

Human Capital Management

Human Resources: Return on Investment

University of South Florida

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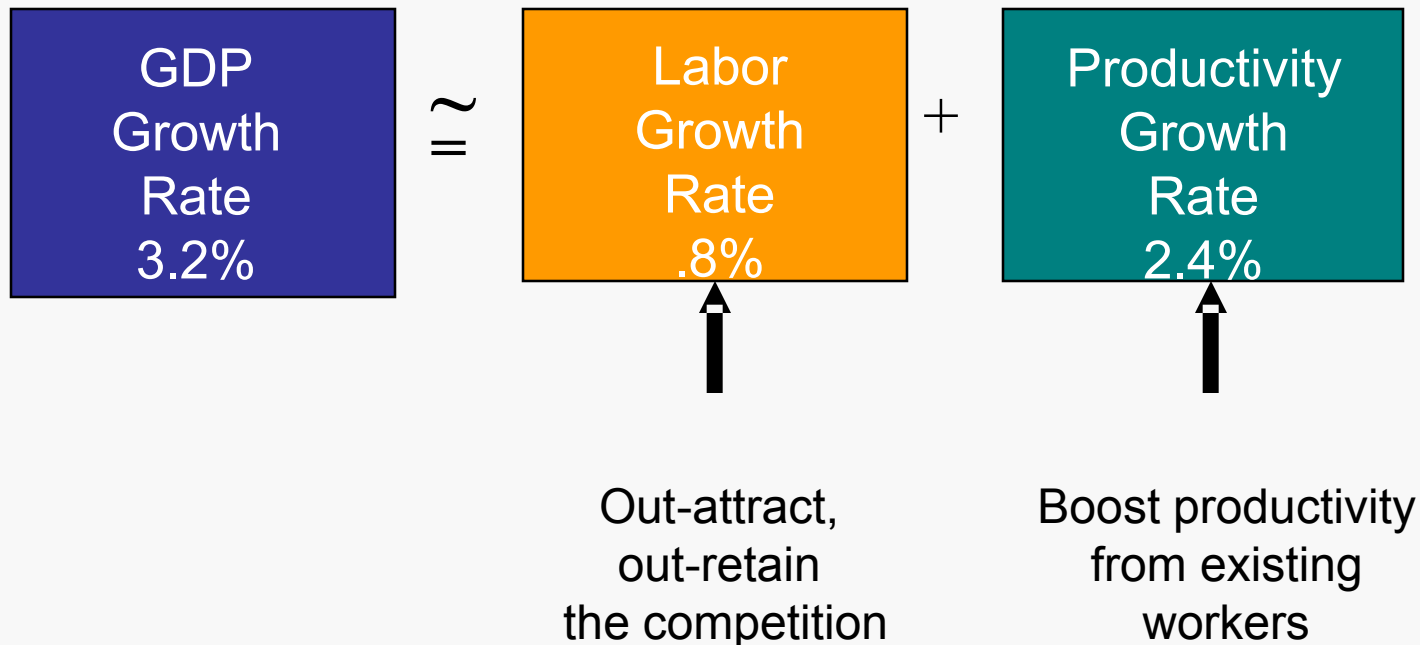


Our Game Plan

- HR's Challenge
- HR Practices that drive productivity and growth
 - Watson Wyatt's Human Capital Index™
 - WorkUSA 2002
- Ideas for driving productivity and profitability



In the next decade tremendous pressure on HR to...



What HR practices are most effective in driving productivity and profitability?





Watson Wyatt's Latest Human Capital Research

- **Human Capital Index**
 - Demonstrated the link between superior HR practices and shareholder value
 - Survey of HR executives in 750 large, publicly traded companies in North America and Europe
- **WorkUSA® 2002**
 - One of the largest statistically representative surveys on the attitudes of U.S. workers
 - Sample balanced against the Census demographics (gender, age, race, and region).
 - 12,757 participated.
 - Seventh WorkUSA® study since 1987





Key Findings: HCI

FINDING:

Superior HC practices are a leading indicator of financial performance

FINDING:

Companies with best HC practices provide 3 times the shareholder return as companies with weak HC practices

FINDING:

Specific practices drive shareholder value, while others actually diminish it

IMPLICATION:

HC practices implemented now will help companies recover more quickly from economic downturn

IMPLICATION:

HC outlays can be justified using quantitative data

IMPLICATION:

Companies can allocate resources to practices that generate the most value

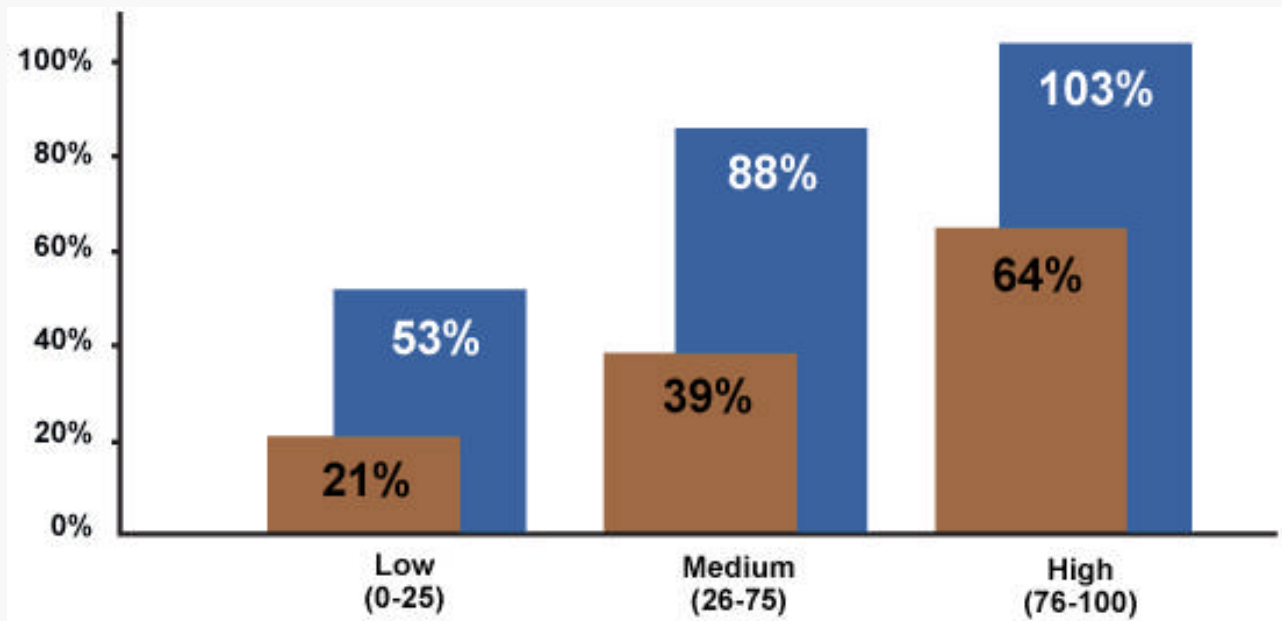


Higher HCI Companies Create More Value

5-Year Total Return to Shareholders

5-Year TRS (1996-2001)

5-Year TRS (1994-1999)



HCI Scores



What Drives What?

