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City HR Association

MEASURING UP

ADVANCED PEOPLE ANALYTICS FOR CITY EMPLOYERS

HR METRICS PEOPLE ANALYTICS LATEST TECHNOLOGIES BENCHMARKING
Alignment to Business Strategy Effective Use of Data Data Protection Governance
Culture Regulation DIVERSITY AND INCLUSION VALUING TALENT
FINTECH Outsourcing and Off-shoring Evidence-Based Decision Making
Predictive Analytics Mergers and Acquisitions Unstructured Data Standards
BIG DATA VISUALISATION TOOLS ARTIFICIAL INTELLIGENCE ROBOTICS

Second edition June 2017

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Please Note

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

2 The Editor and Programme Chair have gone to extensive lengths to verify, attribute and reference all quoted sources within this Guide. In the unlikely circumstance that something has been missed, please contact the Editor where an immediate rectification to this publication will be made to correct the omission.

MEASURING UP: ADVANCED PEOPLE ANALYTICS FOR CITY EMPLOYERS (VOLUME II)

CONTENTS

INTRODUCTION

> *The City HR Association Metrics Working Party does not advocate 'metrics for metrics sake'. Rather it is believed that HR needs to understand how the information will be applied and what benefit future tracking of these metrics might provide.*

This is the second edition of the City HR Association guide to People Metrics. It is intended to supplement the information contained in the first book that was published in May 2012. This first edition can be accessed from the City HR website[1]. Much of what was written 5 years ago is still relevant today, and so this book builds on Volume I and does not attempt to repeat the information contained in that edition.

Technology has moved on considerably in the past 5 years, and so it is appropriate for the City HR Association to provide its members with an update on new technologies and approaches to HR Metrics.

There is an increasing demand for people metrics from the Board, leadership team and stakeholders, as organisations seek to ensure that their employee decision-making is well-founded and robust, and that the outcomes are compliant with governance, statutory and regulatory requirements.

This presents both an opportunity and a challenge for the HR profession as the custodians of data that, with skilful collation, analysis and reporting, can influence strategy and manage risk.

In an article which appeared in HR magazine in April 2017 Rob Gray[2] stated that *"HR has sometimes been accused of jumping on the analytic bandwagon: measuring things and data without questioning the goal and value of the exercise, and without giving due consideration to how data should be interpreted. … Even so, there is much to be learnt from how others are striving to shed outdated or pointless data to focus on metrics that matter. This drive towards improved metrics can be seen across a broad span of HR-related areas."*

The City HR Association does not advocate "metrics for metrics sake". Rather it is believed that HR needs to understand the aims of the person requesting the information, how the information will be applied and what benefit future tracking of these metrics might provide. Collecting and analysing data allows for an evidence-based approach to solving HR-related business problems.

KNOW YOUR AUDIENCE

The provision of HR Metrics very much depends on the target audience. Specifically: who needs the information, why do they need it and what added-value can be provided by the metrics presented?

The extent of HR metrics required depends on the size, business, complexity and sophistication of the organisation and where it is in its business or life cycle. For example, an organisation that is going through a 'boom' relating to its products and profitability will have different needs to one that is consolidating, due to a downturn in its fortunes or as the result of a merger.

MEASURING UP: ADVANCED PEOPLE ANALYTICS FOR CITY EMPLOYERS (VOLUME II) takes HR metrics to the next stage in terms of both methodology and practice.

This guide explores how HR can draw on data from different sources, how the data relates to numerous organisational and people issues and the use of different technologies and analytics to present information in a meaningful way to management and to the leadership.

The topics contained in this book have been chosen by a group of expert HR practitioners and each chapter has been written by one of them.

This is a practical guide, aimed at City employers. It draws on the experience of practitioners and experts, refers to academic thought-leadership and scientific research and is illustrated with organisational case studies and a storyboard to bring the topic to life.

Each chapter provides practical insight, clearly setting out how organisations in the financial services sector are currently utilising advanced people metrics in their organisations to aid their business decision making.

This volume also contains chapters on new industries, advanced technologies, applications and approaches that are especially relevant to the financial services sector.

THE AGE OF TECHNOLOGICAL ADVANCEMENT

The degree to which an organisation can collate and analyse metrics and the sophistication of their reporting is down to the accuracy and range of the information stored, the data storage and maintenance method and the ability to interrogate and interpret this data.

For some smaller organisations, data may be kept on spreadsheets. Larger firms may have market-leading HR Systems, that can produce real-time information and provide pre-approved levels of information to the manager and employee alike. Oracle, a leading global provider of Human Capital Management Systems, has contributed a chapter to address the role, potential and implications of advanced technologies.

HOW TO USE THIS GUIDE

As in the 2012 edition, where an appendix captured the most important aspects of best practice for HR metrics, this same structure has been repeated in this Volume II. The HR Metrics are categorised in 3 zones, named the Red Zone, the Amber Zone and the Blue Zone. Each zone is described below.

RECORDING Minimum level	INFORMING Added value level	DRIVING Influencing and directing level
The Red Zone is the HR metrics and data that all organisations should maintain for statutory or base reporting reasons.	**The Amber Zone is the HR metrics and data that all organisations could maintain if wanting to improve the integrity of data and decision-making.**	**The Blue Zone is the HR metrics and data that many organisations could aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making from the Board down.**
As it provides the minimum level of data that should be collated it is referred to as the Recording Zone	**As it is perceived to provide added value to an organisation's collation and analysis process it is referred to as the Informing Zone.**	**This zone is often believed to contain an element of blue sky thinking. As this data is at the advanced spectrum of HR metrics – and seen as cutting-edge - the analysis is seen as being at the influencing and directing level and it is referred to as the Driving Zone**

Much of the content from the first edition of this booklet is still relevant today. This edition has built on and updated the work that was done in 2012 and this is set out in the order of the chapters in Appendix 1.

An explanation of information that would typically fall into each of these zones is given below.

The Red Zone

Historically, at the most fundamental level, HR metrics have been used by organisations to hold crucial employee information, to comply with statutory and regulatory requirements and for the administration of pay and benefits. This has included the assimilation of employee data for the annual salary and bonus review, often linked to employee performance data. This includes information that is required by government and regulators relating to culture, behaviour, compliance, remuneration and competence.

The Amber Zone

Moving on from the fundamental level is the desire for HR metrics that provide more detailed insight above the statutory requirements. Examples would relate to talent pipeline, diversity and inclusion analysis, employee engagement, performance management and reasons for attrition where the reporting can highlight issues, determine trends, reinforce best practice and identify unnecessary costs with the opportunity to redress the situation where feasible. At this level of HR metrics, organisations recognise the benefits of exceeding their minimal reporting duties and are looking to add-value by using HR metrics to inform their stakeholders of trends and insights.

The Blue Zone

For some organisations, this is a new phase in corporate analytics and Board level decision-making, but for others this is aspirational which is why it has been referred to as blue-sky thinking in formulating the zone classifications. This zone contains techniques such as predictive analytics and the use of advanced technology, which may require workforce planning for the future. Examples would include Artificial Intelligence and Robotics.

The emphasis here is not only on the range and depth of information but to facilitate more sophisticated data analysis to improve strategic decision-making from the Board down. At this stage, the HR metrics are becoming influential and are used to help drive the strategy of the organisation.

GLOSSARY OF TERMS AND ACRONYMS

A Glossary of the Terms and Acronyms that have been used within this book are set out at the end of the book.

IN CONCLUSION

City HR Association is fully aware that many financial services organisations have not yet made the transition to more sophisticated HR metrics approaches.

It is hoped that by reviewing the information provided in this book HR, practitioners will be able to consider whether it is appropriate to enhance their approach to HR metrics and so provide their organisations with more valuable insights concerning the operational and strategic issues they may wish to address.

In summary, it is hoped that this guide will help HR practitioners to address the right type of metrics to the right stakeholders in a way that supports or adds-value to the performance of HR, the business and the individual.

References

1 *MEASURING UP: A GUIDE TO PEOPLE METRICS AND PERFORMANCE FOR THE CITY* www.cityhr.co.uk/library

2 *HR Magazine*, 3rd April 2017, Rob Gray: The Metrics that Matter.

SECTION ONE

ADVANCED HR METRICS IN CONTEXT

CHAPTER ONE: WHY DO PEOPLE METRICS MATTER?

This advanced guide to people analytics begins with looking at why HR metrics matter in the age of digitisation and globalisation and - if they do matter- what purpose do they serve and how does this interrelate with the myriad of information available within organisations today. Since the publication of City HR's foundation guide in this series "Measuring Up: A Guide for People Metrics and Performance in the City" the desire to focus on the right metrics from integrated sources to inform robust and structured decision-making has become significant. This is set against a backdrop of evolving technology, which enhances the capture, management, analysis and presentation of data from wider platforms such as social media and cloud technology. All of these issues are explored in depth throughout this guide.

In this chapter, the focus is on the rationale for valuing people analytics from the perspective of the finance profession, business leaders, pre-eminent academics and the HR practitioner. The case is also put as to why people metrics matter, to whom, how the data is analysed for optimum effect and the need to ensure that it is targeted and meaningful.

> *"People analytics and, in particular, the insight that it can provide are critical tools for senior stakeholders in engaging and managing a diverse employee base. When used properly, these tools add real business value."*
>
> Paul Hucknall, People Director, Centres of Excellence at Lloyds Banking Group, and Chair of the City HR Association

Introduction

Since the publication of the first guide in 2012, a new generation of interest has evolved in the power of people metrics with recent studies placing considerable emphasis on the role between finance, HR and technology and the importance of academic insights ranging from the valuation of human capital through to the introduction of a new specialist in the field of people analytics in the form of the Data Scientist.

There is no doubt, however, that emerging technologies are also a major influence on people metrics. The threat to established business models has been identified in a joint research publication by the Chartered Global Management Accountant (CGMA) and Oracle in November 2015 as a result of digitisation. This has seen the shift from the finance function being the sole provider of management information and performance measures to other business units also being providers of data and analytical insights. As human capital is the largest asset for many organisations, this creates a higher dependence on people metrics. This is evidenced through research in a comprehensive study "The Digital Finance Imperative: Measure and Manage What Matters Next".[1]

The changing face of data ownership in business performance management

According to the CGMA and Oracle report, the world is changing and here they explain why.[1]

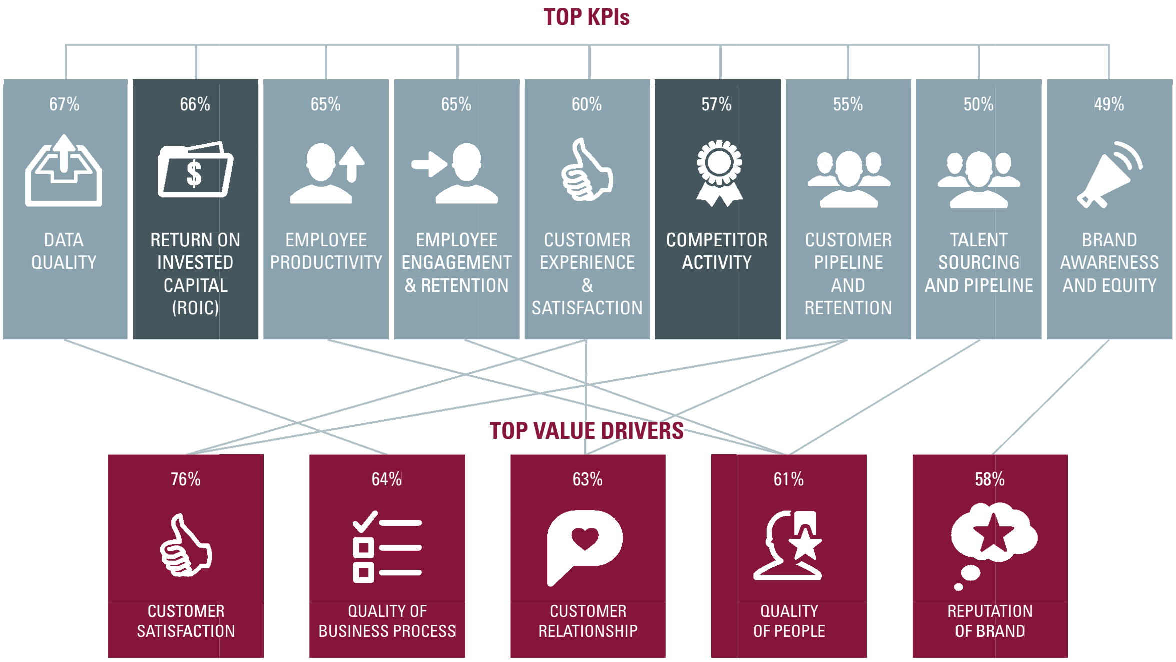
"Digitisation and globalisation cause commoditisation and threaten established business models. Intangible assets – such as brands, customer relationships, intellectual property and human capital have become the main value drivers in business. Consequently, business leaders may need to adapt their business models or develop new ones. To achieve this, quality decision-making and value-creating data insights are essential, and are rapidly becoming determinants of organisational success. Equally, organisations need new measures to manage performance, develop intangible assets and achieve their strategic goals."

Taking the value of intangible assets first, the need for people metrics is explicit as human capital has become a core intangible asset in the armoury of C-Suite decision-making. However, as later chapters of this book will demonstrate, people metrics also provide invaluable information in the context of the organisation's brand and in developing the talent, skills and ethics to enhance the customer experience. The use of engagement surveys is now endemic in most organisations and is a test of how individuals feel about working for the organisation. The data from exit interviews gather feedback about how employees really felt about working for the firm particularly relating to its culture, products, management, employee benefits, career development and equal opportunities. However, in the digital age, the brand is also impacted by the data posted on social media such as Glassdoor which provides an external platform for understanding the employee experience in working for a firm.

A need for new measures to create long-term value whilst meeting operational needs was discovered through the CGMA survey to rank first to fifth the most important value drivers to businesses. Based on 744 responses, the Top Value Drivers following emerged in order of importance:

1. Customer satisfaction - 76%
2. Quality of business processes - 64%
3. Customer relationships - 63%
4. Quality of people (human capital) - 61%
5. Reputation of brands - 58%

Then came the need to rank the most important Key Performance Indicators (KPIs). There were 8 KPIs that were ranked by more than 50% of the respondents' businesses and one KPI that was borderline which related to brand awareness. Aligning the KPIs to the Top Value Drivers yielded the following results.



Relating KPIs To Value Drivers

Looking at the 9 KPIs cited above, it is clear that five of these KPIs have a direct impact on the performance management of the business. These are: data quality, employee productivity, employee engagement and retention, customer experience and satisfaction (through appropriate recruitment, training and induction of the internal resource to support the customer) and talent sourcing and the pipeline. It can be argued that the remaining KPIs are indirectly impacted by people management as they are the successful outcomes of good resourcing and training.

It is therefore evident that people metrics have a material impact on the organisation's people. The report also concludes that

"Business units that generate data about intangible assets also tend to own it. As such, they are the most likely providers of analysis and performance management based on this data".

Why people metrics matter – the business and finance perspective
According to Nick Jackson, Board Member of the Association of International Certified Professional Accountants, and Council Member of the Chartered Institute of Management Accountants:

"Whilst the CFO and the accounting and finance function focus primarily on financial measures, there is a considerable role for the Chief People Officer and HR to provide financial analysis for decision-making and performance management purposes. Much of the management information and key performance indicators which are valued by the Board are related to intangible assets, including human capital. These include the ownership, analysis and reporting of employee data on issues which have a direct impact on the profitability of the organisation such as productivity, engagement, retention and succession planning.

However, people analytics extend beyond assessing current or predicted organisational performance based on human capital. They also inform the wider stakeholder experience. Using predictive analytics to maintain and retain the talent pipeline will ensure the right skills and behaviours are developed to serve customer requirements and society needs and to protect other intangible assets of the firm such as the brand.

For these reasons, the focused use of human capital management information and performance analysis is a powerful tool for decision-making".

Why people metrics matter – the business and HR perspective

Other business leaders also believe that there is a significant role for HR to play in the production of robust and meaningful metrics against the backdrop of fast technological development. Peter Cheese, Chief Executive of the CIPD, says:

"To understand and create the right outcomes as we seek to build successful and sustainable organisations for the future requires data and evidence that leads to insight and action. Data about our workforces, our organisation, and the impact of the various HR interventions, processes, and programs has never been more important, but also is growing at a tremendous rate as systems and new technologies enable data collection across so many dimensions of the modern workplace and our people.

The challenge for HR has long been in understanding and making sense of the data, both quantitative and qualitative, and in linking it to critical business outcomes and drivers. We need more of a common language, and work referenced in this report is helping to create more standards and common definitions of key metrics. Not only have we sometimes struggled in speaking the language of business, but we also have not had a common business language of HR. We must also question what data is important, starting from understanding of business relevance - Einstein's observation that not everything that counts is counted, and not everything that is counted counts is particularly true in the context of a growing mountain of organisational data.

There is no doubt however that we are making progress and that there is a strong and growing focus on HR metrics and data, and analytical capabilities, alongside a growing demand for evidence and insight within organisations. We can also see the growing external demand for greater transparency on the make up of organisations, diversity and pay, investments in skills, and even into areas of understanding of corporate cultures. This publication pulls together a great range of insights, current practices, and future direction in this vital part of our profession and business as a whole, and will help encourage further progress".

Peter Cheese, Chief Executive
CIPD, the professional body for HR and people development

Why People Metrics Matter – the HR Leadership Perspective

Many of the insights provided throughout this book have been contributed by senior line HR practitioners. Their stories are told through their thought leadership and – in most cases – supported by relevant academic and scientific research which dovetails with their personal and organisational experience. The case studies also feature important HR initiatives which have made a difference and been beneficial to their stakeholders. For this reason, people analytics has become a recognised and important part of the HR toolkit. This is reinforced by Paul Hucknall, People Director, Centres of Excellence at Lloyds Banking Group, and Chair of the City HR Association when he says:.

"People analytics and, in particular, the insight that it can provide are critical tools for senior stakeholders in engaging and managing a diverse employee base. When used properly, these tools add real business value."

A case study provided by Jardine Lloyd Thompson, a leading insurance broker, features their Emerging Leaders Programme. Whilst the aim of the programme was to retain their corporate culture, develop managers with collaboration skills and to work globally, a measured – and welcome - outcome of the programme was the number of internal projects which delivered enhanced results to the bottom-line. This is their story.

JLT Emerging Leaders Programme (ELP) Case Study

Context for Programme

JLT is one of the largest specialty risk and advisory brokers in the world leading the way in aerospace, construction and energy in particular. It now has around 12,000 employees worldwide and has grown rapidly both organically and through acquisition. One of the challenges of fast growth has been developing a talent pipeline to ensure sufficient potential leaders in this fast-paced context.

To sustain their rapid global expansion and retain their corporate culture they needed a strategy that develops existing talent as emerging leaders. Moreover, the business requires that leaders and managers have highly developed collaboration skills so that they can work across geographical and organisational boundaries.

Programme Design and Delivery

Internal research indicated that JLT previously had a dominance of 'push styles' of leadership within JLT whereas it wanted emerging leaders to be able to heighten their own self-awareness and consider their personal communication style and how this influences their working relationships.

A 9-month Emerging Leaders Programme (ELP) was created with a number of elements which were integrated to enable a sustained personal change in leadership capability:

In summary, the ELP programme aims were to

- Focus on what it takes to build and maintain winning teams
- Create a high-performance culture
- Lead teams where people can go from good to great.

The tools used to support the programme were:-

- In-depth psychometric profiling and an assigned personal development coach for the duration of the programme to give feedback and provide support around behaviour change and career planning.
- Self-learning modules developed with the Open University around self-awareness, commercial skills, influencing others and leading change.
- Commercial project to provide a "stretch" experience throughout the programme and apply the learning at JLT.
- An 8 day intensive residential experience in the UK designed with a leading sports performance consultancy to help create a high performance environment and learn from elite level sport and psychologists around leadership and performance.

The residential included several highly innovative elements such as the use of equine-assisted leadership which was very powerful in embedding the importance of "pull" style influencing given that horses will only be led when trust and openness is created. They will not be forced!

The success of the programme is reinforced by the increased demand for places each year and feedback from participants. Review of all programme elements has been outstanding and the long-term impact is shown from the activity due to the commercial projects initiated from the ELP.

These projects are delivering bottom-line benefits throughout the company. These include :

- 9 concerning business efficiency
- 5 about revenue improvement
- 3 concerning improved productivity
- 3 about investment and growth
- 2 concerning collaborative working and
- 2 concerning client relationship.

JLT analyse their talent pipeline and succession planning constantly and link this process to the nomination of participants for the ELP to create a joined-up process.

At the end of the programme, each participant reviews their progress on development plans and the commercial project provides the springboard for future progression within the business. The organisation also monitored entry to the programme to ensure that there was a gender balance as part of the overall equal opportunities policy. The results reflected that the number of female candidates recommended and entered for the programme were almost equal to the male population.

Will Mitchell, Head of Talent Programmes, JLT, commented:

"This was a very high-profile programme and the first time we'd brought together such a large group at this level in a structured way. We took some calculated risks, including a day on equine leadership, which is relatively new to the UK and unknown in the insurance industry. It gave a true sense of emotional intelligence and what leadership is about."

Using scientific findings in HR decision-making

The integrity of the data collated, analysed and reported is paramount, according to Professor Rob Briner of Queen Mary University of London and Scientific Director at the Centre for Evidence-Based Management.

"Evidence-Based Practice involves making decisions based on a combination of critical thinking and the best available evidence. HR Directors should draw on four sources of evidence both to identify problems and potential solutions: Scientific findings found in the academic literature; the HR Leader's and their team's professional experience and expertise; data from within the organisation; and, stakeholders' values and perceptions. For each piece of evidence found, it's relevance and reliability should be assessed so that attention is always focused on the best available evidence".

The evolving role of the Data Scientist

One trend that is starting to emerge in the world of People Analytics is the need for organisations who are serious about metrics to hire Data Scientists. These individuals have the skills to analyse vast amounts of big data through writing code, identifying complex correlations and deriving algorithms. These skills are in short supply and have not yet translated to "the norm" within HR departments, but certainly those firms who are in the blue-sky thinking zone around People Metrics will have created this role or have this skill-set within their sights.

In summary

It is beyond doubt that people metrics are now a vital tool in the HR toolkit and – if used wisely – are a critical part of organisation decision-making as intangible assets now create significant value for many businesses. There is an emerging trend for people analytics to be an integrated part of management information reporting as it contributes to the work of the finance function – alongside other business units – in providing key performance measures. However, people analytics come with a health warning. HR Leaders would do well to look at the principles of Evidence-Based Practice to ensure that their data is well founded.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones. This is not applicable for the information in this chapter.

