporting Standards.

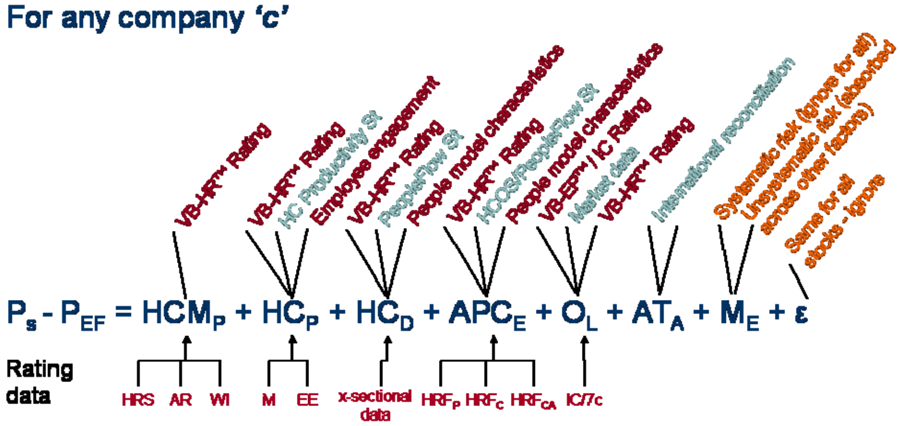
For this reason, the Human Capital Composite Index includes an evaluation of external human capital reporting (in current format) and the VB-HR™ Rating score (to be incorporated on adoption).

Not only does the VB-HR™ Rating therefore provide an evaluation of current human capital management practice, but the scores provided can be compared against the VB-HR™ database to measure differences in practice.

Through use of the equation set out below (referring to specific VB-HR™ human capital value drivers), company performance differentials can be quantified, explained and addressed.

Given the potential implications of these scores, we would expect that organisations would seek to have their VB-HR™ Rating externally audited at Level 3 adoption (see www.vbhr.com for related materials).

For any company 'c'



5 HC Reporting: A review of OFR and CSR practice

Background
Parameters of assessment
Findings
Conclusions

Background
Within the past five years, considerable efforts have been focused on the area of human capital reporting. With a number of high-profile working groups and related academic attempts at defining standardised approaches, the awareness that understanding the 'contribution' of people within an organisation is a matter of interest and relevance to a wide range of stakeholder groups.

Despite these efforts, however, no 'magic bullet' has emerged from working groups and official guidance (for example that relating to the UK's OFR), beyond the assertion that certain human capital metrics may or may not be meaningful and/or comparable across sectors.

This failure of any top-down approach to provide the required clarity has resulted in pragmatic attempts by organisations to report something, rather than nothing, in the area of human capital.

"We have, in our earlier HCR white paper, argued that HC Reporting should not be part of the CSR, as good human capital management is not a matter of 'social responsibility' but of organisational performance."

On one hand, we would acknowledge that this is a big 'ask' for organisations, equal to asking them to develop their own accounting standards without expert guidance in support.

On the other hand, any evaluation of organisational performance through a 'human capital lens', should include a structured evaluation of current attempts at human capital reporting.

This allows for an objective evaluation of the sophistication of current approaches (both quantitative and qualitative) and acknowledges where good practice exists.

Companies effectively have two means of reporting human capital – either through the Operating and Financial Review (OFR)/Business Review or through the Corporate Social Responsibility (CSR) Report.

We have, in our earlier HCR white paper, argued that HC Reporting should not be part of the CSR, as good human capital management is not a matter of 'social responsibility' but of organisational performance.

However, we recognise that a number of organisations have used this channel as a means of reporting human capital related information. Thus we have reviewed both in the context of providing a true assessment.

Parameters of assessment
In light of the absence of any previous human capital reporting framework, we set out the following parameters for assessment, closely connected to the 'best practice' guidelines laid out in our model HC Reporting template[9]:

- Structured approach to human capital reporting
- Narrative reporting of human capital policies (which in practice is already carried out by most companies)
- Narrative reporting of specific human capital initiatives or programmes
- Utilisation of the Standard Human Capital Reporting Operating Standards (Human Capital Operating Statement, PeopleFlow™ Statement and the Human Capital Productivity Statement)
- Quantification of human capital key performance indicators (KPIs)
- Segmental analysis of human capital reporting (i.e. breakdown across business units and/or geographies)
- Additional or enhanced ratio reporting or investigation into specific domains of human capital management (which in practice is not being carried out for external reporting by any company in our sample)
- Utilisation and reporting of the VB-HR™ Rating score awarded, as an external assessment of current human capital management practice.

These parameters cover all aspects of how human capital reporting is treated within

[9] See VaLUENTiS' Human capital reporting white paper, 31 January 2006

public disclosures; use of suitable quantified approaches and take account of depth of insight provided to external stakeholders.

Within each assessment parameter, four separate levels have been identified in line with the levels established in the Human Capital Reporting White Paper: *Pre-Standard*, *Standard*, *Intermediate*, *Advanced*.

The difference between the levels is one of comprehensiveness with the 'Standard' level providing what is considered an acceptable informative level of disclosure.

Each assessment parameter has been evaluated through review of published annual reports and, where relevant, Corporate Social Responsibility reports (CSRs).

Where a company has provided more detail within a particular parameter, this is acknowledged through an additional weighting within the scoring system. The companies have then been ranked according to the overall quality of their human capital reporting, which feeds into the overall HCCI™ ranking (see Chapter 7 for further detailed analysis).

The following observations set out the key findings of the review.

Findings

No organisation reaches the 'Standard' level

As noted above, four levels of sophistication exist within each parameter. No single organisation reviewed reaches the 'Standard' level, despite a few examples of good practice on aspects of narrative and, in one case, the development of an approach with similarities to the PeopleFlow® statement, including segmental reporting.

This suggests that, despite the attention paid to this area, companies, left to their own devices, have not developed sufficient approaches to human capital reporting to provide meaningful insight to external stakeholders.

Current approaches are typically unstructured

We advocate that human capital reporting should exist either as a separate document or as a separate section within the Annual Report, to provide it with the coherence and recognition required.

No organisation reviewed is producing a separate human capital report, although, of the 308 organisations reviewed, 25 reported people data in a designated section of the OFR or Business Review.

Many more organisations reported people information as part of their CSR report. As noted above, we see human capital reporting as having a focus and purpose that is quite different to usual CSR content, such as impact on the environment and charitable activities.

On the other hand, it is encouraging to see that most organisations at least acknowledge human capital in some form. However, the lack of structure seen in most reports does limit their usefulness.

Current approaches are predominantly narrative

Most reporting consists of policy information and anecdote, which suggests that organisations have adopted a highly conservative view towards their approaches towards quantifying aspects of their human capital management practice.

When quantified, these aspects typically lack context or fail to add interpretative insight.

For example, the findings of employee surveys (at a macro level) are reported by certain organisations – it is unusual, however, to be given the response rate, frequency of survey and linkage between the survey and any outcomes such as action taken, or incidence of turnover or customer quality. Another example of a frequently reported statistic which provides very little value without context is the gender split of the workforce.

Such narrative-based reporting has a tendency to be anodyne. Without a structured approach towards reporting base data, such as the SHCROPs[10], any narrative efforts can appear 'ungrounded' and add limited value for the external reader.

As we have previously argued in our Human Capital Reporting White Paper, HC needs to follow financial reporting in reporting 'base numbers' as a starting point.

Current approaches provide questionable insight

It is understandable that, in the absence of a consistent approach, organisations may choose to err on the side of caution in presenting any human capital metrics.

It is less clear, however, why the presentation of segmental reporting (similar to financial

[10] Standard Human Capital Reporting Operating Principles

statements) is not prevalent. Through providing internal comparatives to metrics such as turnover and absenteeism (and through use of the SHCROPs), organisations can showcase their ability to measure human capital inputs and outcomes, and demonstrate their activities and initiatives to manage the outcome.

On the grounds that 'what gets measured gets managed', the impact of reporting differentials externally both suggests that organisations are 'on top' of the issue and equally are more concerned with how to address it internally than whether their absenteeism is on average a percentage point higher than a competitor.

Many organisations have yet to start
While many organisations are at least experimenting with approaches to human capital reporting, many efforts are extremely light. Twenty-six companies within our sample do not report human capital information at all beyond the minimum requirements, i.e. basic comments on employee involvement and treatment of disabled staff in the Directors' Report.

Conclusions
In light of this review, we would strongly advocate that organisations need to move on from their current, disparate and predominantly qualitative approaches and to adopt a structured and consistent approach towards human capital reporting (such as that established in the Standards).

The time for awards may be when many more companies are at least reporting to a defined base standard – until then it is pretty much 'all talk'. Without this adoption, organisations run the risk of investing considerable effort, for all the right intentions, to produce reports of questionable value for external stakeholders.

Levels of HC Reporting

Level of HC reporting	Part of existing document	Separate dedicated HC Report	HC Policies	HC Initiatives	Company practice specifics	HCO Statement	PeopleFlow statement	Productivity statement	KPIs	Segmental analysis	Enhanced ratio reporting	Additional HC domain reporting	VB-HR™ Rating or equivalent	VB-HR™ Rating narrative	HC Value statement
Standard	()	()	☑	☑	☑	☑	☑	☑	☑	☑	()	()	-	-	-
Intermediate	-	☑	☑	☑	☑	☑	☑	☑	☑	☑	()	()	☑	()	-
Advanced	-	☑	☑	☑	☑	☑	☑	☑	☑	☑	☑	()	☑	☑	()

()	Optional
☑	Mandatory
-	Not applicable

The three levels are designed to provide organisations with flexible options given their intent to publish human capital related information.

Reporting Solution
The reporting solution is designed in such a way as to provide organisations with a progressive level of reporting, containing three classes: ***'Standard'***, ***'Intermediate'*** and ***'Advanced'***. The difference between the levels is one of comprehensiveness with the 'Standard' level providing, what is considered, an acceptable level of disclosure.

6 The VaLUENTiS Human Capital Composite Index (HCCI™)

Purpose
Index composition
Rationale
Explanation of the components of the index
Advantages of the HCCI™

Purpose

The Human Capital Composite Index provides a framework that evaluates organisations from a human capital perspective across three dimensions:

- Performance
- Practice, and
- Reporting.

Index composition

The Human Capital Composite Index provides an evaluative framework that measures human capital related organisation performance.

The index is designed to provide a 360 degree view of organisation performance through a human capital lens, human capital management practice and human capital reporting.

The nine components are combined in a composite ranking system.

Each component is given a weighting based on the relative importance of each indicator.

1 **HCIR Return (ratio)**
2 **HC return beta**
3 **VB-HR™ Rating**
4 **HCIR/head**
5 **HCIP per FTE**
6 **HC Reporting score**
7 **HC leverage beta**
8 **Total HCC (ECI)**
9 **Tax paid per FTE**

Increased weighting

Rationale

In selecting a 'composite' index, we seek to acknowledge the multiple parameters required to assess effectively differences in organisational performance and human capital management within companies.

Unlike previous attempts at constructing a meaningful index or ranking, which typically focus on a single parameter (e.g. employee satisfaction, work environment, value contribution), this enables different perspectives to be incorporated into a single assessment.

Through weighting each of these components through a forced-ranking evaluation, the output of the Human Capital Composite Index ('HCCI™') accordingly contains:

- External assessment of company performance and contribution (derived from information in the public domain)
- Internal indicators of company performance (derived from information not in the public domain).

The nine sub-indices are set out below, with brief explanation of each.

Note that the current version of the HCCI™ excludes the VB-HR™ Rating and HC leverage beta figures, as these relate to data that is not publicly available and only a certain sample of the FTSE350 have carried out such an exercise.

As such, organisational rankings as reported are based on 78% of the total composite index.

We are currently constructing a shadow index for those companies that have undergone further internal assessment (as that provided by the VB-HR™ Rating).

Explanation of the components of the index

HCIR Return
This index evaluates the adjusted revenue return an organisation receives on its investment in people (people costs). A ratio of 1.0 indicates that revenues generated only covers the investment in people costs. Ratios of greater than 1.0 indicate a return on their human capital investment. A ratio of below 1.0 indicates a loss generating scenario.

HC return beta
The HC return beta evaluates the relative performance of the HCIR Return curve (efficiency frontier). Those companies positioned above the ‘curve’ display over-performance as opposed to those below the ‘curve’ who display under-performance. This difference is known as the beta.

A positive beta therefore indicates a greater-than-expected return on human capital, with a negative beta indicating a lower-than-expected return (suggesting misalignment between staffing levels, average compensation and organisational performance).

HCIR per employee
This index assesses the contribution to revenue generation attributable to each employee: a more meaningful measure than ‘revenue per employee’, as this accounts for differences in operating models. By reviewing the ratio of people costs to total costs, the human capital intensity can be calculated – a proxy for the relative importance of people in the operating model. A high HCI suggests that people a more important component in an organisation’s revenue generation.

HCIP per employee
A similar approach to HCIR per employee, but in this case assessing profit/EBIT (earnings before interest and tax) per employee attributable to human capital. Adjustments are made to strip out exceptional gains and losses not relevant to the operating model (e.g. gains/losses on disposed companies) whilst including those relevant to the organisation’s people model (e.g. redundancy costs).

HC Reporting score
Based on a construct introduced in VaLUENTiS’ Human Capital Reporting White Paper in January 2006, the Reporting score evaluates the current state of external human capital reporting adopted by the organisation. This is taken as an indication of the extent to which

an organisation focuses on its people element and therefore its appreciation of human capital. The reporting link with performance is through the old adage 'what gets measured (reported) gets managed'.

Tax paid per employee

This is incorporated as a measure of the contribution made by an organisation to human capital (society) in general, above and beyond the contribution made by an organisation to its employees in terms of salaries and other compensation. A higher number indicates a greater contribution to an economy in this context, whilst taking into account the size of an organisation.

Total HCC/ECI

The total HCC is an organisation's total people costs, an absolute figure representing the overall value generated by an organisation that is then distributed to employees. We take this as representing a human capital Economic Contribution Indicator (ECI), effectively a macro-economic indication of the value to an economy generated by the organisation. The figure used in the ranking is the total per organisation and therefore acknowledges the greater contribution (or not) of larger firms.

VB-HR™ Rating

VaLUENTiS launched the VB-HR™ Rating in 2005 following an initial benchmark exercise with 100 organisations. The Rating assesses the effectiveness of human capital management practice within organisations linked to productivity.

This assessment evaluates the degree to which components of an integrated human capital management system combine and/or conflict. The Rating also provides more detailed assessment of reported numbers (for example FTEs) as well as HR spend and other operational HR metrics.

HC leverage

Whereas other cost-driven indices are based on people costs, the HC leverage beta evaluates HR budgetary spend and related human capital ancillary costs (e.g. recruitment), relative to the revenue generation attributable to human capital.

Whilst these cost figures are core aspects of the Human Capital Operating Statement set out in the 'open-source' SHCROPS, they are not currently publicly reported. As such, this index is not currently included within the HCCI™, although ongoing adoption by organisations will lead to their introduction within the HCCI™.

Advantages of the HCCI™

There are a number of advantages to the HCCI™:

- The HCCI™ provides a unique composite picture of organisational performance from differing human capital perspectives and by linking financial and HC measures

- As such, it carries far more weight when compared to other published indices

- It is focused on an organisation performance basis not on an individual experience basis

- Its composite nature makes it very difficult to ignore as the data provided here doesn't lie

- The data appeals to all stakeholders as there is 'something there for each group'.

7 The VaLUENTiS Human Capital Composite Index (HCCI™) Rankings (FTSE350)

Introduction to the rankings
Company Rankings 1 - 350
Commentary on individual HCCI™ Ranking indices

Introduction to the Rankings

Chapter 3 set out the underlying methodology for our analysis and Chapter 6 set out the definitions of the various components of the HCCI™.

In this chapter, we apply the calculations to our sample and show the resulting 'ranking' of organisations. To recap, we have ranked each of the 308 companies within our sample according to seven different measures (two not included at this stage of analysis).

There are a total of nine measures constituting the HCCI™ in all; however two of them, the VB-HR™ Rating score and Human Capital leverage, are not published here.

All financial measures are expressed in £000s.

It is important to note that, for all measures expressed as 'per head', we have used total employee numbers as reported by companies, which reflect the total workforce rather than FTEs.

This will have the effect of depressing these measures for companies employing a large part-time workforce, notably retailers. Ideally, we would calculate these based on FTE measures, but these are not disclosed by the majority of companies.

We have taken the ranking of each organisation across the different categories and weighted them to reflect the differing importance of these categories. The weighting is then used to generate an overall 'score' and final overall ranking.