Superior HR Practices



Shareholder Value Creation



OR

Superior HR Practices



Shareholder Value Creation



Superior Human Capital practices are a leading indicator of Financial Performance

Superior HR Practices



Shareholder Value Creation



Key Links Between Human Capital and Shareholder Value

Total Rewards & Accountability

16.5%

Collegial, Flexible Workplace

9.0%

Recruiting & Retention Excellence

7.9%

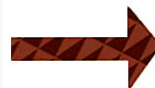
Communications
Integrity

7.1%

Focused HR Service
Technologies

6.5%

Significant Improvement



47% Increase in Market Value

(shareholder value creation)

Expected change in market value associated with a significant (1 SD) improvement in HCI dimension





Dimension #1: Total Rewards & Accountability

Benefits



Pay for performance



Recognizing variations in performance



16.5%

Expected change in market value
associated with a significant (1 SD)
improvement in HCI dimension





Dimension #2: Collegial, Flexible Workplace

Company shows flexibility
in work arrangements

3.5%

Company has high
employee satisfaction

1.3%

Trust in senior leadership is
actively engendered

1.2%

Managers demonstrate
company's values

1.1%

9.0%

Company culture encourages
teamwork/cooperation

0.5%

Company avoids titles to
designate status/authority

0.5%

Company avoids varying
perquisites by position

0.5%

Company avoids varying
office space by position

0.4%

Expected change in market value
associated with a significant (1 SD)
improvement in HCI dimension





Dimension #3: Recruiting & Retention Excellence

Company has low voluntary turnover of managers/professionals



Company has low voluntary turnover of employees in general



Company emphasizes job security



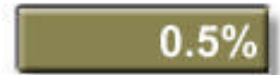
Formal recruiting strategy exists for critical-skill employees



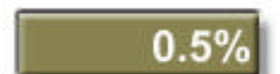
Recruiting efforts aligned with business plan



Employees have input on hiring decision



Company has established reputation as a desirable place to work



Systematic new hire orientation exists



Hourly/clerical new hires are well equipped to perform duties



Professional new hires are well equipped to perform duties



7.9%

Expected change in market value associated with a significant (1 SD) improvement in HCI dimension





Dimension #4: Communications Integrity

Employees have easy access to basic technologies for communication

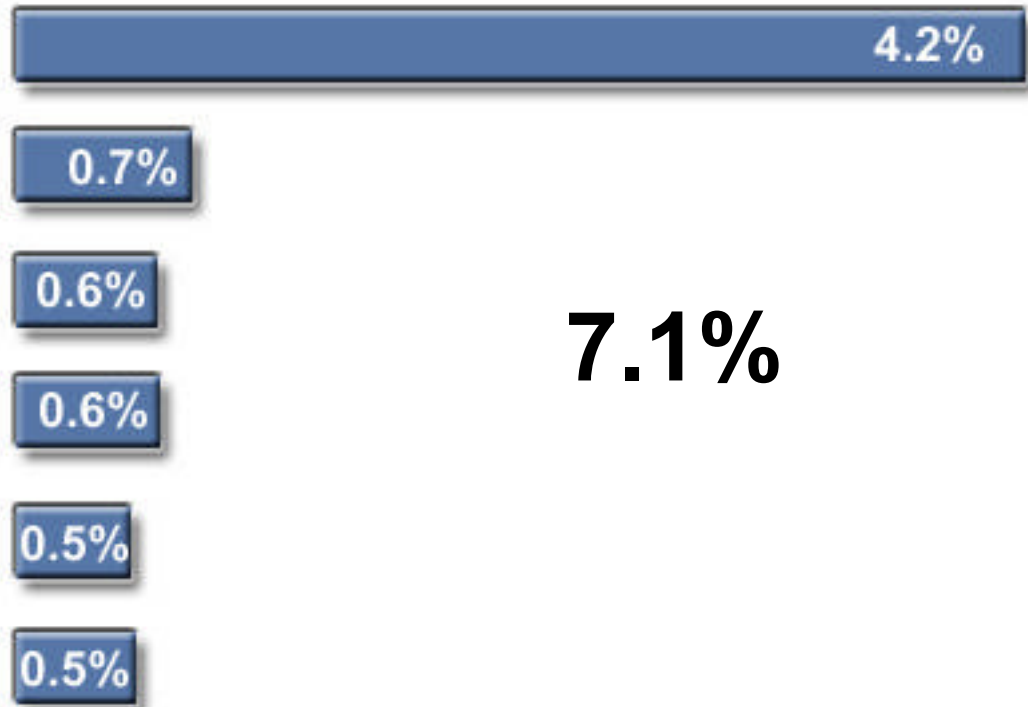
Employees at all levels give ideas and suggestions to senior management

Company shares business plans and goals with employees

High percentage of workforce participates in employee opinion surveys

Company shares financial information with employees

Company takes action on employee survey feedback



Expected change in market value associated with a significant (1 SD) improvement in HCI dimension





Dimension #5: Focused HR Service Technologies

Improving service to employees/managers is a key goal in implementing HR service technology



Reducing cost is a key goal in implementing HR service technology



Increasing transaction accuracy/integrity is a key goal in implementing HR service technology



6.5%

Expected change in market value associated with a significant (1 SD) improvement in HCI dimension





If human capital practices have such a dramatic impact on shareholder value, what's most important to employees and also drives financial performance?





Watson Wyatt's Latest Human Capital Research

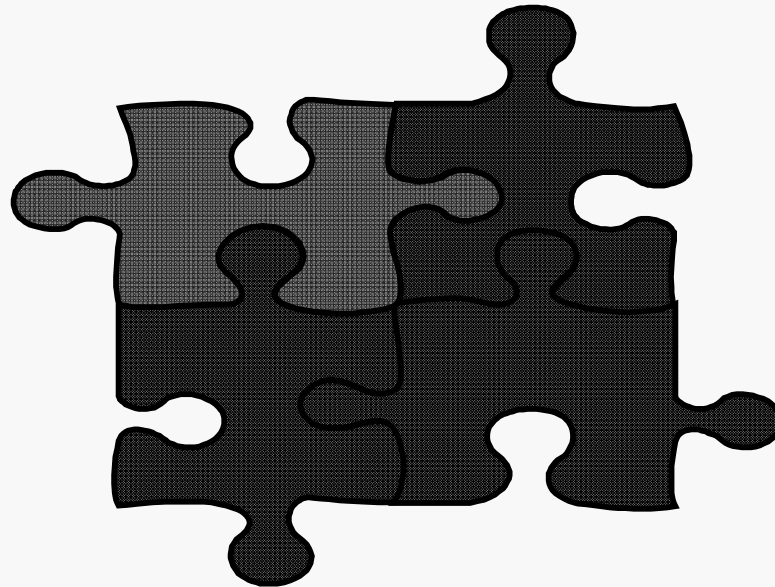
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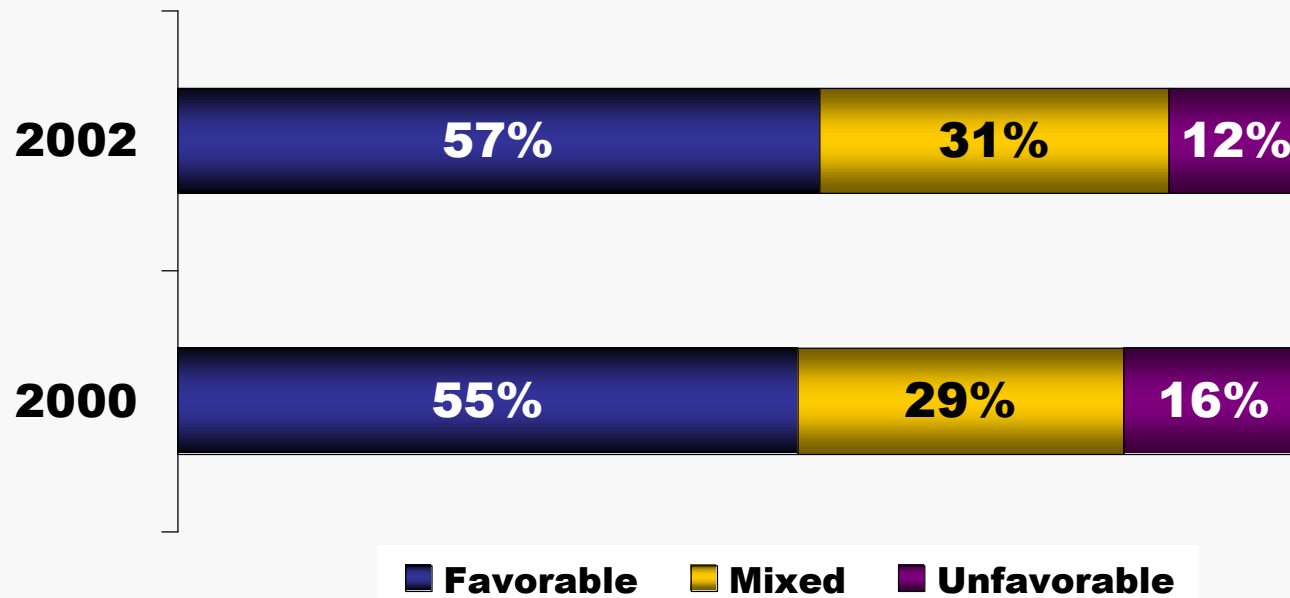
What We've Learned