References

1 The Digital Finance Imperative: Measure and Manage What Matters Next by the Chartered Global Management Accountant and Oracle (2015)

CHAPTER TWO: ALIGNING THE PEOPLE AGENDA TO THE BUSINESS STRATEGY

With the advent of 'big data,' the evolution of the data scientist and the tools to produce insight from this data, people data can be relatively quickly and easily coupled with data from the business, such as cost and productivity, to give a holistic view of performance or impact of HR initiatives.

This chapter discusses how data driven insight shapes virtually every business decision and asserts that Human Resources cannot be left behind in this data revolution. In order to be able to adopt a sophisticated HR metrics approach, HR Directors need to be data literate and open to new ways of looking at people data. It shows how HR leaders can apply their professional judgement to people metrics and predictive analytics to add real and meaningful insight in their conversations with business leaders.

Introduction

In today's financial services sector, data is king. Data driven insight is what shapes virtually every business decision at board level and throughout an organisation. From balance sheet and P&L, through sales and customer forecasting to brand management, data shapes how senior leaders act and respond.

Robust data is needed to satisfy the regulators that, in this post financial crisis world, an organisation is secure and is mitigating risk as far as reasonably practicable for the benefit of customers, clients and shareholders. Data driven insight drives increased shareholder value, business growth and return on investment.

"A full 90 percent of all the data in the world has been generated over the last two years"[1]

Big data – data in the millions, billions and trillions of records – is a fact of life for all financial services firms and the ones that utilise this best are the ones that can gain a significant competitive advantage.

Human Resources cannot be left behind in this data revolution. Having fought hard to gain its seat at the table, HR needs to evolve to become data focussed and to use people data to facilitate decisions that drive the business forward.

Why HR Metrics are important and what do they tell business leaders.

People are an organisation's biggest asset and also its biggest cost. Maximising the efficiency of its people should be a key goal of senior leaders. HR is fundamental in driving this through initiatives and strategy supported by robust people metrics.

People Metrics, when used effectively, can inform business leaders about the culture, talent, performance and current and future demand of its people, including both skills needed and location. People Metrics can also help to identify and mitigate people risk that could damage the organisation.

What do Business Leaders want to know?[2]

Directors and senior leaders are concerned with the success of the company and want to ensure that they are getting the best return on investment possible whilst growing shareholder value and meeting regulatory obligations.

People Metrics need to be able to meet these primary demands from the Board and to be able to show a clear narrative and actionable insight. For example:

The UK Corporate Governance Code section B2 states:

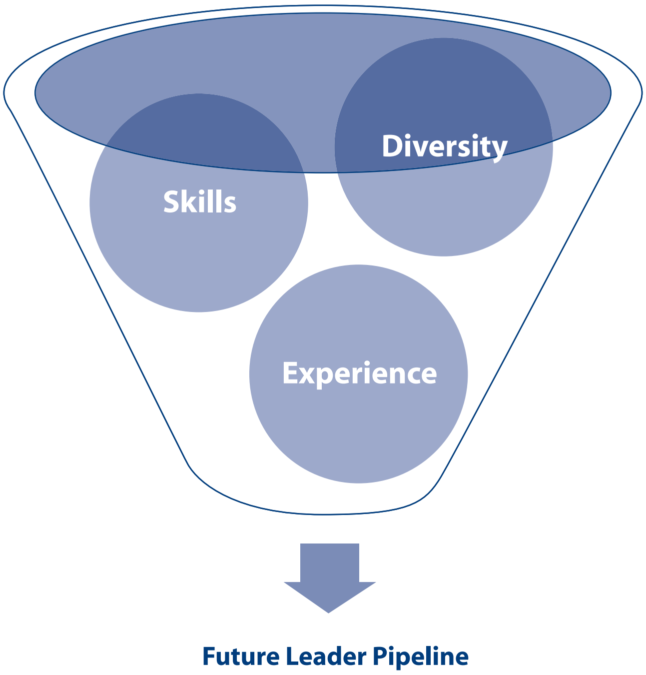
> *"The Board should satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the Board and to ensure progressive refreshing of the Board."*[3]

Through good people data, HR can show the Board how it could meet this provision, or if it does not, what action the business needs to take to remedy the situation.

Diversity data such as the age profile and generational characteristics (Generation X vs Generation Y/Millennials) of the workforce will shape how and when talent can be developed into future leaders.

Gender data will help an organisation identify and develop future leaders to meet the recommendations of Lord Davies' report to increase representation of women on FTSE 100 boards to at least 33% by 2020.[4]

Although this is a voluntary approach, there is a danger of reputational risk to an organisation that does not at least look at the make-up of its board.



How to make people metrics more strategic.

Historically, the biggest challenge facing HR has been the ability to quantify the return on investment derived from expenditure on HR initiatives and provide evidence of tangible benefit to the organisation.

With the advent of 'big data', the evolution of the data scientist and the tools to produce insight from this data, people data can be relatively quickly and easily coupled with data from the business, such as cost and productivity, to give a holistic view of performance or impact of HR initiatives.

E.g. Company X wants to increase brand presence through better advocacy from existing customers. To track this, it looks at its Net Promoter Score (NPS - Customers are asked 'How likely is it that you would recommend our company to a friend'[5]) to see where it currently is.

The HRD is then tasked to create a customer service programme to deliver excellence to drive this improvement. This is trialled in one area of the business over a period of six months and customer satisfaction, NPS scores and business received (both new and repeat) are tracked.

Data scientists then take all of this data, together with data on the costs, time to deliver and time to improvements of the customer service initiative, as well as data on market penetration, and social media data. Data from HR systems on individual employees, diversity, education, and experience is also captured.

They can then show a real return on investment (RoI) made by the business in the HR initiative both in increased revenue and brand presence. Further data science can predict future benefits from the roll-out of the training across the organisation and to identify what makes a good customer service agent to better target future recruitment.

Further HR initiatives to drive this strategy could be to interview the customer service teams to identify how they work best and what engages them to deliver excellence. Changes to the environment can then be made with the RoI of the costs easily tracked through revenue increases.

Aligning HR to business strategy – a metrics approach.
In order to be able to adopt a sophisticated HR metrics approach, HR Directors need to be as data literate as their counterparts in Finance and the business. They need to be able to use data and metrics:

- to make informed decisions that enable the business to achieve its goals, and
- to predict future trends and activity and to identify potential issues before they become a risk to the organisation.

Other functions such as marketing and sales will use data to predict future customer spend or the effect of investment in an advertising campaign. Current HR analytics is very much backward looking – focussing on what has happened rather on what will or could happen given certain interventions.

Most organisations collect a huge amount of information on their people, from education and demographics to learning and performance – this coupled with business data can deliver powerful insight.

HR needs to be utilising the latest data prediction methods, visualisation tools and employing data scientists in order to leverage the best value from HR data. HR Directors do not need to be data scientists but they do need to be data literate and open to new ways of looking at people data. As HR leaders, they can apply their professional judgement to people metrics and predictive analytics to add real and meaningful insight in their conversations with business leaders.

How do leaders use People Metrics?
The CIPD factsheet on Human Capital highlights the need to move from operational reporting to performance driving insight.[6]

"There are three clear levels of data collection and analysis for human capital data:

- ***Operational data analysis*** - simply monitoring data with no analysis, for example, reporting absence and retention data.
- ***Basic insights*** - basic data is analysed and correlations are explored between types of data to draw simple human capital insights.
- ***Insights driving performance*** - human capital data is triangulated with other business data to identify performance drivers; and may be used to illustrate how organisations can leverage human capital to drive performance more effectively.

Operational data analysis:
- Collect basic input measures such as absence data, turnover data
- Identify useful data already available
- Use this data to communicate essential information to managers
- Basic information for managers on headcount and make-up of the workforce

Basic insight:

- Design data collection for specific human capital needs
- Look for correlations between data – for example, whether high levels of job satisfaction occur when certain HR practices are in place, such as performance management, career management or flexible working
- Information to help design the HR model most likely to contribute to performance
- Communication to managers not just on how to implement processes, but with accompanying information on why they are important and what they can achieve

Insights driving performance:

- Identify key performance indicators relating to the business strategy, and design data collection processes to measure against them
- Communicate data in ways that are meaningful to differing audiences
- Identification of the drivers of business performance
- Information that will enable better-informed decision-making internally and externally"

What do we have to report and what should we report?

There are a number of People Metrics that have to be reported externally to the regulators and to government that are covered later in this book such as gender pay gap reporting.

However, should an organisation look to report or publish information on its people over and above what it is required to do? As part of Corporate Social Responsibility a number of organisations publish People or HR reports in addition to their Annual Report. This provides a platform for the company to highlight its achievements in people management and how it and they can contribute to society.

These HR reports can be a powerful tool in 'selling' an organisation to potential employees and can be a factor in winning new business and new clients.

Deutsche publish an annual Human Resource Report that looks at such areas as HR's priorities in building the bank, the people aspects of strategic changes, gender equality, talent management and leadership development.[7]

Strategic HR priorities in building a better bank	**Restructuring as part of the bank's strategy**
Developing employees and fostering leadership	**Visible progress in gender equality**

Millennials - The latest generation to enter the workplace have different needs and wants from previous generations. Today's Millennial wants variety and flexibility in their work as well as being able to progress quickly up the leadership ladder. They are also keen to work for ethically sound companies or those that give back to the community.[8]

By publicising metrics on its people and their culture and environment, HR can influence the organisation becoming an employer of choice to the next generation of employees.

In summary, by combining the analysis of people data and performance data, HR can add valuable insight to current and future business and HR initiatives in their conversations with business leaders. It is important that potential areas of benefit to the business are explored by HR Directors, to ensure they are not left behind in the data revolution.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

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CHAPTER THREE: MOBILISING HR METRICS – HOW TO USE THE DATA

This chapter looks at how the HR function can mobilise its use of data and HR metrics to support business decision making, and provides a series of useful tips and insights for HR analysts.

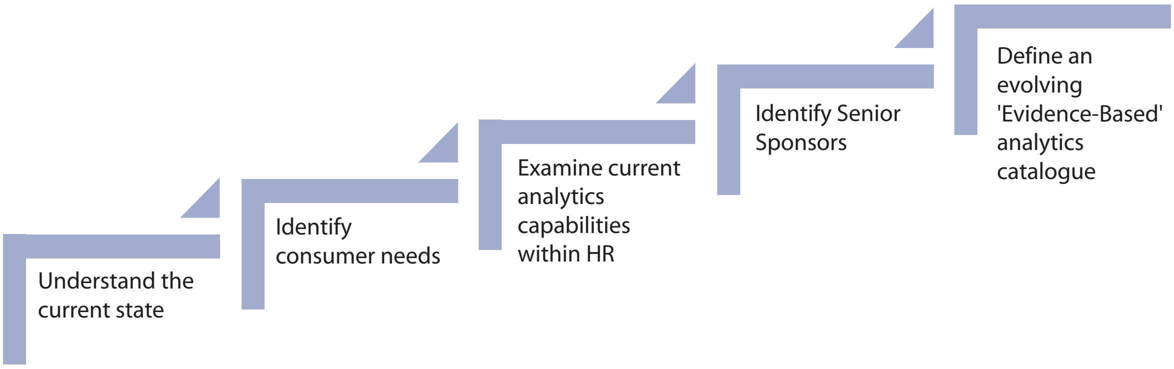
Introduction

Are we now in a place that we have good data, and understand what we want to use it for?

For many organisations the answer is inconsistent. Across the Financial Services industry organisations have achieved varying levels of analytics capability and are striving to achieve the aspiration of providing strategic insight, complemented with 'on demand' tactical reporting solutions.

It is a clear imperative for the HR function to use evidence from data available to drive strategic people decisions; however, varying levels of understanding and utilisation remain a challenge.

This section provides a practical checklist for mobilising HR metrics and examines the theories behind evidence-based decision making.



1. Stop shooting analytics into the organisation and hoping that someone will notice?

Analytics is an asset for making informed people decisions. Having a strategic plan and direction is a great place to start on the journey to mobilise the more effective use of data, analytics and metrics in the workplace.

Top Tip: *Do not to be wooed by technologies, compelling visualisation and big data aspirations. Your organisation is unique and has varying levels of capabilities, challenges and readiness.*

2. Are 'Red' and 'Amber' prerequisites for achieving the "Blue Sky" thinking of HR Analytics?

The Financial Services industry is a heavily regulated arena, which drives a minimum viable product for an HR analytics team underpinned by global regulator demands for information about the workforce. For example, HSBC has to comply with over 500 requests for data and analysis from regulators throughout its worldwide organisation.

Regulation continues to be complex and varied across locations. This ultimately impacts HR's capability to move away from 'Red' into 'Amber' or 'Blue' level of metrics and analysis.

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

When we look across industries outside of Financial Services, the answer to this question is 'no', but for Financial Services, because regulations are ever growing and complex, the industry practitioners are bound by the data demands that this regulation drives.

Efficiency	**Insight**
☐	☐
☐ Are the tactical metrics provided through the most effective channels?	☐ What actions have been taken to give the HR community the right capabilities to support, create, interpret and apply metrics to people decisions?
☐ Has efficiency created the necessary capacity to drive innovation to shift to 'Amber' and 'Blue'?	☐ Does HR have an estalished platform for understanding business needs?

Top tip: *Use the minimum analytics products to create confidence and awareness in the organisation, but do not let leaders think this is all you can do. Use this as a platform to build stronger trust based relationships.*

3. Does your Organisation have the analytics capabilities needed to move from 'Red' to 'Amber' or even 'Amber' to 'Blue'?

An organisation may have a clear vision of what analytics can do to support better people decisions. However, many practitioners forget that analytics is a capability. In order to support mobilising people analytics, the analytics capability needs to be at an optimum level. In the absence of this analytical capability, our consumers will be challenged to really embed the use of people metrics into their decision-making processes.

A core recommendation to effectively mobilise HR metrics is to work to establish and embed core competencies across HR partners and to advance the capabilities of the HR Analytics function.

As a specialist topic, facilitating HR in their bid for strategic recognition, analytics skills and capabilities are a core competence.

The 2008 financial crisis forced an organisation to think about how to establish, maintain and mature a competitive advantage that would not only increase confidence across global regulators and consumers, but also attract talent into the industry.

Company X, a large financial services organisation, established an HR transformation programme. It was launched in 2014 and underpinned by mature technologies and refined processes. It was acknowledged that creating a business culture promoting better use of people data would be key to maximising the potential of the business which was built on the skills of its people.

As part of the overall transformation agenda an HR Analytics Centre of Excellence was formed, to nurture the existing analytical capability and help to better understand how data could be used and why the HR partners and business consumers had found it difficult to embed People Analytics into their people decision making.

Throughout the entire transformation continued investment was provided into the HR Analytics space, with new technologies outside of the core platform and new skills and competencies formed to complement the analytics agenda.

Influences of Company X success?

1. Senior HR and consumer champions;
2. Strong collaboration with HR Partners;
3. HR Analytics as a core curriculum topic for HR professionals; and
4. A diverse analytics workforce showcasing capabilities from analytical, data scientific, artistic and general financial services disciplines.

4. Does your organisation have credible senior sponsorship for the evolution of HR Analytics?
It is important to acknowledge that the steps identified in mobilising HR metrics are not a lockstep. Depending on where an organisation is in the journey, they will work to complete each phase either in parallel with another or in isolation. Isolating each activity does not necessarily have the impact that it initially set out to achieve. It is important to change behaviours and mind sets in tandem and by linking each phase together. This starts to build understanding of the importance of data and metrics in a holistic way.

The single most important component of mobilising metrics is to have a champion for the HR Analytics function who will sponsor its activities and will help to engage the sponsor's peer group to support the design and definition of the analytics / metrics catalogue that is applicable to the business environment.

Top Tip: *Establish a Senior Advisory Board, who will help define the products and analysis that the function invests in. This automatically provides support and understanding from consumers that People Analytics within the HR environment has been established as credible client-centric analysis.*

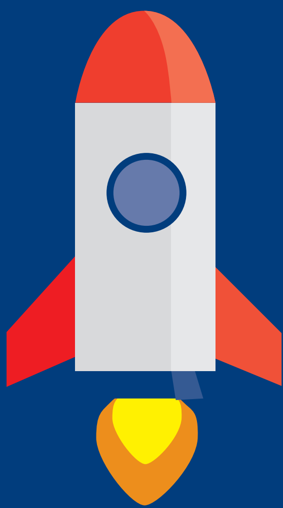
5. Do we know how and when to use HR Analytics?
For many organisations across Financial Services, data has been collected and is readily available for consumption.

A significant challenge identified across academic and industry-wide research is the business' ability to know when to use People Analytics and what to ask for.

David Green, People Analytics Consultant, Writer and Speaker, provides a practical framework to help organisations achieve best practice in the delivery of People Analytics. Understanding that analytics is not a 'management fad' and that long-term investment, increased awareness and business leader sponsorship, is reiterated in the framework. This is a key recommendation in mobilising analytics in any organisation.

WHAT BEST PRACTICES DO THE COMPANIES THAT EXCEL AT PEOPLE ANALYTICS FOLLOW?[1]

- They focus on the business
- They have a CHRO who is fully involved
- They have an inspirational leader
- They possess a balanced set of skills and capabilities
- They leverage resources from outside HR
- They have a clearly defined strategy and vision
- They get the basics right
- They have a methodology designed on producing actionable insights



- They use stories and visualisation to compel action
- They know analytics is a long-term investment
- They put the employee at the centre
- They make analytics part of the DNA
- They communicate their successes
- They seek to continually learn and are not afraid to fail
- They keep an eye on the future
- They don't forget the 'H' in HR

Building strong partnerships and business relevant analysis will provide key indicators of what and when to use analytics. It is important to recognise when metrics adds value and when it can create unnecessary complexities. The question is still, how do you know? As partnerships strengthen and analysis becomes an accepted norm in people decision making, this component becomes part of the subconscious.

For those organisations who are not at that stage, it is critical to establish relationships with business leaders to achieve the proximity needed to understand what and when it is relevant. That decision is not made in isolation. It is made with the businesses using the metrics that are provided.

Top tip: *Do not try to push analytics. Create a culture where metrics are pulled through increased visibility of the business needs and strong partnering relationships.*

6. Evidence Based Decisions

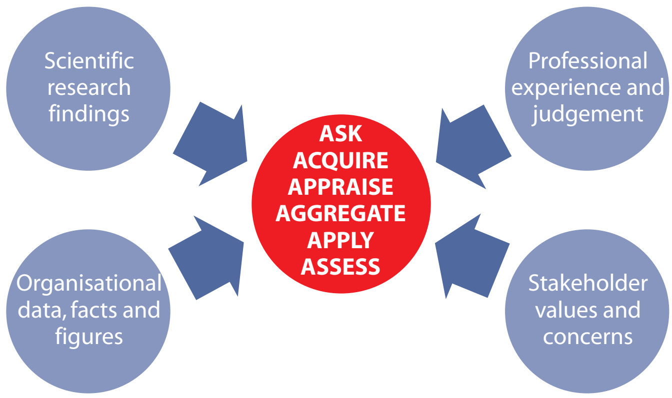
A final recommendation to mobilise analytics looks at "How organisations make decisions". The Introduction of this guide referred to eminently respected academic thought leadership and scientific research which translates well into practical and robust approaches for business and people metrics.

One such approach is that developed by the The Centre for Evidenced-Based Management (CEBMa) and published in Evidence-Based Management: The Basic Principles by Denise Rousseau, Rob Briner and Eric Barends (2015)[2]. This identifies four sources of evidence from which analysts can draw their data and these are defined as:

1. Scientific research finding
2. Professional experience and judgment
3. Organisation data, facts and figures; and
4. Stakeholder values and concerns.

THE FOUR SOURCES OF EVIDENCE

According to Rousseau, Briner and Barends, there are four sources from which evidence can be acquired as identified in the blue circles below. Once obtained, the six "As" in the red circles can be used to assess the quality of evidence.



Source: www.cebma.org/wp-content/uploads/EBMgt-Under-The-Microscope-HR-magazine-Jan-2015.pdf[3]

In today's current Financial Services industry, evidence based management is an aspiration. Predominantly the industry is swayed to the right, using judgement and stakeholders as key drivers for decisions.

For many business leaders, mobilising HR metrics is achieved through an improved understanding on how to incorporate each of the 4 identified sources into the overall decision making process. It is the critical component that is missing to mobilise more effective people decision making.

The framework is provided for consideration when formulating an effective strategy to mobilise HR metrics, and to use to raise awareness and logic as to the importance of data.

In summary, do not be seduced by technologies. Each organisation is unique, and has varying levels of capabilities, challenges and readiness. Create confidence and awareness, by providing minimum analytics products, and use these as a platform to build stronger relationships. Establish a Senior Advisory Board to help define the products and analysis, and create a culture where metrics are instigated through increased visibility of business needs and strong relationships.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

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> *The maximum potential liability that non-compliant organisations may face will significantly increase from those levels of potential liability under the current law to the greater of €20m or 4% of annual worldwide turnover.*

CHAPTER FOUR: DATA PROTECTION – THE GENERAL DATA PROTECTION REGULATION

The General Data Protection Regulation (GDPR) will come into force on 25th May 2018 with significant implications for HR because of the volume of personal data on employees which is processed by employers. This chapter explores the rights of employees with regard to GDPR and the actions required by the employers alongside the sanctions applied for non-compliance.

Introduction

On 14 April 2016 the European Parliament voted to adopt the final draft of the EU General Data Protection Regulation (GDPR). The GDPR was published in the EU official journal on 04 May 2016 and will come into force on 25 May 2018. It will fully replace the EU Data Protection Directive (95/46/EC) (Directive) and national data protection legislation implemented under the Directive (such as the UK Data Protection Act 1998).

Notwithstanding the United Kingdom's impending departure from the EU, we expect the UK to adopt the GDPR or data protection laws broadly equivalent to the GDPR. The UK government has suggested that all existing EU legislation in effect on the date on which the UK leaves the EU will be converted into domestic legislation, wherever practical. It therefore appears very likely that, post-Brexit, the GDPR will become a part of the UK's domestic law and will apply (in its domestic form) to UK-based organisations.

In addition, the territorial scope of the "EU" GDPR will mean that it will apply to organisations "established" within the EU (for example, a company in the UK with a branch office or agent operating in Germany or Spain), regardless of whether the organisation chooses to process data about EU individuals inside or outside the EU; or not established in the EU, but performing certain activities outside of the EU in respect of EU citizens.

The headlines of the GDPR include:

- a significant increase in the possible level of fines for breach;
- requirements to notify data breaches to the UK Information Commissioner's Office (ICO) and to data subjects;
- privacy impact assessments;
- a right to data portability;
- a right to have one's data erased;
- data protection officers.

However, some of the more mundane requirements may require the most work for HR.

To highlight a few:

- the GDPR is generally more input-based than output-based;
- information notices will need to be reviewed against the requirements of the GDPR;
- reliance on consent will need to be reviewed and in most cases abandoned.