The table contains 14 data points for each company in the sample in all:

Human Capital Intensity Revenue per head (i.e. the amount of revenue per head being directly generated by people)
Human Capital Intensity Revenue per head ranking
Human Capital Intensity Profit per head (i.e. the profit per head directly generated by people)
Human Capital Intensity Profit per head ranking
HCIR return (i.e. the ratio between HCIR and HC costs)
HCIR return ranking
HCIR return Beta (variance against the market norm, which may be positive or negative)
HCIR return Beta ranking
VB-HR™ Rating ranking (not included at this stage)
HC Leverage ranking (not included at this stage)
HC Reporting ranking (i.e. evaluation of the quality and thoroughness of the company's reporting on people issues
Tax per head ranking (reflecting relatively how much each company is contributing the country's human capital generally via taxes)
Economic Contribution Indicator (total people costs) ranking (reflecting how much value the company is generating for its employees in aggregate
Overall ranking (composite)

[Ranking tables on page 40]

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Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Barclays	116	20	34	18	1.71	16	31.84	9			16	77	2	1
Northern Rock	62	49	37	14	2.49	4	32.78	8			35	45	198	2
GlaxoSmithKline	77	34	24	30	1.45	38	13.15	32			6	63	6	3
BG Group	71	36	30	23	1.54	28	15.90	24			22	6	147	4
Bradford & Bingley	64	46	29	24	1.83	12	22.73	17			31	47	218	5
Royal Bank of Scotland	60	54	18	40	1.45	40	10.81	36			3	72	3	6
Rio Tinto	63	48	23	34	1.53	31	14.25	27			56	28	38	7
Alliance & Leicester	50	77	20	39	1.65	18	14.19	28			20	71	144	8
Kelda	54	61	22	36	1.66	17	15.83	25			25	92	212	9
Standard Chartered	44	103	17	48	1.64	22	12.37	34			7	103	37	10
Associated British Ports	51	71	20	37	1.63	24	14.11	29			4	88	229	11
Man Group	255	2	116	2	1.85	11	57.08	2			253	33	99	12
AstraZeneca	67	39	18	44	1.37	49	8.37	40			64	73	13	13
Punch Taverns	68	38	34	20	2.00	9	27.87	13			117	18	287	14
McCarthy & Stone	60	52	23	31	1.60	26	15.92	23			49	31	275	15
BHP Billiton	54	62	15	54	1.37	48	7.40	41			40	32	29	16
Venture Production	177	8	76	4	1.75	14	42.19	6			189	4	303	17
Northumbrian Water Group	47	90	18	41	1.64	23	12.99	33			16	89	227	18
Tullow Oil	145	13	53	10	1.57	27	24.90	16			149	2	297	19
Soco International	446	1	238	1	2.14	7	100.90	1			236	1	308	20
Kensington Group	74	35	26	27	1.54	29	16.46	22			98	37	291	21
Enterprise Inns	124	18	68	7	2.20	6	55.63	3			227	7	285	22
London Stock Exchange	183	6	72	5	1.65	20	31.81	10			219	16	260	23

VaLUENTiS

'Organisation performance through a human capital lens'

INTERNATIONAL SCHOOL OF HUMAN CAPITAL MANAGEMENT

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Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Rathbone Brothers	101	27	32	21	1.45	39	14.58	26			114	81	269	24
Premier Oil	103	24	36	16	1.54	30	20.13	18			149	8	295	25
Drax Group	183	7	70	6	1.61	25	27.56	14			214	12	253	26
HSBC	50	75	16	50	1.49	36	10.48	37			117	94	1	27
Big Yellow Group	66	41	34	19	2.07	8	28.27	12			201	5	305	28
Inmarsat	191	5	81	3	1.74	15	42.63	5			274	29	266	29
Imperial Tobacco Group	40	135	13	58	1.51	34	8.73	39			35	64	100	30
National Grid	60	51	14	56	1.22	86	0.98	74			11	100	35	31
Xstrata	39	140	12	59	1.44	41	7.15	42			16	69	89	32
Paragon Group	92	30	53	9	2.37	5	46.07	4			258	53	292	33
Yell Group	53	66	10	67	1.28	63	3.92	51			35	117	111	34
PartyGaming	133	15	45	11	1.52	33	19.79	20			233	43	220	35
Amvescap	158	10	23	33	1.65	19	31.76	11			306	86	73	36
Diageo	49	80	11	64	1.27	65	3.51	54			56	70	54	37
Dana Petroleum	121	19	54	8	1.81	13	38.01	7			293	3	307	38
Southern Water	41	125	16	51	1.64	21	11.82	35			90	35	270	39
United Utilities	40	139	11	61	1.38	45	5.81	45			56	209	91	40
Cairn Energy	67	40	18	42	1.27	67	3.40	55			90	65	283	41
Investec	125	16	37	15	1.41	44	9.71	38			285	42	107	42
HBOS	42	120	9	79	1.25	70	2.51	61			42	58	17	43
Pennon Group	41	132	11	63	1.37	47	5.73	46			22	126	246	44
BT	53	65	9	75	1.18	106	-0.45	95			2	137	8	45
Admiral Group	37	148	17	47	1.86	10	13.27	31			130	62	281	46

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Smith & Nephew	52	67	9	76	1.24	75	2.40	63			90	108	110	47
JKX Oil & Gas	52	68	31	22	2.52	3	27.31	15			293	52	304	48
IG Group	102	25	34	17	1.51	35	18.18	21			285	68	296	49
Redrow	48	86	9	69	1.25	74	2.49	62			42	36	265	50
Lloyds TSB	43	116	7	92	1.20	94	0.70	76			11	75	16	51
Wilson Bowden	46	96	9	77	1.24	79	2.16	65			31	41	232	52
Gallaher	35	159	8	83	1.32	54	3.62	53			48	85	128	53
Reed Elsevier	53	63	8	81	1.19	100	-0.01	90			64	120	25	54
Bovis	49	79	12	60	1.32	55	5.05	47			133	24	282	55
CSR	78	33	18	45	1.30	60	4.72	49			205	30	289	56
Close Brothers	107	23	26	29	1.32	53	3.81	52			285	74	179	57
Bellway	46	93	9	73	1.24	76	2.29	64			77	38	240	58
Johnston Press	32	177	11	62	1.52	32	6.92	44			114	135	186	59
Antofagasta	38	145	23	32	2.60	2	19.86	19			258	20	274	60
Cadbury Schweppes	31	192	5	127	1.31	58	2.92	58			11	201	31	61
Sage Group	49	78	13	57	1.37	46	6.98	43			256	116	122	62
ITV	47	89	7	93	1.18	105	-0.08	91			16	82	151	63
Persimmon	44	104	10	66	1.30	59	4.13	50			165	34	190	64
Barratt Developments	42	119	7	97	1.20	96	0.59	79			31	49	185	65
Burren Energy	26	228	17	49	2.89	1	13.68	30			165	80	301	66
AWG	41	126	7	90	1.23	80	1.88	66			98	242	113	67
Wolfson Microelectronics	65	42	15	52	1.30	61	4.81	48			254	54	300	68
British American Tobacco	22	251	5	108	1.34	50	1.85	68			56	115	27	69

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Amlin	133	14	26	28	1.24	78	-11.34	293			1	14	252	70
Trinity Mirror	39	142	9	80	1.28	64	3.07	57			176	134	117	71
Severn Trent	41	124	7	96	1.23	84	1.62	70			136	142	78	72
Reckitt Benckiser	33	167	7	98	1.25	71	1.87	67			136	98	81	73
Meggitt	47	91	8	86	1.20	92	0.68	77			165	160	165	74
Burberry	40	136	9	74	1.29	62	3.37	56			205	84	208	75
Schroders	165	9	43	13	1.31	56	-11.11	292			156	55	123	76
Rotork	41	127	9	78	1.26	68	2.81	59			176	99	278	77
Berkeley Group	94	28	17	46	1.23	82	-2.50	182			156	15	245	78
International Power	48	85	15	53	1.18	108	-0.20	92			176	46	196	79
Wimpey (George)	43	112	6	100	1.17	111	-0.34	94			98	66	162	80
Royal Dutch Shell	59	56	7	94	1.14	143	-3.29	219			7	11	4	81
Rolls-Royce	52	69	6	99	1.14	134	-2.18	161			77	163	24	82
Crest Nicholson	60	53	8	84	1.16	118	-2.34	173			56	39	273	83
WPP	51	70	6	102	1.14	144	-2.33	170			56	190	12	84
BSkyB	43	110	7	88	1.14	142	-1.60	142			48	59	102	85
Whatman	44	105	9	72	1.26	69	2.75	60			256	119	284	86
Cattles	32	182	5	116	1.20	97	0.39	83			64	114	204	87
Viridian Group	35	161	5	112	1.18	107	0.02	89			48	48	272	88
Emap	47	88	6	106	1.15	127	-1.36	125			90	102	160	89
Pearson	45	98	9	70	1.14	133	-1.53	136			135	159	34	90
Scottish Power	43	109	1	257	1.19	102	0.23	86			25	67	76	91
Croda International	45	101	7	87	1.20	91	0.76	75			212	93	258	92

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Anglo American	18	266	3	163	1.22	85	-0.21	93			11	165	14	93
Jardine Lloyd Thompson	65	43	10	65	1.18	103	-1.38	127			276	151	126	94
BP	60	55	8	85	1.13	154	-3.88	241			48	17	5	95
Renishaw	44	108	8	82	1.23	81	1.81	69			258	169	256	96
Ultra Electronics	44	102	6	103	1.16	117	-0.83	102			156	158	214	97
Lonmin	11	300	3	159	1.43	42	0.03	88			29	184	187	98
Centrica	42	121	6	104	1.11	172	-2.51	183			5	50	32	99
ICAP	224	3	45	12	1.25	73	-57.20	306			258	51	79	100
Halma	35	157	6	105	1.21	87	1.05	73			196	136	231	101
Taylor Woodrow	37	149	5	118	1.15	125	-0.84	103			117	79	142	102
Benfield	124	17	20	38	1.19	98	-15.42	297			141	95	180	103
Paypoint	45	99	7	89	1.19	99	0.41	82			233	76	302	104
Aggreko	48	83	7	95	1.17	113	-0.64	99			238	101	242	105
Speedy Hire	32	180	5	126	1.16	116	-0.54	97			77	181	244	106
Intercontinental Hotels	31	194	5	119	1.20	93	0.41	81			214	164	77	107
BOC Group	30	202	5	117	1.13	157	-1.37	126			42	149	50	108
Aegis Group	40	138	5	122	1.14	141	-1.35	124			127	200	96	109
Michael Page	57	58	7	91	1.15	131	-2.67	189			165	130	200	110
Scottish & Newcastle	43	111	4	142	1.12	167	-2.33	171			42	180	72	111
Royal & SunAlliance	29	210	4	129	1.15	124	-0.78	101			134	96	69	112
Spirax-Sarco Engineering	40	137	6	101	1.19	101	0.32	84			267	140	206	113
Cobham	38	144	5	113	1.18	104	0.16	87			276	168	114	114
Unilever	22	246	3	171	1.15	123	-0.95	108			77	153	9	115

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Topps Tiles	25	236	5	114	1.27	66	1.33	72			219	127	288	116
Hanson	32	179	4	143	1.14	149	-1.25	118			108	185	64	117
Homeserve	31	191	4	132	1.16	119	-0.63	98			149	154	221	118
Smiths Group	38	143	4	139	1.14	148	-1.46	129			165	177	49	119
Mitchells & Butlers	14	283	2	188	1.21	88	-0.88	105			72	228	93	120
Millenium & Copthorne Hotels	22	247	4	131	1.24	77	0.51	80			225	213	159	121
Informa	43	113	5	109	1.14	135	-1.47	132			245	112	171	122
ARM Holdings	92	29	14	55	1.18	109	-6.92	280			242	104	228	123
Rexam	28	215	4	153	1.14	132	-0.98	110			149	138	80	124
Brambles	33	169	4	133	1.14	139	-1.10	115			217	146	57	125
EMI	56	59	5	111	1.10	182	-4.96	259			77	145	116	126
SABMiller	23	244	4	147	1.16	120	-0.86	104			176	91	56	127
Aquarius Platinum	154	12	26	26	1.20	90	-26.69	302			297	19	306	128
Hikma Pharmaceuticals	20	257	5	115	1.34	52	1.58	71			289	132	290	129
Reuters	63	47	6	107	1.10	184	-6.49	275			98	206	51	130
DMGT	38	146	4	144	1.11	180	-2.43	178			77	183	68	131
Electrocomponents	33	175	4	140	1.14	137	-1.07	113			176	125	199	132
Bodycote	32	181	4	136	1.15	130	-0.94	107			198	226	174	133
Resolution	45	100	5	120	1.13	161	-2.29	167			165	10	257	134
Marshalls	33	172	4	138	1.14	138	-1.08	114			176	156	241	135
Gala Group	20	262	3	156	1.25	72	0.64	78			252	248	192	136
888 Holdings	155	11	28	25	1.13	150	-41.08	305			238	234	215	137
Greene King	12	291	2	187	1.23	83	-1.03	112			117	246	188	138

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Scottish & Southern Energy	30	203	3	161	1.11	177	-1.88	148			64	56	133	139
Next	12	293	2	214	1.18	110	-1.47	130			56	202	74	140
Capita Group	29	205	3	158	1.13	153	-1.31	122			156	212	71	141
Northgate	29	209	5	123	1.20	95	0.30	85			293	111	267	142
Signet Group	25	235	3	174	1.13	155	-1.33	123			90	148	115	143
Collins Stewart Tullett	198	4	22	35	1.13	160	-74.93	307			285	87	82	144
Aviva	44	106	3	155	1.07	215	-4.57	252			25	40	19	145
Expro International Group	43	114	5	121	1.13	159	-2.04	153			210	141	237	146
Carpetright	29	208	5	124	1.16	121	-0.69	100			245	129	239	147
Premier Foods	30	195	4	152	1.14	147	-1.21	117			165	150	216	148
Guardian Media Group	35	160	4	134	1.14	140	-1.25	119			271	60	166	149
Shire	64	45	4	130	1.10	193	-7.16	282			77	25	213	150
British Energy	17	272	2	203	1.15	128	-1.30	121			48	166	243	151
ICI	36	156	4	149	1.10	186	-2.45	179			131	196	43	152
Aberdeen Asset Mgt	101	26	18	43	1.13	158	-15.26	296			242	106	254	153
BAE Systems	51	72	4	141	1.05	236	-6.85	278			29	232	10	154
Corus	41	131	3	181	1.07	216	-4.14	246			7	192	21	155
British Airways	42	122	3	180	1.07	213	-4.18	247			25	179	20	156
Carnival	12	295	3	179	1.31	57	-0.48	96			307	276	70	157
Vedanta Resources	6	307	2	226	1.34	51	-1.61	143			145	118	219	158
United Business Media	42	123	5	128	1.12	166	-2.16	160			258	157	156	159
IMI	31	190	3	157	1.12	164	-1.58	139			205	175	90	160
Hiscox	108	21	10	68	1.10	189	-22.09	301			192	22	268	161

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Brit Insurance	85	31	5	110	1.07	222	-16.03	298			72	44	271	162
Taylor Nelson Sofres	31	193	3	167	1.11	176	-1.90	149			156	210	106	163
Travis Perkins	24	242	2	189	1.11	174	-1.73	145			98	144	124	164
Rentokil Initial	15	279	2	225	1.14	136	-1.55	138			117	275	36	165
Wolverhampton & Dudley	12	290	3	177	1.17	112	-1.51	134			156	245	210	166
Old Mutual	29	213	3	160	1.12	168	-1.60	141			227	90	40	167
Savills	18	269	3	182	1.17	114	-0.97	109			225	251	158	168
Miller Group	50	76	4	146	1.10	185	-4.91	258			149	61	248	169
GUS	20	260	2	213	1.10	192	-2.07	156			48	178	33	170
Cable & Wireless	46	94	5	125	1.07	212	-4.83	257			156	255	67	171
FKI	32	176	3	183	1.09	200	-2.71	192			90	236	108	172
Qinetiq Group	48	81	3	162	1.07	217	-5.45	268			98	250	86	173
Tate & Lyle	40	133	2	190	1.08	205	-3.70	233			77	109	146	174
Kazakhmys	3	308	2	218	1.47	37	-2.23	164			227	195	205	175
Spectris	43	118	4	135	1.11	178	-2.75	194			258	193	157	176
Intertek	20	263	3	178	1.17	115	-0.90	106			276	243	149	177
Autonomy	68	37	9	71	1.11	175	-6.85	277			280	124	294	178
Hays	32	188	3	168	1.11	181	-2.06	154			201	128	140	179
Friends Provident	50	74	3	170	1.05	238	-6.87	279			64	27	152	180
Ashtead Group	33	174	4	151	1.13	162	-1.54	137			285	203	184	181
Stagecoach Group	27	224	2	207	1.09	199	-2.39	177			72	293	60	182
Davis Service Group	22	248	3	175	1.15	126	-1.02	111			293	224	135	183
Luminar	12	294	2	208	1.21	89	-1.28	120			212	274	255	184

Company	HCIR/head (£000s)	*HCIR/head RANKING*	HCIP/head (£000s)	*HCIP/head RANKING*	HCIR Return	*HCIR Return RANKING*	HC Return beta 'β'	*HC return β RANKING*	VB-HR™ Rating RANKING	HC Leverage RANKING	*HC Reporting RANKING*	*Tax per head RANKING*	*Total (ECI) RANKING*	OVERALL RANKING
Arriva	28	220	2	201	1.08	204	-2.57	184			77	269	55	185
St James Place	58	57	4	148	1.07	219	-7.64	284			108	9	286	186
Whitbread	11	297	1	234	1.14	145	-1.91	150			98	256	87	187
Regus Group	38	147	4	145	1.11	173	-2.20	162			254	303	235	188
Filtrona	27	227	3	173	1.12	165	-1.52	135			201	173	209	189
Boots	15	280	1	240	1.10	187	-2.09	157			42	218	47	190
Aga Foodservice Group	28	217	2	193	1.09	198	-2.37	175			77	233	195	191
Legal & General	43	115	2	195	1.05	234	-5.32	265			64	23	103	192
Marks & Spencer	16	277	2	222	1.08	201	-2.30	168			42	208	42	193
Photo-Me International	33	168	4	154	1.12	170	-1.82	147			267	152	264	194
Helphire Group	25	234	3	169	1.14	146	-1.21	116			237	291	293	195
Go-Ahead Group	28	221	2	202	1.08	210	-2.66	188			77	247	85	196
SSL International	21	256	2	198	1.12	171	-1.69	144			127	214	234	197
Tomkins	24	243	2	197	1.10	183	-1.95	151			176	225	58	198
Henderson	64	44	4	137	1.07	223	-9.28	289			193	123	189	199
LogicaCMG	47	87	3	165	1.07	218	-5.19	262			201	221	52	200
Wolseley	30	201	2	217	1.06	226	-3.23	213			77	167	28	201
VT Group	27	222	2	206	1.08	208	-2.63	186			98	241	145	202
Wood Group (John)	61	50	3	166	1.05	237	-9.54	290			187	239	48	203
Premier Farnell	32	187	2	192	1.08	206	-2.90	196			139	238	193	204
Stanley Leisure	22	249	3	186	1.13	152	-1.39	128			258	189	238	205
United Biscuits	29	206	2	194	1.15	122	-2.58	185			307	306	132	206
Shanks Group	34	166	3	176	1.09	197	-2.65	187			219	199	217	207

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Rank Group	20	259	2	196	1.12	163	-1.58	140			258	254	92	208
Halfords	11	296	1	229	1.15	129	-1.79	146			194	205	224	209
Cookson	29	207	2	209	1.07	214	-2.92	199			145	191	94	210
Abbot Group	33	171	3	184	1.08	207	-2.99	202			198	216	197	211
HMV Group	18	270	1	233	1.08	203	-2.31	169			98	186	161	212
Coats	9	304	1	276	1.42	43	-2.69	191			297	57	154	213
Dairy Crest	30	198	2	211	1.07	221	-3.13	208			117	187	177	214
Bunzl	32	184	2	205	1.07	220	-3.28	218			156	133	127	215
Johnson Matthey	37	150	1	251	1.04	259	-5.11	260			7	131	139	216
Prudential	33	170	2	220	1.06	232	-3.84	239			145	21	45	217
Baxi Holdings	30	204	3	185	1.12	169	-2.35	174			302	83	194	218
Findel	20	261	2	212	1.13	156	-1.47	131			251	231	261	219
Associated British Foods	20	258	2	216	1.09	196	-2.13	159			224	172	61	220
Body Shop	14	281	1	241	1.09	194	-2.20	163			117	252	233	221
Petrofac	35	158	2	204	1.07	225	-3.69	232			176	270	168	222
Kingfisher	20	264	2	221	1.10	190	-2.04	152			271	170	44	223
Doncasters	32	185	3	164	1.06	231	-2.06	155			300	113	202	224
Tesco	11	298	1	271	1.06	229	-2.67	190			56	220	11	225
GKN	32	183	1	260	1.07	224	-3.35	222			156	286	39	226
Laird Group	16	278	1	232	1.10	188	-2.10	158			176	253	207	227
Brown (N.) Group	18	271	1	252	1.13	151	-1.50	133			249	263	250	228
FirstGroup	21	254	1	231	1.07	211	-2.49	181			198	277	30	229
BBA Group	28	216	2	227	1.06	228	-3.19	209			176	273	112	230