Employee commitment may pay off even more for companies in bad times than in good...



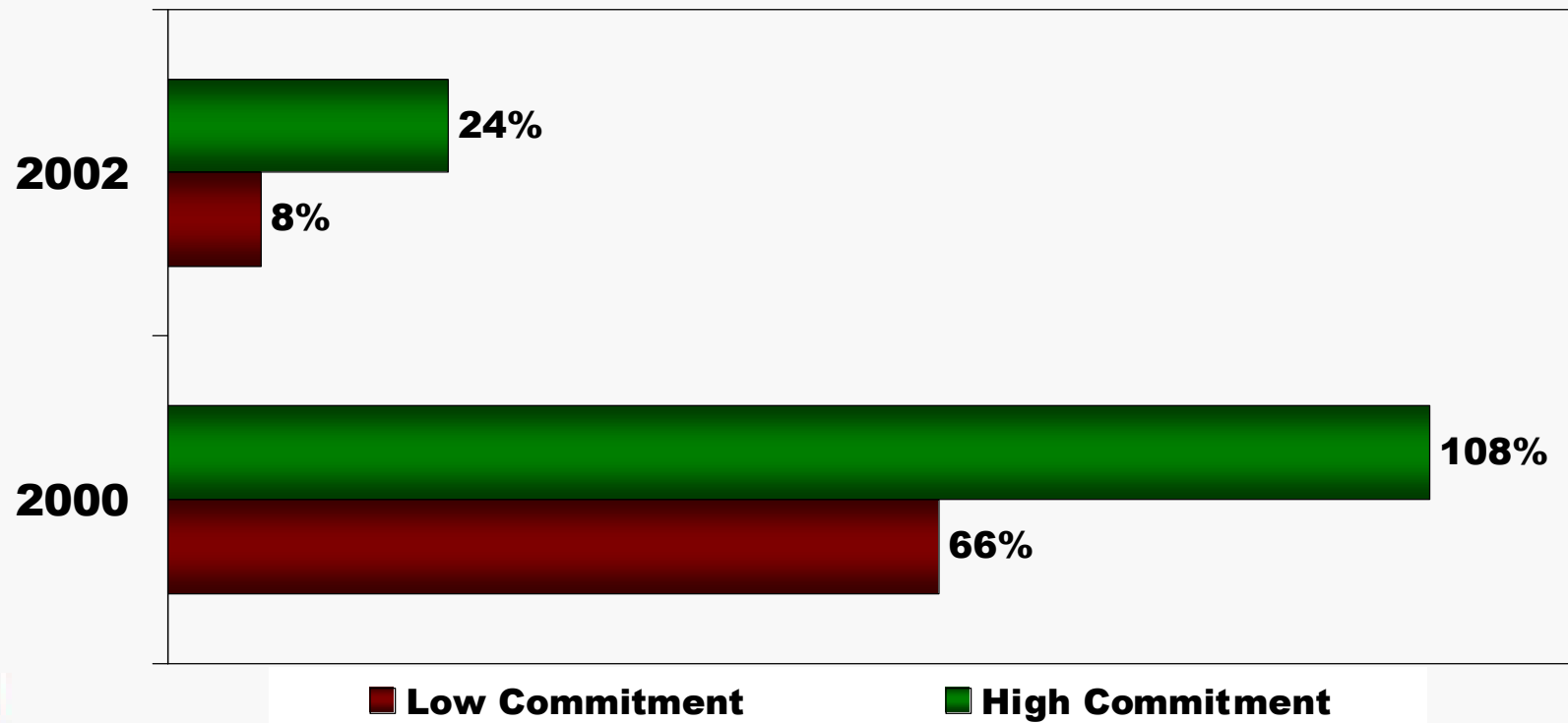
Commitment

Employee commitment remains unchanged....