The right of access to personal data is often an issue for employers and frequently used by employees as a means of gaining early disclosure in litigation or simply putting the employer to work. The basic right remains the same but some things will change, and probably not for the better.

This chapter deals in brief with the headlines mentioned above and then in some more detail with the more mundane requirements and what needs to be done about them.

Headlines

Fines for breach

"The maximum potential liability that non-compliant organisations may face will significantly increase from those levels of potential liability under the current law to the greater of €20m or 4% of annual worldwide turnover."

Whilst these fines represent the "maximum" sanctions that may be issued by an EU data protection regulator (referred to in the GDPR as a "supervisory authority"), it remains to be seen how these fines will be administered in practice.

In determining the exact figure, the GDPR requires the supervisory authority to take into account a range of factors including, but not limited to:

- the nature, gravity and duration of the breach;
- whether the breach was intentional or resulted from negligence;
- previous breaches;
- any repetition of the same breach;
- co-operation with the supervisory authority;
- the nature of the data in question;
- mitigating action taken; and
- technical and organisational measures taken to achieve compliance with the GDPR.

In addition to the power to issue fines, supervisory authorities will also have the power to:

- order the remediation of a breach or compliance with data subjects' rights under the GDPR;
- order the organisation to provide relevant information;
- require the rectification/erasure/destruction of personal data;
- impose a temporary or permanent ban on data processing;
- suspend data flows outside of the EU; and
- audit organisations.

Notification of data breaches

As is the case with the existing EU data protection law, under the GDPR personal data must be processed in a manner that ensures appropriate security of the data, including protection against unauthorised or unlawful processing and against accidental loss, destruction or damage, using appropriate technical and organisational measures.

The GDPR provides some examples of the "security" measures which must be considered. These include:

- the pseudonymisation and encryption of personal data;
- the ability to ensure the on-going confidentiality, integrity, availability and resilience of the systems processing data;
- the ability to restore availability and access to data in a timely manner in the event of an incident, and
- a process for regularly testing, assessing and evaluating the effectiveness of the security measures taken.

The GDPR requires data controllers and data processors to take a risk-based approach when considering the security measures that are appropriate to protect personal data.

Whilst the data security provisions do not change under the GDPR, it is clear from the EU Regulators' approach to enforcement in this area, and from the number and scale of data security breaches that are occurring, that this will remain one of the most fundamental areas of data protection compliance for organisations.

In addition to the need to ensure the security of personal data, organisations will also need to be ready to react in the event of a data breach. In the event of a data breach, the GDPR will require a data controller to, without undue delay and, where feasible, within 72 hours after having become aware of the breach, notify the applicable data protection supervisory authority, unless the breach is unlikely to result in a risk to the rights and freedoms of individuals (and, in most cases, it will be difficult to say with certainty that there will be no such risk).

Where the breach is likely to result in a 'high risk' to the rights and freedoms of individuals, the data controller will also have to notify the affected individuals without undue delay in clear and plain language.

In the event that a data processor suffers a data breach, the GDPR requires that the data processor notify the data controller without undue delay.

Privacy impact assessments

A privacy impact assessment (PIA) is an assessment to identify and minimise non-compliance risks in relation to data processing. This is not a new concept and current regulatory guidance recommends the use of PIAs in respect of high-risk processing activities. However, the GDPR will introduce a mandatory requirement to conduct a PIA before carrying out any processing that (taking into account the nature, scope, context and purposes of the processing) is likely to result in a 'high risk' to data subjects.

It will be up to data controllers to determine what constitutes a 'high risk' to data subjects. The recitals to the GDPR state that high risk activities may include those which involve using new technologies, or are of a new kind and where no PIA has been carried out before by the data controller, or where a new PIA becomes necessary in light of the time that has elapsed since the initial processing.

The GDPR itself provides a non-exhaustive list of processing activities which will require a PIA, which include:

- a "systematic and extensive" evaluation of "personal aspects" relating to individuals which is based upon profiling and on which decisions are made that "produce legal effects concerning data subjects or severely affect data subjects";
- processing of special categories of personal data (i.e. sensitive data or data on criminal convictions and offences) on a large scale; and
- processing which involves systematic monitoring of publicly accessible areas on a large scale.

Data portability

Under the GDPR, data subjects are granted a right to request a copy of their personal data from a data controller, or request that the data controller send a copy directly to another data controller where technically feasible, in a 'structured, commonly used and machine-readable format'. The GDPR does not provide any guidance as to the format which should be used, aside from encouraging data controllers to develop 'interoperable formats' that enable data portability and it will be up to data controllers to establish these formats between themselves. The right to require direct transfer to another data controller "where technically feasible" imposes an additional burden on data controllers that is not limited by reference to cost or commercial impact.

The right has typically been discussed in the context of transfers between social networks but in practice it will apply to all data controllers.

The right to data portability is limited to personal data which is processed based on the consent of the data subject or in relation to the performance of a contract and, in any event, which was provided by the data subject to the controller (as opposed to data captured or generated by other means).

Right to be forgotten

Individuals have the right to have their data 'erased' in certain situations, essentially where the processing fails to satisfy the requirements of the GDPR. More particularly, the 'right to be forgotten' arises where:

- the data is no longer necessary for the purposes for which it was collected or otherwise processed;
- the data subject withdraws consent to processing and there is no other legal ground for the processing of the data;
- the data subject objects to the processing of personal data in certain circumstances specified in Article 21 of the GDPR (most notably where the processing is for direct marketing purposes, or for the purposes of the data controller's 'legitimate interests' where the data controller cannot demonstrate that their interests override the interests of the data subject);
- the processing of the data has been unlawful; or
- the data controller has a legal obligation to erase the data (for example, due to a ruling of a court or EU regulatory authority).

The right is not absolute and it does not apply outside of the circumstances described above or if the processing is, amongst other things:

- necessary for the exercise of the right of freedom of expression and information;
- necessary for compliance with EU or Member State law; or
- is required for the establishment, exercise or defence of legal claims.

Where the right does apply, the data controller must erase all data 'without delay' and communicate the erasure to each third party recipient to whom it disclosed the data, unless to do so would be impossible or involve disproportionate effort. In addition, where the data controller has publicised the data, it must take reasonable steps (taking into account available technology and the cost of implementation) to inform other data controllers that the individual has requested the erasure of copies of and links to the data.

In addition to the right to be forgotten, an individual can require the controller to 'restrict' the processing of their data where either the data subject contests the accuracy of the data (but only for a period providing the data controller an opportunity to verify the accuracy of the data), or the data subject argues that the processing is not in the data controller's legitimate interests (but only for so long as is needed to determine whether the interests of the data controller override those of the individual).

The right to restrict processing may also be exercised where the data controller no longer needs to process the data, but the data subject requires the data to be retained in connection with a legal claim.

Data protection officers
The GDPR requires both data controllers and data processors to designate a Data Protection Officer (DPO) in cases where:

- the organisation is a public authority;
- the organisation's core activities require regular and systematic monitoring of individuals on a large scale; or
- the organisation's core activities involve processing sensitive personal data or personal data related to criminal convictions or offences on a large scale.

As yet, it is unclear how widely the supervisory authorities will interpret 'core activities', though the guidance provided by the recitals to the GDPR state that the "core activities" relate to an organisation's 'primary activities' and do not relate to the processing of personal data as part of its ancillary activities.

An organisation with multiple group companies within the EU may appoint a single DPO provided that they are 'easily accessible' to each company.

Policies and procedures

Summary
The GDPR is generally more input-based than output-based - this means that there will be an increased focus on the documentation of data privacy policies and procedures.

The GDPR introduces a variety of new requirements that prescribe how organisations are to achieve the overall outcomes required by the GDPR. There is also a requirement to be able to demonstrate compliance. As a result, organisations will need to significantly change their internal processes and maintain associated 'paper trails' in order to comply with the GDPR.

Detail
The GDPR provides that:

- data controllers are responsible for, and must be able to demonstrate compliance with the data protection principles and adopt 'appropriate' measures to demonstrate that the processing of personal data is performed in accordance with the GDPR. Where proportionate, these measures must include the implementation of appropriate data protection policies;
- joint data controllers (i.e. organisations jointly determining the purposes and means of the processing of personal data) must agree, in a transparent manner, their respective responsibilities for compliance with the GDPR and must make the details of this arrangement available to data subjects;
- data controllers with 250 employees or more, or which carry out 'high risk' processing, must maintain detailed records of their processing activities, including details of the data controller, the Data Protection Officer, the purpose of the processing, the categories of data subject, the categories of recipients of personal data, the categories of transfers of personal data to third countries, and (where possible) the envisaged time limits for erasure of the personal data and a general description of the technical and organisational security measures adopted. Data processors must maintain similar records. These records must be available to the relevant supervisory authority upon request;
- data controllers must adhere to the concepts of 'privacy by design' (i.e. ensuring that data protection processes are embedded into system/product design) and 'privacy by default' (i.e. data minimisation – ensuring that only necessary personal data is collected and only used for a stated purpose); and
- data controllers must conduct a privacy impact assessment before carrying out any data processing that is likely to result in a high risk to data subjects.

Information notices

Summary
Information notices will need to be reviewed against the requirements of the GDPR.

A compliant notice will require significantly more information to be provided than is normal practice, such as details of the basis upon which data is processed, retention periods, data subject rights, the right to complain to the ICO and information on international transfers (including access to relevant agreements).

Detail
The GDPR requires data controllers to provide information notices to data subjects explaining how their personal data will be processed.

However, whilst existing law generally leaves it up to the data controller to decide what information it is "fair" to provide, the GDPR prescribes a more comprehensive list of information which must be provided to data subjects regardless of the nature of the data processing that is undertaken in respect of their personal data, including:

- the data controller's identity and contact details (and, where applicable, the Data Protection Officer's contact details);
- the purpose(s) for which personal data is processed, including the legal basis for the processing (and if that is the "legitimate interests" of the data controller, a description of what those legitimate interests are);
- the existence of the data subjects' various rights under the GDPR, including the rights to withdraw consent to the processing of their data; access their data or obtain a copy of it in a structured, commonly used and machine-readable format; request the rectification or erasure of their data; or object to the processing of their data; and the right to lodge a complaint with a supervisory authority;
- the recipients or categories of recipients to whom the personal data will be disclosed;
- any intention to transfer the personal data outside the EU and information about the level of protection that will be afforded to the transferred data;
- if the data processing is a contractual requirement, whether the data subject is obliged to provide their personal data on that basis, and the possible consequences of failure to provide the data;
- information about the existence of any automated-decision making, including profiling, undertaken based on the personal data and its effects;
- the period for which the personal data will be retained, or if that is not possible, the criteria used to determine that period;
- if the personal data is not obtained from the data subject, the source of the data; and
- any further information necessary to guarantee fair processing.

Data controllers must communicate this information to data subjects in a "concise, transparent, intelligible and easily accessible form", using clear and plain language.

The information must be provided at the time the data is obtained. Alternatively, where the data is not collected directly from the data subject, the data subject should be notified within a reasonable time of the data being obtained (and within no more than one month) or, if earlier, at the time of the first communication with the data subject or the first transfer of the personal data to a third party.

Consent

Summary
Reliance on consent will need to be reviewed and in most cases abandoned.

The issue is not new but there is renewed focus on the imbalance of power between employer and employee. Consent will only be appropriate where the data subject has a genuine choice, and processing can stop without them suffering a detriment. The difficulty in maintaining reliance on consent will be what is done when consent is withdrawn and knock-on effects, such as the ability to require erasure where processing is based on one's consent and such consent is withdrawn.

Detail

The GDPR clarifies that for consent to be valid there must be a clear, affirmative action by the data subject establishing a freely given, specific, informed and unambiguous indication of the data subject's agreement to their personal data being processed.

"Explicit" consent will be required for the processing of special categories of personal data (if no other valid justification for processing exists). The special categories of personal data listed in the GDPR largely replicate the categories of "sensitive" personal data under the existing UK Data Protection Act 1998 but the GDPR adds to this list genetic and biometric data.

Consent may be given orally, in writing or electronically, provided that it involves a clear, affirmative approval by the data subject.

This will include ticking a box when visiting a website, or choosing technical settings for internet services. Data controllers will not be able to rely on implied consent and, therefore, inactivity or "opt-out" consent, such as pre-ticked boxes, will not be valid.

Consent must be clearly distinguishable. Therefore, where consent is requested alongside other matters (for example, if the consent forms part of a broader set of terms and conditions), the consent to data processing must be clear and distinct from the other matters being acknowledged or consented to.

The data controller will have the burden of proving that the data subject has given their consent to the processing and has to be able to demonstrate that the consent met the GDPR's requirements.

The GDPR emphasises the need for consent to be freely given.

The "utmost account" will be given to whether the performance of a contract is made conditional on consent to data processing where such consent is not necessary to perform the contract.

The recitals to the GDPR suggest that consent is unlikely to be valid in these circumstances.

Furthermore, consent will not provide a legal basis for data processing where there is a "significant imbalance" between the position of the data subject and the controller and this imbalance makes it unlikely that consent was given freely. An imbalance of power is particularly seen to exist in relation to the employee/employer relationship and a number of Member States' data protection supervisory authorities already take the view that consent cannot be validly obtained in the context of an employee/employer relationship.

The data subject has the right to withdraw his/her consent at any time and must be told about this right at the outset. If consent is withdrawn, the data controller will have to cease processing the data subject's personal data except to the extent that it can rely on another lawful justification for processing.

Withdrawing consent must be as easy for the individual to exercise as giving it.

Subject access rights

Summary
The right of access to personal data is often an issue for employers and frequently used by employees as a means of gaining early disclosure in litigation or simply putting the employer to work. The basic right remains the same under the GDPR but some things will change, and probably not for the better:

- the default time period reduces to one month;
- the provision allowing data controllers to ask for location information in order to find the personal data which the data subject is looking for will be lost;
- instead, push back will need to be on the basis of the proportionality of EU derived legislation, or a new provision allowing for more time to answer and/or refusal where a request is manifestly unfounded (although interpretation of that phrase by the ICO or the courts will need to be awaited).

Detail
The GDPR continues the right of a data subject to request access to their personal data which is processed by a data controller.

The GDPR expands the list of information which must be provided to a data subject (in addition to provision of the personal data itself) to include information such as:

- the retention periods of data,
- the existence of the right to request rectification or erasure or to object to processing, and
- information on the safeguards applied to transfers of data outside of the EU.

The data controller must provide the personal data to which the data subject has requested access without undue delay and, at the latest, within one month of receipt of the request (which is shorter than the time limit applied in many EU Member States currently, such as the UK). However, unlike under existing law, the period for responding may be extended by up to three months for complicated and/or large scale requests.

The GDPR also removes the right to charge data subjects a nominal fee for responding to their requests, and instead the information must be provided free of charge unless the request is 'manifestly unfounded or excessive'. In particular because of repetition, in which case the data controller may charge a reasonable fee (to cover administrative costs) or refuse to comply with the request.

Summary

The GDPR will pose a number of challenges for HR in terms of reviewing and updating their organisation's data protection policies and procedures, the safe-keeping of data, the retention (and subsequent deletion) of data, the use of individual consent to hold data, and sourcing and appointment of a data protection officer where the role does not exist. The right of subject access to personal data remains, with the default time for response reducing to one month, and uncertainty around reasonableness and proportionality. This will have implications for people metrics and analytics, particularly around clarity of purpose for processing (including holding) data and security.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

CAPTURING DATA ON PRESENT ORGANISATION AND PEOPLE ISSUES

CHAPTER FIVE: GOVERNANCE: THE ROLE OF HR IN INFORMING BOARD DECISION-MAKING

It is difficult to consider organisational culture without first recognising the importance of corporate governance. This is due to that much used management phrase 'setting the tone at the top'. It is the responsibility of the Board and Executive Committee to influence the culture of the organisation by defining the values, ethics and behaviours that will underpin the business and that these in turn are exemplified by both the leadership and employees for the benefit of all stakeholders. This chapter looks at the role of HR in supporting the leadership.

Introduction

It should be stated at the outset that not all organisations will fall under the auspices of the UK Companies Act 2006, or the UK Corporate Governance Code, in that they may be foreign-owned or their organisation structure is not a UK plc. However, irrespective of the structure or nationality of firms operating in the UK, the foundations of sound governance will still ring true including a core principle of "comply or explain" which is world renowned and much respected. Individuals should therefore view this section in the context of their own organisational structure.

In its publication entitled *CORPORATE CULTURE AND THE ROLE OF BOARDS - A Report of Observations* - Financial Reporting Council (July 2016)[1] the case for sound governance was stated as follows:-

"Strong governance is essential for a healthy culture. As well as the processes and practices in the boardroom, governance needs to focus on the substance of what boards do, who they engage with, what information they are given and what questions they ask. Boards should see that good governance runs through all areas of the business, including the executive committee and the layers of middle management. This will deliver more constructive decision-making and better outcomes".

> *"Creating stable HR information systems which gather, analyse and report on people data is crucial for boards If they're to make evidence-based leadership decisions."*
> *A duty to care? Evidence of the importance of organisational culture to effective governance and leadership*
> CIPD

How can firms ensure that the right checks and balances are in place to test strong governance?

The UK Companies Act 2006 specifies that the overarching duty of the Board is to promote the company's success for the benefit of its members. The ways in which boards adhere to this principle is set out in the UK Corporate Governance Code (2016). According to the ICAEW "The UK Corporate Governance Code (FRC - Updated April 2016)[2] sets out standards of good practice for listed companies on board composition and development, remuneration, shareholder relations, accountability and audit. The code is published by the Financial Reporting Council (FRC)". The PRA and the FCA also pay particular attention to the governance strength of the firms they regulate. For companies who have listed equities, there are some additional reporting requirements by the Financial Conduct Authority relating to how they should embed the Code within their businesses under the Financial Conduct Authority (FCA) Listings Rules.[3]

The UK Corporate Governance Code sits alongside the UK Stewardship Code which is a set of principles which aim to enhance engagement between companies and institutional investors in UK companies. Each year the FRC releases a report into its findings on the progress organisations are making relating to these two major codes (ref FRC's Developments in Corporate Governance and Stewardship 2016 (published January 2017)).[4]

This therefore begs the question "What People Metrics will Boards and the leadership want to see aligned to Corporate Governance". The Board and HR Leadership may wish to consider the following issues in determining the range of people metrics that would aid their governance and decision-making:-

1) **Configuration of the Board**. There are three issues that will concern the Board here.

- The first is whether the role of Chairman and Chief Executive has been split, and - if not - is there enough challenge to the Chief Executive decision making processes and actions from the other board members.
- The second relates to the balance between Executive and independent Non-Executive Directors, whereby a split of 50:50 is recommended between the two, excluding the role of Chairman. For listed companies there should be a majority of independent board directors. This is not always possible in smaller organisations.

- The third is diversity and inclusion on the Board. Many organisations have made considerable strides to ensure that there is 30% female board members on listed company boards in line with the Lord Davies recommendations[5] and the Hampton-Alexander Review.[6] The percentage of women on boards is an important metric which is often reviewed by outside parties such as shareholder groups. In addition to promoting gender equality, boards should also be mindful of the other elements of diversity when considering the configuration of their leadership team, including ethnicity as set out under the Parker Review.[7]

The Board should also have specific committees chaired by members of the Board to ensure the effectiveness of its core responsibilities. These are generally the Remuneration, Audit, Risk and Nomination Committees. In addition the Senior Independent Director should act as a key intermediary with shareholders and spokesperson for the independent directors, should this be necessary.

Progress in all these areas - and in those outlined in Points 2, 3, 4 and 5 below, are monitored in the FRC's aforementioned report.

2) **Remuneration**.

Much emphasis has been made by stakeholders into the need for linkage between Performance and Reward and this has particularly been an area of strong interest with shareholders. There have been increasing instances at the Annual General Meeting of shareholder confrontation with the Board on the structure of pay for key Executive roles and subsequent media reports of displeasure or blocking of some remuneration packages. Shareholders want to see transparency in the setting of pay - particularly with regard to the Chief Executive – and the compensation strategy for key executives and appointments. Above all, stakeholders - from investors and regulators to employees and the public - want evidence that total compensation is linked to individual and organisational performance to ensure the long term success of the company and that there are arrangements in place to recover or withold pay through Malus and Clawback provisions or through impacting other areas of the Long Term Incentive Plan.

Interestingly, a trend has also emerged for the differentiation in pay for those chairing the key committees of Audit, Risk and Remuneration. The City HR Policies Benchmarking Survey (Dec 2016)[7] showed that 41% (21 of 51 respondents amongst the banks and asset management firms participating in the survey) were paying a premium to those holding these roles as well as that of the Senior Independent Director. This 41% response is an interesting point, as it cannot be read that the other 59% did not, but reflects the mix of UK and overseas entities with many of the latter having their board located outside of the UK and therefore unable to report on this issue.

3) **Succession Planning.**

This has become a focus area for the Board and ExCom focus in order to create a talent pipeline based on competence, experience, diversity and values. The Board and Nomination Committee (the latter where applicable) needs reassurance that key roles have been identified, that there are successors who can undertake these roles and that fair and transparent hiring processes exist for both internal and external appointments.

For financial institutions in scope of the Senior Managers Regime, there must also be a willingness on the part of relevant individuals to assume a Senior Manager Function and to be visibly accountable for the corresponding prescribed responsibilities. These are set out in the firm's Governance Map, with the designated Senior Manager holding overall responsibility for a prescribed function as allocated in their Statement of Responsibility. Above all, it is crucial that individuals fit the culture of the business and that individuals are being appointed who are not only experienced and competent to undertake the role but also demonstrate that they can contribute to the Board including showing leadership against the organisation's values as well as exemplifying the right behaviours.

The Board may want to consider not just who is in the succession pipeline but the assessment criteria that have been used to validate their credentials. For these reasons, the role of the Nomination Committee is coming under closer scrutiny for both internal and external appointments when evaluating the effectiveness of Boards.

4) **Diversity and Inclusion.**

A good starting point for any diversity and inclusion assessment would be to look at the configuration of the Board and the senior executive team. That being said, it is recognised that at the most senior levels at this point in time it can be difficult in practice to identify and attract individuals from diverse backgrounds and that there may be a dearth of candidates. For this reason, evidence of rigour in ensuring that practical steps are being taken to attract, develop and retain the widest possible talent – from insisting that headhunter lists contain diverse candidates through to auditing internal development pipelines – must be a requisite for the HR function.

However, the Board is likely to want to be assured that the succession plan contains individuals who are representative of the clients and communities that the company serves and that there is a mechanism to develop talent and to 'pull-through' those from a myriad of different backgrounds. From an HR metrics perspective, the HR leadership will also want to ensure conformity with the recommendations of the key diversity reviews. These include the Hampton-Alexander Review, the Parker Review and the Women in Finance Charter.[8] For those who have signed up to the latter, the Board will want to see metrics to monitor any targets it has personally set. Organisations with over 250 employees will be required to publish their gender pay gap analysis and the narrative around this will be important for supporting the firm's employee relations, employer brand and perceived social value within its sector.