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Gyrus Group	40	134	3	172	1.08	209	-3.77	236			280	271	277	231
SIG	29	211	2	224	1.06	230	-3.27	215			165	162	170	232
First Choice Holidays	21	253	1	267	1.04	258	-3.28	217			22	207	129	233
De Vere	16	275	4	150	1.05	247	-2.90	197			141	295	225	234
Ladbrokes	16	276	0	280	1.03	263	-3.09	206			11	244	59	235
Morgan Sindall	41	128	1	238	1.03	266	-6.05	271			108	204	172	236
Morgan Crucible	25	239	1	248	1.05	244	-3.28	216			98	249	138	237
De La Rue	37	151	2	223	1.05	246	-4.67	254			176	197	155	238
McAlpine (Alfred)	34	164	1	270	1.02	284	-5.34	266			31	290	125	239
Atkins (WS)	37	152	2	228	1.04	251	-4.82	256			191	230	88	240
Serco	25	237	1	274	1.03	275	-3.84	238			20	264	66	241
Alliance UniChem	22	245	1	264	1.03	271	-3.56	228			48	182	84	242
Invensys	30	200	1	237	1.04	249	-3.83	237			165	285	53	243
Countrywide	31	189	2	215	1.06	227	-3.42	225			238	283	121	244
Wates	50	73	0	284	1.00	297	-9.56	291			40	188	236	245
Amec	37	153	0	291	1.03	272	-5.43	267			90	279	26	246
Misys	46	95	2	200	1.05	243	-6.11	274			280	215	134	247
SThree	55	60	2	191	1.05	248	-8.38	286			258	260	263	248
Computacenter	43	117	1	279	1.01	293	-7.40	283			77	237	98	249
Greggs	13	287	1	247	1.10	191	-2.24	166			249	258	167	250
EasyJet	41	130	1	230	1.04	257	-5.71	269			194	121	191	251
Interserve	30	197	1	253	1.04	261	-4.13	245			136	240	118	252
F&C Asset Management	108	22	-28	308	0.80	306	-85.72	308			72	308	211	253

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National Express	18	268	0	282	1.02	280	-3.38	223			35	268	63	254
Weir Group	33	173	1	239	1.04	253	-4.34	249			188	219	148	255
Avis Europe	32	178	1	255	1.03	267	-4.60	253			117	282	178	256
Laing (John)	46	92	2	219	1.04	254	-6.72	276			245	97	262	257
Northgate Information Solutions	46	97	2	199	1.05	241	-6.09	273			289	296	226	258
Provident Financial	22	250	1	273	1.03	268	-3.46	226			64	143	182	259
Headlam Group	14	284	1	245	1.09	195	-2.23	165			248	194	259	260
John Lewis	17	273	1	278	1.03	274	-3.00	203			117	26	41	261
Wetherspoon (JD)	13	289	1	256	1.08	202	-2.38	176			233	261	173	262
Balfour Beatty	36	155	1	277	1.02	290	-5.75	270			117	284	46	263
Kier Group	30	196	1	258	1.03	265	-4.26	248			141	198	150	264
Sainsbury	11	299	0	296	1.02	283	-3.11	207			35	297	23	265
Wellington Underwriting	84	32	-3	303	0.96	301	-28.84	303			90	307	280	266
PZ Cussons	7	306	1	269	1.11	179	-2.48	180			227	223	249	267
Vodafone	35	162	-10	305	0.87	304	-12.42	294			64	13	18	268
Willmott Dixon	48	82	1	246	1.03	276	-8.02	285			190	171	276	269
British Vita	27	225	1	243	1.05	235	-3.50	227			227	78	176	270
Enodis	32	186	1	250	1.05	245	-4.00	243			205	301	181	271
Wincanton	26	231	1	275	1.02	281	-4.02	244			108	288	65	272
DSG Intl	19	265	1	261	1.04	250	-3.03	204			216	211	62	273
Babcock International	30	199	1	235	1.05	240	-3.68	231			276	257	143	274
Smith (DS)	29	212	0	288	1.01	294	-4.77	255			72	278	119	275
Cambridge Antibody Technology	53	64	-2	302	0.95	302	-14.18	295			108	161	298	276

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MITIE Group	13	286	1	272	1.05	233	-2.73	193			218	281	101	277
Group 4 Securicor	8	305	0	286	1.05	242	-2.86	195			197	292	15	278
Pendragon	25	238	1	262	1.03	270	-3.72	234			165	217	141	279
Dimension Data	35	163	1	259	1.02	278	-5.21	263			205	235	130	280
Hunting	41	129	1	244	1.03	269	-6.09	272			242	122	230	281
Carphone Warehouse	24	241	1	265	1.02	285	-3.98	242			127	229	131	282
Smith (WH) Group	12	292	0	283	1.03	264	-2.98	201			145	262	137	283
Kesa Electricals	21	255	1	263	1.04	256	-3.24	214			238	222	75	284
Matalan	10	303	0	285	1.04	255	-2.91	198			149	259	203	285
BSS Group	26	229	1	242	1.05	239	-3.30	220			280	176	247	286
Inchcape	28	218	1	249	1.04	252	-3.76	235			289	147	136	287
Compass	13	288	0	290	1.04	260	-2.95	200			227	287	7	288
Woolworths	10	301	0	293	1.02	277	-3.04	205			131	267	120	289
Somerfield	10	302	0	297	1.01	296	-3.22	212			108	302	83	290
MyTravel Group	25	233	0	295	1.01	295	-4.40	251			139	227	109	291
Kwik-Fit	24	240	2	210	0.98	299	-2.33	172			302	304	175	292
Mott MacDonald	34	165	1	266	1.03	273	-5.22	264			273	174	153	293
Northern Foods	21	252	0	292	1.01	292	-3.85	240			149	298	95	294
GCAP Media	36	154	-10	304	0.79	307	-18.48	299			114	105	251	295
Charter	25	232	1	254	1.03	262	-3.68	230			289	265	163	296
Carillion	27	226	0	281	1.02	289	-4.36	250			211	266	97	297
Stemcor	48	84	1	268	1.02	288	-8.54	287			300	110	279	298
Travelex	26	230	1	236	1.01	291	-3.21	211			297	107	201	299

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Marshall of Cambridge	28	214	0	298	1.02	286	-5.18	261			165	300	222	300
MFI Group	27	223	-2	301	0.94	303	-6.95	281			141	272	104	301
William Hill	17	274	0	287	1.02	282	-3.32	221			219	139	169	302
Spirent Communications	39	141	-1	300	0.97	300	-8.64	288			219	280	183	303
Colt Telecom	44	107	-11	306	0.81	305	-21.89	300			274	294	164	304
Morrison (Wm)	13	285	0	299	1.00	298	-3.39	224			267	299	22	305
Grampian Country Food	18	267	0	294	1.02	287	-3.58	229			302	155	105	306
Coral Eurobet	14	282	0	289	1.02	279	-3.20	210			302	289	223	307
SCI Entertainment Group	28	219	-27	307	0.51	308	-37.92	304			267	305	299	308

HCCI™ overall ranking commentary

The final ranking clearly shows the importance of consistency across all sub-indices required to gain a high ranking. For example, Barclays do not receive a no. 1 ranking in any sub-index, yet the consistency of their scores (with the exception of Tax per head) results in a top overall ranking.

This illustrates the advantage of using a composite index, such as the HCCI™ to provide a balanced view of performance.

The inclusion of total ECI as a measure reflects the contribution of the organisation to society in general, reflecting combined earnings generated for staff. To this end, larger companies do have an advantage as this is to be encouraged.

All other measures are independent of size, being calculated either on a 'per head' basis or as a completely relative measure.

The composite index as currently presented is not complete – it only covers external, publicly available information. To complete the picture, it would be helpful to include an assessment of an organisation's internal human capital management practice, and how effectively the organisation is utilising its spend on HR activities.

Overall ranking top 20

The top 20 companies in the index reflect a diversity of sector, though financial services companies do dominate. These are strongly performing companies, and this pattern may reflect the UK's general success in utilising human capital within this industry.

HCCI™ Top 20	OVERALL RANKING
Barclays	1
Northern Rock	2
GlaxoSmithKline	3
BG Group	4
Bradford & Bingley	5
Royal Bank of Scotland	6
Rio Tinto	7
Alliance & Leicester	8
Kelda	9
Standard Chartered	10
Associated British Ports	11
Man Group	12
AstraZeneca	13
Punch Taverns	14
McCarthy & Stone	15
BHP Billiton	16
Venture Production	17
Northumbrian Water Group	18
Tullow Oil	19
Soco International	20

HCIR ranking commentary

HCIR is the most direct measure of 'value-created' by each person in the organisation.

The companies in our review showed some clear gaps, with an 'elite' group of 27 companies generating over £100k HCIR per head.

However, as with many of these measures, there is a very 'long tail'. Of the 308 companies, 226 (73%) generate less than £50k HCIR per head and 113 (37%) generate less than £30k HCIR per head.

Given that the sample largely reflects the most valuable UK companies, this may show interesting changes over time, with implications for the economy as a whole.

HCIR – top 20 companies
Soco International leads with the highest score. As an oil exploration and production company with only 15 employees, Soco operates a highly specialised business model, but clearly one generating high returns. Man Group and ICAP are also generating returns that are well above the other companies in the list.

Overall, oil and financial services companies dominate this list showing that these sectors are the most significant areas of HCIR generation per head in the UK.

However, the ranking shows the very different operating models represented in this top 20 list.

It is also interesting to note that a number of companies, though high on this ranking have an overall ranking considerably lower reflecting the different perspectives on HC related performance.

HCIR per head Top 20	HCIR/headRANKING	HCIR/head (£000s)	OVERALL RANKING
Soco International	1	446	20
Man Group	2	255	12
ICAP	3	224	100
Collins Stewart Tullett	4	198	144
Inmarsat	5	191	29
London Stock Exchange	6	183	23
Drax Group	7	183	26
Venture Production	8	177	17
Schroders	9	165	76
Amvescap	10	158	36
888 Holdings	11	155	137
Aquarius Platinum	12	154	128
Tullow Oil	13	145	19
Amlin	14	133	70
PartyGaming	15	133	35
Investec	16	125	42
Benfield	17	124	103
Enterprise Inns	18	124	22
Dana Petroleum	19	121	38
Barclays	20	116	1

HCIR - bottom 10 companies

There is an interesting mix of companies occupying this end of the list reflecting either:

a. Low human capital intensive business
b. Potentially less than adequate overall organisation performance reflected in the low HCIR per head output, no matter what the HCI

The presence of a number of retailers may suggest that the reporting of per head rather than per FTE (as their operating model makes large use of part-time staff) is depressing their HCIR. As noted previously, we have calculated our measures based on number of staff reported. Use of the VB-HR™ Rating would be able to assess more vigorously this assumption and adjust accordingly.

Of further note, several mining companies who occupy these low rankings do in fact largely operate overseas. The differential in employee costs effectively lowers their overall HCI (labour rate arbitrage) and may have a corresponding effect on their HCIR per head.

However, other retailers' and mining companies' rankings are much higher, either reflecting different operating models or levels of performance.

HCIR per head Bottom 10	INDEX RANKING	HCIR/head (£000s)	OVERALL RANKING
Sainsbury	299	11	265
Lonmin	300	11	98
Woolworths	301	10	289
Somerfield	302	10	290
Matalan	303	10	285
Coats	304	9	213
Group 4 Securicor	305	8	278
PZ Cussons	306	7	267
Vedanta Resources	307	6	158
Kazakhmys	308	3	175

HCIP ranking commentary

This is an indication of the profits generated in absolute terms by each employee. Again, we see a large number of companies scoring low, with 102 companies (33%) generating less than £2k profit per head.

HCIP top 20 companies

Organisational HCIP per head shows a relatively tight distribution, with the exception of the top two companies. A number of sectors are represented reflecting the diversity of operating models.

Again the index provides wider context in that all except two are ranked in the top 50 overall.

HCIP per head Top 20	HCIP/head RANKING	HCIP/head (£000s)	OVERALL RANKING
Soco International	1	238	20
Man Group	2	116	12
Inmarsat	3	81	29
Venture Production	4	76	17
London Stock Exchange	5	72	23
Drax Group	6	70	26
Enterprise Inns	7	68	22
Dana Petroleum	8	54	38
Paragon Group	9	53	33
Tullow Oil	10	53	19
PartyGaming	11	45	35
ICAP	12	45	100
Schroders	13	43	76
Northern Rock	14	37	2
Investec	15	37	42
Premier Oil	16	36	25
IG Group	17	34	49
Barclays	18	34	1
Big Yellow Group	19	34	28
Punch Taverns	20	34	14

HCIP bottom 10 companies

The bottom 10 companies in this category are generating negative returns, i.e. they are making an operating loss per person and therefore not generating sufficient revenue to cover costs.

They are drawn from a range of sectors, although the inclusion of three telecoms companies raises some issues around their respective operating models.

HCIP per head Bottom 10	HCIP/head RANKING	HCIP/head (£000s)	OVERALL RANKING
Morrison (Wm)	299	0	305
Spirent Communications	300	-1	303
MFI Group	301	-2	301
Cambridge Antibody Tech	302	-2	276
Wellington Underwriting	303	-3	266
GCAP Media	304	-10	295
Vodafone	305	-10	268
Colt Telecom	306	-11	304
SCI Entertainment Group	307	-27	308
F&C Asset Management	308	-28	253

[Note the correlation between the low ranking in this category and the relatively low ranking overall].

HCIR return ranking commentary

This measure focuses on the HCIR per person relative to cost, expressed as a ratio and is the subject of our FTSE350 main analysis (refer to Chapter 3 page 27).

As has been explained, we would like to see companies as far 'up the curve' as their operating models will allow (notwithstanding a change of business/operating model).

This would reflect greater HCI and a greater return, benefiting the company and the economy (see also Chapter 10 for macroeconomic insights). HCIR Return greater than one show that the company is deriving revenue greater than the corresponding human capital investment; i.e. a return ratio of 2.9 here means that £2.90 in revenues is being generated for every £1 invested in human capital.

HCIR Return top 20 companies

As an indication of overall performance, the top 44 companies (14%) are generating a return of over 1.4 while 121 companies (39%) are generating a return of less than 1.1.

HCIR Return Top 20	INDEX RANKING	HCIR Return	OVERALL RANKING
Burren Energy	1	2.9	66
Antofagasta	2	2.6	60
JKX Oil & Gas	3	2.5	48
Northern Rock	4	2.5	2
Paragon Group	5	2.4	33
Enterprise Inns	6	2.2	22
Soco International	7	2.1	20
Big Yellow Group	8	2.1	28
Punch Taverns	9	2.0	14
Admiral Group	10	1.9	46
Man Group	11	1.9	12
Bradford & Bingley	12	1.8	5
Dana Petroleum	13	1.8	38
Venture Production	14	1.7	17
Inmarsat	15	1.7	29
Barclays	16	1.7	1
Kelda	17	1.7	9
Alliance & Leicester	18	1.7	8
Amvescap	19	1.6	36
London Stock Exchange	20	1.6	23

HCIR Return bottom 10 companies

The variety of sectors suggest that the scores are due to specific issues with these companies, rather than inherent issues in any one sector, or with a particular business model.

HCIR Return Bottom 10	INDEX RANKING	HCIR Return	OVERALL RANKING
Kwik-Fit	299	0.98	292
Spirent Communications	300	0.97	303
Wellington Underwriting	301	0.96	266
Cambridge Antibody Tech	302	0.95	276
MFI Group	303	0.94	301
Vodafone	304	0.87	268
Colt Telecom	305	0.81	304
F&C Asset Management	306	0.80	253
GCAP Media	307	0.79	295
SCI Entertainment Group	308	0.51	308

This list highlights the companies showing the most significant losses in relation to their human capital cost base.

HC Return β Observations

To recap, the HC return β represents the differential in performance for a company with respect to its position relative to the HC Return curve (efficiency frontier).

An interesting statistic is that only 29% of companies have a positive beta, meaning that 71% have a negative beta. The range of values for beta are from +100.9 to -85.7.

There is a close link between this measure and HCIR return as they are based on a similar calculation – the HCIR return calculates an absolute return, whereas the β looks at return in relation to the market index as a whole (and therefore will potentially change over time as the market alters or as the index expands).

HC Return β top 20 companies

There is a relatively high relationship between a high HC return beta and a high position in the HCCI™ composite index, with eight organisations appearing in the top 20 of both.

HC Return beta Top 20	INDEX RANKING	HC Return beta 'β'	OVERALL RANKING
Soco International	1	100.90	20
Man Group	2	57.08	12
Enterprise Inns	3	55.63	22
Paragon Group	4	46.07	33
Inmarsat	5	42.63	29
Venture Production	6	42.19	17
Dana Petroleum	7	38.01	38
Northern Rock	8	32.78	2
Barclays	9	31.84	1
London Stock Exchange	10	31.81	23
Amvescap	11	31.76	36
Big Yellow Group	12	28.27	28
Punch Taverns	13	27.87	14
Drax Group	14	27.56	26
JKX Oil & Gas	15	27.31	48
Tullow Oil	16	24.90	19
Bradford & Bingley	17	22.73	5
Premier Oil	18	20.13	25
Antofagasta	19	19.86	60
PartyGaming	20	19.79	35

An internal evaluation of human capital management practice and a more detailed assessment of the numbers, such as that provided by the VB-HR™ Rating (refer to Appendix IX on page 89) can explain the reasons for the over-performing ('alpha') return.

HC Return β bottom 10 companies

There are some clear performance differentiations which appear to be firm-specific.

An internal assessment of human capital management practice and the more may uncover specific reasons for this apparent underperformance.