Commitment

...but its impact on shareholder value has grown

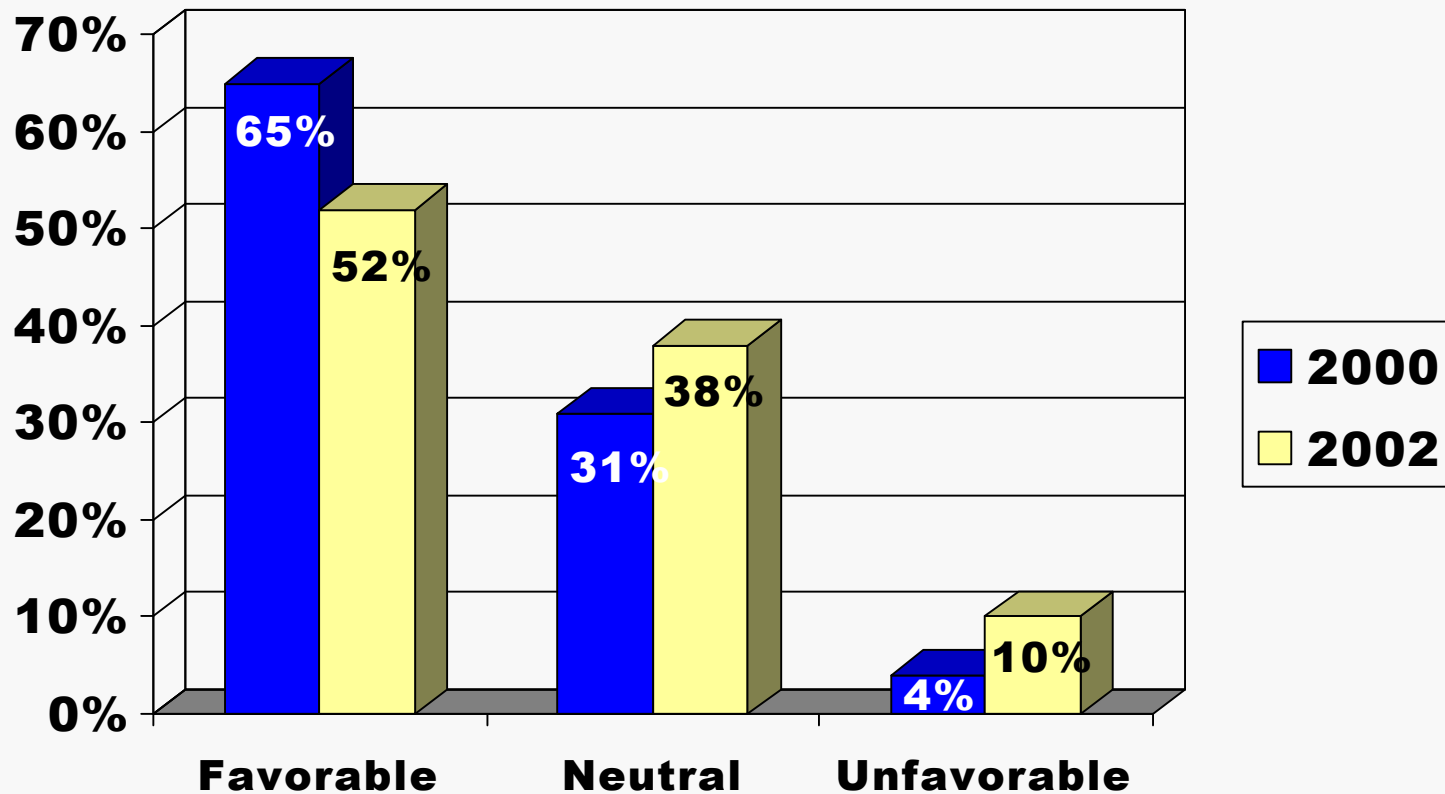


3-Year Total Return to Shareholders (TRS)



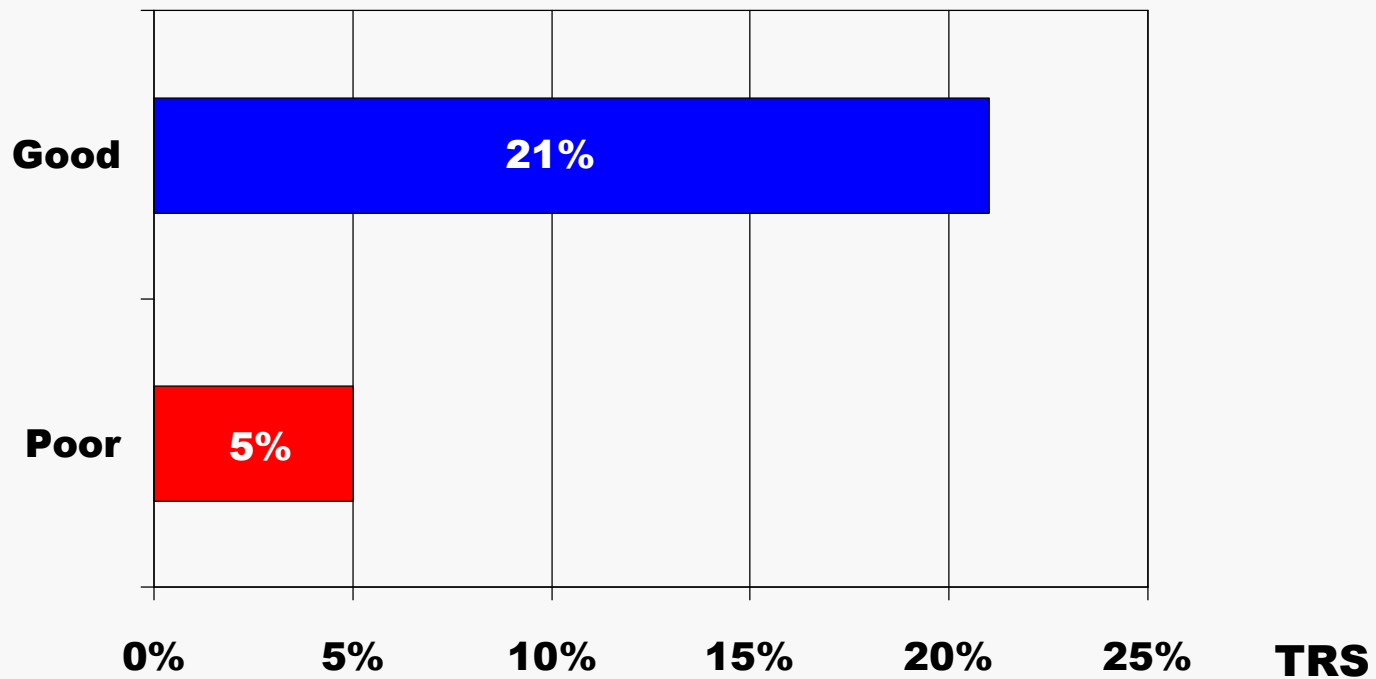
Line of Sight

Companies ability to help employees make connections between their jobs and business goals is decreasing.



Line of Sight and TRS

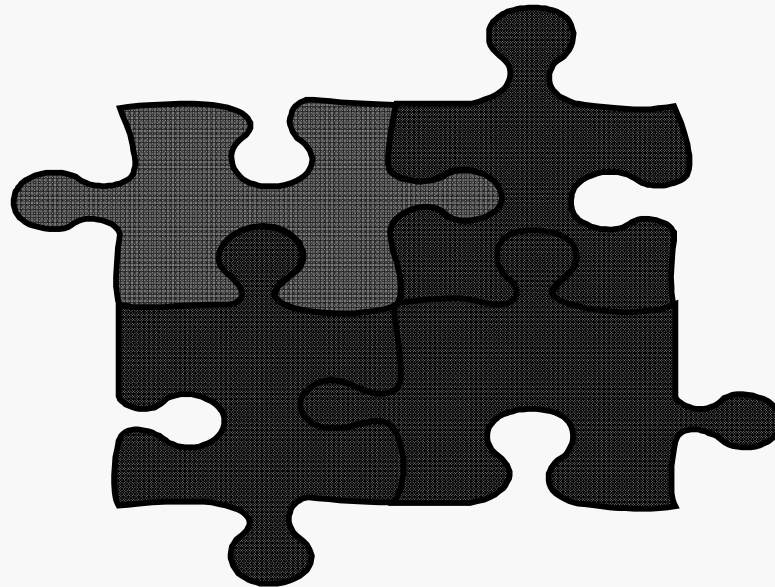
Companies who do this well have 4 x TRS ...