Finally, for those organisations who want to extend beyond the norm, the Board may expect evidence that its diversity and inclusion initiatives are being promulgated across the entire employment life cycle, from reaching out to early career applications from schools and colleges, via apprenticeship, graduate and MBA recruitment through to its attraction of mid career and senior hires. Whilst this makes good business sense, these steps are also part of the organisation's brand management, and data analysis on the Employer Value Proposition is a validation of progress in this regard.

5) **Risk Management and Reporting.**

The Financial Reporting Council published its updated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting in 2014.[9] The report makes it clear that risk taking is an essential part of doing business, but that the risks should be prudent and controlled. The Code defines the role of the board as being "to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enable risk to be assessed and managed. Good stewardship by the board should not inhibit sensible risk taking that is critical to its growth". However, the assessment of risk should support better decision-taking by ensuring a better response to risk by the board and management and by further ensuring that shareholders and stakeholders are well informed about principal risks and their prospects.

The increasing importance relating to the relationship between risk, audit, compliance and HR has become more high profile through a number of channels including this FRC guidance, and also for financial services via the Senior Managers and Certification Regime[10] and the Senior Insurance Managers Regime.[11] Each of these functions has an important perspective on risk, particularly those that relate to people and can not only harm the infrastructure of the business and its operations, but can also be detrimental to its culture and reputation.

Outlined in the FRC's Guidance on Risk Management are 6 questions that the board can ask itself relating to human resources, risk and culture and these are as follows.

1 How has the board agreed the company's risk appetite? With whom has it conferred?
2 How has the board assessed the company's culture? In what way does the board satisfy itself that the company has a 'speak-up' culture and that it systematically learns from past mistakes?
3 How do the company's culture, code of conduct, human resource policies and performance reward systems support the business objectives, risk management and internal control systems?
4 How has the board considered whether senior management promotes and communicates the desired culture and demonstrates the necessary commitment to risk management and internal control?
5 How is inappropriate behaviour dealt with? Does this present consequential risks?
6 How does the board ensure that is has sufficient time to consider risk?

From the above, it can be seen that HR metrics that would assist from a governance perspective on risk management would include:-

- evidence that the remuneration programme is being monitored to ensure that pay, performance and risk are aligned and managed with the ability to make clawbacks.
- attrition, setting out the number of leavers by reason with trend analysis to identify vulnerable roles, individuals and areas of high risk due to a sudden leaver
- the number of conduct issues reported to HR and compliance and how many of these were reportable to a third party such as the PRA/FCA, a professional body or the police.

- the number and nature of people incidences that occurred within the firm, particularly those of a health and safety nature
- how many employment tribunal applications have been made and whether any of these were of a discriminatory or public interest disclosure nature
- the number of incidences reported under the firm's whistle-blowing policy
- any negative or consistently poor feedback from the Employee Engagement Survey or Exit Interviews
- that there are controls in place to support the business from an operational and people perspective
- that the Pension scheme is adequately resourced and financed to meet its current and future obligations with expert input on any recommended actions. There has been a myriad of guidance published on schemes including the Local Government Pension Scheme and The Pension Regulator's Code of Practice for Defined Contributions (July 2016) which aligns with the UK Stewardship Code. Boards should take note of any changes to Pension Regulations which affect their employee population and may wish to secure regular reporting from the Pensions Department or outsourced Pensions Administrator on the performance of the Company's Pension scheme is a 'must have' requirement. One area under scrutiny is compliance with Auto-Enrolment.

6) **Internal Audit**

"The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively" according to the Institute of Internal Auditors with the main purpose of ensuring that the firm succeeds. With a broader remit than just the organisation's financial statements and risks, internal audit is also interested in factors such as appropriateness and compliance with internal policies and procedures, growth, environmental impact, reputation and employee satisfaction. The last two of these can be evidenced by people metrics.[12]

The Audit Committee exists to ensure the effectiveness of both the internal auditors and its external auditors as well as to monitor the integrity of their firm's financial statements and public announcements alongside the robustness of the firms internal controls. Heads of HR can be expected to report to Audit Committees from time to time on cultural and people aspects of control and risk, and this is likely to require strong HR metrics to support comments.

7) **Internal Communication**

Effective employee communication is a key management tool and is vital for internal engagement. This not only sets the tone at the top, drives the culture and values of the business, but also imparts the strategy and any milestones (good and bad) along the way to effect employee buy-in to many business or HR activities. As part of the overall risk management and stewardship role, transparent communication is also vital to employee trust and helps to form an understanding of business performance and the rationale for related decision-making.

8) **External Communication and Reporting**

There are two key ways that organisations communicate with stakeholders - including the public at large - and these are through the company website and the Annual Report and Accounts. As well as providing statutory accounts and brief biographies on the Board, depending on the size and mindset of the organisation, many also publish data relating to internal targets such as the Women in Finance Charter, the Parker Review and their gender pay gap analysis. Publicly listed companies also have a requirement to prepare a Strategic Report under Section 172 of the Companies Act whereby the Directors are obliged to outline how their duties have been performed to promote the success of the Company. One requirement of the Strategic Report is to provide relevant employee information where this might inform the development or performance of the company's business. Of course, the usual caveat applies here that not all firms have to publish their accounts due to the structure of their organisation, and their head office domicile may also influence whether this is easily accessible outside their home country.

Stakeholder engagement is critical, as this not only affects investment relationships and the organisation's reputation, but individuals are likely to use this data for job applications, dependent on being inspired by what they see. Once again, external communication is an important element of the firm's Stewardship Responsibilities and informs perceptions about the employer brand.

9) **Contextual factors**

This phrase was coined by the CIPD in their publication "A duty to care? Evidence of the importance of organisational culture to effective governance and leadership" CIPD 2016[13] and relates to one of their four main research findings. In the CIPD's publication, the definition was applied to those factors that underpin the economy, diversity and technology. However, at the risk of taking liberties with colleagues at the CIPD, given Brexit and emerging global politics, it seems appropriate to extend this definition for the purposes of HR Metrics to cover factors such as political, econonomic, social and technical issues and to recognise that diversity has been covered in many other areas of this governance overview.

The most important element for Boards is around the organisation's "readiness for change" to respond to external influences. This is where HR metrics have a significant role to play. Many leading firms have an HR Metrics and Data Analytics group who model different scenarios and then undertake HR and organisation "what if" testing to see how the firm would need to respond. The UK's vote to leave the European Union is one case in point. Although much will be said on this topic in a later chapter of this book, the necessity for HR metrics cannot be underestimated. The minimum that Boards will want to know is the current demographic of their workforce in terms of EEA citizens working in the UK, as well as British subjects currently working in European offices; the configuration of the succession plan in the UK and across Europe and what it will mean in terms of staff numbers in the UK and European locations should the UK lose its financial passporting rights.

Similarly, there are major workforce implications arising from the onset of technology with FinTech, Artificial Intelligence and Robotics just around the corner. According to Mark Carney, Governor of the Bank of England, up to 15 million jobs across the UK could be 'hollowed out'[14] as roles are automated by advanced technology. Indeed, as early as 2015 the Bank's Chief Economist, Andrew Haldane warned that job automation will also affect higher paid roles, with those most likely to be affected being clerical, production and administrative roles.[15] Once again, this has implications for Governance and HR Metrics as a business strategy is developed which allows the automation of certain business functions and the alignment of the workforce to ensure that those in obsolete roles are re-trained and re-deployed ahead of the switch in order to minimise the potential for redundancies.

Businesses that remain agile are more likely to successfully deal with the opportunities and challenges posed by future technology. As the CIPD stated in their summary of findings relating to Contextual Factors:

"Creating stable HR information systems which gather, analyse and report on people data is crucial for boards if they're to make evidence-based leadership decisions."

10) **Board Evaluation and the Importance of HR Effectiveness and Metrics**

The FRC's Guidance on Board Effectiveness (2015)[16] recommends that Boards should conduct an externally facilitated review at least every three years on their effectiveness. For FTSE 350 companies it is recommended that the review is conducted by an external facilitator. Internal reviews are expected every other year. For smaller companies, this can be conducted internally, usually led by the Chairman, and with each Committee Head providing some input for their specific area of responsibility. The usual caveat applies here in terms of the relevance of applying this technique to overseas organisations with a branch in the UK and firms with a different structure. That being said, many may consider this to be good practice and undertake the evaluation in any case.

Looking at the recommendations of the FRC on the Board Effectiveness Evaluation there are some areas for which HR metrics are a key factor. The table below highlights how board effectiveness might be informed by HR Metrics.

Throughout this section on Governance, there has been a consistent theme from the outset around the importance of organisational culture. Indeed, the FRC themselves state:

"The Board has a role to shape, embed and assess a desired culture and in so doing have regard to a wide set of stakeholders".[1]

It is therefore appropriate that the topic of culture should merit a chapter of its own, which follows this overview on sound governance.

IMPACT OF HR METRICS ON BOARD EFFECTIVENESS		
Issue	**Impact of HR Metrics**	**How**
The mix of skills, experience, knowledge and diversity on the board, in the context of the challenges facing the company	Indirect Impact for mature Boards and direct for new or transitional Boards	Through evaluation of CVs, job roles requirements, internal job history and personal data held by HR on Executive and Non- Executive Directors and D&I metrics. Company Secretaries usually hold a specific board skills matrix. Validated by other means including Chair or SID interviews and possible external checks for certain roles
Clarity of, and leadership given to, the purpose, direction and values of the company	Direct Impact	Through data from the Employment Engagement Survey and Exit Interviews
Succession and development plans	Direct Impact	Through succession plan and talent reports
How the board works together as a unit, and the tone set by the Chairman and the CEO	Indirect Impact	The HR Director may be on the Board and asked to comment, or if not on the Board, may be asked to facilitate feedback. Usually part of the Board's annual self-assessment and occasional external board evaluations. Same for many of the subsequent items.
Key board relationships, particularly Chairman/CEO, Chairman/Senior Independent Director, Chairman/Company Secretary and Executive/Non-Executive	Indirect Impact	The HR Director may be on the Board and asked to comment, or if not on Board, may be asked to facilitate feedback.
Effectiveness of individual Non-Executive and Executive Directors	Unlikely Requirement	Likely to be at Chair, CEO or SID level
Clarity of the Senior Independent Director's role (SID's)	Indirect Impact	Likely to be at Chair, CEO or SID level with possible input by the HR Director
Effectiveness of board committees, and how they are connected with the main board	Indirect Impact	Likely to be at Chair, CEO, Company Secretary or SID level. Possible HR Director unlikely assessment of RemCo and Nominations Committee with a cross-reference to Statements of Responsibility under SMCR and SIMR
Quality of the general information provided on the company and its performance	Unlikely Requirement	Likely to be at Chair, CEO, Company Secretary or SID level
Quality of papers and presentations to the Board	Unlikely Requirement	HR Director may comment as a Board member
Quality of discussions around individual proposals	Likely Impact	These will relate to the people implications of proposals and may require data or forecasting to understand these implications
Process the Chairman uses to ensure sufficient debate for major decisions or contentious issues	Unlikely Requirement	HR Director may comment as a Board Director
Effectiveness of the Company Secretariat	Unlikely Requirement	HR Director may comment as a Board Director
Clarity of the decision processes and authorities	Likely Impact	The Board may evaluate how people data is collated, analysed and presented to the Board in quantitative and qualitative terms
Processes for identifying and reviewing risks	Direct Impact	HR Metrics will form part of risk review on employee activities from succession and engagement to conduct and safety
How the Board communicates with, and listens and responds to, shareholders and other stakeholders	Direct Impact	HR Metrics will assist with employee relations

Summary

Throughout this section on Governance, there has been a consistent theme from the outset around the importance of organisational culture. Indeed, the FRC themselves state:

"The Board has a role to shape, embed and assess a desired culture and in so doing have regard to a wide set of stakeholders".[16]

A number of ways in which people metrics can inform the Board and leadership on governance related issues has been presented in this section. However, the theme of culture continues in the next chapter where the role of HR will be explored as the custodian of the people processes which influence organisational culture.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

References

1 *CORPORATE CULTURE AND THE ROLE OF BOARDS - A Report of Observations* - Financial Reporting Council (July 2016)

2 ICAEW *The UK Corporate Governance Code* (FRC - Updated April 2016)

3 *Listings Rules* - Financial Conduct Authority www.handbook.fca.org/handbook/LR.pdf accessed 4 May 2017

4 *FRC's Developments in Corporate Governance and Stewardship 2016* (published January 2017)

5 Lord Davies Recommendations from Women on Boards

6 Hampton-Alexander Review

7 Parker Review

8 Women in Finance Charter

9 The Financial Reporting Council Guidance on Risk Management, Internal Control and Related Financial and Business Reporting

10 Senior Managers and Certification Regime

11 Senior Insurance Managers Regime

12 Institute of Internal Auditors

13 *A duty to care? Evidence of the importance of organisational culture to effective governance and leadership* CIPD 2016

14 '*The Promise of FinTech*' speech, 25 January 2017, Mark Carney, Governor of the Bank of England www.bankofengland.co.uk/publications/pages/speeches/2017/956

15 '*Labour's Share*' Speech 12th November 2015, Andrew Haldane, Chief Economist at the Bank of England www.bankofengland.co.uk/publications/pages/speeches/2015/864

16 Financial Reporting Council Board Effectiveness Evaluation (2015)

CHAPTER SIX: CULTURE: SETTING THE TONE AT THE TOP AND MEASURING THE EFFECTIVENESS

> *"While organisational culture can be difficult to define, measure and compare, HR metrics are key in allowing firms to monitor the outcomes of culture and, as necessary, adjust the policies, practices and governance inputs that drive these outcomes. Monitoring relevant metrics over time allows firms to demonstrate their cultural change process to regulators and other stakeholders."*
>
> *Joel Davies, Associate Partner, McLagan*

This chapter reinforces the need for robust people management processes in shaping the desired culture of the business and the importance of HR metrics to measure their effectiveness in securing the desired change.

Introduction

The culture of every firm is different and this is evident from the following definition published recently by the City Values Forum and Tomorrow's Company:- "Organisational culture is the sum of shared assumptions, values and beliefs that create the unique character of an organisation. The purpose and values of an organisation therefore shape culture. In successful organisations, culture governs behaviour in relationships. It defines the appropriate behaviour for any given situation - "the way we do things around here". It governs the interaction with customers and other stakeholders and also affects how individuals identify with an organisation."[1]

Why is culture so important?

Since the financial crisis in 2008, considerable time, research and attention has been invested in looking at the culture of organisations both within the financial services sector and beyond. Organisations have been taking active steps to embed the right values and processes to satisfy the interests of all stakeholders and society at large. Whilst the recommendations of the Parliamentary Commission on Banking Standards[2] made this a prerequisite for banks, other sectors have recognised the need to put culture at the heart of their business and adopt similar practices.

It is clear that "the way things are done around here" will be driven by a myriad of factors. Andrew Bailey, CEO of the Financial Conduct Authority reinforced this when he said:-

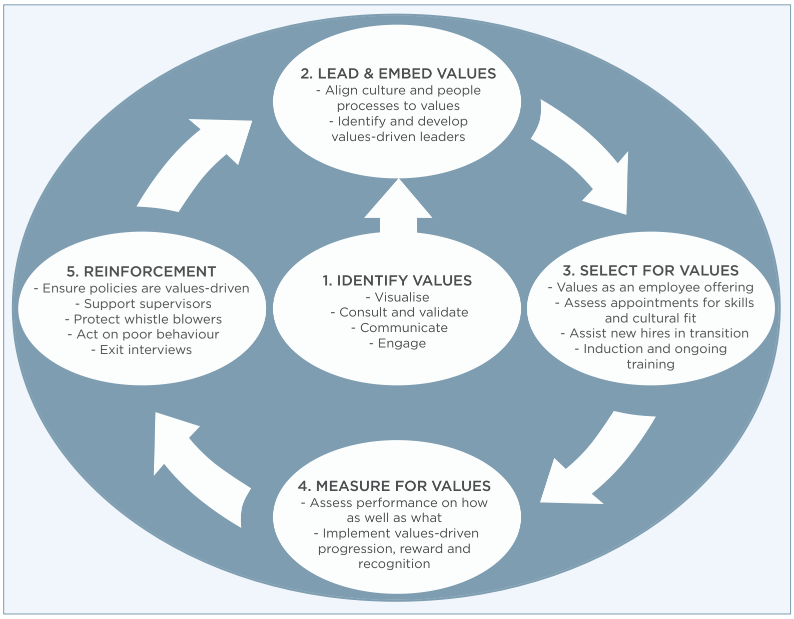
"It is therefore up to the Board to set the tone from the top down by outlining their organisational vision, articulating the purpose of the organisation and aligning core values to create a culture that supports the interests of all stakeholders. Having taken this action, the board must also demonstrate their leadership by committing to these values and ensuring that they are exemplified in their own behaviour and actions. However, as the custodian of many of the people management processes that underpin culture, there is a significant role for HR in policy development, implementation and measurement in this regard".[3]

It is the HR measurement aspect of culture that forms the focus of this chapter.

What influences culture?

An organisation's culture is influenced by a number of features including its tone from the top, the leadership and how they communicate and embed the values, and the alignment of these values to the people management processes.

In an earlier joint publication with the City Values Forum, the City HR Association (Eccles, Newton and Shaw) developed "The Performance Roadmap: Linking Performance to Values"[4] which illustrates how the alignment of people management and performance processes works in practice.



THE PERFORMANCE ROADMAP: LINKING PERFORMANCE TO VALUES
Source: Performance with Integrity (Eccles, Newton and Shaw)

This reinforces the recommendations which have emerged from a number of sources already referenced within this book in that culture is established by:

- the Board identifying and communicating the values to secure employee engagement;
- aligning leadership and processes to these stated values; perhaps considering the use of 360 degree feedback to measure leadership impact;
- recruiting, appointing and assessing external and internal hires to ensure that they will prove to be a cultural fit;
- providing induction and on-going training;
- measuring the extent to which the values are being lived and demonstrated with behaviours measured through the performance assessment process and linked to reward, promotions and other recognition programmes. In particular, the configuration of the remuneration policy and the corresponding rewards in terms of fixed (eg base salary) and variable pay (eg bonus, share options, performance related incentives, role based allowances etc) should be aligned to the performance rating with the opportunity for clawback, malus or witholding awards where performance falls short.
- demonstrating that "promoting and respecting a diverse workforce" is measured, monitored and reported especially as numerous organisations have respect or diversity and inclusion as a stated value. Where this is not stipulated, HR policies and people related decisions should be cross-checked to ensure that diversity and inclusion indicators are factored in to the data under review.
- re-visiting the relevant policies to ensure that these are values-driven; providing a speak-up mechanism and protecting those who 'whistleblow'; acting on poor conduct to correct or sanction such behaviour; and analysing exit interview data to determine from leavers whether the organisation - and its people - are living the values and contributing to the desired culture of the firm.

> *"Indicators and measures used should be aligned to desired outcomes and be material to the business"*
>
> Developments in Corporate Governance and Stewardship 2016, FRC

To some extent, this Roadmap summarises **the internal factors** which underpin culture save to say that since this work was undertaken in 2013, other internal factors have emerged, primarily due to greater emphasis on regulation which has brought the roles of Internal Audit, Compliance and Risk into sharper focus. A later section of this publication will look at the Individual Accountability Rules[5] and the role of compliance in reporting breaches of the FCA Conduct Code (COCON)[6]. As at the time of the publication of this book, total fines incurred by global banks for misconduct has reached over US$320 billion[7]. For firms outside of the financial services sector, risk management red flags will be raised and conduct breaches will be occurring in accordance with the nature of the business, the professional codes of conduct which apply, industry standards and health and safety issues.

Organisational culture and its impact on stakeholders

The Social Licence Model depicted below shows the range of stakeholders who have an influence on the organisation and its business. This model does not constitute a licence to operate. Any breach relating to ethics and values will have a knock-on effect to these constituents. There are therefore a number of **external factors** which will throw a spotlight upon any deficiencies in an organisation's culture.

THE SOCIAL LICENCE MODEL

Source: Performance with Integrity, City Values Forum and City HR 2013 (Eccles, Newton and Shaw)[8]

Such deficiencies could manifest themselves in a number of ways including:-

- high employee turnover due to lack of engagement or belief in the company, its leadership, its operating policy or its products resulting in a loss of talent and expensive external hiring
- withdrawal of business by clients due to poor performance, conduct or customer experience leading to loss of revenue
- withdrawal of shareholder support and realisation of its investment which might have an adverse impact on the organisation's share price and market capitalisation
- sanctions imposed by regulators or professional standards bodies yielding significant fines and reputational damage
- censorship by the media, commentators and local and international communities leading to further loss of reputation.

The regulatory environment under which the firm operates will in itself impact on the values set and cultural measurements. For much of the financial services community this is the Senior Manager and Certification Regime (or Senior Insurance Managers Regime) for those in scope and this piece of regulation merits a chapter of its own later in this publication.

However, for all organisations, stakeholder trust is the critical issue. A key survey provider is the Edelman Global Trust Barometer which measures trust in each industry as well as specific countries and key regions year-on-year. Looking again specifically at the financial services sector, the 2017 Edelman Report[9] recommends four behaviours and corresponding actions that financial services companies could deploy as trust-building behaviours. In brief these are to:-

1) use effective leadership in the interests of all stakeholders to solve customer pain points
2) develop innovations to enhance the customer experience through smart technology investment
3) contribute to the greater good and thereby develop a social purpose
4) protect customer data via data security and privacy.

Other industries will also have their own ratings and recommendations outlined within the Edelman Report.

What is evident here is that a combination of internal and external factors need to be taken into consideration when conducting an assessment of the culture of the business and that analysts should therefore look at a range of measures to understand the actual state of that firm's culture against the desired state.

Indicators of culture change: an art or science?

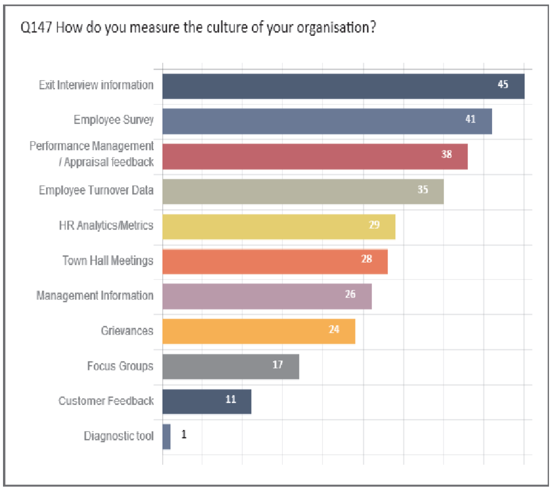
"Indicators and measures used should be aligned to desired outcomes and be material to the business" p36 *Developments in Corporate Governance and Stewardship 2016*, FRC[10].