HC Return beta Bottom 10	INDEX RANKING	HC Return beta 'β'	OVERALL RANKING
GCAP Media	299	-18.48	295
Colt Telecom	300	-21.89	304
Hiscox	301	-22.09	161
Aquarius Platinum	302	-26.69	128
Wellington Underwriting	303	-28.84	266
SCI Entertainment Grp	304	-37.92	308
888 Holdings	305	-41.08	137
ICAP	306	-57.20	100
Collins Stewart Tullett	307	-74.93	144
F&C Asset Management	308	-85.72	253

HC Reporting observations

This sub-index is the only one not to be based on financial calculations, but we believe that the reporting component is important for two reasons:

1. A serious focus on HC reporting means that people are at least visibly recognised within the business model
2. What gets measured should get reported and thus, from an external viewpoint, would provide a signal that management has its focus on effective people management.

This score is arguably the most controllable by companies, who can choose for themselves what to report. Whilst no specific link is demonstrated between high quality reporting and ranking in the overall Index, over time we would expect companies reporting high quality data to be drawn from those who are setting best practice in human capital management.

HC Reporting top 20 companies

It is important to note that, despite sporadic evidence of good practice, **no** organisation attained what would be regarded as a 'minimum' effective standard in human capital reporting.

HC Reporting Top 20	INDEX RANKING	OVERALL RANKING
Amlin	1	70
BT	2	45
Royal Bank of Scotland	3	6
Associated British Ports	4	11
Centrica	5	99
GlaxoSmithKline	6	3
Royal Dutch Shell	7=	81
Corus	7=	155
Standard Chartered	7=	10
Johnson Matthey	7=	216
Anglo American	11=	93
Lloyds TSB	11=	51
Cadbury Schweppes	11=	61
National Grid	11=	31
Ladbrokes	11=	235
Barclays	16=	1
Xstrata	16=	32
ITV	16=	63
Northumbrian Water Group	16=	18
Serco	20=	241

The list contains a wide range of organisations which suggests that there is no apparent sectoral driver in the top scoring organisations. Financial services appear to be best represented.

Amlin should be mentioned as a smaller company, not always associated with human capital reporting, who have produced a detailed "People" section within their OFR including analysis of people movements by sector.

Notably, BT, RBS and Centrica have generated trade interest in this area due to their work, but we would stress our comment made earlier that no organisation currently meets the standard one would expect.

HC Reporting bottom 10 companies

While there are examples of good practice in reporting, as noted above, there are also many companies which include minimal policy information in their Director's Reports.

Six of those listed below are privately owned, reflecting the reduced pressure on those companies to disclose non-financial information. However, we would argue that stakeholders other than shareholders may have a legitimate interest in published human capital information (e.g. employees, the public) and indeed some privately-owned companies are showing better practice in this area, for example, John Lewis, Somerfield, Wates, Southern Water.

HC Reporting Bottom 10	INDEX RANKING	OVERALL RANKING
Aquarius Platinum	297	128
Doncasters	300=	224
Stemcor	300=	298
Grampian Country Food	302=	306
Kwik-Fit	302=	292
Baxi Holdings	302=	218
Coral Eurobet	302=	307
Amvescap	306	36
Carnival	307=	157
United Biscuits	307=	206

Tax contribution observations

The HCCI™ contains mainly individual company performance measures. We believe that to be a truly reflective human capital index contribution to society is also relevant. Thus tax contribution per head is seen as a good comparator measure of human capital related contribution, only this time as a contribution to society - in this case through tax paid into the economy. We believe that this often overlooked metric is indeed a significant demonstrator related to company performance.

Tax contribution per head top 20 companies

Tax contribution per head Top 20	INDEX RANKING	OVERALL RANKING
Soco International	1	20
Tullow Oil	2	19
Dana Petroleum	3	38
Venture Production	4	17
Big Yellow Group	5	28
BG Group	6	4
Enterprise Inns	7	22
Premier Oil	8	25
St James Place	9	186
Resolution	10	134
Royal Dutch Shell	11	95
Drax Group	12	81
Vodafone	13	26
Amlin	14	268
Berkeley Group	15	70
London Stock Exchange	16	78
BP	17	23
Punch Taverns	18	14
Aquarius Platinum	19	128
Antofagasta	20	60

Tax contribution bottom 10 companies

Tax contribution per head Bottom 10	INDEX RANKING	OVERALL RANKING
Morrison (Wm)	299	305
Marshall of Cambridge	300	300
Enodis	301	271
Somerfield	302	290
Regus Group	303	188
Kwik-Fit	304	292
SCI Entertainment Group	305	308
United Biscuits	306	206
Wellington Underwriting	307	266
F&C Asset Management	308	253

Overall statistic

An interesting statistic is that the companies reviewed in total paid an annual amount of £57.5 billion in corporate taxes, of which the top 15 contributors (not per head) account for 66% of this total.

Economic contribution commentary

In tandem with the tax contribution, this sub-index evaluates human capital contribution through ranking the total employee costs paid by individual companies. As such this recognises the economic contribution to society in terms of employment.

As an aggregate measure, bigger companies will score higher, acknowledging their bigger contribution (on the proviso that they are run effectively). This indicator shows a significant range, with the top 6 companies each generating employee costs of over £5bn and the lowest 85 companies each generating less than £100m.

Economic Contribution top 20 companies

All but one organisation scoring highly within this index is FTSE100 listed (potentially reflective of organisational size), with a wide range of sectors represented.

Economic contribution Top 20	INDEX RANKING	OVERALL RANKING
HSBC	1	27
Barclays	2	1
Royal Bank of Scotland	3	6
Royal Dutch Shell	4	81
BP	5	95
GlaxoSmithKline	6	3
Compass	7	288
BT	8	45
Unilever	9	115
BAE Systems	10	154
Tesco	11	225
WPP	12	84
AstraZeneca	13	13
Anglo American	14	93
Group 4 Securicor	15	278
Lloyds TSB	16	51
HBOS	17	43
Vodafone	18	268
Aviva	19	145
British Airways	20	156

It is interesting to note the diversity of ranking. Whilst certain high contributors are scoring overall, a significant number appear to have much lower ranking suggesting perhaps a split between value generation and economic contribution through employment.

Economic Contribution bottom 10 companies

This list really reflects much smaller workforces and though individual companies may score high in other areas – this ranking grounds performance from an economic contribution-based perspective, effectively a counter-balance (albeit with less weighting).

Economic contribution Bottom 10	INDEX RANKING	OVERALL RANKING
SCI Entertainment Group	299	308
Wolfson Microelectronics	300	68
Burren Energy	301	66
Paypoint	302	104
Venture Production	303	17
JKX Oil & Gas	304	48
Big Yellow Group	305	28
Aquarius Platinum	306	128
Dana Petroleum	307	38
Soco International	308	20

8 A review of VaLUENTiS Human Capital Reporting Standards

The Human Capital Reporting Standards
HC Reporting infrastructure
Dedicated training and development support to the industry
International School of Human Capital Management

The Human Capital Reporting Standards
The HCR Standards are designed to provide industry with a common template of reporting for both internal and external purposes. As such, the Standards contain:

- A reporting taxonomy together with appropriate rationale
- A general statement of HCR principles
- Three core pro forma statement templates:
    - The Human Capital Operating Statement (HCOS)
    - The PeopleFlow™ Statement
    - The HC Productivity Statement
- A set of supporting 'standard HCR operating principles' (SHCROPs)
- A model HC Reporting template
- A reporting infrastructure
- An introduction to standardised ratio analysis
- A proposition to establish a wider support network.

One of the key conclusions is that the reporting of human capital related information should be contained in a separate document as we do not believe that CSRs are the most appropriate instrument to convey HC information; though we do acknowledge that this will be ultimately down to managerial choice.

From an internal perspective, individual organisations have a variety of HR scorecards and report cards together with a variety of ad hoc HR analytics that contain some common metrics. The solution we put forward is designed to complement existing internal work.

One of our earlier papers assessed current metrics in use and exposed the different and/or unclear definitions of many 'HR' metrics and issues particularly with regards to benchmarking itself. As a consequence, this white paper proposes, just as in accounting, that there are certain principles (and subsidiary conventions) which organisations need to adopt to provide the required levels of transparency.

Our solution saw the introduction of the ***'Human Capital Operating Statement'***, the ***'PeopleFlow statement'*** and the ***'Productivity statement'.***

HC Reporting infrastructure
To assist companies in adopting the standard reporting framework, we have set up a supporting infrastructure of user groups to ensure continuing development, dealing with specific arising issues and providing a forum for shared 'best practice'.

We are looking in time to form The Human Capital Reporting Council and the Human Capital Reporting Board which will act as industry steering groups, having overall responsibility for overlooking the whole process of policy and implementation.

Its membership will be drawn from members of the user groups and it is also expected to take on an international role.

The remit of the Human Capital Reporting Board is to ensure that HCR operating principles are maintained in terms of relevance and completeness, and to issue new or amended principles and conventions/policies.

Dedicated training & development support to the industry
Our review of current approaches and frameworks has demonstrated that external human capital reporting is currently an emerging field and not one that is well established and supported. Consequently, it is likely that few HR professionals currently possess expertise, in the form of a high level of familiarity with the range of required concepts and/or approaches. Current approaches towards HC reporting tend to focus on aspects of the HR function's performance, and the efficiency or coverage of key related HCM processes.

Whilst these aspects are still relevant, the evolving nature of human capital reporting places greater emphasis on measurement concepts that relate to the strategy of the HR function and of the organisation itself. This broader scope requires HR professionals to develop a much more commercial approach and in-depth understanding of business and operating models than has perhaps traditionally been the case, with the intent of linking these more specifically to HCM practice.

International School of Human Capital Management

In order to meet the need for specialised training and development for HR professionals identified above, the International School of Human Capital Management has been created to provide specialist courses covering the themes such as:

- human capital reporting (internal and external)
- HR effectiveness and audit
- VB-HR™ Rating
- employee engagement
- performance and reward
- organisational architecture
- value-based management and risk.

These are intended to enhance current levels of understanding amongst HR and management professionals and support their knowledge acquisition in the emerging field of human capital reporting (linking to human capital management practice and understanding of operating models, as outlined above).

9 Human Capital Measurement

Introduction
Different classifications of measurement
Using the classifications
HC analytics and enhanced HC analytics
Challenges inherent in HC measurement approaches
The Why, What and How
Conclusion

Introduction

From our client work and involvement in industry, it is evident that the theme of 'measurement' is becoming pervasive for organisations and their HR functions.

Despite the growing prevalence of this approach, the diverse range of terms used in its description, such as 'measuring HR's effectiveness', 'calculating training ROI', 'people reporting' suggests the breadth, complexity and scope for confusion.

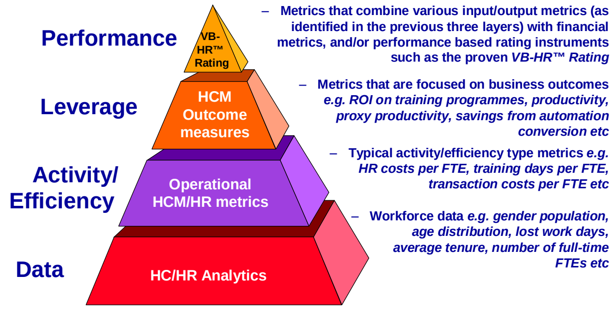
An increasing number of HR professionals are coming under pressure from organisations to provide more evaluation and assessment through what the function and human capital management practice provides.

In the rush to be seen to be responding to the organisation, certain fundamental questions are not always asked: why are we measuring this? What are we measuring (and its limitations)? How are we measuring?

Two key issues typically arise:
1. Separation of the different classifications and types of measurement
2. Inherent challenges within human capital measurement.

'There are essentially four categories of HR measures: performance-related, leverage (outcome) related, operational activity/(efficiency)-related and data.

Human Capital Reporting ideally consists of a portfolio of metrics across the different categories, with increasing organisational importance towards the top of the pyramid'



VB-HR™ Rating Metric Hierarchy ©VaLUENTiS Ltd

Different classifications of measurement

The review of human capital reporting conducted in this report (see chapter 8) revealed a lack of structure and high level of confusion around which people metrics to measure and report.

Before the question of internal versus external reporting arises, organisations and HR functions need to be clear as to what types of metrics they are seeking to measure and report.

There are four main classifications of measurement:

- Measurement to do with the efficiency and effectiveness of the HR function/process, such as delivery expertise or recruitment cycle time
- Metrics related to aspects of human capital/human capital management performance, such as employee engagement, turnover etc
- Analytics that look to combine various metrics and data to provide further insight, for example looking to find relationship between engagement and turnover, employer brand and recruitment success, talent index etc.
- Enhanced (modelling) analytics that look to combine macro and micro measures to provide 'performance models'.

Sometimes there is a fuzzy line between these classifications.

There is also another way in which to categorise by type using VaLUENTiS HC metric pyramid (see left).

Here the differentiation is to do with the dimension of the metric in terms of whether it is base data, efficiency/ ratio type, output/outcome or macro-performance.

It is important to note that the definition of 'importance' here relates to the degree of measurement information, not the individual information itself, i.e. average tenure may itself be an important piece of data, but is limited as to the information given without further context or combination with other data. As with any model, there are some limitations, as certain metrics can be interpreted as occupying more than one category, dependent upon the perspective taken. This in itself is revealing and is further evidence of one of the model's original design intentions.

Using the classifications

The essence of these classifications is to debate the type 'mix' rather than to over-invest in arguing as to which category a metric belongs. Too often HC metrics are drawn up in isolation to the business rather than integrating them.

There is a further differentiation as to whether the metrics are 'business as usual' or 'project/programme' type metrics which can cause confusion over reporting. Further confusion can arise as certain project/programme metrics may become 'business as usual'.

Finally, there needs to be clear guidelines as to what needs to be externally reported through such documents as annual reports, as against internal reporting across business units etc. External reporting metrics are normally a subset of internal reporting metrics (just as in finance).

Organisation structure also muddies the water further as relevancy, validity and specificity provide further traps.

Throw in the issue of data ownership, availability and integrity and the fact that quite often metrics easily available are of little value and one can see why HC measurement can be extremely challenging.

Measurement is like any other discipline in that it requires a degree of understanding and expertise in order to be able to provide a solution to the challenges being addressed.

HR functional measurement

This type of measurement typically represents a means of assessing HR team performance and/or capability: effectively an 'HR functional capability scorecard' for the HR team or teams.

Examples might include budget spend by delivery channel, capability across functional delivery areas, achievement of SLAs or internal delivery targets.

Key measures will typically be linked to the HR function's internal goals. HR functional measurement is likely to have its main application for the HR leadership team only, in particular through providing 'oversight' for the HR Director and other senior HR decision-makers.

However, this is quite often mistaken for human capital measurement.

Human capital measurement

Metrics associated with the company's human capital performance and capability along with the effectiveness of human capital management should populate any scorecard that is in existence.

The structure of these metrics should ultimately derive from the company's overall human capital strategy, which of course should be closely linked with the business. This should ensure that the resulting scorecard is 'grounded' and clearly supportive of organisational objectives.

Key measures should be typically selected and reported to support facets of organisational decision making, whether operational or strategic in nature. For example, a goal relating to improving leadership may be measured via some form of leadership index of senior staff which includes performance of their team, feedback on leadership style etc. This in turn can aid the process of talent or succession management.

"Too often HC metrics such as absenteeism are allied too much with the HR function. This metric is an operational metric, ultimately owned by line management, not HR - confusion over ownership does not help."

Similarly employee absence statistics can help to pinpoint certain operational issues and help in solving them.

It is important to remember that the HR function may report these, but it is not theirs to own. Too often HC metrics such as absenteeism are allied too much with the HR function. This metric is an operational metric, ultimately owned by line management, not HR - confusion over ownership does not help.

HC Analytics and enhanced HC analytics

Organisations are increasingly seeking to identify causality and greater predictability of their approaches towards human capital management, through what could be termed 'HC analytics approaches'.

These approaches seek to move beyond operating ratios to identify insights into how the company operates from a human capital perspective. They are typically intended for internal application.

HC analytics utilise outcome measures such as engagement scores and absenteeism and seek to explain the multiple factors or causes of their difference. For example, an organisation could develop human capital 'value models' to identify the likely impact of talent management (having defined it) or the effects of coaching or training on managerial and team performance.

The VB-HR™ Rating is an example of an organisational framework that incorporates enhanced HC analytics, through its identification of eight specific value drivers of human capital performance, including three relating to the HR function.

Challenges inherent in HC measurement approaches

There are three essential goals of HC measurement:

1. Its impact and influence on management decision-making and behaviour
2. The ability to answer the question as to what benefits to productivity or otherwise does the organisation receive for particular forms of investment
3. To provide context for understanding of individual metrics through related narrative.

In order to justify expenditure, organisations wish to see a return, or at least a quantified impact. Senior managers constantly face trade-offs between conflicting priorities – to invest in modern equipment or to hire more staff? To streamline procurement approaches or to skill up managers in contract negotiation?

Accordingly, any measurement carried out by the HR function must address the question from the perspective of the organisation.

For a variety of reasons, the mindset of the HR function can gravitate more naturally towards the individual (perhaps reflecting a legacy focus on employee relations or through dealings with individual staff on a case basis).

Where measurement is seen as a new or underdeveloped discipline, this can pose an uncomfortable tension in measuring the impact of HR activity and/or human capital interventions. If HR professionals tend to see benefits in terms of individuals, they run the risk not only of failing to make a convincing organisational case (through reduced credibility of any reporting or measurement produced), but of undermining the effectiveness of what they are trying to achieve in the first place.

To illustrate this point further, consider the use of coaching in organisations.

Companies utilise coaching for a range of situations, with some providing coaches across an entire management cadre or even the organisation.

Whilst we would concur that coaching is intended to help an *individual* be more effective at something they do, there is a danger in certain cases that coaching is being utilised to solve *organisational* problems.

"....any measurement carried out by the HR function must address the question from the perspective of the organisation."

We would argue that this is a flawed and potentially expensive approach: coaching individuals does not necessarily change the way the organisation works.

For example, a coaching session might identify decision making rights as a particular constraint, but this issue can only be addressed or managed collectively within the organisation, not within the context of coaching.

The Why, What and How

Collective understanding and consistency around the ***Why, What*** and ***How*** of organisational initiatives is a necessary step in ensuring that organisational issues are addressed.

Without a robust 'why, what and how', HR runs the risk of implementing partial solutions that cannot be measured, which may or may not address an underlying issue and result in measurable benefits.

As a further example with regard to our own work with clients, we recommend that feedback sessions for the VB-HR™ Rating are conducted in workshop format for a group of HR and related stakeholders. This collective approach, as opposed to individual feedback to all participants, allows actions to be agreed and taken, providing a congruency of understanding.

Accordingly, to roll out an organisational-wide coaching programme without a clear business case, projected benefits and a measurement platform opens the HR function to questions later.

In seeking to change organisational behaviours, which are multifaceted and depend on multiple factors (for example performance management, reward systems, decision rights, work values), human capital interventions should take this collective approach and avoid the trap of demonstrating a naïve understanding of organisational dynamics.