What We've Learned

**There is room for
improvement when it comes
to communication...**





Communication

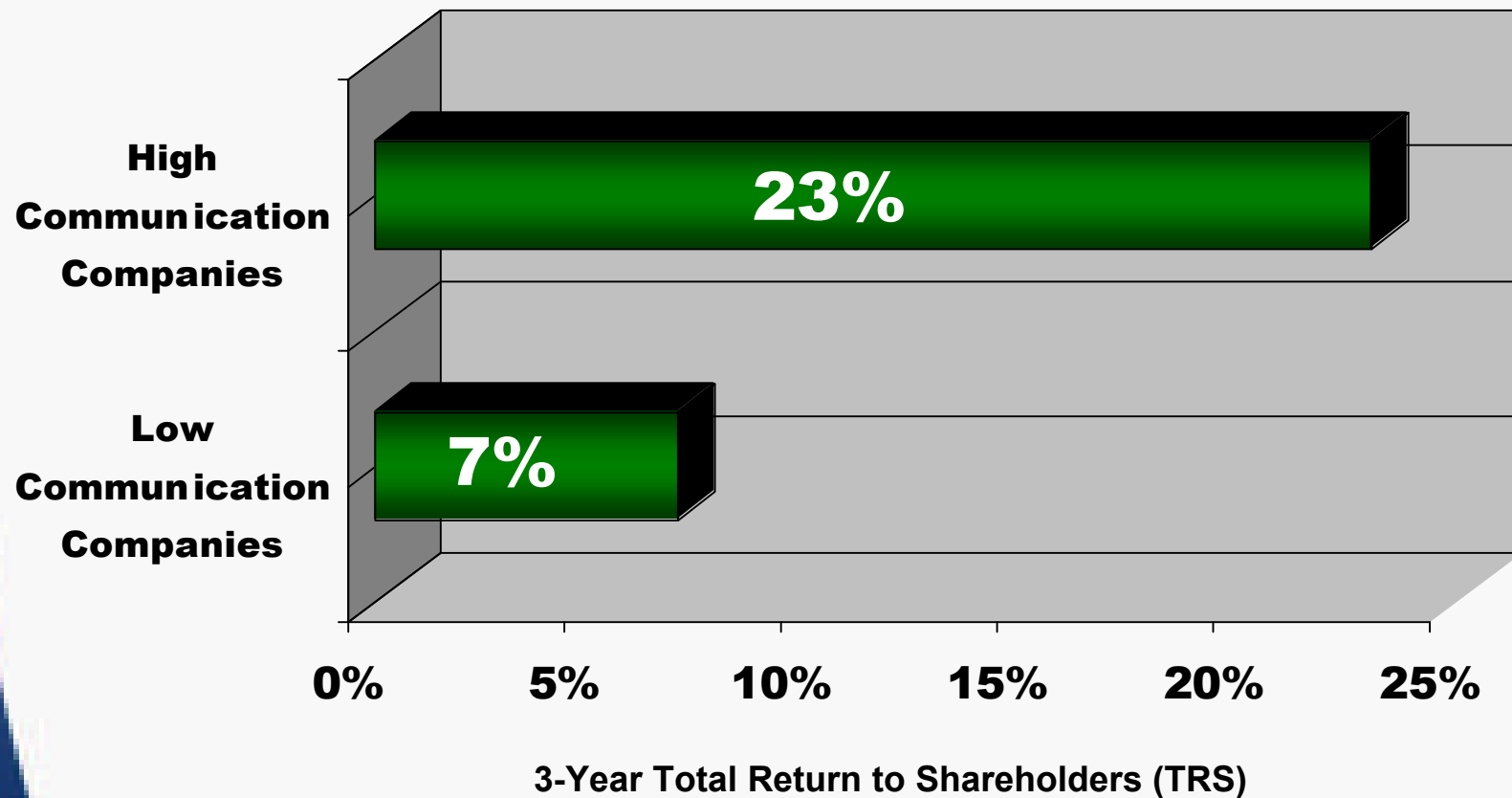
Companies must keep employees better informed...

Communication Effectiveness



Communication

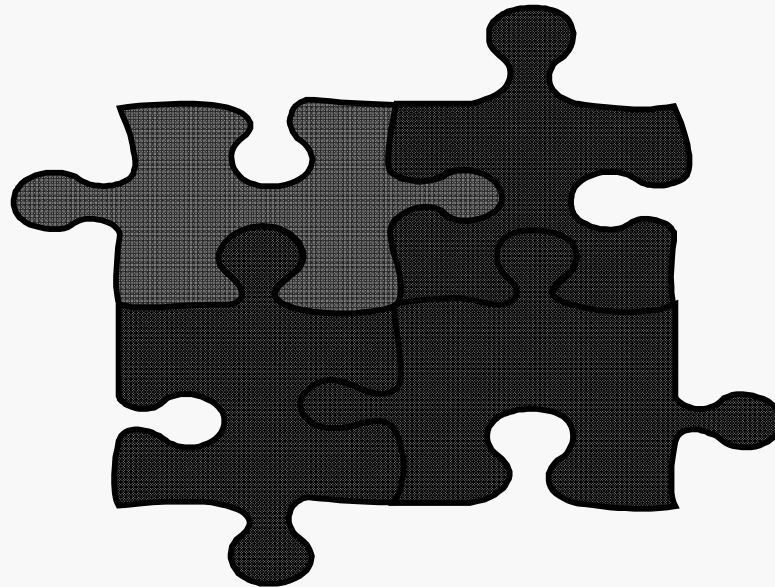
...to improve shareholder value





What We've Learned

**Companies cannot
afford to ignore their TRUST
problems...**





Breach of Trust

Trust in senior leadership is low....