It has already been established that each firm has a unique culture and that any measurement should be derived using information from a range of stakeholders, so how in practice can firms go about undertaking this task? Is culture measurement an art or a science?

The reality is that it is both, arguably with science being the larger quantity. However, taking the art concept first, many elements of culture are intangible – "it is about the way things are done around here". For many, this needs to be experienced to see how the organisation feels and to witness first-hand the general environment in which people work, the 'vibe' that exists in terms of interaction, collaboration and atmosphere and then to hear the 'word on the street' about what is going on and how people feel about it. For this reason, many leaders will want to 'walk the floor' as part of their overall assessment.

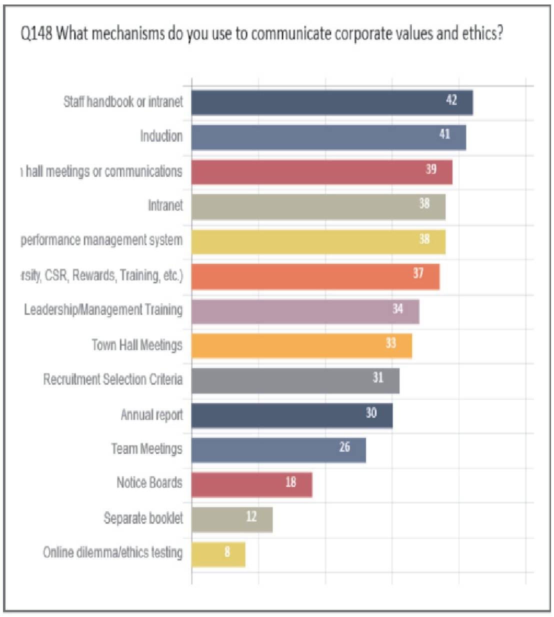
A further litmus test might be undertaken to scratch beneath the surface to gather formal or informal views of what is going on within the organisation and where any barriers to the desired culture might exist. These could take the form of focus groups, town hall meetings, suggestion boxes/intranet sites and other management interventions to create informal channels for understanding perceptions about the business. These devices were very much in evidence in the City HR Benchmarking Survey 2016[11], when 51 financial institutions within investment banking, retail banking and asset management reported on the main ways that they communicated with employees on corporate values and ethics.

Organisations were asked to explain how they measured the culture within their organisation and Graph 147 from this survey sets out their responses. Unsurprising, the accompanying table shows that the top three ways that organisations measured culture was through exit interviews, employee surveys and the appraisal scheme and this is depicted in Graph 147 below and highlighted in blue on the corresponding table.



Graph: 147. How do you measure the culture of your organisation?
All: 51 Participants

Answer	Responses	Percentage
Exit Interview information	45	88.2 %
Employee Survey	41	80.4 %
Performance Management/ Appraisal feedback	38	74.5 %
Employee Turnover Data	35	68.6 %
HR Analytics/Metrics	29	56.9 %
Town Hall Meetings	28	54.9 %
Management Information	26	51 %
Grievances	24	47.1 %
Focus Groups	17	33.3 %
Customer Feedback	11	21.6 %
Diagnostic tool	1	2 %



Graph: 148. What mechanisms do you use to communicate corporate values and ethics?
All: 51 Participants

Answer	Responses	Percentage
Staff handbook or intranet	42	82.4 %
Induction	41	80.4 %
Senior management town halls	39	76.5 %
Intranet	38	74.5 %
Outlined in the appraisal system	38	74.5 %
Embedded in all the HR policies	37	72.5 %
Leadership/Management Training	34	66.7 %
Town Hall Meetings	33	64.7 %
Recruitment Selection Criteria	31	60.8 %
Annual report	30	58.8 %
Team Meetings	26	51 %
Notice Boards	18	35.3 %
Separate booklet	12	23.5 %
Online dilemma/ethics testing	8	15.7 %

Likewise, organisations were asked to comment on how they communicated their culture and values and the top six methods are depicted in the Graph 148 and highlighted in blue on Table 148, as extracted from the City HR benchmarking survey.

The science element comes in with the evidence-based measurement of the culture of the organisation and this will be derived from two sources: internal and external data.

Reporting to the Board – HR as the custodian of the people issues impacting culture

This is the point where the interdependence of governance, culture and people crystallises, particularly in terms of organisations striving to set up either their own culture dashboards or culture diagnostic tools.

What are the elements that Boards and HR might like to consider in collating data that is meaningful to determining their actual state of culture against their desired state?

Internal Data (both numerical and unstructured data)
The following internal data is a good starting point:-

- assessment criteria linked to interview evaluation forms, on-line behavioural questionnaire assessments and other processes linked to recruitment
- induction training – data depicting the number of individuals who have attended these programme which are crucial for embedding the values and an understanding of the desired culture
- employee training data - evidence of culture-related training and investment in programmes to

enhance competence, skills and knowledge against a backdrop of ethics and integrity to behave in line with the organisation's values
- performance management reviews where individuals are rated against what they do and how they execute their duties reflecting the desired behaviours and values of the firm. These are useful as both a numerical (or narrative) rating of performance and also as a source of unstructured data which often reveal how individuals "feel" or "perceive" certain issues within the firm.
- remuneration policies and practices particularly the structure of financial and non-financial incentives and how these align to performance and effective risk management
- recognition programmes and their winners particularly for customer service, teamwork and collaboration
- succession plans - the rationale behind these recommendations and evidence for the Board or leadership as part of the organisation's people risk strategy
- the basis for promotion decisions in terms of performance and behaviours
- the effectiveness of a range of people policies and practices
- staff turnover and absenteeism rates looking at the rationale as well as the numbers
- responses to employee engagement and other workplace surveys particularly around the extent to which values are articulated, embedded, led and lived by the leadership and middle-management
- analysis of the workforce diversity across the full spectrum of protected characteristics and against all equal opportunities policies. Organisations might like to drill deeper in this regard to see the progress of diverse groups in being attracted and hired to the organisation as an assessment of fair policies, unconscious bias and employer brand management opportunities
- conduct data - disciplinaries, dismissals and potential/pending employee tribunal cases and other issues which fall under the employee conduct code
- grievance data
- feedback from exit interviews
- in-house cultural diagnostic outputs
- technological advances impacting the people agenda (eg Artificial Intelligence and Robotics)
- consideration of organisation design to reflect agile working practices
- existence of employee well-being, resilience and mental health programmes
- effectiveness of whistle-blowing policy with the ability to speak-up and escalate issues

Reporting to the Board and HR – Risk, Compliance and Audit Reports on people issues impacting culture

The data acquired, analysed and reported by HR also needs to be supplemented with information taken from other internal sources.

Risk and Compliance

- operational risk in terms of breaches, near misses and costs relating to deficiencies in this area
- conduct risk in terms of breaches, near misses and fines
- health and safety in terms of instances, near misses and fines and liabilities
- control failures
- breaches of industry and professional standards
- incidences of failure of employees to be certified as fit and proper, the reasons behind this and the prescribed outcome
- completion of regulatory training

Internal Audit

- evidence of an aligned relationship between HR, Risk, Compliance and Internal Audit
- the necessary training and framework to evaluate the culture of the organisation
- meaningful assessment and reports to the board

External Data which impacts cultural measurement

Finally, the internal data needs to be considered alongside how stakeholders perceive the organisation and this type of information can be derived from a number of sources including the following:-

- Customer Satisfaction Surveys
- Customer complaints
- Ranking in industry wide surveys
- External Market Research
- Edelman Trust Barometer as an indication of public concerns and potential remedies
- Regulator Reports and feedback documents

- Glassdoor – the social media site for reporting in-house experiences within organisations
- Benchmarking Data on HR Policies or people and business issues underpinning culture (See Chapter 13 for more details).

Business models and organisational effectiveness

Drawing on the wealth of information sources available to organisations, and the need to select those that contribute to assessing its unique culture, Aon Hewitt McLagan have devised a business model which depicts the considerations for organisational effectiveness. The main premise here is that "culture, engagement and leadership are closely aligned to strategy, risk and performance".

Source: Aon Hewitt McLagan Presentation to City HR September 2016

So how can this be monitored and assessed within the smallest to largest companies?

Culture dashboards and diagnostic tools

Many of the large and sophisticated organisations will have a culture dashboard, scorecard or on-line diagnostic tool which collates and measures data of an internal and external nature, traditionally from a blend of the numerous sources that have been outlined in this chapter. Clearly, the data that is analysed will be selected to be meaningful to the leadership in understanding the actual versus the desired culture within a specific organisation and will identify any gaps in this respect. The output from these tools will then need to provide a visualisation – whether this be a heatmap, scatter diagram, situational spectrum or other illustration or narrative - through which the leadership can understand the culture gaps and build a corresponding action plan. There will be contextual factors which will also influence the rationale for and outcomes of the diagnostic depending on whether the metrics are being used simply to examine the actual state of the organisation, or as a result of a merger or acquisition.

At the most basic level, a toolkit based on a spectrum of questions can be completed by the Board or leadership team and balanced by hard data provided from people metrics sources to see if the actual state correlates with the desired state. Many will contrast this with information from other stakeholders such as customer surveys.

On a more advanced level, some firms employ external specialists to conduct interviews, analyse 360 degree stakeholder feedback and to use proprietary and public data to benchmark the firm against its peers to establish a norm against which the data can be considered.

According to Joel Davies, Associate Partner, McLagan *"While organisational culture can be difficult to define, measure and compare, HR metrics are key in allowing firms to monitor the outcomes of culture and, as necessary, adjust the policies, practices and governance inputs that drive these outcomes. Monitoring relevant metrics over time allows firms to demonstrate their cultural change process to regulators and other stakeholders".*

Hermes Case Study

Hermes is an asset manager with a difference. They believe that, while their primary purpose is helping beneficiaries retire better by providing world class active investment management and stewardship services, their role goes further. They believe they have a duty to deliver holistic returns - outcomes for clients that go far beyond the financial and consider the impact our decisions have on society, the environment and the wider world. The goal is to help people invest better, retire better and create a better society for all.

In 2014 Hermes introduced a new Performance and Behaviour Framework. Very much tied in with Hermes commitment to Responsible Investing and Sustainability; the business moved away from the staid 1 – 5 rating scale with its inevitable "3" median, in favour of a framework that placed the "how" on equal terms with the "what".

This enabled managers and staff to talk about and measure these aspects more effectively, which was consistent with their values of responsible investment and sustainable returns.

Hot on the heels of these internal changes, in 2015 the business introduced the Hermes Pledge. Initially adopted by the Board and leadership team, it was subsequently rolled out to all employees through a series of workshops to discuss the Pledge and what it meant. The aim was to underpin Hermes' commitment to always put its clients first and act responsibly and create positive culture with clear and transparent expectations for staff. To date 98% of staff have voluntarily signed up to the Hermes Pledge.

The Hermes Pledge

I pledge to fulfil, to the best of my ability and judgment and in accordance with my role, this covenant:

- I will act ethically, responsibly and with integrity
- I will put the interests of our clients and their beneficiaries first
- I will encourage responsible behaviour in the firms in which we invest and on which we engage
- I will act with consideration for society and the environment both now and in the future. I will encourage others to do the same
- I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society
- I will treat my clients, my colleagues and all other stakeholders with respect and as I would wish to be treated
- I will deal with our regulators in an open, co-operative and timely way
- I will communicate clearly and honestly with all parties inside and outside our firm
- I will manage conflicts of interest fairly between all parties

Saker Nusseibeh, Chief Executive, Hermes Investment Management, said: *"At Hermes we have a strong culture of responsibility, established long before it became fashionable in the industry. It is ingrained in our corporate DNA, and informs the way in which we behave as a firm and as individuals. Our new pledge is one way we are making clear our commitments, obligations and responsibilities, but of course, we expect to be judged by our deeds, not our words."*

In developing the Performance and Behaviour Framework Hermes made sure it avoided the pitfall some organisations fall foul of, over-looking the importance of open and honest, two way communication and feedback (a critical step itself in good Performance Management), through a series of employee led forums, focus groups and engagement surveys which all contributed to the development of the competency framework.

Development of the framework was very much the tip of the iceberg though and achieving sustainable performance – much in the same way as Hermes seeks to achieve with its investment funds – has been the challenge thereafter and it's worth noting that it's not all been plain sailing.

Shaking the tree inevitably has consequences and the company worked through these challenges with empathy and resolve which helped to further reinforce the message and expectations. Critically, the message is shared from the top down and all staff are held to account for their actions.

Supporting managers and staff through these changes takes a strong HR team, which Hermes is fortunate enough to have, practical user-friendly reference materials (essentials limited to one page not the usual War and Peace "Instruction" Manual that quickly gathers dust under a pile of other unread circulars) and regular bitesize training that appeals to new as well as 'experienced' managers.

If all that change wasn't enough Hermes also threw a new Learning Management System (LMS) in to the mix. This helped remove much of the dreary administration often associated with Performance Management and enhanced overall visibility of progress but such systems are only a tool to facilitate process and not a substitute to frequent discussions on progress against objectives. This point is reinforced numerous times across the year to minimise the chance of any surprise elements during the mid-year and year-end appraisal.

Aspiring for continual improvement, not change for change sake, means that Hermes routinely monitors the effectiveness of any initiative. Examples in this case include:

- An annual objective audit to test the value of learning interventions, identify trends and where needed develop bespoke or broader support mechanisms;
- A 'Control Function' cross check to ensure relevant factors ie: errors & breaches are taken in to consideration and appropriately recorded during the appraisal meeting;
- Vertical and Horizontal Calibration where functional and cross business performance is put in front of the Executive to ensure rigorous challenge at all levels of the company; and where necessary that,
- Bonuses are affected by assessment of behaviour as evidenced in the appraisal process.

Three years on from the introduction of the Performance and Behaviour Framework the culture of the organisation has certainly changed; and its meteoric rise to fame in the market has certainly helped with no shortage of candidates who share the same strong values and ethics beating a path to join its business. Similarly, if business results are the metric of choice then Hermes certainly scores well given its performance in recent years.

Summary

What is clear is that with the increased focus on culture on a local, global and industry-wide basis, organisations will want to get more advanced in the capture, analysis and measurement of culture in order to demonstrate that the right behaviours are evident within their business.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

References

1 *Governing Culture, Risk and Opportunity?* City Values Forum and Tomorrow's Company 2016

2 *Changing Banking for Good*, Parliamentary Commission on Banking Standards 2013

3 Andrew Bailey, CEO of the Financial Conduct Authority in his previous role as CEO of the Prudential Regulatory Authority (PRA)
www.bankofengland.co.uk/publications/Documents/speeches/2016/speech901.pdf

4 *The Performance Roadmap: Linking Performance to Values. Performance with Integrity,* City Values Forum, the City HR Association: by Andrea Eccles, Elizabeth Newton (Newton Whyatt) Helen Shaw (Shaw Wilson Limited) 2013

6 *Individual Accountability Rules, Strengthening accountability in banking: a new regulatory framework for individuals* – CP14/14 (1.9MB) Also known as the Senior Managers and Certification Regime,

6 FCA Conduct Code (COCON). www.handbook.fca.org.uk/handbook

7 Mark Carney, Governor of the Bank of England, speech on 21st March 2017
www.bankofengland.co.uk/publications/.../speeches/2017/speech970.pdf

8 *The Social Licence Model, Performance with Integrity*, City Values Forum and City HR Association: by Andrea Eccles, Elizabeth Newton (Newton Whyatt) Helen Shaw (Shaw Wilson Limited) 2013

9 *Edelman Trust Barometer 2017*, published by Edelman www.handbook.fca.org.uk/handbook (Accessed 5th May 2017)

10 Financial Reporting Council: Developments in Corporate Governance and Stewardship 2016

11 *City HR Benchmarking Survey 2016*

CHAPTER SEVEN: FINANCIAL SERVICES REGULATION: ACCOUNTABILITY AND REWARD

All organisations are subject to regulation in order to safeguard the assets, interests or safety of stakeholders, whether these are internal - employees, or external - customers, investors or the public. However, regulation has taken on greater significance in Financial Services since the banking crisis in 2008, which has led to an enhanced regime in the areas of accountability, conduct, risk and remuneration. This chapter looks at the impact of regulation on people metrics.

Introduction

According to the definition set out in the Collins Dictionary, regulation is "the act or process of regulating a rule, principle, or condition that governs procedure or behaviour {often from} a governmental or ministerial order having the force of law." It is certainly an area of increased focus for the HR function through the creation or revision of processes that are designed to address and monitor people policies and behavioural standards within the organisation. In the majority of cases this also requires some form of measurement and/or recording in order to demonstrate compliance.

For most industries, regulation exists to protect the personal safety of people or the assets of the stakeholders that they serve whether these are employees, customers, investors or members of the public. Examples of regulations which affect all organisations are health and safety requirements and employee pensions regulation. Many organisations are also set operating or conduct standards by their own industry board or professional standards body. Whilst it is recognised that virtually every industry is regulated on specifics by its trade or professional body, alongside some generics which emanate from the Government, this chapter focuses on the measurement of people procedures and behaviours which support the governance and culture of Financial Services organisations.

Looking at regulation through the people metrics lens, there are two areas for key consideration: (i) conduct and risk and (ii) performance and reward, both of which are underpinned by training and competence. The normal caveat for this booklet exists: it is appreciated that many firms in the UK may be regulated by overseas entities and this review is based on UK regulations. However, these firms will find this section useful as (i) their UK operations will in many cases still be covered by the UK regulatory regime, even if their Global Heads of functions are domiciled overseas and (ii) in most regards, the UK has the most rigorous of regulatory regimes and therefore many of its principles may be aspirational for organisations in other jurisdictions.

Conduct and Risk

The two main Financial Services regulators for conduct and risk in the UK are the Bank of England through the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA).

The financial crisis of 2007/8 led to the Parliamentary Commission for Banking Standards (PCBS) being established to investigate the reasons for the sector going into crisis and produced a report called Changing Banking for Good,[1] published in June 2013. Following a raft of issues in the sector, including the LIBOR scandal, PPI and fraudulent behaviour by individuals who should have been 'putting the customer first', the report produced six key recommendations as to how banking - and de facto,- other financial service organisations, should restore trust. At the heart of the report was the need for transformation to change the culture of institutions and the behaviours of individuals employed within these firms. It also wanted to ennsure that those in senior positions - either as Senior Managers or employees responsible for delivering products or services which impinged on the risk of the institution - were either held accountable as Senior Managers or deemed fit and proper to undertake the duties within their remit.

As a result of the recommendations contained in the PCBS report, government legislation was introduced which led to the PRA and FCA producing their own regulatory directives in the form of the Senior Managers and Certification Regime (SMCR)[2] and the Senior Insurance Managers Regime (SIMR).[3] The main requirements as ratified by the PRA and FCA came into effect from March 2016, with organisations in scope of SMCR having until March 2017 to embed other relevant policies. The Senior Managers and Certification Regime is being extended to capture the remainder of the Financial Services Sector in 2018 upon the completion of the PRA and FCA consultation process in this regard. For those in scope from the outset, the main requirements of the regime are set out which will help to inform those coming into scope at a later date.

Main Requirements of SMCR and SIMR

1) Identified senior executives with certain prescribed responsibilities as set out by the PRA and FCA should be **accountable** for the activities carried out within their area of responsibility and take all reasonable steps to ensure that the business for which they are responsible complies with the requirements and standards

of the regulatory system. These individuals are designated as Senior Managers (hence the Senior Managers and Certification Regime) and are allocated a prescribed responsibility in accordance with their job function. NEDs can also be designated a Senior Manager if their Board remit is one of the prescribed responsibilities.

2) Development and on-going maintenance of a **Governance Map** which sets out the positions of those that effectively run the firm, along with the allocation of significant management responsibilities and reporting lines for each of these senior persons within the firm, and any wider group, and define the matters reserved for the Board (including the terms of reference of its committees).

3) Development and on-going maintenance of a **Responsibilities Map**. This will give the name of each person in a given Senior Management Function, where applicable.

4) The completion and submission to the PRA and FCA (as applicable) of **Statements of Responsibilities** for those in Senior Manager roles or Scope of Responsibility Forms for those in SIMF roles

5) Individuals must fulfil the criteria for **fitness and propriety** as defined for those covered by SMCR and SIMR. For individuals who fall within the auspices of SMCR, those who occupy Material Risk Taker or Signficant Harm Functions must be certified as fit and proper to hold these roles. A later section of this chapter explains what it means to be 'fit and proper'.

Other relevant policies relating to SMCR and SIMR include the implementation of:

6) A **whistle-blowing policy** (effective 7th September 2016) with a speak-up process documented in the staff handbook or intranet and a 'whistle-blowing champion' appointed to review and report on instances of whistle-blowing on an annual basis. In many firms, the whistle-blowing champion role is undertaken by a Non-Executive Director.

7) **Regulatory References** (effective from March 2017) which requires the hiring firm to go back 6 years in seeking a regulatory reference for individuals in scope under SMCR and SIMR, using the guidance and template issued by the PRA (Policy Statement PS27/16)[4] and FCA Policy Statement 16/22)[5] on 28th September 2016. To prevent 'rolling bad apples', employers will have an obligation to disclose any wrong-doing that subsequently comes to light during an 'in-scope' staff member's employment and will no longer be able to include an agreed regulatory reference in a Settlement Agreement to exit an individual who has under-performed or breached the conduct rules.

8) **Employee Conduct Rules Training** for all staff aligned to their job roles and to include all employees within the firm except ancilliary and auxilliary staff with evidence to show that this has been undertaken by March 2017 with many firms proposing to include this in all induction, management and ethics training, as well a refresher programmes on an annual basis thereafter.

9) At the time of the launch of SIMR, the requirements for Conduct Standards were slightly different and less onerous for SIMFs/Key Function Holders and those in Key Functions under SIMR according to the LMA Guidance: Senior Insurance Managers Regime[6]. For the former category, plus Non-Executive Directors, the PRA expects the conduct standards to be in their job description or conditions of engagement. For those in a Key Functions, it is expected that this information is detailed in the staff handbook or other relevant documents. However, this may change in 2018 when the framework for SMCR is extended to other financial disciplines.

The Conduct Rules, as set out by the PRA and FCA, are outlined below.