Unfortunately, too many attempts at measuring the impact of HR intervention founder on this issue. If the rationale for providing a particular type of training is unclear, it becomes difficult to quantify any beneficial impact resulting from it. Training can be provided for reasons of compliance, baseline skill provision, company-specific process knowledge, remedial education, technical awareness and other aspects.

It is therefore essential to ensure that the HR function is clear about what is being delivered, why it is being delivered and how it is being delivered (including the multiplicity of accountability involved in human capital management). Designing appropriate measurement usually throws up questions along these parameters, and helps to solve them. Unfortunately the soft option is normally taken.

Conclusion

As approaches towards human capital measurement become more mature, organisations will differentiate more clearly between the different types of measurement scenario. Adoption of standardised approaches, such as the Human Capital Reporting Standards, will clarify the ongoing debate about external reporting through the provision of a workable framework.

"...It is therefore essential to ensure that the HR function is clear about what is being delivered, why it is being delivered and how it is being delivered"

As HR functions migrate towards a greater understanding of organisation dynamics and impact, the profession's capability in the area of measurement will evolve to the extent that multi-factor models specific to the company will be developed, and use of frameworks such as the VB-HR™ Rating for comparative review and external validation will proliferate.

As a final note, this development over time may lead to more 'analytic' type metrics appearing in external reporting as commonalities start to occur in greater numbers across companies. However, we must always remember that companies may wish to keep these metrics in-house for specific reasons.

10 Expected impact on management, HR functions and the organisation overall

General comment
Impact on management
Impact on HR functions
Challenge for organisations

General comment

The market availability of well-constructed indices and evaluation tools which derive quantitative data as much as qualitative data is a powerful asset to any company wishing to derive competitive advantage from its human capital.

Companies will find it more difficult to resist calls for better human capital reporting and also to engage in practices of 'flaky' HR awards that are merely dressed up marketing efforts.

We expect companies to 'return to basics' of good people management as competition continues increase and/or the economic environment tightens.

Impact on management

The use of the HCCI™, HC Reporting Standards, and VB-HR™ Rating, we believe, will influence management thinking and behaviour on human capital management. They will, and have already started to influence HR functions in terms of the way in which the function is viewed and its value proposition to the firm.

Given the importance of people relative to other inputs in many company business models, it is inconceivable as to why there is such little board representation of HR. We see this as a failing in general. However, to attain board status senior HR executives need to display greater business authority as we have alluded to above.

We anticipate the emergence of the Chief Human Capital Officer (as a board member) who has a different set of competences than that of the current typical HR Director role currently encountered.

For their part, other C-class executives need to embrace the organisation performance-human capital axis as more than just another 'photo-opportunity' to hype employer brand – the so called 'hijacking of HR'.

One particular element that is only now being recognised is that the 'raw' numbers contained within the HC Reporting Standards provide an accurate and meaningful picture of the people dynamics of the business, rather than the cloudiness that surrounds ratios. After all, it is why accounts produce baseline numbers rather than ratios – they ground the reality. Ratios are the second step in the process.

Percentages can often blind reality. Making the numbers known to managers can dramatically alter their individual perspective and thus promote what is often termed 'secondary operational issues' (such as absenteeism) to a more primary focus – rather than being seen as a necessary 'by-product'.

'HC analytics' can become very instructional in terms of managing operations and productivity. It is as much an educative tool as an operational improvement tool.

Whatever the relative importance of people in their organisational model, managers now have tools enabling them to assess their own human capital performance against others in their sector and the market generally.

Managers of high-performing companies will seek to understand where their human capital advantage comes from and look to maintain it.

Managers of lower-performing companies will be challenged to improve their performance, working with their HR functions to better understand the 'levers' they must pull to improve and developing action plans.

"We anticipate the emergence of the Chief Human Capital Officer (as a board member) who has a different set of competences than that of the current typical HR Director role currently encountered."

This will require line managers, in many cases, to become better versed in human capital management practices and terminology, as well as potentially accepting greater accountability for their role as 'agents' of the HR function in delivering effective human capital management services.

Embracing the new world of HC numbers, ratios, analytics, models provides an added dimension to managers' everyday environment. Spurning it will increasingly challenge the notion of a manager.

Impact on HR functions

The development of a more sophisticated framework for human capital evaluation represents a major and substantial opportunity for HR.

HR functions have been under significant cost pressures in recent years and have responded in a number of ways, such as restructuring HR into more lean operating models, greater use of procurement/technology (though not necessarily functional or process outsourcing), greater use of business case discipline, and the move towards a more measurement-focused environment.

> "The development of a more sophisticated framework for human capital evaluation represents a major and substantial opportunity for HR."

The overall impression is that, too often, HR functions spend disproportionate time looking internally – an element of 'silo navel-gazing' around the question of how or whether they make, or can make a valued contribution. Most major reported efforts in HR have focused on the internal efficiency of the function, i.e. delivery structures and capability.

The HCCI™ can help shift the focus of the HR function to a more value-adding mindset.

Instead, the focus is on overall performance and business outcomes.

Rather than, "how much can we save on the HR functional spend?" the issue becomes, "where should we be investing to get the greatest impact on the performance of our human capital?"

HR functions will need to develop capabilities in measurement and financial analysis and deepen their commercial understanding if they are to make the most of this opportunity.

It is equally their responsibility to ensure that line managers understand human capital principles and the impact of good and bad practices on individuals, teams and the organisation as a whole.

For many HR practitioners this all may sound slightly disconcerting, as their main focus is often stated as relating to people. The reality is that people permeate the organisation, so an understanding of the organisation's operating model, cost and value drivers is important. There has been an increasing call for the HR profession to become 'more commercial' in the last few years; an acknowledgement that HR functions need to understand 'business' and, specifically, their own industry and organisation.

Challenge for organisations

The increasing challenge for organisations and HR functions is how to best spend their annual allocation to drive human capital performance within the organisation. Do they invest in internal capability, i.e. a bigger or more capable HR function? Do they invest in reward at the expense of development? Which one will provide a better return? Can HR procurement provide a greater 'bang for your buck' in terms of quality, cost and management focus?

The difficulty is in the multiplicity of levers to 'pull' simultaneously and the problems encountered in implementing strategic decisions. But make no mistake – for large/well-established organisations, this trade-off is becoming particularly acute.

Performance versus HR spend is the key question: there is an increasing risk that budgets not seen to link to specific benefits or outcomes will be scaled back or diverted. Typically, the issue will revolve around the measurement of effectiveness and impact: of human capital in the organisation, of the HR function and of specific interventions or initiatives.

Organisations need to differentiate between metrics they wish to report on an ongoing basis from a performance angle and those metrics whose prime use is event-specific (which over time can fuse). For example, HR functional metrics are normally used for specific events in HR, such as a restructure and/or the introduction of a new delivery model (e.g. shared services).

There is a tendency for HR functional metrics to be wrongly included in any HC scorecard, with the confusion arising between reporting operational effectiveness and organisational performance. This can undermine the credibility of any reporting in place, through confusing management outside the function.

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

11 Macroeconomic insights from the HC Return Curve® and the HCCI™

Macroeconomic insights of the HC Return Curve®
Macroeconomic insights of the HCCI™

Macroeconomic insights of the HC Return curve®
The HC return curve® is also important from a macroeconomic perspective. The 'efficiency frontier' provides us with an interesting insight into utilisation of human capital and potential wealth creation within a national economy.

National economies gain from having a higher preponderance of large and small firms occupying a higher place 'up the curve'. This would imply greater wealth distribution as human capital is a main driver of business revenues and gets rewarded for its contribution. Its knock-on effect is that Governments would be beneficiaries of both larger tax returns both corporately and individually (all things being equal with regard to optimum tax incentives).

Organisations located lower down the 'curve', effectively limit potential economic earnings on an individual, organisational and ultimately national basis through their utilisation of human capital. Thus the challenge for organisations is to optimise their operating model from a human capital standpoint. Given the nature of people, this also requires optimal human capital management.

Of course, simply adding people to the payroll without any additional value in revenue is not advocated. Rather, the use of IT or proprietary approaches/intellectual property and other organisational enablers provide the environment for optimisation. Following this logic, governments should therefore encourage policies which reward higher added-value human capital intensive industries.

This has implications for a number of developments in the current economy. Ephemeral jobs which exist in a number of sectors are no panacea to unemployment – but a mere transitory illusion brought on by the increasing competitive environment. For example, a call centre can be opened, relocated and closed without any great organisational or logistical difficulty.

Nationally, the outsourcing of jobs through off-shoring only works if they can be replaced by higher value-add grade jobs at home, notwithstanding the associated operational risks with off-shoring. Whilst certain off-shoring can be beneficial in the short run, the reality is that it is an arbitrage strategy to minimise labour costs (or related) and by definition is transitory.

Businesses cutting human capital costs, as a strategy, and without a corresponding increase in revenues are ultimately doomed to travel down the 'curve'. Though this strategy may initially improve short-term profits, ultimately, it will not be enough to sustain performance. This observation has already been made by a number of more eminent economists.

Macroeconomic insights of the HCCI™
Several components of the HCCI™ are of particular value when evaluating the contribution of companies to the economy. This contribution to the economy is quite often overlooked in the media (and governments tend to be reticent) in that there is no recognition of the contributions made.

We believe that society in general as well as companies concerned should respect the contributions made. To this end, acknowledging the legitimate taxes paid by private sector companies should be recorded. Too often, companies are 'hit over the head' with wider concerns and it is easy to forget their base contribution. On a similar vein, total people costs are also ranked to acknowledge the overall economic contribution of the firm.

The HCCI™ therefore explicitly recognises that companies have a role to play in:

- Increasing human capital value within a society
- Contributing to the financial wellbeing of their employees
- Contributing to the broader social context through taxation.

12 Planned developments

Milestone
Expansion of indices
Increasing use of the VB-HR™ Rating
Reports and briefings for analysts and investors

Milestone
This report represents a milestone in the establishment of a means of assessing relative human capital performance across companies. It therefore represents the first 'volume' of expanded coverage across organisations and sectors, to be accompanied with reports and briefings for analysts and investors.

Expansion of indices
The inaugural HCCI™ index covered within this report (Volume I) evaluates UK companies listed in the FTSE100 and FTSE250 indices. Additionally, a sample of leading private companies has been included.

Future volumes will provide further sectoral coverage including UK public sector (with linkage to related KPIs), UK not for profit sector, UK expanded private companies, UK listed companies, top European listed companies and top global/US listed companies.

Increasing use of the VB-HR™ Rating
The current presentation of the HCCI™ rankings is reliant on publicly available information. Evaluation is not complete until additional insight of human capital management practice and HC leverage specific to the organisation is incorporated through use of the VB-HR™ Rating: this will additionally provide organisations with the means of identifying specific areas for enhancement in current human capital practice (including HR budgetary prioritisation).

At Levels 2&3, the Rating provides a triangulated and audit evaluation respectively of current practice, with multiple applications in HC practice. We envisage that organisations will be eager to adopt this advanced analytical framework and its related implementation suite, to sustain and/or enhance their HCCI™ ranking through more effective management of their human capital.

Reports and briefings for analysts and investors
We expect the ranking and sub-indices within the HCCI™ to be of considerable interest for company analysts and investors. Specialist reports and briefing sessions are planned to provide additional communications and insight for these particular corporate stakeholders, who may choose, with appropriate support[11], to develop their own proprietary approaches and insights.

11 For example, VaLUENTiS' HC Analyst Services Practice

C APPENDICES

Appendix I	Reporting Human Capital: Twelve key questions
Appendix II	Classification of intangibles
Appendix III	HR core domains
Appendix IV	HCIR calculations
Appendix V	FTSE350 analysis – companies excluded
Appendix VI	FTSE350 analysis – private companies included
Appendix VII	HCR Operating Statements
Appendix VIII	VaLUENTiS HC Corporate Solutions Wheel
Appendix IX	VaLUENTiS VB-HR™ Rating
Appendix X	International School of Human Capital Management
Appendix XI	The HCMI Standard
Appendix XII	Company rankings by alphabetical sort

Appendix I Reporting Human Capital: Twelve key questions

Through our critical analysis we answered a number of key questions:

• *What question were/are we trying to solve?*		The essential issue is one of reporting relevant HC information to identified 'stakeholder users'. To this end a means of providing a structured framework with principles of reporting was deemed the only way forward.
• *Are we looking to establish a means of communicating information, compliance or enhancing organisation performance, or all three?*		In view of the answer to the first question, HC reporting prime purpose should be to impart information. However, through so doing, and with establishing a guiding framework plus supporting principles, there is undoubtedly a move to compliance through market pressure. We would also argue that revealing HC information as proposed will undoubtedly have a knock-on effect to organisation's management which will be positively associated with improving organisational performance.
• *Are we looking to report organisational intent, organisational fact or both?*		Primarily the focus of reporting should be to report factual information through use of the proposed statements. However, there is also a perceived need to provide 'narrative' which sets out intent that can be reviewed over time which will itself provide 'market' information, in terms of execution. Also, there is a belief that HC information should also be forward-looking, which is more difficult but not impossible over time.
• What kind of metrics/measures should be reported?		Basically, we have identified that certain base numbers need to form the external reporting template, supplemented by selected ratios where applicable. We suggest that further ratio analysis can be provided but that these do not necessarily form part of the basic HC report mandate, but are subject to management discretion.
• How do these relate to the internal reporting perspective?		Technically, the external template should be just as applicable for internal reporting but will probably complement existing mechanisms such as HR scorecards and/or report cards. What should be of value is that the proposed structure may assist in defining what should be reported internally.
• What challenges have been flagged and how founded were these?		We have reviewed a number of challenges ranging from barriers to reporting to the actual information provided by relevant metrics. We have found that some of these to have very little substance. Our proposed reporting statements and principles are designed to overcome the informational and metrics issues.
• Who is (are) the intended audience or recipient of this information?		We have identified 'stakeholder users' as being investors, clients/customers, trading partners, vendors/providers, employees, industry bodies, regulators and Governments.

• What format should this take?		We have come to the conclusion, that the practical approach would be for a HC report to be its own document. The amount of information around people and people management that is useful to an external audience deserves its own 'home'. We feel that without it human capital will continue to be less in the eye than it should. For an example of this, the HR industry should look to the CSR movement to see what effect this has had and with pretty much qualitative data. However, we do not believe that HC reporting should be part of a CSR document because fundamentally these are two different subjects regarding organisational performance. From an investment perspective, the HC report should rank above the CSR. This may unfortunately raise a perplexing question for some people.
• Is there one level of reporting or is there the need to establish progressive levels (with criteria to match) to assist organisations in development?		We believe that fundamentally there is one basic mandate for all organisations to adhere to, but there are a further two 'stepped' levels which add flexibility to enrich the information provided. The three levels are referred to as ***Standard***, ***Intermediate*** and ***Advanced***.
• Given a 'solution', what would be the required industry infrastructure to monitor and develop on an ongoing basis and how would this link with other established framework infrastructures?		There is no doubt that any bona fide HC reporting solution must require ongoing infrastructure to help with monitoring and development. With that in mind we have proposed a HCR Council, Board and Client user panel similar to that employed in accounting. Preparations are already underway to have these in place by 1st March 2006. There is then scope to formalise relationships with relevant bodies (for example the HCR Council forming a subsidiary reporting body to the FRC).
• What would be the scope in terms of standardised international reporting?		It is obvious that as accounting moves towards a more standardised accounting format, we have the ability from the human capital perspective to achieve this at the same time and thus avoid issues (to a great degree, but not all) which has plagued financial accounting. We should view this as a big positive from HR's perspective.

• What further questions or issues remain, and what is likely to be on any agenda, going forward?		Essentially, we see four main areas of development. • Firstly, the challenge and/or ability to report additional HC management practices, such as talent management, workforce competencies/capabilities, leadership etc in a standardised and meaningful format. Rating instruments[12] already exist that can measure these in an index format or as part of a larger instrument. • Secondly, the big challenge to provide information on human capital value as a reportable template. We remain guarded in terms of how easy this is to achieve. We believe that the answer may lie in being part of a larger intangibles value statement[13]. • Thirdly, the continued development of definitions and selection of the various HR measurement conventions as already identified. The field of human capital management is complex and dynamic, similar if not more so than Finance, and, therefore attention needs constant monitoring to ensure relevance and completeness. • Fourthly, we believe that there will be a need to naturally review the narrative component to reporting. References to diversity, equal opportunities and work-life balance may, in fact and over time, become transitory. We think that reporting these areas will in future become less relevant, not because they are not important, but that they will have become embedded in organisational practice and that reference to these may in fact become synonymous with an inherent organisational problem. Thus, the HR profession needs to be aware of this going forward as organisations are constantly looking to differentiate in terms of their employer brand.