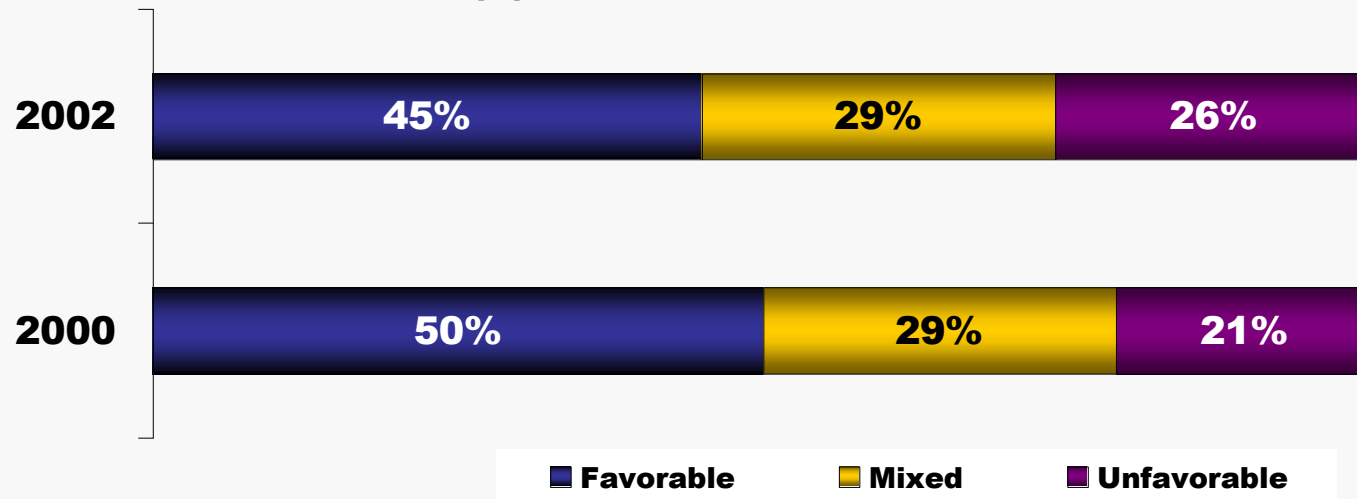
Employee Trust Levels



Breach of Trust

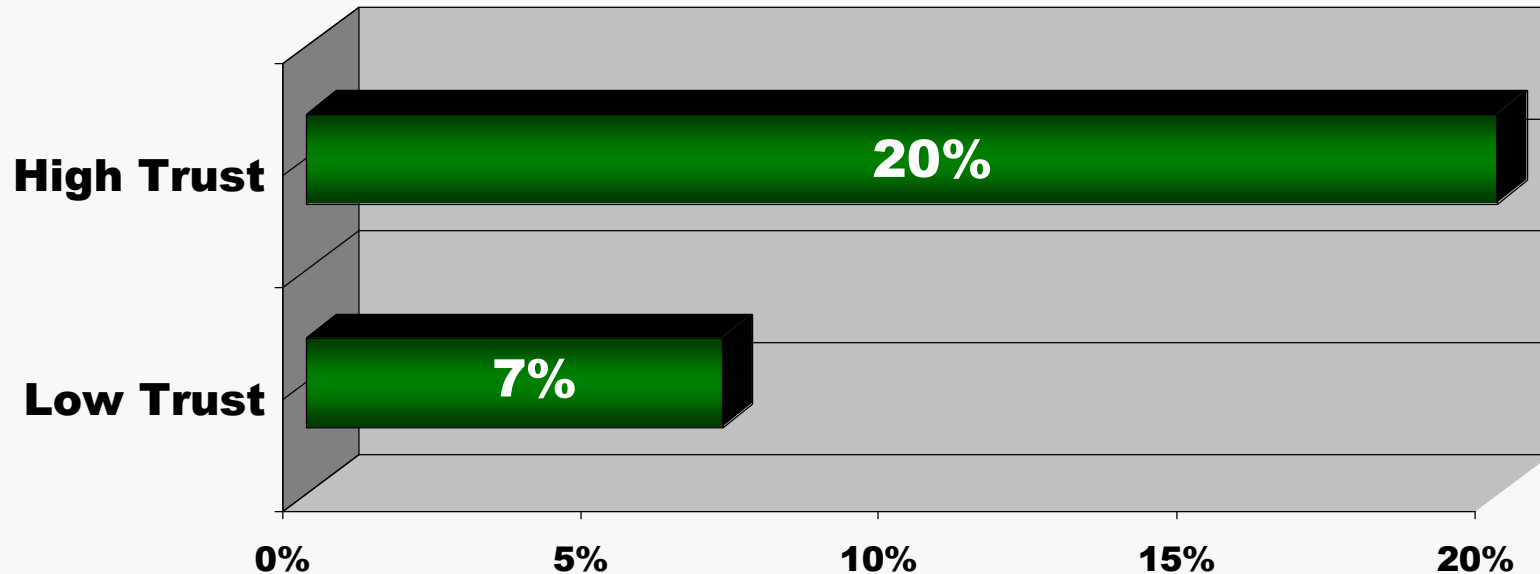
And employee trust levels are falling....

Confidence dropped between 2000 and 2002



Breach of Trust

...threatening corporate competitiveness

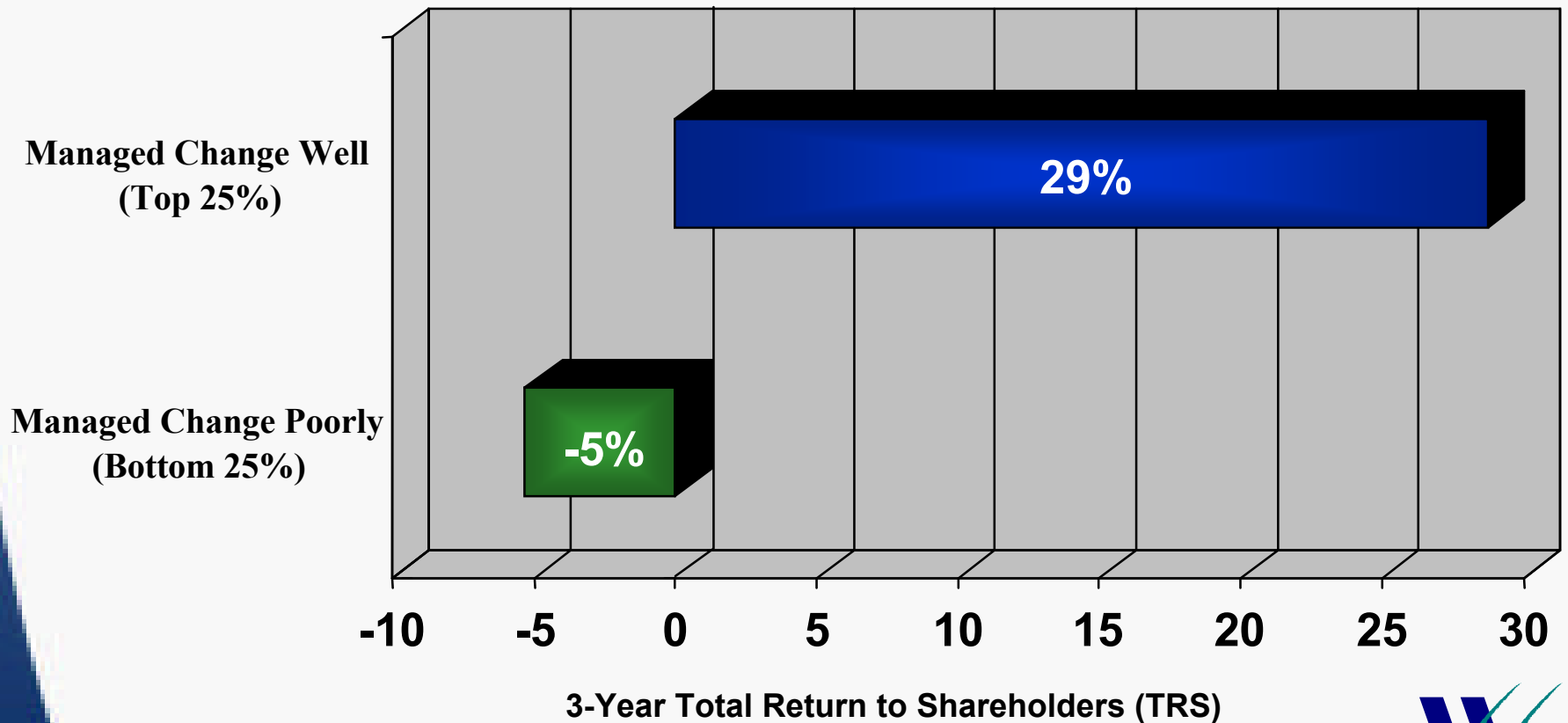


3-Year Total Return to Shareholders (TRS)



Perspectives on Change Management

Companies who manage change well enjoy higher TRS...