THE CONDUCT RULES

The Conduct Rules for individuals Aligned to Job Role

SUMMARY OF CONDUCT RULES FOR INDIVIDUALS

Rule	Individuals must:	Applied by
CR1	Act with integrity	FCA and PRA
CR2	Act with due skill, care and diligence	FCA and PRA
CR3	Be open and cooperative with the FCA, the PRA and other regulators	FCA and PRA
CR4	Pay due regard to the interests of customers and treat them fairly	FCA Only
CR5	Observe proper standards of market conduct	FCA Only

PRA and FCA Conduct Rules Effective March 2016
Reproduced by the BBA and City HR Association (Source: FCA Handbook 2015/31)

THE CONDUCT RULES

What these mean to your Senior Manager

Think of the impact on your Manager, your firm, the industry and yourself

SUMMARY OF ADDITIONAL CONDUCT RULES FOR DESIGNATED SENIOR MANAGERS

Rule		Applied by
SCR1	You must take reasonable steps to ensure that the business of the firm for which you are responsible is controlled effectively	FCA and PRA
SCR2	You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system	FCA and PRA
SCR3	You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate person and that you oversee this effectively	FCA and PRA
SCR4	You must disclose appropriately any information of which the FCA or PRA would reasonably expect notice	FCA and PRA

PRA and FCA Conduct Rules Effective March 2016
Reproduced by the BBA and City HR Association (Source: FCA Handbook 2015/31)

Whilst training in (or notification of) the Conduct Rules is a pre-requisite, many firms have exceeded the base-line training by undertaking more detailed and relevant job role training to their Senior Managers, Certified Persons or Key Function Holders to ensure that they fully understand the scope of their responsibilities and the consequences of any breaches or failure to meet competence standards which may affect their suitability for the function or their ability to be certified 'fit and proper' where applicable.

Although the initial rules applied to banks, building societies, credit unions and PRA authorised investment firms, it is proposed to extend these requirements to all regulated Financial Services organisations by the end of 2018. These initial rules formed the basis of the consultation and the subsequent final rules contained within 'Strengthening Accountability in Banking and Insurance' published on 28th September 2016 by the PRA[7] and FCA[8] respectively and the updating of the FCA's Code of Conduct (COCON)[9].

The Senior Managers and Certification Regime (SMCR) and Senior Insurance Managers Regime (SIMR) - What do these mean for People Management?

In May 2015, the City HR Association - working with a taskforce comprising HR Leaders, Risk and Compliance Specialists, Employment and Regulatory Lawyers, Market Experts and Trainers produced a guide for project teams charged with the implementation of these regulations. In order to navigate the rules in a logical sequence, this regulatory process was aligned to the employment life cycle and formed a checklist for HR, Compliance and Risk to consider in their implementation of the new regime for SMCR[10] and SIMR.[11]

THE PEOPLE MANAGEMENT IMPLICATIONS –
City HR Employment Life Cycle relating to the SMCR or SIMR

Culture and Values   Organisation Design   *Recruitment Process*

Onboarding   **Background Screening and Reference Checking**

Transitioning   **Training**   Succession   Performance

Management   **Reward**   Exits/Terminations   Whistle-blowing

Management Information   Recording and Reporting

For full details see
City HR 'SMCR or SIMR – Alignment to Employment Life Cycle'

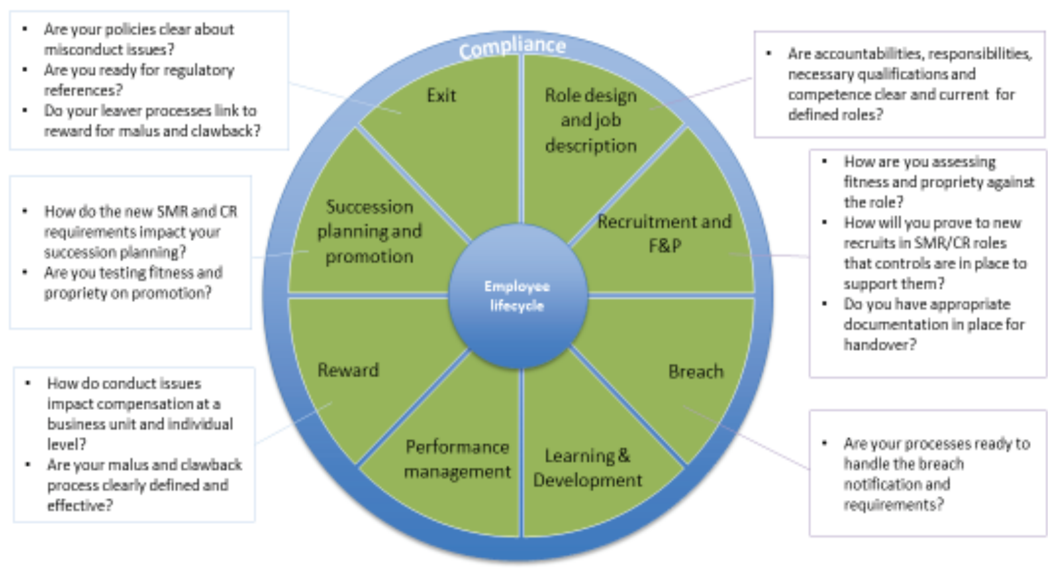
Source: Senior Insurance Managers Regime:
The People Management and Training Implications October 2015

The core themes are similar to past regulatory requirements and, in many ways, could be readily applied to other sectors outside of Financial Services. These themes are:

- ensuring the right culture pervades the organisation through defining organisational values and setting personal standards or behaviours,
- aligning these to all people processes, delivering the appropriate training to maintain competence and to uphold standards and behaviours,
- selecting, appointing and succession planning to identify and promote the right talent,
- ensuring that the performance management system is aligned to reward and recognition and embeds the standards,
- to have a reporting process and sanctions for those who breach the standards. For those in an SMF or SIMF role, any potential breach needs to be investigated and reported to the FCA within 7 days. For those in Certified Roles these can be reported on an annual basis unless the breach is serious enough to warrant an immediate disclosure, and
- ensuring that a mechanism exists whereby individuals can speak up if they feel that individual behaviour or organisational standards are falling short and that these whistle-blowers are protected when they do so.

Below is a simplified illustration of the HR checklist.

SENIOR MANAGER AND CERTIFIED PERSONS REGIME – HR CHECKLIST



Source: City HR Taskforce (Feb 2016)
Cole, Belton and Others

Source: Adapted from the City HR Publication
"The Senior Managers and Certification Regime Aligned to the Employment Life Cycle
(SMCR Taskforce May 2015)

Fitness and Propriety (F&P)

A significant part of the Senior Managers Regime relates to the fitness and propriety for those in scope of SMCR and SIMR.

a) Banking, Building Societies, Credit Unions and PRA Authorised Investment Firms (SMCR)

For those in banking and PRA authorised Investment Firms, there is a requirement for Senior Managers, Material Risk Takers and those occupying Significant Harm Functions to be certified as fit and proper.

The Banking Standards Board (BSB) has published a Statement of Good Practice 1 – Certification Regime: Assessing Fitness and Propriety;[12] this outlines the overarching principles on assessing fitness and proprietary alongside how these can be implemented across the four main categories of:

(i) Honesty and integrity

(ii) Reputation

(iii) Competence and capability

(iv) Financial soundness

The guidance also outlines four types of assessment which prompt the need to undertake a fitness and propriety assessment and these are fully explained in the BSB's Statement of Good Practice 1.
These are:

Type 1: New Role Assessment

Type 2: Annual Assessment

Type 3: Triggered Assessment

Type 4: In-Year Assessment

The information to source for each type of assessment

This will depend on the policy of each individual firm, but the following table is useful in considering the relevant information for each type of assessment

Type of Information Required	Type of Assessment being Undertaken				
	New Role	Annual	Triggered	In-Year	Supporting evidence: Examples*
Entry information	✓				Interview evaluation form, application form, regulatory reference. Professional qualification
Annual appraisal		✓			Appraisal, self-assessment form
Screening checks	✓	✓ *	(✓)	(✓)	Credit reference check, DBS check
Self-declarations	✓	✓	(✓)	(✓)	Self-declaration form/self-attestation form
Outcome of other events			✓	(✓)	Outcome of a disciplinary procedure
Individual portfolio of evidence		✓		(✓)	Continuing Professional Development and Training to keep skills current

✓ Information likely to be relevant to assessment
(✓) Information may be relevant to assessment depending on circumstances
✓* The information generated by screening checks may be considered as part of the overall consideration of a person's F&P at the annual assessment but the checks themselves may be carried out less frequently in line with a firm's risk tolerance.

Source: Banking Standards Board (BSB) Statement of Good Practice 1 – Certification Regime: Assessing fitness and propriety table and supplementary information*12

b) Solvency II Insurance Firms (SIMR)

For those in insurance covered by SIMR, a lighter touch has been applied whereby firms need to give consideration to an assessment framework for those in Senior Insurance Manager Functions (SIMF) and for Key Function holders that would prove to the PRA and FCA they were fit and proper to carry out their duties. This is well summarised in the publication LMA Guidance: Senior Insurance Managers Regime.[6] However, this lighter touch may be strengthened when the PRA and FCA produce their consultation paper to extend the provisions of SMCR to all regulated firms by the end of 2018.

People Metrics to underpin "Strengthening Accountability in Banking and Insurance"

Most critically, is the ability to evidence that measures are in place to monitor that the organisation and individuals are achieving the desired effects and that where performance falls short, this is being remedied. This is where HR plays a crucial role in people metrics. Many organisations have needed to update their IT systems and regulatory dashboards to evidence that their data collation, recording, analysis and reporting generates the checks and balances expected by the regulators.

Société Générale UK is one example of an organisation that has developed its own Conduct Risk Dashboard.

Société Générale | **HR Conduct Risk Dashboard** | **Case Study**

Headquartered in the City of London, Société Générale UK employs almost 4,000 employees across the country and is a core hub of the worldwide Group.

Conduct and behaviours are firmly embedded within Société Générale's Code of Conduct, and continue to be a priority for the bank, most recently through its Leadership Model, which reiterates the core values of commitment, innovation, responsibility and team spirit.

As the regulatory framework increasingly focuses on culture and conduct, the Group Executive Committee recently launched a group-wide Culture & Conduct programme, approved by the Board of Directors in January 2016.

Beyond this, maintaining the highest standards of integrity, ethics and behaviour is at the heart of all the bank's business practices. Its HR Leadership Team has consolidated data covering the HR department's conduct and behaviour into an accessible dashboard, creating a consistent framework to track behavioural trends and measure the conduct of HR staff.

Through consultation with the business lines and Senior HR Business Partners, and external advice from experts, a decision was taken to focus on the principal risks the HR function faces while looking at additional indicators which shine a light on HR behaviour.

Monitoring to ensure regulatory requirements are met is a key focus including, among others, KPIs on:

Employee Background Screening e.g.	**Review of Job Descriptions** e.g.	**Conduct Breaches** e.g.	**Operational Loss** e.g.
■ SMR roles	■ New hires	■ Whistleblowing	■ Financial
■ All new hires	■ Rolling review	■ Grievances	■ Non-financial

The HR Conduct Risk dashboard also enables the HR leadership team to focus on the positive behaviour of HR staff to emphasize that monitoring should not only focus on the negative and identify 'what hasn't been done'. By measuring the following areas, the bank can also highlight good practice within its HR team:

- HR training activity
- Understanding of compliance policy through spot checks
- Monitoring completion of oversight controls and internal audits on time
- Monitoring objective setting
- Management of performance cases

It is worth noting that the Société Générale UK HR team does not currently have any high-tech IT solutions to help generate these powerful and insightful reports. It says the data is easy to access, and repurposing into a consolidated format has been relatively simple.

An HR Conduct Risk Committee was also established in 2017 and met for the first time at the end of Q1 to review and discuss the first data set. The committee comprises the Head of HR, the Head of Compensation & Benefits, and the COO for HR.

Emma Steck, COO HR said *"We are looking to automate the reporting of our dashboard with a view to continuing to evolve and simplify. We now have the tools to demonstrate that we are driving a positive, compliant culture and recognising good behaviours".*

The People Metrics which underpin 'Strengthening Accountability in Banking and Insurance' are contained in Appendix 1.

The Financial Stability Board

In order to reinforce the messages contained within Section 2 of this guide regarding the importance of people metrics and data management in the field of conduct, it is interesting to note that the Financial Stability Board (FSB) has put three aspects of people management under the spotlight, which may subsequently provide guidance for their Supervisors. The FSB published its report on the 'Stocktake of efforts to strengthen the governance frameworks to mitigate misconduct risks' in May 2017.[13] The stocktake considers a broad range of activities, practices and approaches in supervising and regulating misconduct risk. It highlights a range of governance issues that are necessary to reduce misconduct including culture, board membership and effectiveness, risk management and internal controls plus people management and incentives. The report sets out three areas of focus for the FSB on topics already covered in this people metrics guide, specifically:

- Culture
- Responsibility mapping
- Rolling bad apples

The issue of rolling bad apples arises when employees are dismissed due to misconduct at one firm (or leave under suspicion of misconduct) and then re-surface at another firm and is one area that the PRA and FCA Regulatory References Guidance sets out to address.

Training and Competence

As with past regulatory initiatives, there is a considerable need for organisations to not only incorporate these provisions in the training and performance management of their staff, but also to maintain records of the activities undertaken to ensure that their employees are competent to appropriately discharge their duties and can demonstrate continuing professional development. This is as true for firms who are subject to guidelines issued by the European Securities and Markets Authority (ESMA) as for those who are in scope of SMCR and SIMR. Many firms have adapted their HRIS and Compliance systems to capture the on-line and face-to-face training delivered on the technical, regulatory, managerial and ethics aspects of their roles and also to maintain performance and conduct standards data.

REWARD PROGRAMMES

The Remuneration Committee, HR and Reward Leaders in the UK continue to work with change and uncertainty as a myriad of requirements emanate from the Government, the EU, the EBA, the Central Banks, the PRA and FCA and, of course, host country Governments and Regulators. While the initial, post-crisis focus was on the linkage of pay to performance, this has developed to include not only the inevitable aspect of taxation but also broader issues around diversity and equality. The impact of these requirements has had major implications on how pay is structured and managed within the Financial Services sector and how some employee benefits – particularly pensions and other certain salary sacrifice arrangements – are administered.

Remuneration Code

The first major regulatory changes to reward in the Financial Services sector occurred in 2010 with the implementation of what was then the Financial Services Authority's (FSA) Remuneration Code. The Code originally impacted around 26 of the largest UK and international banks in the UK. This was extended to capture many more firms in scope from banking, building societies and some investment management companies, in what are now categorized at Level 1, 2 and 3 firms dependent on the size of total assets held and the nature of licence issued. An element of proportionality in the application of certain provisions of the Code has been permitted for Level 3 firms. For those covered by the Remuneration Code, this saw the introduction of the requirement to comply with a number of key Principles – mindful of proportionality, where this does apply - as well as some specific provisions, including:

i) the deferral of bonus awards to individuals over a defined period, often with a bonus threshold whereby individuals could only avoid deferral for awards at a relatively modest level;
ii) provide for risk adjustment and withhold elements of bonus pay through malus;
iii) apply clawback where a bonus would have been lower had subsequent performance issues (both individual and corporate) been known at the time of the award; and
iv) restricted the use of guaranteed bonuses, with these being offered only in exceptional circumstances and for a limited period.

The Remuneration Code has been developed since it was first published and has moved somewhat from its initial principles-based approach to a more prescriptive application of the rules.

At this point in time, a clawback period has been set at seven years for all Material Risk Takers (MRTs) and those in Senior Manager Functions (SMF), with the possibility to extend this to 10 years in certain circumstances for the SMF population. Under proportionality, these rules only apply to Level 1 and 2 firms under the PRA Rulebook.

One major complication resulting from the introduction of significant levels of deferral, arises when individuals move to another organisation with some of their deferred pay still outstanding. In such cases, the individual will often seek a 'bonus buy-out' from the new employer to compensate them for losing their right to the deferred elements of their past bonuses. The PRA have sought to address this through the introduction of bonus buy-out regulations[14] to ensure that 'rolling bad apples' do not change firms on a regular basis to benefit from converting their deferred award to a buy-out before any discrepancy is discovered.

In brief terms the bonus buy out provisions require that for Level 1 and 2 firms MRTs who forfeit their bonus in Firm A and have had their bonus 'bought out' by Firm B, are subjected by Firm B to terms within its awards that would allow malus/clawback to be applied to the buy-out on instruction from Firm A. This is in addition to existing expectations for bonus-buyouts to be no more generous in amount or term than that offered by the previous employer, in this example Firm A. This only applies where Firm B is also a Level 1 or 2 firm.

Interestingly, the application of malus and clawback has extended into other industry sectors and is now in wider evidence through the UK Corporate Governance Code and is a requirement for consideration by the Remuneration Committee.

Capital Requirements Directive IV (CRDIV)

The adoption of the European Banking Authority's (EBA) Guidelines on the remuneration aspects of CRDIV have been published by the PRA (Ref PS7/17)[15] and the FCA (Ref PS17/10)[16]. The PRA expects all firms to comply with these guidelines from a governance, policy and procedures perspective from the 1st January 2017 and relating to pay awards made for 2017 performance (except for Level 3 Firms where proportionality can be applied).

CRDIV saw the introduction of a bonus cap set at a ratio of 1:1 to base pay for individuals who are in scope, with the provision that if the firm has shareholder approval then the cap can be increased to a 2:1 ratio. As a result, many Level 1 and 2 firms reviewed their base pay and bonus arrangements to ensure compliance while delivering competitive levels of total compensation. In many cases adjustments have been to simply increase base salary, leading to an increase in fixed costs. Others have introduced a role based allowance (either pensionable or non-pensionable) to alleviate the pressure on their fixed costs; however, fearing abuse of such allowances the regulators introduced guidance on the characteristics which define an allowance. Whatever the approach taken by firms affected by these provisions, this has been an area of complexity for the sector for a considerable time and has resulted in a general increase in fixed pay with a consequence for Tier 3 firms.

Further Asset Management Remuneration Considerations - UCITSV and AIFMD

Of course, it is not just banks that are dealing with many of these provisions, the Asset Management firms too have their own (and for some – additional) regulatory constraints in the form of UCITSV and AIFMD. In February 2016, the FCA published its final rules on UCITSV(SYSC91E - UCITS Remuneration Code)[17], which apply to firms that are authorised to manage UCITS funds. The requirements are due to take effect for the first full performance period starting on/after 18th March 2016. ESMA also published regulatory guidelines for remuneration relating to firms which manage UCITS investment funds in March 2016 and their guidelines apply to performance years after 1st January 2017.

MiFID II

Applying still to UK MiFID investment firms, the UK operations of non-EEA investment firms and financial advisors, it is intended that the Remuneration Code (SYSC 19F)[18] will require that firms who provide investment services will not remunerate individuals in a way which provides a conflict of interest with what is in the best interest for their client.

With effect from 3rd January 2018, these rules will cover "all relevant persons with an impact, directly or indirectly, on investment and ancillary services provided by the investment firm, or on its corporate behaviour, regardless of the type of clients".

Further Insurance Remuneration Considerations – Solvency II and Insurance Distribution Directive
For insurers, the PRA published their Final Supervisory Statement on Solvency II in August 2016 relating to remuneration requirements[19]. The Supervisory Statement provides additional guidance to all PRA regulated Solvency II firms (including the Lloyd's market and managing agents) on how to comply with the remuneration aspects of the Solvency II Regulation.

Added to this is the Insurance Distribution Directive which comes into force by February 2018 and applies to Insurers, Insurance Brokers and Retail Banks and Retailers who provide insurance products and services alongside their primary business activities. The FCA is proposing to introduce a new rule to ensure that there is no conflict between the reward and performance elements of individual pay and what is best for the customer in-so-far as the selling of insurance is concerned.

REMUNERATION IN GENERAL AND THE IMPACT ON PEOPLE METRICS

This section has looked at the regulatory aspects of remuneration, which have become increasingly complex for Remuneration Committees, HR and Reward Leaders since 2010. In particular, there is a need for robust employee record-keeping as HR not only grapples with deferred pay over – in some instances – considerable periods but also keeps the Finance function informed of the deferred arrangements for balance sheet and cashflow purposes.

The people metrics associated with Regulation are contained Appendix 1 in the usual categories of red (minimum requirements), amber (added-value metrics) and blue (blue sky thinking) metrics as the basis of a checklist for ensuring that the right data is being collated, analysed, reported and recorded as evidence of compliance with a host of regulatory guidelines.

A full overview on the basic elements of Remuneration is provided in Measuring Up: A Guide to People Metrics and Performance for the City, Chapter 8, authored by Carolynne Ruffle, David Clifford and Lindsay Pulford and individuals are referred back to this publication for a detailed review of the types of remuneration, data requirements, record keeping and key metrics relating to this topic.

The Pensions Regulator
The Pensions Regulator (TPR)[20] is the public body that protects workplace pensions in the UK. They work with employers and trustees to ensure that people can save safely for their retirement.

The Pensions Regulator is responsible for:

- making sure that employers put their staff into a pension scheme and pay money into it (known as 'automatic enrolment')
- protecting people's savings in workplace pensions
- improving the way that workplace pension schemes are run
- reducing the risk of pension schemes ending up in the Pension Protection Fund (PPF)
- making sure employers balance the needs of their defined benefit pension scheme with growing their business

Whilst there is a plethora of information aimed at employers, employees, trustees, business advisers and those in Public Service, from a people metrics perspective, the main concerns are that organisations can evidence that:-

- employee pension funds are being appropriately administered. If the company is operating a defined benefits scheme, the Regulator will want evidence that sufficient funds are available to meet the current and future demands of the scheme and that this is being monitored, reported and addressed at regular intervals.
- auto-enrolment has been successfully implemented
- standards of record-keeping and data maintenance are upheld.

Auto-Enrolment
Auto-Enrolment was introduced in 2012 to ensure that all employees in the UK over the age of 22 have access to a pension scheme, initially with a minimum contribution of 2% of which at least 1% must be paid by the employer. If the employer pays the minimum, the balance is made up of 0.8% from the individual and 0.2% tax relief resulting in a 2% overall contribution to the plan. This has been implemented on a staged basis in accordance with the size of the organisation, with the largest required to comply from October 2012 and the smallest coming on board by 2018. Individuals can opt-out of the designated pension scheme, but evidence will be required that they have chosen this route on an opt-out form.

The Pensions Regulator, when inspecting company records, is likely to want to see the following:

1. Workforce demographics in terms of the number of workers, the workforce category in which they fall, and their eligibility category under Auto-Enrolment. The firm will need to provide data on how individuals were assessed for Auto-Enrolment.
2. The staging date for the organisation and potentially payroll records going back over this period. Payroll details will need to include the names of workers, their date of birth, National Insurance number, gross earnings and deductions from earnings.
3. The name and reference number of the scheme being used
4. The number of workers who have opted in or opted out of the scheme

There may be additional information required by the Pensions Regulator on a case-by-case basis, but the overwhelming point to remember is that you may be given short notice of an inspection and that the required information should be accurate, up-to-date, evidenced and readily accessible.

Common mistakes and problems with auto-enrolment include:

- Assessments not taking into account all qualifying earnings
- Casual and fixed-term workers excluded from automatic enrolment assessments
- Opt-out not explained or operated correctly
- Opt-in rights not handled correctly
- Mandatory data records not being kept
- Mandatory enrolment information not sent to the pension provider on time
- Workers being postponed for more than the maximum allowed period
- Postponement notices not issued or not issued on time
- Declaration of compliance not completed on time, or at all
- Scheme certification not completed or maintained.