12 VaLUENTiS VB-HR™ Rating – go to www.vbhr.com
13 See for example VaLUENTiS Value-based Enterprise Performance white paper due to be published shortly

Appendix II Classification of intangibles

IC	Category	Attribute examples (Comprehensive but not exhaustive)	Separable	Based on contractual/ legal rights
Customer Capital	**Customer/ market based assets** Intangible assets that relate to customer structure or market factors of the business	• Customer/client base	*yes*	
		• Lists (e.g. advertising, customer, mailing, subscription)	*yes*	
		• Files and records (e.g. credit, medical)	*yes*	
		• Customer routes	*yes*	*yes*
		• Delivery system, distribution channels	*yes*	*yes*
		• Customer service capability, product/service support	*yes*	
		• Brand/Advertising	*yes*	
		• Airport slots	*yes*	*yes*
		• Financial institution relationships	*yes*	
		• Value of insurance-in-force (embedded value)	*yes*	*yes*
		• Concession stands	*yes*	*yes*
		• Retail shelf space	*yes*	
		• Presence in geographic locations	*yes*	
Human Capital	**People based assets** Intangible assets that relate to the value of the employees and/or workforce of the company	• Employer brand	*yes*	
		• Assembled workforce, trained staff	*yes*	
		• Technical expertise	*yes*	
		• Superior management or other key employees	*yes*	
		• Ongoing training programmes/ recruiting programmes	*yes*	
		• Strong employee relations, employee engagement	*yes*	
		• Social capital		
Organisational (hard-structure) Capital	**IP based assets** Intangible property with established statutory lives	• Patents	*yes*	*yes*
		• Trademarks, brand/trade names	*yes*	*yes*
		• Copyrights (e.g. literary works, music etc)	*yes*	*yes*
		• Franchises (e.g. cable, radio, television, 3G)	*yes*	*yes*
	Contract based assets Intangible assets that have a fixed or definitive term	• Agreements (e.g. consulting, income, royalty, licensing, manufacturing, non-compete, standstill etc)	*yes*	*yes*
		• Contracts (e.g. construction, consulting, advertising, employment, insurance, leasing, mortgage, service, supply etc)	*yes*	*yes*
		• Rights (e.g. broadcasting, development, energy/utility allocation, property etc)	*yes*	*yes*

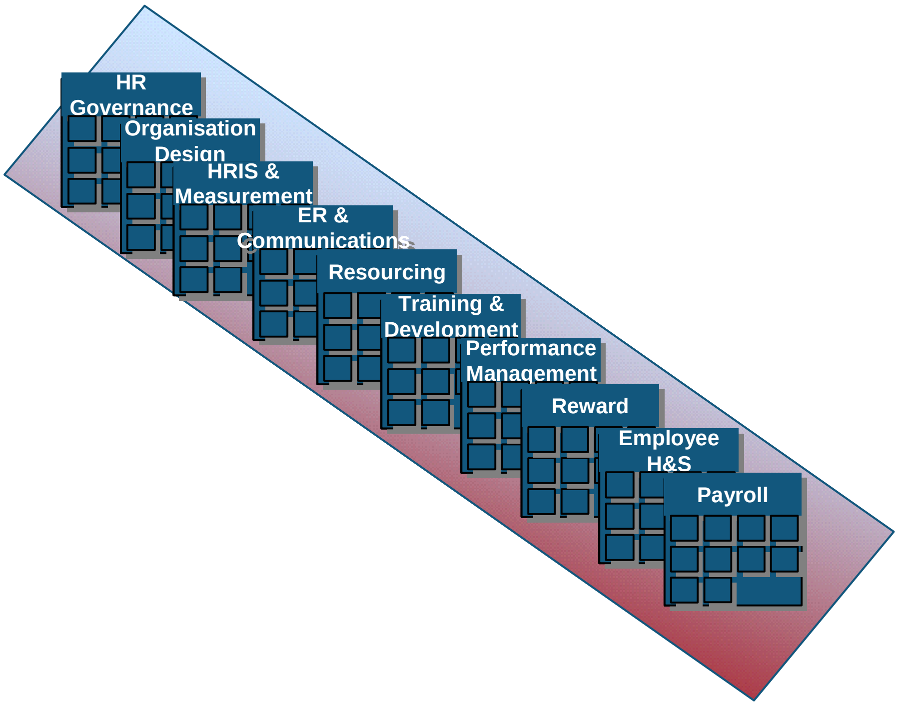
Organisation (soft-structure) Capital	**Technology (innovation) based assets** Internally generated business assets that relate to innovations or technological advances	• Un-patented such as secret formulas, processes, recipes	*yes*	*yes*
		• Computer software, programmes, information systems, platforms, operating systems, internet domain names and portals	*yes*	*yes*
		• Technical drawings, manuals, blueprints	*yes*	
		• Databases	*yes*	
		• Technological know-how, Business/ Manufacturing processes and systems	*yes*	*yes*
		• Research & Development	*yes*	
	Corporate and financial assets Intangible assets relating to the general organisation	• Fundraising capabilities, access to capital markets		
		• Favourable government relations		
		• Savings value of escrow fund	*yes*	
		• Corporate performance & governance	*yes*	
		• Operating culture		

Appendix III HR Core domains

Our VB-HR™ capability profiler identifies 10 discrete areas of HR functional activity that act as inputs to managing human capital within an organisation.

A total of 93 sub-activities provides a 'live' model of human capital management across an organisation.

Each of these 'activity domains' contains detailed sub-activities at level 1 analysis (e.g. 'HR policy' is a sub-activity of the HR Governance overall domain). Level 2 detail is required where further analysis is undertaken.



Appendix IV HCIR calculations

Notes relating to information and adjustments used in calculating HCIR

Calculation of key figures

The principles underlying the calculation of key underlying numbers are as follows:

Category	Principle	Rationale
All information	Results from discontinued operations have been added back into the main figure	The intention is to capture the productivity of the existing workforce, not to look at the ongoing business. A sub-analysis using continuing operations only can be carried out if necessary.
	Data relating to associates and investments has been excluded	The analysis is looking at the productivity of the core workforce – investments in associates and subsidiaries are not generally influenced by an organisation's human capital model.
Profit	For these purposes, "profit" is defined as earnings before interest and tax	This is the element of profit that can be related to human capital performance. Interest costs are related to the financing model of the business – the human capital model is not relevant. Similarly, tax costs will depend on many factors that do not generally include human capital.
Operating costs	Exceptional items have been included where they are fundamentally a business expense (e.g. goodwill amortisation, restructuring costs). One-off items that do not relate to the day-to-day business have been excluded, notably gains or losses on disposal of subsidiaries, investments or fixed assets. For banks, interest costs have not been considered as an operating cost, but a deduction from revenue.	There is some inconsistency in how companies classify exceptional items. We have taken a view on whether an item is simply a cost of doing business, or is a genuine one-off distortion that does not relate to underlying human capital performance. As per the note above, interest costs are considered to relate to the organisation's financing model, not its human capital or business model.
Number of employees	This is taken as the average number of employees through the year. Where both absolute numbers and FTEs are disclosed, absolute numbers have been used	The figure for average number of employees has been used to avoid distortion at the beginning or end of the year. All companies are required to disclose absolute numbers, but only a few disclose FTEs. To make the figures comparable, it is therefore necessary to use absolute numbers throughout.

Appendix V FTSE350 analysis – companies excluded

Investment Trusts
Aberforth Smaller Companies Trust
Alliance Trust
Bankers Investment Trust
British Assets Trust
British Empire Sec & General Tst
City of London Investment Trust
Edinburgh Investment Trust
Edinburgh US Tracker Trust
Electra Private Equity
F&C Commercial Property Trust
Fidelity European Values
Foreign & Colonial Investment Trust
Insight Foundation Property Trust
JP Morgan European IT
JP Morgan Fleming Japanese IT
JP Morgan Fleming Mercantile IT
Merchants Trust
Merrill Lynch World Mining Trust
Monks Investment Trust
Murray Income Trust
Murray International Trust
Perpetual Income & Growth IT
Scottish Investment Trust
Scottish Mortgage Investment Trust
TR Property Investment Trust
Temple Bar Investment Trust
Templeton Emerging Markets IT
Witan Investment Trust

Other Investment Companies
3i
Caledonia Investments
Candover Investments
Intermediate Capital Group
Dexion Absolute

Property Companies
British Land
Brixton
Capital & Regional
CLS Holdings
Derwent Valley Holdings
Grainger Trust
Great Portland Estates
Hammerson
Land Securities
Liberty International
London Merchant Securities
Mapeley
Minerva
Quintain Estates & Development
Shaftesbury
Slough Estates
St Modwen Properties
Unite Group
Workspace Group

Information unavailable
Britvic
Catlin Group
Debenhams
Forth Ports
Gondola Holdings
JJB Sports
Randgold Resources
RHM
Rightmove
Victrex

(these contain certain unlisted private companies)

Appendix VI FTSE350 analysis – private companies included

Private companies included
Baxi Holdings
British Vita
Coats
Coral Eurobet
Doncasters
Gala Group
Grampian Country Food
Guardian Media Group
John Lewis
Kwik-Fit
Marshall of Cambridge
Miller Group
Mott MacDonald
Somerfield
Southern Water
Stemcor
Travelex
United Biscuits
Wates
Willmott Dixon

Appendix VII HCR Operating statements

(i) Human Capital Operating Statement [template]

	ye 31st Dec 2005		ye 31st Dec 2004	
OPERATING INCOME		%		
Revenue *(£000s)*	1,057,016		1,015,020	
FTEs	16,352		16,047	
Revenue per FTE	64,641		63,253	
OPERATING COSTS				
Total operating costs *(£000s)*	904,371		815,094	
People costs *(£000s)*	532,181		464,317	
Human Capital Intensity (HCI)		58.85		56.96
OPERATING INCOME ATTRIBUTABLE TO HC (HCIR per FTE)	**38,041**		**36,029**	
	£	%	£	%
ANCILLARY PEOPLE COSTS (APC)				
Training & Development costs *(£000s)*	8,176		7,342	
Recruitment costs *(£000s)*	2,314		2,954	
Health & Safety costs *(£000s)*	740		691	
HR functional and related costs *(£000s)*	6,254		6,879	
Outplacement costs *(£000s)*	256		53	
Total	17,740		17,919	
HC LEVERAGE (HCIR/APC per FTE)	**35.06**		**32.26**	

The Human Capital Operating Statement
The HCOS contains some base information containing revenues (or budget for public sector organisations) and costs, notably people costs. For informative purposes we have included several key ratios as part of this baseline data. Ancillary people costs (PC_A) are costs related to the support of people within the organisation, i.e. those costs that support/develop people or people practice include items such as training & development, health & safety, the HR function and other related costs.

Reporting these already requires use of cost absorption or allocation as no standard template is used from organisation to organisation and some costs may require estimation due to the fact that no individual collation of a specific people related cost exists. The HC Leverage is actually an internal performance related measure which provides, for the first time, a fused financial/HC related metric that is meaningful for comparative purposes. This metric (ratio) is simply the HCIR per FTE divided by the PC_A per FTE to provide an efficiency ratio relating to the support costs of managing people.

(ii) PeopleFlow™ Statement [template]

STAFFING	ye 31st Dec 2005		ye 31st Dec 2004	
		%		
No of full-time staff at start of year	14,011		13,865	
Number of part-time staff at start of year (FTE eqv)	1,932		1,491	
Number of other at start of year (FTE eqv)	104		175	
Full time equivalents (FTEs) at start of year	**16,047**		**15,531**	
STAFFING MOVEMENT		%	£	%
Number of FTEs recruited in period (+)	1,427		1,874	
Number of acquisitioned FTEs during period (+)	-		-	
	1,427		1,874	
Number of voluntary leavers (FTE) in period (-)	996		1,065	
Number of FTEs made redundant or outplaced in period (-)	35		217	
Number of FTE retirements in period (-)	91		76	
Number of FTEs outsourced in period (-)	-			
Full time equivalents (FTEs) at end of year	**16,352**		**16,047**	
STAFFING MISCELLANEOUS				
Mean tenure (years)	5.2		5.3	
Mean age of workforce	34		34	
Retirement population	5,391		5,304	

The PeopleFlow® Statement
This statement is similar to the accounting cashflow statement in that it charts the movement of people as opposed to cash and therefore underlying dynamic of the organisation.

Thus, the organisation reports starting and ending FTE numbers; with the appropriate numbers charting recruited and exited people across several common categories.

Compiling this statement provides a real eye-opening experience to the people dynamic of the business, and which has the propensity to present real insightful information prior to any further ratio analysis.

(iii) HC Productivity statement [template]

CONTRACTED RESOURCE	ye 31st Dec 2005	%	ye 31st Dec 2004	
Total number of FTE days contracted in year	3,530,340		3,401,289	
Total number of FTE vacation days taken in year	336,987		333,144	
TOTAL NUMBER OF CONTRACTED FTE DAYS AVAILABLE	**3,193,353**		**3,068,145**	
WORK RESOURCE ADJUSTMENT		%	£	%
FTE days gained through recorded overtime work (+)	61,932		65,371	
FTE days lost to illness (-)	18,431		19,016	
FTE days lost to work-related illness/injury (-)	2,773		2,816	
FTE days lost to industrial action (-)	249		167	
FTE days recorded as lost under miscellaneous (-)	763		1,075	
ACTUAL NUMBER OF CONTRACTED FTE DAYS WORKED	**3,233,069**		**3,110,442**	
PRODUCTIVITY				
HCI*Revenue per FTE day (optimal)	192.56		185.42	
HCI*Revenue per FTE day (actual)	190.59		182.90	
HCI*Revenue per FTE day differential	1.97		2.52	
EMPLOYER-EMPLOYEE RELATED INDICES				
Employee engagement index	69.2		68.5	
Employer brand index	71.3		71.0	
HUMAN CAPITAL MANAGEMENT INDEX				
VB-HR™ Rating	BB-BB-R		BB-B-R	
HC Performance	Sustain +		Sustain+	

The HC Productivity Statement
This statement provided some insight into the productivity of the organisation by following a similar addition and subtraction methodology to chart resource input, subsequent loss, and an eventual productivity ratio that provides very useful insight.

At this point, there is a suggested extension to the productivity statement with the inclusion of metrics such as an Employee Engagement Index and Employer brand index which are both related to productivity. The data provided in these three statements, we believe is core reportable data that all organisations should provide.

The reporting solution is designed in such a way as to provide organisations with a progressive level in HC reporting, containing three classes: 'Standard', 'Intermediate' and 'Advanced'. The difference between the levels is one of comprehensiveness with the 'Standard' level providing, what is considered, an acceptable level of disclosure.

(iv) Levels of HC Reporting Statement [template]

Level of HC reporting	Part of existing document	Separate dedicated HC Report	HC Policies	HC Initiatives	Company practice specifics	HCO Statement	PeopleFlow statement	Productivity statement	KPIs	Segmental analysis	Enhanced ratio reporting	Additional HC domain reporting	VB-HR™ Rating or equivalent	VB-HR™ Rating narrative	HC Value statement
Standard	◌	◌	☑	☑	☑	☑	☑	☑	☑	☑	◌	◌	–	–	–
Intermediate	–	☑	☑	☑	☑	☑	☑	☑	☑	☑	◌	◌	☑	◌	–
Advanced	–	☑	☑	☑	☑	☑	☑	☑	☑	☑	☑	◌	☑	☑	◌

◌	Optional
☑	Mandatory
–	Not applicable

The three levels are designed to provide organisations with flexible options given their intent to publish human capital related information.

We have put forward an HC reporting template which contains a number of reporting components as shown in the table above. To recognise the variety of organisations and their particular focus, we have proposed three levels, ***'Standard'***, ***'Intermediate'*** and ***'Advanced'***, with a progressive incorporation of reporting components with an allowance built in for anticipated future developments.

(v) HCR Standard explanation of terms

Explanation of terms

HC Policies: Narrative providing overview of organisational human capital related policies

HC Initiatives: Narrative providing details of human capital initiatives carried out during the respective time period together with any planned initiatives for the new fiscal year.

Company practice specifics: Organisations may choose to supplement the above two narratives with more example case-study type narrative on people.

Human Capital Operating Statement: Reporting template including overall organisational financial and people related numbers together with notes to provide further explanatory detail. (See Appendix I for example template).

PeopleFlow Statement: Reporting template including information on the overall people dynamics of the organisation during the specified time period together with notes to provide further explanatory detail. (See Appendix II for example template).

HC Productivity Statement: Reporting template including information on overall people productivity within the organisation during the specified time period together with notes to provide further explanatory detail. (See Appendix III for example template).

KPIs: A section including both numbers and narrative around specific KPIs that the organisation wishes to report. This is particularly appropriate for public sector organisations. The objective here is to provide more performance related data to enrich that contained within the three operating statements.

Segmental analysis: This follows normal financial accounting policies (e.g. SSAP25/IAS14) in terms of providing appropriate breakdown of numbers (disaggregation), together with narrative, into respective operating segments as dictated by the organisation (i.e. region/country, group/business unit, body/directorate etc).

Enhanced ratio analysis: This section provides further performance related information through use of standard HC ratios, together with cautionary and explanatory notes. This is entirely optional to the organisation at Standard and Intermediate levels but becomes mandatory at ***'Advanced'*** level.

Additional HC domain reporting: This section is entirely optional in that organisations are left to report additional elements of HC management practice such as talent management, capability, leadership etc. Over time, some of these elements may develop and become part of standardised reporting but the issue will be as to whether there will be wide acceptance of organisations wishing to report these.

HC/HCM Rating: The emergence of Rating systems[14] that measure organisational performance of human capital management provides organisations with a ready-made construct to report. We expect that this will become a significant area of reporting due to wide stakeholder interest, as it is a means of differentiation in the market-place across and within industry. This becomes mandatory for ***'Intermediate'*** and ***'Advanced'*** levels of reporting.

HC/HCM Rating narrative: The Rating described above can be reported in graphical format only. The narrative provides further insight into the Rating and though optional for ***'Intermediate'*** reporting, it becomes mandatory at the ***'Advanced'*** level.

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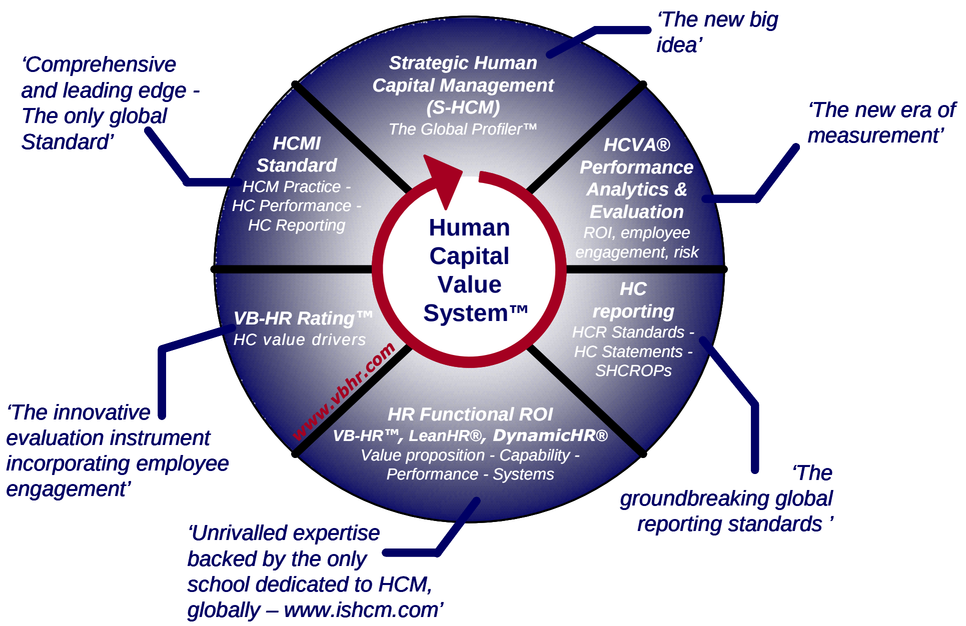
14 For example, VaLUENTiS VB-HR™ Rating – see www.vbhr.com

Appendix VIII VaLUENTiS HC Corporate Solutions Wheel

VaLUENTiS is a leading professional services firm in the field of business intelligence and analytics with special applications in human capital management. Its global headquarters are based in Berkeley Square, London. The firm specialises in providing clients with solutions to enhance enterprise performance, focusing on four core disciplines: human capital measurement, human capital management analytics, organisation effectiveness & measurement, and HR functional ROI.