Perspectives on Change Management

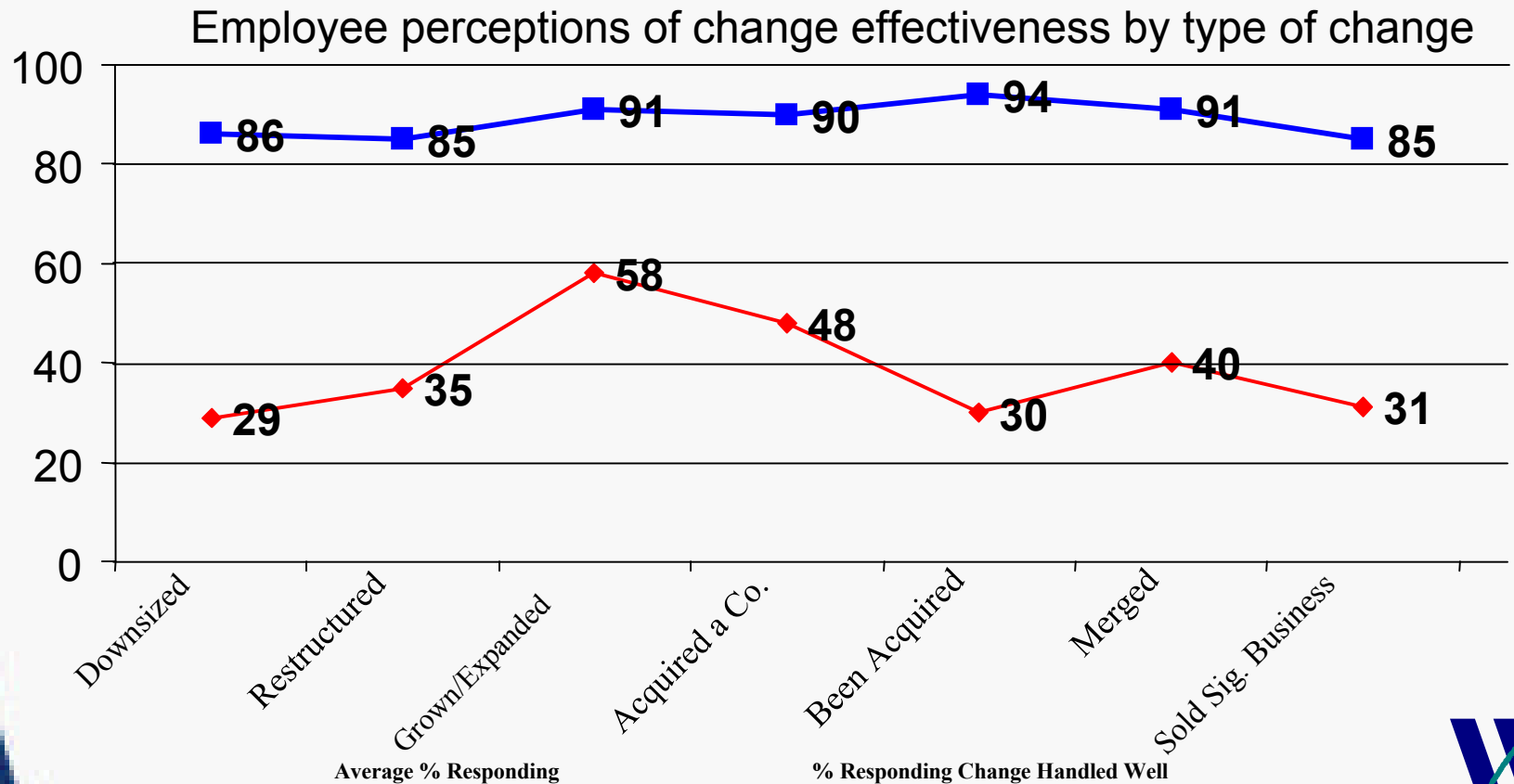
...but, employees say too few companies get it right

Employee ratings of their company's change management performance



Change Effectiveness

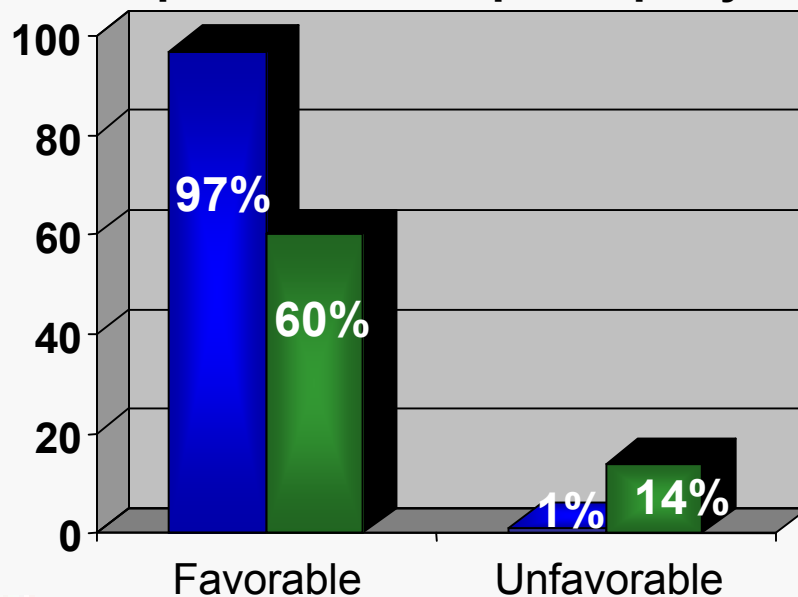
**Don't blame the type of change...
even "negative" changes can be handled well**



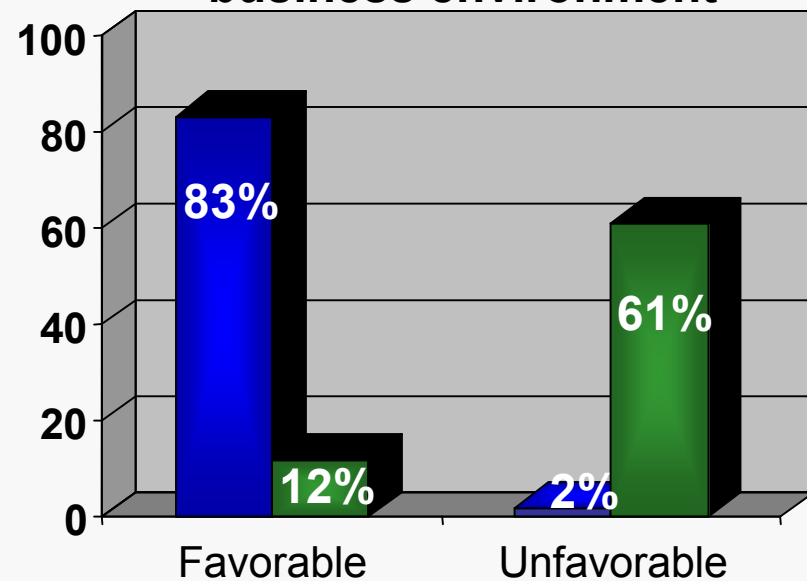
Rewards for Managing Change Well

Those who implement change well have more motivated and more prepared employees...