Pension Tax Relief

It is important to remember that there are limitations to the amount people can pay into pension and accrue into pension without incurring a tax charge.

Lifetime Allowance (LTA)

The LTA is the total amount that an individual can build up in pensions during their lifetime without incurring a tax charge. The lifetime allowance is £1m from April 2017. Any amount above the LTA will be taxed at:

- 55% if taken as a lump sum
- 25% if taken as income. This is in addition to any tax payable on the income in the usual way

The LTA allowance has reduced a number of times over the past 6 years and there are a number of different protections that people could have applied for. Consideration needs to be given to how this information is maintained and stored.

Annual Allowance (AA) and the Tapered Annual Allowance (TAA)

The AA is the total amount of contributions that can be paid into pensions during a tax year without incurring a tax charge. Contributions up to 100% of earnings can receive tax relief, subject to the annual allowance, which is normally £40,000.

Any amount contributed above the annual allowance is added to an individual's taxable income and taxed at their marginal rate.

- People with adjusted income (basically income from all sources) over £150,000 will have reduced annual allowance. For every £2 of income that exceeds £150,000, £1 of annual allowance will be lost until it tapers down to a minimum of £10,000.

Companies need to have a strategy for people affected by the LTA or the TAA. The most common option is to provide a cash allowance in lieu of pension contributions with consideration needing to be given to the National Insurance impact of this.

Employee Benefits
Aside from the pension schemes, there are few employee benefits schemes which are likely to be regulated, but many which form part of the employee value proposition and underpin employee engagement. However, since 2010 there has been a 30% increase in salary sacrifice arrangements linked to certain benefits and these have now been limited in the Finance Bill 2017. A salary sacrifice is mechanism whereby an employee sacrifices part of their salary for non-cash benefits and can often achieve a significant tax or NI savings.

The table below demonstrates which employee benefits are still eligible for salary sacrifice and which can no longer get that benefit:

SALARY SACRIFICE CHANGES	
NO CHANGE TO TAX OR NI	**REMOVAL OF TAX SAVING AND NI SAVING**
■ Tax exempt childcare ■ Pensions saving including related pension advice ■ Cycle to work scheme ■ Purchase of annual leave	■ Car parking ■ Dining card ■ Kids pass ■ Car scheme* – unless cars are either electric or a plug-in hybrid ■ Mobile phone benefit
* Car scheme salary sacrifice will be grand-fathered until April 5th 2021 for schemes which operated before 6th April 2017	

Source: Fox Williams LLP and Punter Southall May 2017

HR and Reward Leaders will therefore need to analyse their employee benefits programme to understand how the Finance Bill 2017 will impact their flexible and core benefits offering and to communicate these changes to their employees, as for many, an unexpected tax liability may occur.

Pensions and Employee Benefits: Data Management and People Analytics
From a People Analytics perspective, the main issues relating to pensions and employee benefits administration are the need to:-

- keep accurate records ready for possible inspection by The Pensions Regulator being particularly mindful of the considerations under Auto-Enrolment
- monitor and maintain individual employee data relating to the Life Time Allowance and the Tapered Annual Allowance and determine whether the organisation wishes to implement a strategy for individuals affected by these
- review employee benefits plan to ensure that those that are no longer eligible for salary sacrifice are communicated to the employee and that payroll is notified accordingly.

In summary, this chapter has explored the impact of regulation within the Financial Services Sector from both a conduct and a remuneration perspective. At this point in time, the regulatory landscape is extremely complex with various financial products and disciplines being impacted in different ways. This is particularly evident when looking at the regulatory differences between banking, insurance and asset management on both the conduct and remuneration spectrums.

The overriding purpose of this section has been to help firms to consider their employment policies in light of regulation and to collate, analyse and report those people metrics which will help the leadership to monitor internal compliance and will demonstrate to external regulators that due regard is being paid the rules, regulations and directives which prevail for their sector and employee population.

Finally, a word of caution. There is no 'one size fits all' in the development and measurement of regulatory issues or cultural values. Organisations are therefore encouraged to seek professional advice to ensure that they are complying with their regulatory duties.

The metrics chart in Appendix 1 summarises the people analytics that relate to the regulatory regime in Financial Services.

References

CONDUCT REGULATION

1 *Changing Banking for Good, Parliamentary Commission on Banking Standards* (June 2013)

2 *Senior Managers and Certification Regime (SMCR) – Derives from Strengthening Accountabilty in Banking and Insurance* – Please refer to PRA and FCA Websites for regular consultation papers, updates and published guidance

3 *Senior Insurance Managers Regime (SIMR) - Derives from Strengthening Accountabilty in Banking and Insurance* – Please refer ti PRA and FCA Websites for regular consultation papers, updates and published guidance

4 *Strengthening accountability in banking and insurance: PRA requirements on regulatory references (part II)* September 2016 PRA Policy Statement PS27/16 www.bankofengland.co.uk/pra

5 *Strengthening accountability in banking and insurance: regulatory references final rules*: PS16/22 FCA Policy Statement 16/22) on 28th September 2016 www.fca.org.uk

6 *LMA guidance: Senior Insurance Managers Regime* www.lmalloyds.com/simr (july 2015)

7&8 *Strengthening Accountability in Banking and Insurance"* published on 28th September 2016 by the PRA[7] and FCA[8] respectively

9 *FCA's Code of Conduct* (often referred to as COCON)

10 *City HR Association: Senior Managers and Certification Regime for Banks and PRA - Authorised Firms 'Alignment to Employment Life Cycle'* (2015). Please request this HR, Compliance and Legal Checklist of SMCR Activities via info@cityhr.co.uk

11 *City HR Association: Senior Insurance Managers Regime For Solvency II Insurers - 'Alignment to Employment Life Cycle'* (2015). Please request this HR, Compliance and Legal Checklist of SMCR Activities via info@cityhr.co.uk

12 *Statement of Good Practice 1 – Certification Regime: Assessing fitness and propriety*, Banking Standards Board (BSB) 2017 - www.bankingstandardsboard.org.uk

13 *Stocktake of efforts to strengthen the governance frameworks to mitigate misconduct risks* in May 2017 The Financial Stability Board www.fsb.org

REMUNERATION REGULATION

14 *PRA Final Rules on Bonus Buy-Outs* (PS26/16) 28th September 2016 www.bankofengland.co.uk/pra

15 PRA PS 7/17 *'The PRA's expectations on remuneration' and Supervisory Statement 2/17 on 'Remuneration'* (April 2017) www.bankofengland.co.uk/pra

16 FCA PS17/10. *Remuneration in CRD IV firms: Final guidance and changes to Handbook* (May 2017) www.fca.org.uk

17 *FCA Final Rules on UCITSV (SYSC19E - UCITS Remuneration Code)* www.fca.org.uk

18 *FCA Guidance on MiFID II Remuneration Code (SYSC 19F)* www.fca.org.uk

19 *PRA Final Supervisory Statement on Solvency II,* August 2016 www.bankofengland.co.uk/pra

20 The Pensions Regulator: www.thepensionsregulator.gov.uk

CHAPTER EIGHT: VALUING YOUR TALENT

Talent management, systems and technology have come a long way in the last decade. This chapter looks at the varying extent to which organisations are using HR analytics, and shines a light on how some highly mature HR functions are using HR data to drive superior business performance.

Introduction

In some ways data has always been a part of business decision-making, taking different forms over time but valuable to management as it navigates the organisation towards its objectives. Business information, gathered and distributed throughout the enterprise may be used to guide and inform leadership, build consensus, and deliver competitive advantage. With the advent of analytics technology, information as to the value of the workforce is now ready for utilisation.

For the people function data is now everywhere. No longer codified on sheets of paper, in face to face relationships, or verbal contracts – the information that drives organisations may be captured, stored and accessed at any time, in any geography, and on numerous devices. Data is a fundamental resource to the organisation, its volume, variety, veracity and value growing significantly with the advent of new technologies and globalisation (CIPD, 2013). Data and information is now very much at the fingertips of people professionals.

Defining HR analytics: what do we mean when we talk about people data?

There are few concepts in the HR profession which seem to continue to provoke debate as HR/people analytics. Whilst the concept has been in development for over 30 years, the bulk of work in the area has come in the last decade (Marler and Boudreau, 2017)[1]. Driven by considerable growth in technology, connectivity, and more social systems in work, the potential for exploring people data through analytics continues to spark interest across the business (CIPD, 2013; Houghton and Spence, 2016)[2]. With topics of transparency, governance and risk top of the headlines there are many instances where people data has been front and centre of business debate. Topical questions regarding the nature of corporate culture, excesses in executive pay, and uneven gender diversity in positions of seniority are all driven by data, and as such demand a clear focus on evidence.

What is HR analytics?

There are numerous definitions of HR analytics in both practice and academic literature, but in published literature the terminology of analytics is fairly new, having emerged around 2003-2004 (Marler and Boudreau, 2017).[3] In their analysis of HR analytics, Marler and Boudreau, 2017, highlighted the emergence of a number of important themes:

- HR analytics is an analysis or decision-making process.
- HR analytics consists of a set of specific practices and processes that arise from data science.
- Analytics considers sets of data and/or to explore HR in an evidence based manner (Bassi et al. 2011).
- HR analytics is more than HR metrics and HR data alone, and is the application of some level of analysis on people data.
- HR analytics is designed to support people-related decisions in organisations.

From their assessment Marler and Boudreau coalesce their thinking around the following statement of HR analytics and suggest the following definitions:

An HR practice enabled by information technology that uses descriptive, visual, and statistical analyses of data related to HR processes, human capital, organisational performance, and external economic benchmarks to establish business impact and enable data-driven decision-making (Marler and Boudreau, 2017).

Why does this matter for HR and people management practice?

For management professionals, people data and analytics represent a way by which data can be explored and understood, in response to a question or hypothesis. Data and analytics are critical research-based concepts that represent a way of understanding the organisation and the world it operates in.

Outside of the organisation, analytics is a tool by which practice against the rules and principles of regulation and standards may be measured. For policy makers and regulators, people analytics is a method by which the quality and value of business practice can be articulated and evidenced.

People analytics is not only valuable to senior stakeholders, or those who may be considered to wield power in organisational contexts. Data can also be viewed as a tool for building inclusive debates, which engage employees with less power and voice; an important concept in the development of a diverse and inclusive workplace. In its most objective guise, data illustrates a way to draw debate in a transparent and inclusive manner.

With these points in mind the value of data and analytics is clear. Central to the stakeholder views above is one important concept – that of evidence. As a form of proof, people data can provide considerable value.

Where is HR analytics current practice?

HR analytics use in organisations is driven in part by the maturity of the HR function, and the capability accessible both as knowledge and skills, but also in technology and application. The CIPD Outlook survey has illustrated that HR analytics of any type is adopted more frequently in larger organisations, but remains less common in organisations of 49 employees or less (CIPD, 2017).[4]

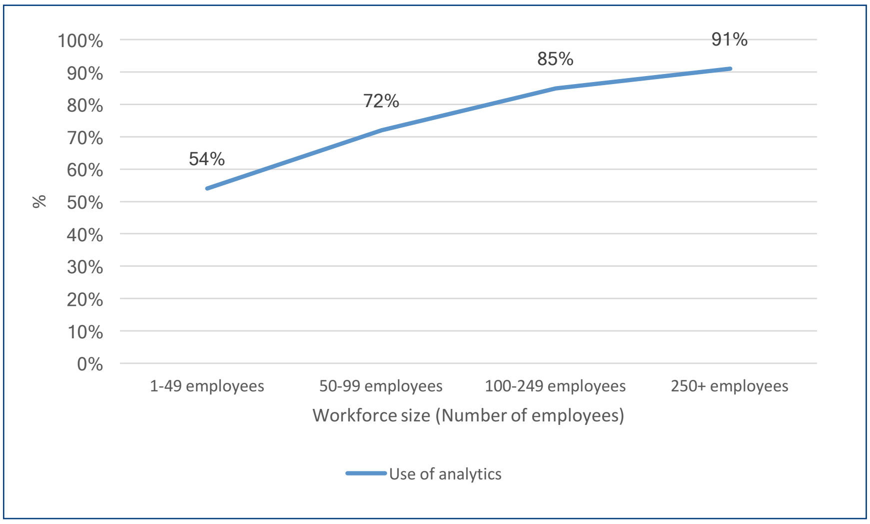


Figure 1:

Percentage of organisations that use HR analytics to any extent, by size (%) (Adapted from CIPD, 2017)

As well as exploring the extent to which organisations are applying practice, the HR Outlook survey also considered how organisations self-rate on a maturity scale of HR analytics practice (CIPD, 2017). The maturity scale, which is designed to illustrate progression towards enhanced analytics practice, is as follows:

- **Initial:** HR teams answer one-off queries as and when they happen, or to "fix" something with HR data, but no process is documented. The terms analytics or data probably aren't used, and there are no specific data or analytics capabilities embedded in HR teams.
- **Repeatable:** HR teams have a process in place to run analytics, and document queries so they can be repeated. No specific analyst role exists; it is something that is done by members of the HR team.
- **Defined:** HR analytics is a role and/or activity in the HR team, and the process of developing and running analytics is well documented and standardised. There aren't standardised metrics across the business, but HR is able to use its own data to answer queries and run analytics.
- **Managed:** HR analytics team has developed standard measures and metrics which have been agreed internally. A management and governance role is in place to ensure that analytics is business focused and robust.
- **Optimising:** analytics is increasingly predictive, and is being used to inform both HR and business strategy, including the optimisation of business and people/HR processes. HR data is used to drive business performance.

The results below illustrate that across the board HR analytics practice has still to achieve business performance enhancing and predictive capability. Capability is still emergent, although there are cases of good practice which highlight its potential to the function.

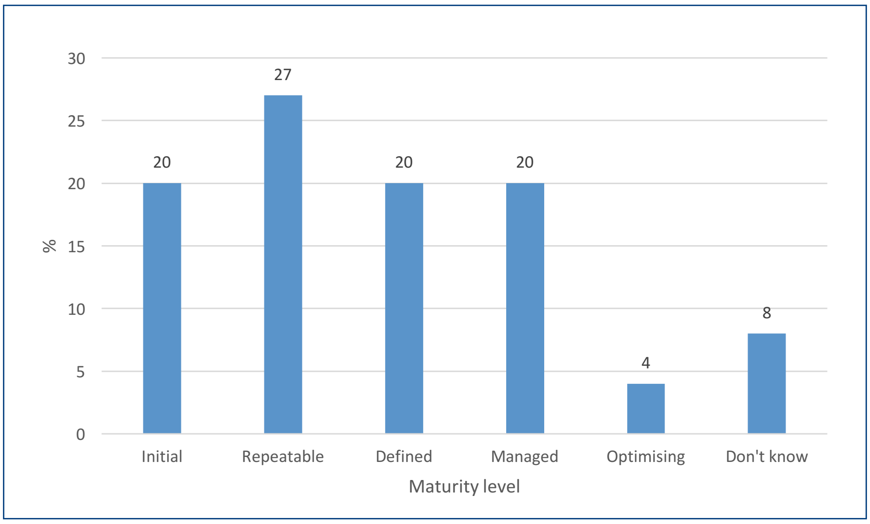


Figure 2.
Maturity of analytics in the HR function (% of those who use analytics) (adapted from CIPD, 2017)
Base = 518

To paint a broader picture of analytics practice it is useful to better understand why organisations are investing in the capability. An emergent area of thinking useful in this regard is that of evidence-based practice and evidence-based management, championed by the Centre for Evidence-Based Management. This school of work consider analytics as a vital process for exploring evidence in almost all of its forms (Barends et al., 2014).[5]

A vital source of evidence: driving evidence based practice

Earlier in this guide, the author referred to the published work by the Centre For Evidence-Based Management (CEBMa) and the four sources of evidence. This theory has been expanded further in work undertaken by the CIPD which questions some of the ways that HR practitioners utilise this theory.

To recap, data in its rawest form represents an opportunity to inform and evidence a decision. There are four forms of information that may inform a decision by management in an organisation; each have its own qualities and characteristics which make it potentially valuable to the decision-maker, and in their absence, potentially value destructive to the enterprise. The four forms of evidence, important to business professionals are (Houghton, 2017; Barends et al., 2014):

- Scientific literature and empirical studies
- Organisation internal data
- Practitioner's professional expertise
- Stakeholder's values and concerns

Analytics and data are central to understanding evidence in the form of organisation internal data, but it also factors into appreciating both stakeholder values and concerns, and scientific literature and empirical data. As both an approach and a process, analytics is an important way of synthesising and generating insights which can inform leadership and management decisions. For data that arises from inside the firm, robust, transparent and timely analytics is vital.

CIPD research using the concepts developed by the Centre for Evidence-Based Management (CEBMa) have highlighted there are a number of gaps in the way that the HR profession use different forms of people data. In particular, personal experience continues to be the source of evidence for many business decisions regarding people. However, data does appear to illustrate the value of data, facts and figures to informing practice.

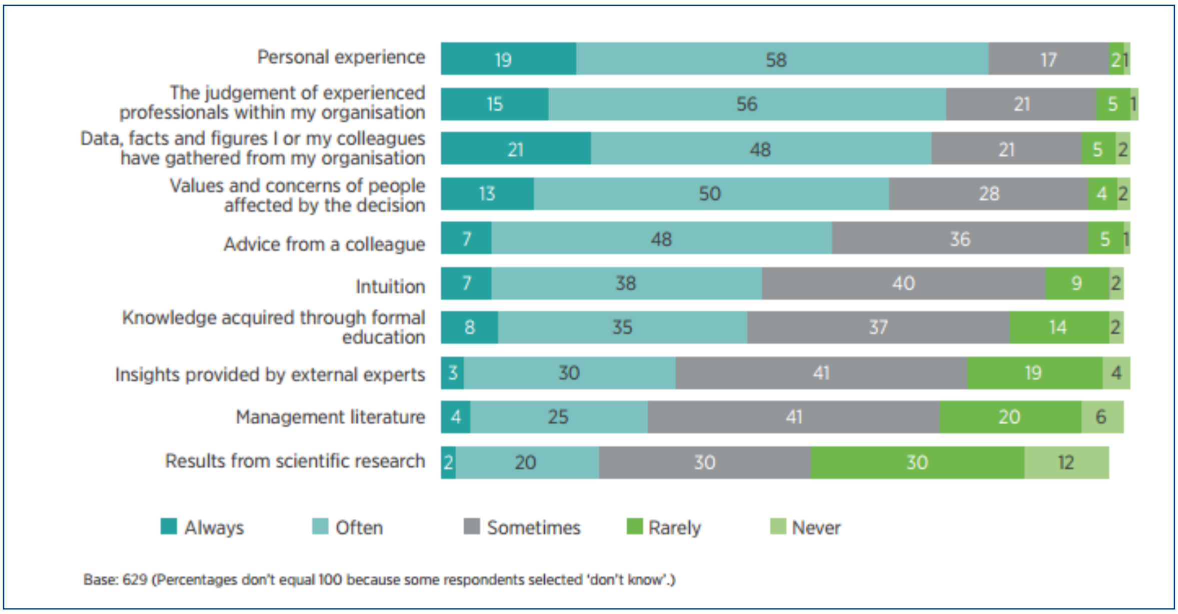


Figure 3.
Frequency of using different types of evidence to inform business decisions (%) (adapted from CIPD, 2017)

CEBMa highlights an important process for understanding the value of data and analytics, and illustrates a way by which evidence can be incorporated into business decision making. In the HR analytics space there are a number of ways in which people data can be enhanced and utilised to inform debate, and as a source of evidence people data can be expressed in ways which foster debate and conversation about important workforce topics in organisations. From their research Barends et al., 2014 highlight six steps for utilising evidence in decision making. These steps may be easily applied to people data and point to a way by which evidence can inform decisions.

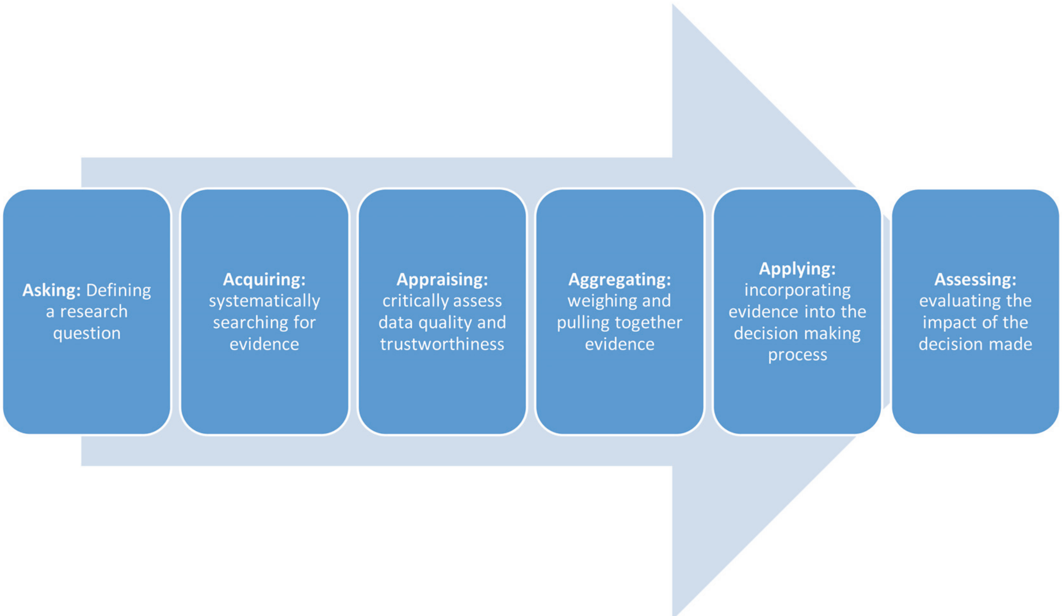


Figure 4.
Six steps of evidence and data utilisation (adapted from Barends et al., 2014)

Valuing your Talent: drawing on evidence to inform investment in human capital

To drive the uptake of HR analytics and people data, the CIPD has led a collaborative initiative with the Chartered Management Institute and Chartered Institute of Management Accountants, which has focused on building a greater understanding and appreciation of how people create and enhance value in organisations today. Working across sectors and professions the CIPD has worked closely with employers, investors and regulators to better understand how management and HR can demonstrate the value and impact of people in organisations. Ultimately the Valuing your Talent movement has focused on demonstrating the value and benefit of standardised human capital measures and consistent reporting of human capital information.

Developed from an original piece of research by Dr Anthony Hesketh of Lancaster University, Valuing your Talent explored through extensive case studies with senior business leaders, how HR data measurement is practiced by large organisations. Central to the programme is the library of human capital terms; with definitions and indicative metrics, which has been published as part of the Valuing your Talent Framework (Hesketh, 2014)[6]. The framework, which is interactive and accessible to all, is designed to encourage debate as to the best measures for understanding the workforce, and to create a more effective dialogue as to the nature of metrics used to describe organisations.