Why we are different
At VaLUENTiS we are committed to delivering effective human capital solutions based on deep expertise and extensive market-driven research, which ensures that our advice is based on fact, not just conventional wisdom. VaLUENTiS' practitioners are skilled across a range of disciplines that include business performance, organisational architecture, human capital management and measurement, HR strategy, financial economics, six sigma and supply chain management.

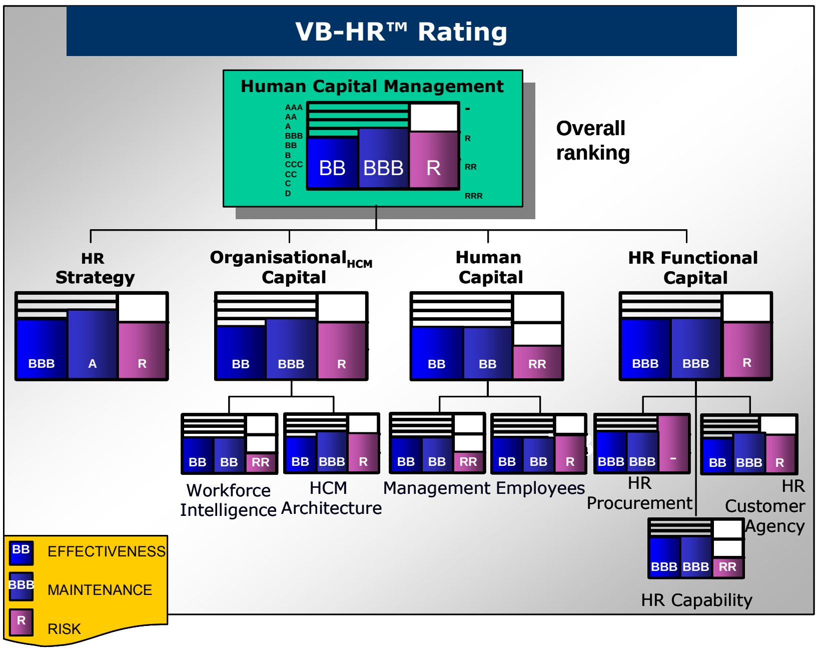
VaLUENTiS, being a professional services firm, ensures that all of its practitioners undergo continual CPD to supplement their client project experience and research.

Appendix IX VaLUENTiS VB-HR™ Rating (www.vbhr.com)

The VB-HR™ Rating is an evaluative framework that assesses all aspects of people management practice within organisations, reviewing current performance in addition to future indicators of performance. As a construct, the VB-HR™ Rating combines the rigour of applied research and practice in people management with the structure of quality standards (e.g. EFQM). It evaluates eight performance areas of people management through assessing 300 qualitative and quantitative data points.

The performance areas cover HR strategy, management, people processes and systems, workforce data and measurement, employee engagement and HR functional capability/ effectiveness. A key feature is the investigation at a detailed level into specific HR and people-management related activities. This allows the identification of particular strengths as well as identifying areas for enhancement, with the resulting development of an overall 'route-map' or action plan tailored to the individual organisation.

The VB-HR™ Rating HCM100 study was conducted in the summer of 2005, covering 100 leading organisations headquartered or based in the UK, representing over 26 public and private sectors. The participating organisations had a combined workforce of 2.7 million employees and a total HR spend of £1.9 billion.



Appendix X Int’l School of Human Capital Management

VaLUENTiS’ International School of Human Capital Management (ISHCM) provide delegates with unrivalled commercial knowledge and skills required for the effective management and measurement of human capital.

Our programmes deliver exceptional learning experiences that are designed for practical implementation, and impact. We provide tools and knowledge drawn from rigorous research and practical experience to enable changes in organisational performance.

The courses and programmes are considered unique in their combination of material and case studies based on real issues and actual scenarios from our client work. They are also designed to provide delegates with ‘progressive flexibility’ – the ability to choose one-off appropriate learning but with the option of structuring combinations to allow for sought-after accreditation.

Our campuses provide top-quality training facilities in the heart of London. Our research centre contains the most comprehensive collection of pure and applied research in the field of human capital under one roof.

The School currently offers four main types of practical-based programmes containing over 60 course electives with various accreditation-based options. These can be delivered in standard open format or customised to be delivered to the client on-site. They are:

The ***Executive series*** includes seminars, masterclasses and bootcamps and is aimed at Director level.

The ***Chief Human Capital Officer series*** is a dynamic option for aspiring HR leaders and executives and is based on the emerging role in HR.

The ***HC Practitioner series*** contains four further accredited options:

- HC Reporting Practitioner
- VB-HR™ Rating Practitioner
- HC Practitioner
- Advanced HC Practitioner

The ***Professional series*** is aimed at a wider professional audience including Management, HR, Accounting, Audit, Communications, Education and Health and includes a variety of course electives with options for accreditation.

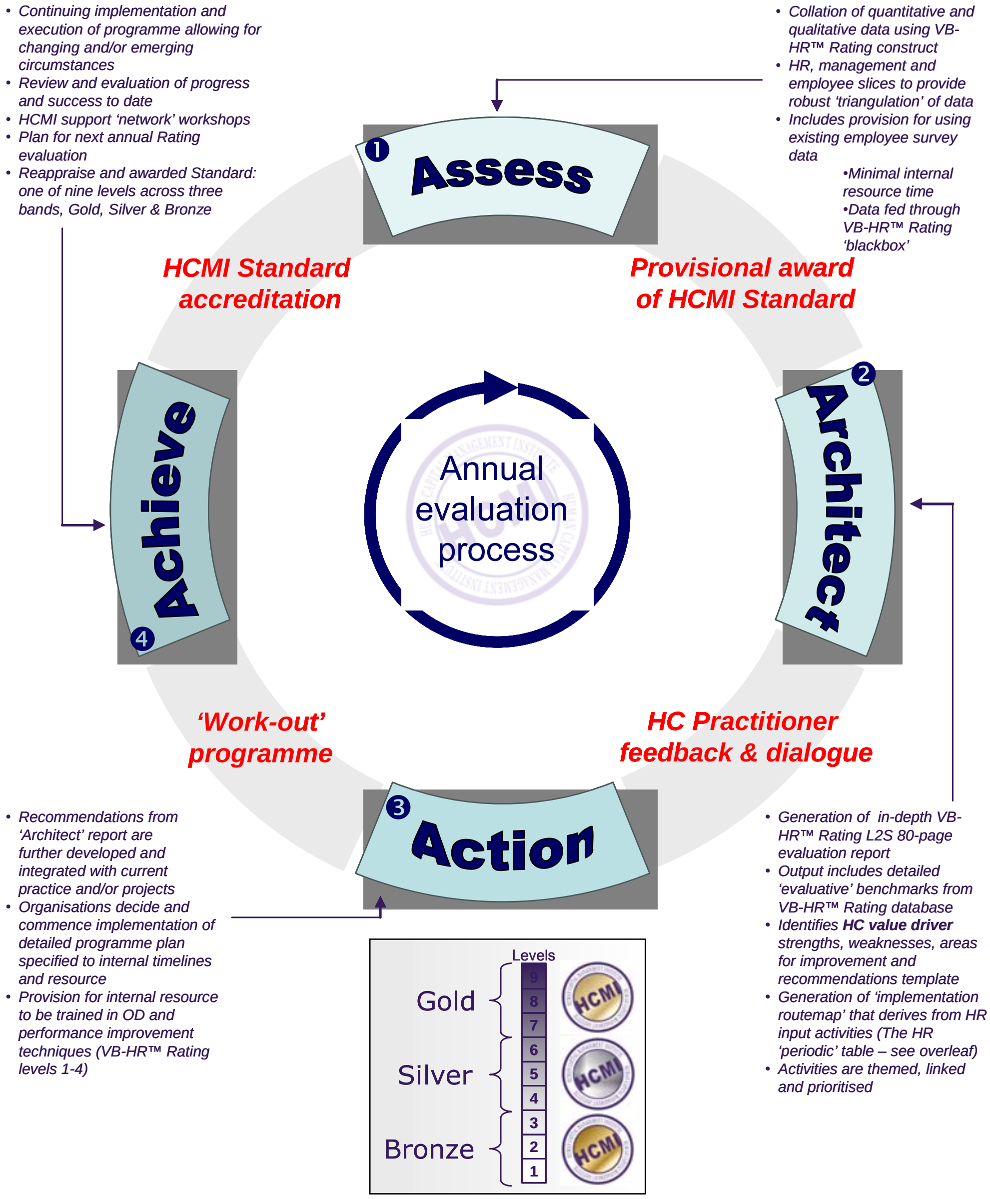
Details of open course programmes can be obtained via our website www.ISHCM.com. Enquiries for customised programmes should be made to our enrolment office on +44 20 7887 6121.

Appendix XI The HCMI Standard (www.hcmiglobal.org)

The Human Capital Management Standard is the leading professional global standard designed to provide organisations with a robust, meaningful and output driven performance tool. It focuses on evaluating human capital management from an organisation performance, practice and reporting perspective.

This approach enables an organisation to obtain an achievement accreditation based upon its performance that can be measured on an annual basis.

There are nine levels of performance, split across three bands as shown at the bottom of the page:



Appendix XII Company rankings by alphabetical sort

Company	HCIR/head (£000s)	*HCIR/head RANKING*	HCIP/head (£000s)	*HCIP/head RANKING*	HCIR Return	*HCIR Return RANKING*	HC Return beta 'β'	*HC return β RANKING*	VB-HR™ Rating RANKING	HC Leverage RANKING	*HC Reporting* RANKING	*Tax per head* RANKING	*Total (ECI)* RANKING	OVERALL RANKING
888 Holdings	155	11	28	25	1.13	150	-41.08	305			238	234	215	137
Abbot Group	33	171	3	184	1.08	207	-2.99	202			198	216	197	211
Aberdeen Asset Mgt	101	26	18	43	1.13	158	-15.26	296			242	106	254	153
Admiral Group	37	148	17	47	1.86	10	13.27	31			130	62	281	46
Aegis Group	40	138	5	122	1.14	141	-1.35	124			127	200	96	109
Aga Foodservice Group	28	217	2	193	1.09	198	-2.37	175			77	233	195	191
Aggreko	48	83	7	95	1.17	113	-0.64	99			238	101	242	105
Alliance & Leicester	50	77	20	39	1.65	18	14.19	28			20	71	144	8
Alliance UniChem	22	245	1	264	1.03	271	-3.56	228			48	182	84	242
Amec	37	153	0	291	1.03	272	-5.43	267			90	279	26	246
Amlin	133	14	26	28	1.24	78	-11.34	293			1	14	252	70
Amvescap	158	10	23	33	1.65	19	31.76	11			306	86	73	36
Anglo American	18	266	3	163	1.22	85	-0.21	93			11	165	14	93
Antofagasta	38	145	23	32	2.60	2	19.86	19			258	20	274	60
Aquarius Platinum	154	12	26	26	1.20	90	-26.69	302			297	19	306	128
ARM Holdings	92	29	14	55	1.18	109	-6.92	280			242	104	228	123
Arriva	28	220	2	201	1.08	204	-2.57	184			77	269	55	185
Ashtead Group	33	174	4	151	1.13	162	-1.54	137			285	203	184	181
Associated British Foods	20	258	2	216	1.09	196	-2.13	159			224	172	61	220

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Associated British Ports	51	71	20	37	1.63	24	14.11	29			4	88	229	11
AstraZeneca	67	39	18	44	1.37	49	8.37	40			64	73	13	13
Atkins (WS)	37	152	2	228	1.04	251	-4.82	256			191	230	88	240
Autonomy	68	37	9	71	1.11	175	-6.85	277			280	124	294	178
Avis Europe	32	178	1	255	1.03	267	-4.60	253			117	282	178	256
Aviva	44	106	3	155	1.07	215	-4.57	252			25	40	19	145
AWG	41	126	7	90	1.23	80	1.88	66			98	242	113	67
Babcock International	30	199	1	235	1.05	240	-3.68	231			276	257	143	274
BAE Systems	51	72	4	141	1.05	236	-6.85	278			29	232	10	154
Balfour Beatty	36	155	1	277	1.02	290	-5.75	270			117	284	46	263
Barclays	116	20	34	18	1.71	16	31.84	9			16	77	2	1
Barratt Developments	42	119	7	97	1.20	96	0.59	79			31	49	185	65
Baxi Holdings	30	204	3	185	1.12	169	-2.35	174			302	83	194	218
BBA Group	28	216	2	227	1.06	228	-3.19	209			176	273	112	230
Bellway	46	93	9	73	1.24	76	2.29	64			77	38	240	58
Benfield	124	17	20	38	1.19	98	-15.42	297			141	95	180	103
Berkeley Group	94	28	17	46	1.23	82	-2.50	182			156	15	245	78
BG Group	71	36	30	23	1.54	28	15.90	24			22	6	147	4
BHP Billiton	54	62	15	54	1.37	48	7.40	41			40	32	29	16
Big Yellow Group	66	41	34	19	2.07	8	28.27	12			201	5	305	28
BOC Group	30	202	5	117	1.13	157	-1.37	126			42	149	50	108
Body Shop	14	281	1	241	1.09	194	-2.20	163			117	252	233	221
Bodycote	32	181	4	136	1.15	130	-0.94	107			198	226	174	133

Company	HCIR/head (£000s)	*HCIR/head RANKING*	HCIP/head (£000s)	*HCIP/head RANKING*	HCIR Return	*HCIR Return RANKING*	HC Return beta 'β'	*HC return β RANKING*	VB-HR™ Rating RANKING	HC Leverage RANKING	*HC Reporting* **RANKING**	*Tax per head* **RANKING**	*Total (ECI)* **RANKING**	**OVERALL RANKING**
Boots	15	280	1	240	1.10	187	-2.09	157			42	218	47	190
Bovis	49	79	12	60	1.32	55	5.05	47			133	24	282	55
BP	60	55	8	85	1.13	154	-3.88	241			48	17	5	95
Bradford & Bingley	64	46	29	24	1.83	12	22.73	17			31	47	218	5
Brambles	33	169	4	133	1.14	139	-1.10	115			217	146	57	125
Brit Insurance	85	31	5	110	1.07	222	-16.03	298			72	44	271	162
British Airways	42	122	3	180	1.07	213	-4.18	247			25	179	20	156
British American Tobacco	22	251	5	108	1.34	50	1.85	68			56	115	27	69
British Energy	17	272	2	203	1.15	128	-1.30	121			48	166	243	151
British Vita	27	225	1	243	1.05	235	-3.50	227			227	78	176	270
Brown (N.) Group	18	271	1	252	1.13	151	-1.50	133			249	263	250	228
BSkyB	43	110	7	88	1.14	142	-1.60	142			48	59	102	85
BSS Group	26	229	1	242	1.05	239	-3.30	220			280	176	247	286
BT	53	65	9	75	1.18	106	-0.45	95			2	137	8	45
Bunzl	32	184	2	205	1.07	220	-3.28	218			156	133	127	215
Burberry	40	136	9	74	1.29	62	3.37	56			205	84	208	75
Burren Energy	26	228	17	49	2.89	1	13.68	30			165	80	301	66
Cable & Wireless	46	94	5	125	1.07	212	-4.83	257			156	255	67	171
Cadbury Schweppes	31	192	5	127	1.31	58	2.92	58			11	201	31	61
Cairn Energy	67	40	18	42	1.27	67	3.40	55			90	65	283	41
Cambridge Antibody Tech	53	64	-2	302	0.95	302	-14.18	295			108	161	298	276
Capita Group	29	205	3	158	1.13	153	-1.31	122			156	212	71	141
Carillion	27	226	0	281	1.02	289	-4.36	250			211	266	97	297

'Organisation performance through a human capital lens'

INTERNATIONAL SCHOOL OF HUMAN CAPITAL MANAGEMENT

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Carnival	12	295	3	179	1.31	57	-0.48	96			307	276	70	157
Carpetright	29	208	5	124	1.16	121	-0.69	100			245	129	239	147
Carphone Warehouse	24	241	1	265	1.02	285	-3.98	242			127	229	131	282
Cattles	32	182	5	116	1.20	97	0.39	83			64	114	204	87
Centrica	42	121	6	104	1.11	172	-2.51	183			5	50	32	99
Charter	25	232	1	254	1.03	262	-3.68	230			289	265	163	296
Close Brothers	107	23	26	29	1.32	53	3.81	52			285	74	179	57
Coats	9	304	1	276	1.42	43	-2.69	191			297	57	154	213
Cobham	38	144	5	113	1.18	104	0.16	87			276	168	114	114
Collins Stewart Tullett	198	4	22	35	1.13	160	-74.93	307			285	87	82	144
Colt Telecom	44	107	-11	306	0.81	305	-21.89	300			274	294	164	304
Compass	13	288	0	290	1.04	260	-2.95	200			227	287	7	288
Computacenter	43	117	1	279	1.01	293	-7.40	283			77	237	98	249
Cookson	29	207	2	209	1.07	214	-2.92	199			145	191	94	210
Coral Eurobet	14	282	0	289	1.02	279	-3.20	210			302	289	223	307
Corus	41	131	3	181	1.07	216	-4.14	246			7	192	21	155
Countrywide	31	189	2	215	1.06	227	-3.42	225			238	283	121	244
Crest Nicholson	60	53	8	84	1.16	118	-2.34	173			56	39	273	83
Croda International	45	101	7	87	1.20	91	0.76	75			212	93	258	92
CSR	78	33	18	45	1.30	60	4.72	49			205	30	289	56
Dairy Crest	30	198	2	211	1.07	221	-3.13	208			117	187	177	214
Dana Petroleum	121	19	54	8	1.81	13	38.01	7			293	3	307	38
Davis Service Group	22	248	3	175	1.15	126	-1.02	111			293	224	135	183

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
De La Rue	37	151	2	223	1.05	246	-4.67	254			176	197	155	238
De Vere	16	275	4	150	1.05	247	-2.90	197			141	295	225	234
Diageo	49	80	11	64	1.27	65	3.51	54			56	70	54	37
Dimension Data	35	163	1	259	1.02	278	-5.21	263			205	235	130	280
DMGT	38	146	4	144	1.11	180	-2.43	178			77	183	68	131
Doncasters	32	185	3	164	1.06	231	-2.06	155			300	113	202	224
Drax Group	183	7	70	6	1.61	25	27.56	14			214	12	253	26
DSG Intl	19	265	1	261	1.04	250	-3.03	204			216	211	62	273
EasyJet	41	130	1	230	1.04	257	-5.71	269			194	121	191	251
Electrocomponents	33	175	4	140	1.14	137	-1.07	113			176	125	199	132
Emap	47	88	6	106	1.15	127	-1.36	125			90	102	160	89
EMI	56	59	5	111	1.10	182	-4.96	259			77	145	116	126
Enodis	32	186	1	250	1.05	245	-4.00	243			205	301	181	271
Enterprise Inns	124	18	68	7	2.20	6	55.63	3			227	7	285	22
Expro International Group	43	114	5	121	1.13	159	-2.04	153			210	141	237	146
F&C Asset Management	108	22	-28	308	0.80	306	-85.72	308			72	308	211	253
Filtrona	27	227	3	173	1.12	165	-1.52	135			201	173	209	189
Findel	20	261	2	212	1.13	156	-1.47	131			251	231	261	219
First Choice Holidays	21	253	1	267	1.04	258	-3.28	217			22	207	129	233
FirstGroup	21	254	1	231	1.07	211	-2.49	181			198	277	30	229
FKI	32	176	3	183	1.09	200	-2.71	192			90	236	108	172
Friends Provident	50	74	3	170	1.05	238	-6.87	279			64	27	152	180
Gala Group	20	262	3	156	1.25	72	0.64	78			252	248	192	136