Willing to do as much as possible to help company



Prepared for rapidly changing business environment



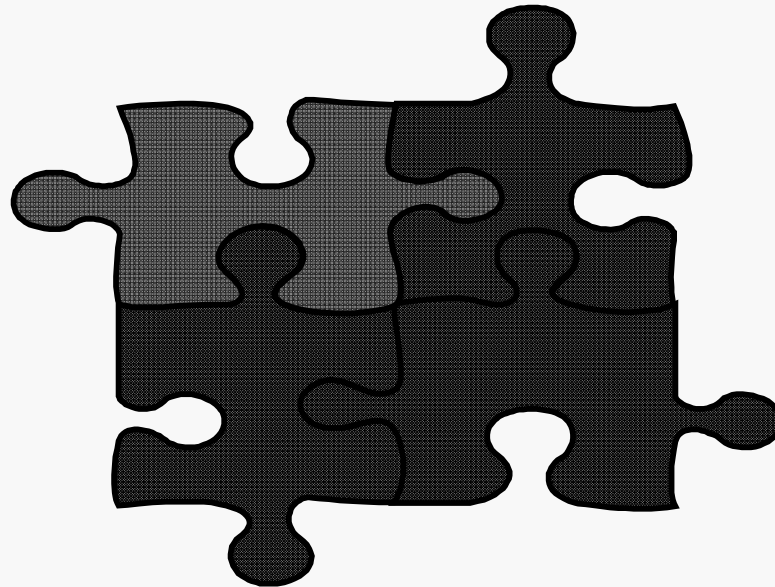
■ Change Well (Top 25%)
■ Change Poorly (Bottom 25%)





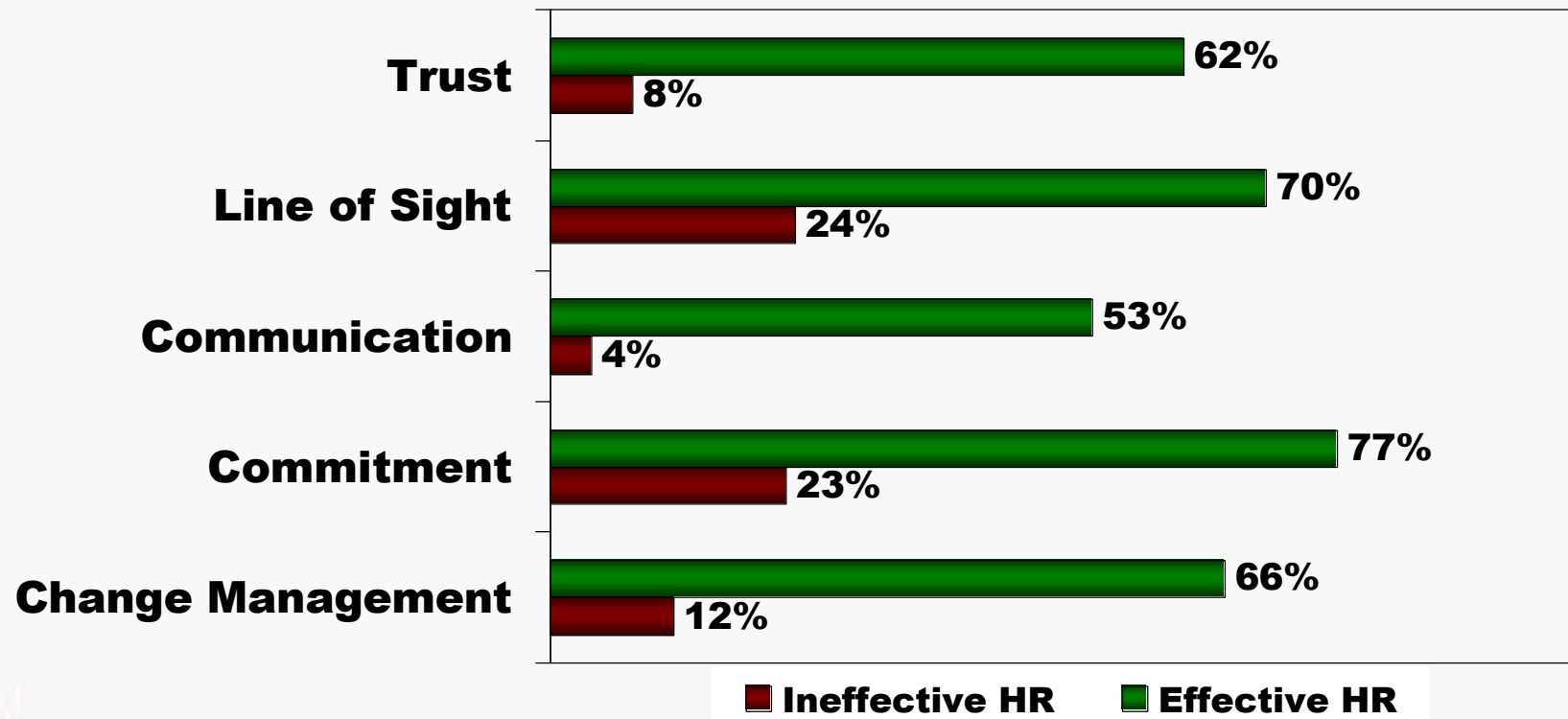
What We've Learned

Companies with effective HR functions are rated more highly by employees in a number of areas...



HR Matters

Effective HR makes a difference...

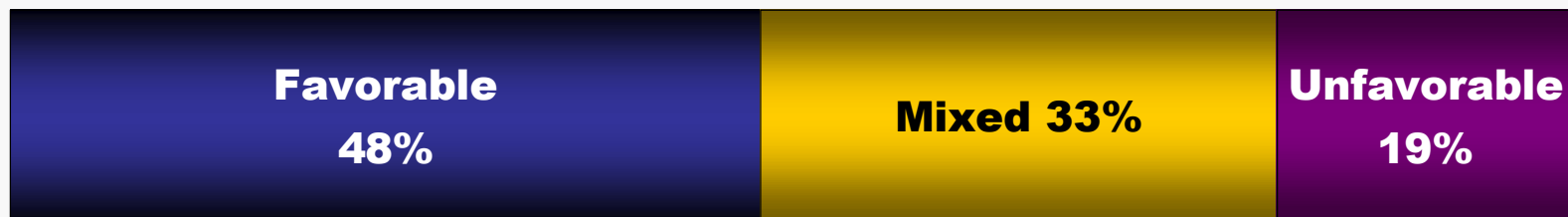




HR Matters

...but only half of companies get it right

Employee Perceptions of HR Effectiveness





Missing The Mark

Companies are failing to maximize HR's potential contribution to shareholder value...

Practice	Effect on Shareholder Value*	% of Employees Who Say Their Firms Do This Well
Company does a good job of hiring and promoting the best people	Increase	24%
Company terminates poor performers whose performance does not improve	Increase	26%
Employees at all levels provide ideas and suggestions	Increase	34%
Employees have trust in senior leadership	Increase	38%
Constructive changes occur as a result of employee feedback	Increase	12%
Top performers are paid better than average performers	Increase	35%

**Research from Watson Wyatt's Human Capital Index® Study*



What it all means –

Effective HR -- makes a difference!





Ideas for driving productivity and profitability

- ☑ Foster 2 way - open communication between management and employees
- ☑ Provide credible and effective communications about changes and manage change well
- ☑ Solicit, listen to and act on employee ideas
- ☑ Create a total reward orientation
- ☑ Hold employees accountable for their performance and reward/ pay for good performance
- ☑ Communicate the value of benefits to employees





Ideas for driving productivity and profitability

- ☑ Establish clear lines of sight: help employees make connections between their jobs and business goals
- ☑ Foster trust in senior management
- ☑ Establish a collegial flexible workplace by making work arrangements flexible and minimizing level differences
- ☑ Recruit and retain the best talent: selection processes and on-boarding are key

And remember . . .

Human capital can be a true competitive advantage
and drive financial performance!!