Company	HCIR/head (£000s)	HCIR/head RANKING	HCIP/head (£000s)	HCIP/head RANKING	HCIR Return	HCIR Return RANKING	HC Return beta 'β'	HC return β RANKING	VB-HR™ Rating RANKING	HC Leverage RANKING	HC Reporting RANKING	Tax per head RANKING	Total (ECI) RANKING	OVERALL RANKING
Gallaher	35	159	8	83	1.32	54	3.62	53			48	85	128	53
GCAP Media	36	154	-10	304	0.79	307	-18.48	299			114	105	251	295
GKN	32	183	1	260	1.07	224	-3.35	222			156	286	39	226
GlaxoSmithKline	77	34	24	30	1.45	38	13.15	32			6	63	6	3
Go-Ahead Group	28	221	2	202	1.08	210	-2.66	188			77	247	85	196
Grampian Country Food	18	267	0	294	1.02	287	-3.58	229			302	155	105	306
Greene King	12	291	2	187	1.23	83	-1.03	112			117	246	188	138
Greggs	13	287	1	247	1.10	191	-2.24	166			249	258	167	250
Group 4 Securicor	8	305	0	286	1.05	242	-2.86	195			197	292	15	278
Guardian Media Group	35	160	4	134	1.14	140	-1.25	119			271	60	166	149
GUS	20	260	2	213	1.10	192	-2.07	156			48	178	33	170
Gyrus Group	40	134	3	172	1.08	209	-3.77	236			280	271	277	231
Halfords	11	296	1	229	1.15	129	-1.79	146			194	205	224	209
Halma	35	157	6	105	1.21	87	1.05	73			196	136	231	101
Hanson	32	179	4	143	1.14	149	-1.25	118			108	185	64	117
Hays	32	188	3	168	1.11	181	-2.06	154			201	128	140	179
HBOS	42	120	9	79	1.25	70	2.51	61			42	58	17	43
Headlam Group	14	284	1	245	1.09	195	-2.23	165			248	194	259	260
Helphire Group	25	234	3	169	1.14	146	-1.21	116			237	291	293	195
Henderson	64	44	4	137	1.07	223	-9.28	289			193	123	189	199
Hikma Pharmaceuticals	20	257	5	115	1.34	52	1.58	71			289	132	290	129
Hiscox	108	21	10	68	1.10	189	-22.09	301			192	22	268	161
HMV Group	18	270	1	233	1.08	203	-2.31	169			98	186	161	212

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Homeserve	31	191	4	132	1.16	119	-0.63	98			149	154	221	118
HSBC	50	75	16	50	1.49	36	10.48	37			117	94	1	27
Hunting	41	129	1	244	1.03	269	-6.09	272			242	122	230	281
ICAP	224	3	45	12	1.25	73	-57.20	306			258	51	79	100
ICI	36	156	4	149	1.10	186	-2.45	179			131	196	43	152
IG Group	102	25	34	17	1.51	35	18.18	21			285	68	296	49
IMI	31	190	3	157	1.12	164	-1.58	139			205	175	90	160
Imperial Tobacco Group	40	135	13	58	1.51	34	8.73	39			35	64	100	30
Inchcape	28	218	1	249	1.04	252	-3.76	235			289	147	136	287
Informa	43	113	5	109	1.14	135	-1.47	132			245	112	171	122
Inmarsat	191	5	81	3	1.74	15	42.63	5			274	29	266	29
Intercontinental Hotels	31	194	5	119	1.20	93	0.41	81			214	164	77	107
International Power	48	85	15	53	1.18	108	-0.20	92			176	46	196	79
Interserve	30	197	1	253	1.04	261	-4.13	245			136	240	118	252
Intertek	20	263	3	178	1.17	115	-0.90	106			276	243	149	177
Invensys	30	200	1	237	1.04	249	-3.83	237			165	285	53	243
Investec	125	16	37	15	1.41	44	9.71	38			285	42	107	42
ITV	47	89	7	93	1.18	105	-0.08	91			16	82	151	63
Jardine Lloyd Thompson	65	43	10	65	1.18	103	-1.38	127			276	151	126	94
JKX Oil & Gas	52	68	31	22	2.52	3	27.31	15			293	52	304	48
John Lewis	17	273	1	278	1.03	274	-3.00	203			117	26	41	261
Johnson Matthey	37	150	1	251	1.04	259	-5.11	260			7	131	139	216
Johnston Press	32	177	11	62	1.52	32	6.92	44			114	135	186	59

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Kazakhmys	3	308	2	218	1.47	37	-2.23	164			227	195	205	175
Kelda	54	61	22	36	1.66	17	15.83	25			25	92	212	9
Kensington Group	74	35	26	27	1.54	29	16.46	22			98	37	291	21
Kesa Electricals	21	255	1	263	1.04	256	-3.24	214			238	222	75	284
Kier Group	30	196	1	258	1.03	265	-4.26	248			141	198	150	264
Kingfisher	20	264	2	221	1.10	190	-2.04	152			271	170	44	223
Kwik-Fit	24	240	2	210	0.98	299	-2.33	172			302	304	175	292
Ladbrokes	16	276	0	280	1.03	263	-3.09	206			11	244	59	235
Laing (John)	46	92	2	219	1.04	254	-6.72	276			245	97	262	257
Laird Group	16	278	1	232	1.10	188	-2.10	158			176	253	207	227
Legal & General	43	115	2	195	1.05	234	-5.32	265			64	23	103	192
Lloyds TSB	43	116	7	92	1.20	94	0.70	76			11	75	16	51
LogicaCMG	47	87	3	165	1.07	218	-5.19	262			201	221	52	200
London Stock Exchange	183	6	72	5	1.65	20	31.81	10			219	16	260	23
Lonmin	11	300	3	159	1.43	42	0.03	88			29	184	187	98
Luminar	12	294	2	208	1.21	89	-1.28	120			212	274	255	184
Man Group	255	2	116	2	1.85	11	57.08	2			253	33	99	12
Marks & Spencer	16	277	2	222	1.08	201	-2.30	168			42	208	42	193
Marshall of Cambridge	28	214	0	298	1.02	286	-5.18	261			165	300	222	300
Marshalls	33	172	4	138	1.14	138	-1.08	114			176	156	241	135
Matalan	10	303	0	285	1.04	255	-2.91	198			149	259	203	285
McAlpine (Alfred)	34	164	1	270	1.02	284	-5.34	266			31	290	125	239
McCarthy & Stone	60	52	23	31	1.60	26	15.92	23			49	31	275	15

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Meggitt	47	91	8	86	1.20	92	0.68	77			165	160	165	74
MFI Group	27	223	-2	301	0.94	303	-6.95	281			141	272	104	301
Michael Page	57	58	7	91	1.15	131	-2.67	189			165	130	200	110
Millenium & Copthorne Hotels	22	247	4	131	1.24	77	0.51	80			225	213	159	121
Miller Group	50	76	4	146	1.10	185	-4.91	258			149	61	248	169
Misys	46	95	2	200	1.05	243	-6.11	274			280	215	134	247
Mitchells & Butlers	14	283	2	188	1.21	88	-0.88	105			72	228	93	120
MITIE Group	13	286	1	272	1.05	233	-2.73	193			218	281	101	277
Morgan Crucible	25	239	1	248	1.05	244	-3.28	216			98	249	138	237
Morgan Sindall	41	128	1	238	1.03	266	-6.05	271			108	204	172	236
Morrison (Wm)	13	285	0	299	1.00	298	-3.39	224			267	299	22	305
Mott MacDonald	34	165	1	266	1.03	273	-5.22	264			273	174	153	293
MyTravel Group	25	233	0	295	1.01	295	-4.40	251			139	227	109	291
National Express	18	268	0	282	1.02	280	-3.38	223			35	268	63	254
National Grid	60	51	14	56	1.22	86	0.98	74			11	100	35	31
Next	12	293	2	214	1.18	110	-1.47	130			56	202	74	140
Northern Foods	21	252	0	292	1.01	292	-3.85	240			149	298	95	294
Northern Rock	62	49	37	14	2.49	4	32.78	8			35	45	198	2
Northgate	29	209	5	123	1.20	95	0.30	85			293	111	267	142
Northgate Information Solutions	46	97	2	199	1.05	241	-6.09	273			289	296	226	258
Northumbrian Water Group	47	90	18	41	1.64	23	12.99	33			16	89	227	18
Old Mutual	29	213	3	160	1.12	168	-1.60	141			227	90	40	167
Paragon Group	92	30	53	9	2.37	5	46.07	4			258	53	292	33

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PartyGaming	133	15	45	11	1.52	33	19.79	20			233	43	220	35
Paypoint	45	99	7	89	1.19	99	0.41	82			233	76	302	104
Pearson	45	98	9	70	1.14	133	-1.53	136			135	159	34	90
Pendragon	25	238	1	262	1.03	270	-3.72	234			165	217	141	279
Pennon Group	41	132	11	63	1.37	47	5.73	46			22	126	246	44
Persimmon	44	104	10	66	1.30	59	4.13	50			165	34	190	64
Petrofac	35	158	2	204	1.07	225	-3.69	232			176	270	168	222
Photo-Me International	33	168	4	154	1.12	170	-1.82	147			267	152	264	194
Premier Farnell	32	187	2	192	1.08	206	-2.90	196			139	238	193	204
Premier Foods	30	195	4	152	1.14	147	-1.21	117			165	150	216	148
Premier Oil	103	24	36	16	1.54	30	20.13	18			149	8	295	25
Provident Financial	22	250	1	273	1.03	268	-3.46	226			64	143	182	259
Prudential	33	170	2	220	1.06	232	-3.84	239			145	21	45	217
Punch Taverns	68	38	34	20	2.00	9	27.87	13			117	18	287	14
PZ Cussons	7	306	1	269	1.11	179	-2.48	180			227	223	249	267
Qinetiq Group	48	81	3	162	1.07	217	-5.45	268			98	250	86	173
Rank Group	20	259	2	196	1.12	163	-1.58	140			258	254	92	208
Rathbone Brothers	101	27	32	21	1.45	39	14.58	26			114	81	269	24
Reckitt Benckiser	33	167	7	98	1.25	71	1.87	67			136	98	81	73
Redrow	48	86	9	69	1.25	74	2.49	62			42	36	265	50
Reed Elsevier	53	63	8	81	1.19	100	-0.01	90			64	120	25	54
Regus Group	38	147	4	145	1.11	173	-2.20	162			254	303	235	188
Renishaw	44	108	8	82	1.23	81	1.81	69			258	169	256	96

'Organisation performance through a human capital lens'

INTERNATIONAL SCHOOL OF HUMAN CAPITAL MANAGEMENT

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Rentokil Initial	15	279	2	225	1.14	136	-1.55	138			117	275	36	165
Resolution	45	100	5	120	1.13	161	-2.29	167			165	10	257	134
Reuters	63	47	6	107	1.10	184	-6.49	275			98	206	51	130
Rexam	28	215	4	153	1.14	132	-0.98	110			149	138	80	124
Rio Tinto	63	48	23	34	1.53	31	14.25	27			56	28	38	7
Rolls-Royce	52	69	6	99	1.14	134	-2.18	161			77	163	24	82
Rotork	41	127	9	78	1.26	68	2.81	59			176	99	278	77
Royal & SunAlliance	29	210	4	129	1.15	124	-0.78	101			134	96	69	112
Royal Bank of Scotland	60	54	18	40	1.45	40	10.81	36			3	72	3	6
Royal Dutch Shell	59	56	7	94	1.14	143	-3.29	219			7	11	4	81
SABMiller	23	244	4	147	1.16	120	-0.86	104			176	91	56	127
Sage Group	49	78	13	57	1.37	46	6.98	43			256	116	122	62
Sainsbury	11	299	0	296	1.02	283	-3.11	207			35	297	23	265
Savills	18	269	3	182	1.17	114	-0.97	109			225	251	158	168
Schroders	165	9	43	13	1.31	56	-11.11	292			156	55	123	76
SCI Entertainment Group	28	219	-27	307	0.51	308	-37.92	304			267	305	299	308
Scottish & Newcastle	43	111	4	142	1.12	167	-2.33	171			42	180	72	111
Scottish & Southern Energy	30	203	3	161	1.11	177	-1.88	148			64	56	133	139
Scottish Power	43	109	1	257	1.19	102	0.23	86			25	67	76	91
Serco	25	237	1	274	1.03	275	-3.84	238			20	264	66	241
Severn Trent	41	124	7	96	1.23	84	1.62	70			136	142	78	72
Shanks Group	34	166	3	176	1.09	197	-2.65	187			219	199	217	207
Shire	64	45	4	130	1.10	193	-7.16	282			77	25	213	150

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SIG	29	211	2	224	1.06	230	-3.27	215			165	162	170	232
Signet Group	25	235	3	174	1.13	155	-1.33	123			90	148	115	143
Smith & Nephew	52	67	9	76	1.24	75	2.40	63			90	108	110	47
Smith (DS)	29	212	0	288	1.01	294	-4.77	255			72	278	119	275
Smith (WH) Group	12	292	0	283	1.03	264	-2.98	201			145	262	137	283
Smiths Group	38	143	4	139	1.14	148	-1.46	129			165	177	49	119
Soco International	446	1	238	1	2.14	7	100.90	1			236	1	308	20
Somerfield	10	302	0	297	1.01	296	-3.22	212			108	302	83	290
Southern Water	41	125	16	51	1.64	21	11.82	35			90	35	270	39
Spectris	43	118	4	135	1.11	178	-2.75	194			258	193	157	176
Speedy Hire	32	180	5	126	1.16	116	-0.54	97			77	181	244	106
Spirax-Sarco Engineering	40	137	6	101	1.19	101	0.32	84			267	140	206	113
Spirent Communications	39	141	-1	300	0.97	300	-8.64	288			219	280	183	303
SSL International	21	256	2	198	1.12	171	-1.69	144			127	214	234	197
St James Place	58	57	4	148	1.07	219	-7.64	284			108	9	286	186
Stagecoach Group	27	224	2	207	1.09	199	-2.39	177			72	293	60	182
Standard Chartered	44	103	17	48	1.64	22	12.37	34			7	103	37	10
Stanley Leisure	22	249	3	186	1.13	152	-1.39	128			258	189	238	205
Stemcor	48	84	1	268	1.02	288	-8.54	287			300	110	279	298
SThree	55	60	2	191	1.05	248	-8.38	286			258	260	263	248
Tate & Lyle	40	133	2	190	1.08	205	-3.70	233			77	109	146	174
Taylor Nelson Sofres	31	193	3	167	1.11	176	-1.90	149			156	210	106	163
Taylor Woodrow	37	149	5	118	1.15	125	-0.84	103			117	79	142	102

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Tesco	11	298	1	271	1.06	229	-2.67	190			56	220	11	225
Tomkins	24	243	2	197	1.10	183	-1.95	151			176	225	58	198
Topps Tiles	25	236	5	114	1.27	66	1.33	72			219	127	288	116
Travelex	26	230	1	236	1.01	291	-3.21	211			297	107	201	299
Travis Perkins	24	242	2	189	1.11	174	-1.73	145			98	144	124	164
Trinity Mirror	39	142	9	80	1.28	64	3.07	57			176	134	117	71
Tullow Oil	145	13	53	10	1.57	27	24.90	16			149	2	297	19
Ultra Electronics	44	102	6	103	1.16	117	-0.83	102			156	158	214	97
Unilever	22	246	3	171	1.15	123	-0.95	108			77	153	9	115
United Biscuits	29	206	2	194	1.15	122	-2.58	185			307	306	132	206
United Business Media	42	123	5	128	1.12	166	-2.16	160			258	157	156	159
United Utilities	40	139	11	61	1.38	45	5.81	45			56	209	91	40
Vedanta Resources	6	307	2	226	1.34	51	-1.61	143			145	118	219	158
Venture Production	177	8	76	4	1.75	14	42.19	6			189	4	303	17
Viridian Group	35	161	5	112	1.18	107	0.02	89			48	48	272	88
Vodafone	35	162	-10	305	0.87	304	-12.42	294			64	13	18	268
VT Group	27	222	2	206	1.08	208	-2.63	186			98	241	145	202
Wates	50	73	0	284	1.00	297	-9.56	291			40	188	236	245
Weir Group	33	173	1	239	1.04	253	-4.34	249			188	219	148	255
Wellington Underwriting	84	32	-3	303	0.96	301	-28.84	303			90	307	280	266
Wetherspoon (JD)	13	289	1	256	1.08	202	-2.38	176			233	261	173	262
Whatman	44	105	9	72	1.26	69	2.75	60			256	119	284	86
Whitbread	11	297	1	234	1.14	145	-1.91	150			98	256	87	187

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William Hill	17	274	0	287	1.02	282	-3.32	221			219	139	169	302
Willmott Dixon	48	82	1	246	1.03	276	-8.02	285			190	171	276	269
Wilson Bowden	46	96	9	77	1.24	79	2.16	65			31	41	232	52
Wimpey (George)	43	112	6	100	1.17	111	-0.34	94			98	66	162	80
Wincanton	26	231	1	275	1.02	281	-4.02	244			108	288	65	272
Wolfson Microelectronics	65	42	15	52	1.30	61	4.81	48			254	54	300	68
Wolseley	30	201	2	217	1.06	226	-3.23	213			77	167	28	201
Wolverhampton & Dudley	12	290	3	177	1.17	112	-1.51	134			156	245	210	166
Wood Group (John)	61	50	3	166	1.05	237	-9.54	290			187	239	48	203
Woolworths	10	301	0	293	1.02	277	-3.04	205			131	267	120	289
WPP	51	70	6	102	1.14	144	-2.33	170			56	190	12	84
Xstrata	39	140	12	59	1.44	41	7.15	42			16	69	89	32
Yell Group	53	66	10	67	1.28	63	3.92	51			35	117	111	34

“Innovation is seeing what everybody has seen but thinking what nobody has thought.”