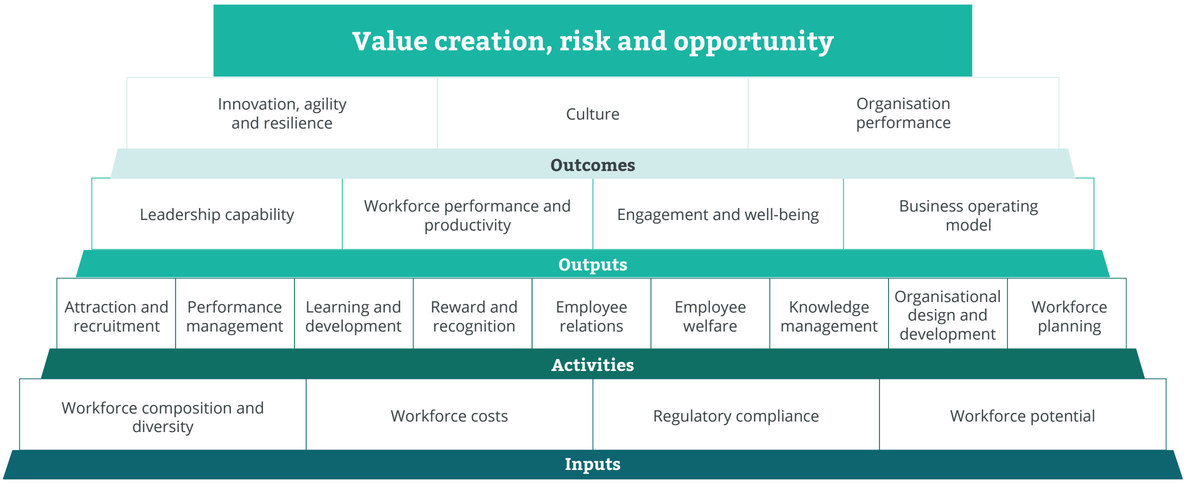


Figure 5.
Valuing your Talent Framework (Houghton and Spence, 2015)

In addition to the use of metrics to understand human capital information for the development and improvement of knowledge and skills in the workforce, Valuing your Talent has also considered how organisations demonstrate quality and value of their people to external stakeholders, in particular regulators and the investment community. Valuing your Talent research exploring how organisations communicate people data through external reporting has illustrated that the quality of data reported is of low quality, due to a lack of standard measures, and poor degrees of transparency on human capital risks and opportunities. However human capital disclosures are on the increase, as the volume of information being reported continues to grow, in line with the size of corporate reports in general (McCracken et al, 2016).[7]

The Valuing your Talent research has demonstrated that people data and information are important components of both internal and external reports, and have the potential to influence the way by which organisations are both lead and governed internally, and are measured and regulated externally. As people data and the analytics undertaken to explore and understand it are likely to become even more integral to the quality and impact of the HR and people profession in the future.

Explore Valuing your Talent:
The Valuing your Talent website includes HR analytics and reporting case studies from leading organisations, including Coca-Cola, Microsoft and Capgemini, thought pieces from leading academic experts and practice innovators, and illustrates some of the most recent trends in HR analytics and reporting.

Visit www.valuingyourtalent.com for more information.

One element that cannot be overlooked in analytics is how to visualise the data in a way that presents a clear picture of what the analyst wants to convey. A sample dashboard has been created (see Figure 6 on the next page) which draws together some fictitious data relating to talent management. Whilst dashboards and visualisation tools need to be developed to meet the unique needs of each organisation, this example sets out some of the key talent data that may interest the leadership.

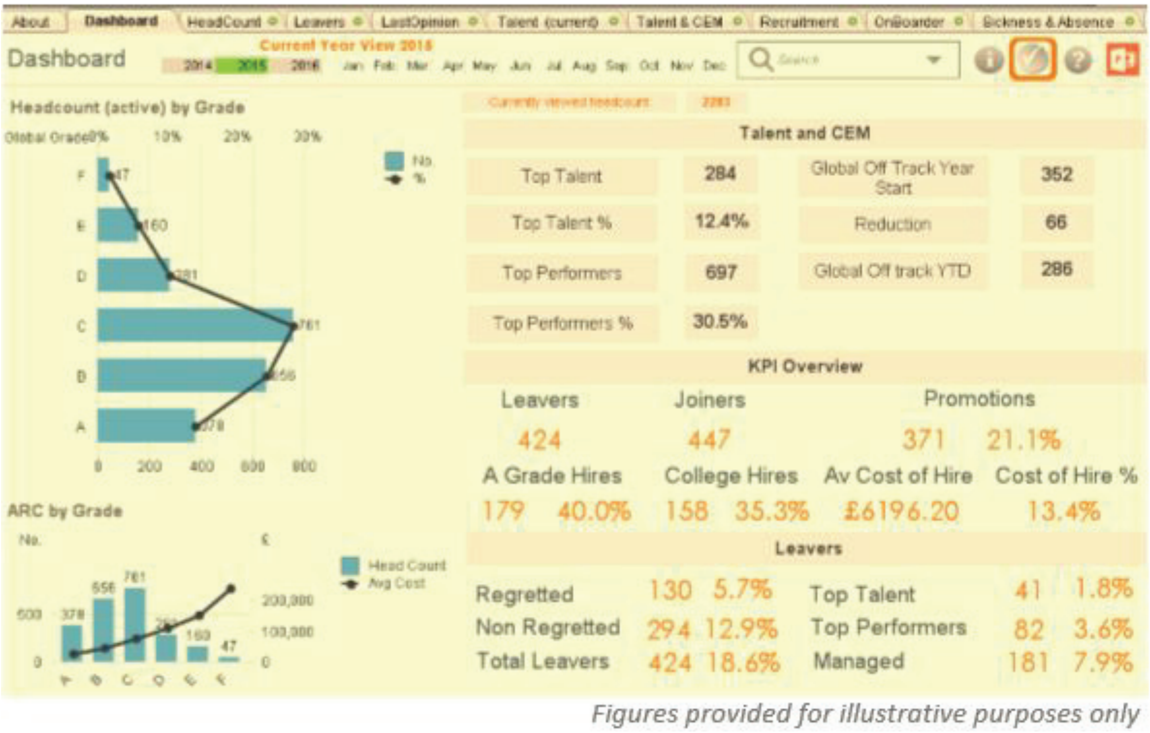


Figure 6.
HR dashboard: Top measures

In summary, this chapter has looked at the role of HR analytics, the extent to which organisations are applying HR analytics in practice and the extent to which this data is used to inform business decisions to Value their Talent.

Capgemini Case Study
Employing over 180,000 people across 40 countries, Capgemini relies on the expertise and skills of its workforce to deliver high organisational and financial performance. Faced with challenges such as siloed departments and reporting of often disconnected data, Capgemini sought to create a tool that would offer access to key human capital data and insights in one place.

Working with partner Qlik they established definitions and indicative metrics in several areas including attrition, talent management and learning and development, and, keeping in touch with stakeholders around the business, built a tool that illustrated their data in a clear and coherent way. Capgemini have seen the appetite for data increase and their HR team are using the data to explore new areas of the workforce which they believe will improve business performance.

M&G Case Study – Introduction of a new on-line performance management system
M&G has been helping people to prosper by putting their investments to work for more than 85 years. Today they manage the long-term savings of millions of people across Europe, Asia and the Americas. Their customers include private investors, members of pension schemes and life insurance policyholders.

They think of themselves as active allocators of capital for people who care where their money goes. Their approach is long-term and they encourage their team of more than 400 investment professionals to think creatively, to act with conviction and to work collaboratively on investment strategies to meet their customers' changing needs.

It's an approach which has helped M&G to grow its customers' assets under management to £275 billion (as of 31 March 2017). Their range of investment strategies has also grown: alongside cash, international bonds and shares, they also put their customers' money to work in global real estate and alternative investments such as infrastructure.

Headquartered in London, they have offices in 16 countries and distribute their funds in 23 territories.

They employ more than 2,000 people, mostly in the UK.

Attracting and retaining the right people is critical to M&G's business. The organisation takes pride in attracting, developing and retaining people of the highest calibre. In return, they are committed to working with M&G to deliver high performance in serving the long-term needs of their customers.

M&G fosters an environment where people from wide-ranging backgrounds flourish through the right combination of challenge, support and continual learning. This enables them to grow to their full potential while enjoying a rewarding career with M&G.

In 2017 M&G has introduced a new on-line Performance Management System called "My Career". The aims were

- To provide a dynamic and engaging system to support continuous dialogue around performance and growth.
- To align with the talent management process of M&G's parent company Prudential.
- To improve data, governance and the robustness of the performance management process in the light of regulation relating to the Senior Managers Regime.
- To minimise risk, to further enhance Training and Competence and Approved Persons processes, and to assist in the management of data required for regulatory purposes.

Before "My Career" was launched there was a fully comprehensive programme of communications and training. This included on-line training and videos and guides. Each business area had a Super User to provide support and guidance. This was in addition to the support being provided by the HR team. "My Career" went live for each employee's objectives in 2017. The appraisal process for 2016 performance was manual. Appraisals for the 2017 performance year will be completed on the new system early in 2018.

The on-line system makes it much easier to provide meaningful MI to track progress and review qualitative information and data from a quality perspective relating to the company's beliefs and behaviours and their D&I aims.

M&G Beliefs and Behaviours:

Care: We care about doing the right thing, acting with integrity and taking responsibility for our actions

Create: We encourage original thinking and create an environment where ideas can flourish

Adapt: We are open to change, prepared to learn from our mistakes and do things differently

Grow: We love to learn, seek out opportunities and strive for excellence

Enable: We make things happen through the power of collaboration, mutual support and respect for diversity of thought.

M&G's Diversity and Inclusion guidance

What one additional action will you take that positively supports inclusion or diversity of thought in your work, your team or the wider business?

For example: being mindful about the use of images in marketing material; active consideration of diversity in hiring, promotion and working pattern decisions; participate in an employee network.

Following the introduction of the new system, HR has been able to review how managers are describing and setting objectives and whether these are aligned to and reflect the company's beliefs and behaviours and D&I aims. The focus and attention on the objectives that have been set, has helped to ensure that M&G's beliefs and behaviours, and D&I aims, are brought to life in the day-to-day objectives that are being set for each individual employee.

M&G uses a 5 point rating scale for the achievement of objectives. They will be able to use this data to look at how the distribution curve of ratings compares with remuneration outcomes.

M&G is measuring the effectiveness of this new programme using HR metrics including:

- The quality of objectives set. Whether these are reinforcing the company's beliefs and behaviours, and D&I aims, and whether the objectives are SMART (specific, measurable, attainable, realistic and timed).
- MI on key themes and development areas
- The percentage completed. The aim is to achieve a 100% completion rate.
- The timeliness of completion of objectives.

Following the launch of "My Career", M&G conducted an experience survey to gain feedback on the new system.

The HR and the management team are now in the process of addressing any issues that have been raised to ensure continuous improvement in their performance management process and roll-out of the new on-line system.

MI from the system will also provide useful input into the culture dashboard reviewed on a quarterly basis by M&G's ExCo.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

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CHAPTER NINE: DIVERSITY AND INCLUSION: WHAT NEXT TO MOVE THE D & I DIAL?

Diversity and Inclusion continues to be a prominent issue on the UK Government's agenda as it seeks to gain momentum in embedding equality principles into both employment law and organisational best practice. This is encouraging organisations and their Boards to take stock, reflect on internal progress and instigate affirmative action. In the last 10 years the agenda has extended beyond race, sexual orientation, gender and age to include issues such as mental well-being and social mobility. This chapter explores the broad D&I agenda, identifies the people metrics which underpin the initiatives being undertaken on a mandatory and voluntary basis and looks at the levers that can make a real difference.

Why does it matter?

The business case for diversity is well established with much supporting research. One of the leading proponents is McKinsey & Company whose report *"Diversity Matters"*[1] , demonstrates a statistically significant relationship between having more diverse leaders and better financial performance. See also the Women's Business Council Report which conveys a very clear message: achieving greater progress and economic activity for women will unleash significant benefits to the economy. [2]

In financial services a challenge has been set by the Women in Finance Charter,[3] published by HM Treasury and supported by Chief Executive, Jayne-Anne Ghadia and the Virgin Money team: the title of the research (which supported the Charter) emphasises the business drivers *"Empowering Productivity – Harnessing the Talents of Women in Financial Services".* [4]

The more diverse an organisation, the greater the opportunity to understand different perspectives and diverse experiences which will lead to improved understanding of customers. It also enables an employer to:

- Tap into a wider talent pool
- Improve employer image and brand awareness
- Make savings in recruitment costs
- Achieve better creativity and innovation
- Increase employee satisfaction, retention and consequently improved productivity.[5]

One of the arguments in the Empowering Productivity report is the macro-economic case: the need to encourage long term investment and promote a dynamic economy by giving more people a chance to work and progress, thereby addressing what would otherwise be underused skills and talent.

What should be measured?

Data analysis in each organisation on its diversity profile is important for a number of different reasons:

- to benchmark its own profile against the competition and their sector
- to achieve change: after all, we know what gets measured gets done
- to bring shortcomings and achievements in diversity under scrutiny; and
- because only by uncovering where hurdles lie can a business begin to address concerns and achieve progress.

Whilst data is an important aspect, ultimately the culture and attitudes within a business, as well as management approach, are what need to change; it is those changes which will improve the statistics. So we have this virtuous circle.

Gender diversity (like race, disability, age and religion/belief) has very many facets: and this is not just about women. The impact or lack of diversity can be felt in different ways by women of different ages, at different stages of their career as well as by reference to ethnicity, religion and disability. For example, the Women and Equalities Committee Inquiry Report[6] (January 2016), focussed specifically on highly skilled women who fall out of the workplace or do not achieve progress, with particular impact being felt at around age 35-40. Diversity metrics help us understand why progress might be hindered by monitoring those who take maternity leave, those who return, the availability of agile and flexible working and indeed whether there is a particular impact in areas of business, departments, and divisions.

A report from (at that time) BIS and The Equality & Human Rights Commission on pregnancy and maternity issues at work[7] in 2016, identified and explored the experiences of just 3000 mothers and their employers: a staggering 77% of women reported negative experiences at work related to their pregnancy or their maternity leave, 11% of whom felt forced out of their jobs.

The subject is broader than gender however and the lack of progress for Black/Asian and minority ethnic groups within the UK workforce, across all sectors but particularly in sectors such as financial services, is gaining an increasing profile. The most recent inquiry, led by Ruby McGregor-Smith, demonstrates this.[8]

Meaningful analysis must not just measure gender or other demographic or protected characteristics in isolation but should extend to analyse the correlation between gender, age, ethnicity etc. and achieving progress, retention, recruitment - indeed throughout the lifecycle of the employment relationship. What should be measured also needs to be informed by the objectives and concerns which an organisation has and improvements which it is seeking to make. Many professional HR and diversity experts will have a good appreciation of where issues arise but in order to move the dial, persuade or indeed support colleagues, one needs hard evidence: of disadvantage, disparate impact but more positively, of achievements being made and progress.

Types of diversity – consider which of these fields should be captured and analysed

- Race, colour and nationality
- Ethnicity
- Gender
- Age
- Religion & Belief
- Sexual orientation
- Disability/physical and mental abilities but see further suggestions below
- Educational background
- Cultural background
- Social category (to measure social mobility)
- Geographical base/community

Work impact - analyse participation/impact/disparity at key stages by reference to diversity

- Recruitment - shortlisting, interview, appointment
- Promotion – applications, shortlisting, appointment
- Pay – allowances, benefits, bonus, options and deferred and discretionary provisions
- Flexible/agile working
- Training
- Grievances and disciplinary action
- Exits/attrition
- Workforce profile - by division/department/work area/organisational grade

In the context of recruitment and promotion the measures could be by reference to how many people at a particular age or by reference to gender or ethnicity:

- apply for a role within the organisation
- are shortlisted
- are appointed (and whether that is through external recruitment or internal promotion).

The diverse nature of candidates from head hunters, search firms and recruitment agencies used by a business, can also be analysed; it is possible to have these organisations' objectives and commitments to the business (via commercial terms) aligned to the organisation's own targets and aims.

In terms of the culture of an organisation and the experiences of individuals, analysing employee surveys, work satisfaction and feedback obtained from staff by reference to diversity will also provide a valuable picture. Departures, resignations and exit interviews can provide a useful source of information.

Too Big an Exercise?

The key is to decide where to start. Focus on what information to collect and prioritise action to address issues which might be identified. This is not just an inward looking exercise; it is important to reference other data such as industry standards and regional representation. Previous data such as year on year comparison helps to identify trends as well as improvements, or any deterioration which may mean there is a need to re-invigorate action.

For agile working, the organisation needs to decide whether they simply wish to identify whether an individual works in an agile or flexible way; or whether they wish to gain a sense of how amenable different departments are, or the business as a whole is. This can be broken down for example, into flexitime, staggered hours, term-time, annual hours, job share, compressed hours, homeworking, to confirm which different forms of agile or flexible working are in operation.

The makeup of each individual candidate or employee varies enormously. Gender identity includes male, female, transgender (and prefer not to say, as an option) but other strands need more careful consideration. For example, which age bands to use. (Much depends on the sector and workforce.) When analysing disabilities, some further detail may well be helpful. Rather than a blanket declaration of disability, consider breaking it down, for example:

- Hearing impairment
- Visual impairment
- Mobility
- Mental health condition
- Learning issue
- Facial disfigurement
- Speech impairment

Race and ethnicity need to be considered carefully and range from national identity to race and ethnicity, which would encompass colour and ethnic background. A good source of definitions for example for ethnic groups is the Civil Service Best Practice Guidance on Monitoring Equality and Diversity in Employment March 2012 (which contains nationality codes as well as suggestions about how to analyse ethnic groups) as well as the Office for National Statistics (definitions and categories used for census). [9]

Unconscious bias and inclusive leadership

Increasingly organisations recognise that in order to attract and retain more diverse talent, they need to be welcoming and less presumptive in their attitudes and assessments. Once they attract diverse talent into their workplace, there is a need to ensure that the culture or management style (whether in a team, individual departments or the organisation as a whole) do not result in that talent leaving. This is particularly key where entrenched approaches and attitudes may lead to an individual feeling unwelcome, undervalued or that their approach, or way of thinking, does not 'fit'.

At some point maintaining a more diverse workforce must focus on attitudes and challenge traditional approaches. It is part of the nature of humans to have their own prejudices, preferences or inclinations - whether a preference for the familiar or candidates to whom individuals can relate because they have a similar background, education (affinity bias/similarity bias), or are seen as a 'safer bet'. Individual judgements are influenced by personal biases which everyone has. Inclusive businesses recognise, explain and encourage individuals to understand their own personal biases and ensure that policies and practices mitigate against such biases impacting unfairly. Personal bias risks influencing decision-making. Many organisations go beyond providing greater awareness and understanding of how unconscious bias works, helping individuals by encouraging them to adopt a more inclusive leadership style.

Research conducted by the Employer's Network on Equality and Inclusion (ENEI) in 2016,[10] which included a number of participants from the financial services sector (Santander and Nationwide, for example) explored the extent to which inclusive leadership is prevalent, its impact, and how it can improve organisational performance: "Inclusive leadership… driving performance through diversity". For more information on how such bias works, see for example the work which has been undertaken in the Higher Education Sector. [11]

Social Mobility

Nowhere is the impact of unconscious bias perhaps more evident than the challenge of social mobility: See 'Elitist Britain' published by the Social Mobility and Child Poverty[12] and also the CIPD Employee Outlook at bit.ly/CIPDoutlook.[12]

With the advent of the apprenticeship levy and the call to arms from business to open up to wider parts of the population and provide training and opportunities of a different nature, the impact of social mobility (or the opportunity to address what under the Equality Act 2010 is described as 'socio-economic disadvantage') increases. It enables the issue to be embraced by many organisations with a clear financial and business driver. In addition, there is undoubtedly a connection between social mobility and some ethnic and racial origins, although this again is many layered. For more information see the Social Mobility Foundation website.[14]

Consideration should be given to capturing data on social and educational backgrounds, which could then form the basis of objectives to improve and widen participation levels for those from more diverse backgrounds.

Gaining Board Attention for Diversity and Inclusion

The business landscape is ever evolving and what gains Board attention is constantly moving, this is exactly the same for Diversity and Inclusion. Although many people state that the business case has been won it is still important to ensure leaders are clear why prioritising a focus on diversity and inclusion within their business priorities is the appropriate strategic way forward.

Creating a more diverse and inclusive workplace shouldn't be seen as a tick box exercise or something that is separate to business strategy, they are enablers to delivering the business strategy effectively and not an end in itself.

When gaining board attention there are two questions that should be considered and answered clearly - 'Why is this important?' and 'Why now?' How you answer these questions will be dependent on a number of factors including (i) business priorities, risks and challenges (ii) external influencers and (iii) your starting point – what your data is telling you. Creating the case for change is critical to gaining the agreement and sponsorship from your Board as well articulating a sense of urgency.

Business Priorities, Risks and Challenges

Without exception, businesses are challenged with identifying and expanding in different markets, delivering value to their clients and attracting new ones as well as delivering for their shareholders, other stakeholders and the wider economy. All of this is difficult, if not impossible, to do without the attracting and retaining the right talent.

For the board it's important to know that they have the best talent, regardless of where that comes from, to be able to deliver the business priorities. Examples such as the one below help to create that real interest and insight that diverse teams outperform non-diverse teams in many disciplines.

One well-known, global company conducted a piece of research that helped solidify the business case for creating a more diverse and inclusive workplace. Their global analytics team took one of their business units and analysed 22,000 of their assignments globally. They were able to show that the gender diverse teams were the most profitable whilst retaining a high standard of quality. They were able to prove that this has a positive impact on the bottom line of the business as well as support the delivery of the overarching business strategy.

There are also a number of risks and challenges that should be considered to create board attention:

- **Emerging Economies** - the rise of emerging market countries is transforming the world economy and as cross border investments increase, so will the demand for people with good technical knowledge and the skills and experience to operate cross culturally.
- **Demographics** - despite a growing global population, the availability of skilled workers is actually expected to decline in many countries - not just in developed economies, but also in certain emerging markets, such as China and Russia. A "demographic divide" will soon arise between countries with younger skilled workers and those that face an ageing, shrinking workforce.
- **Technology** - over the past 30 years, the digital revolution has changed the way we work almost beyond recognition. Smart mobility is changing the way people interact with each other and we need to learn new skills to effectively collaborate, often virtually.

External Influencers

For some organisations, the driving interest for the board are the external influencers and pressures such as shareholders' perspectives and Government / Regulatory requirements.

Since the aftermath of the Financial Services Crash of 2008 shareholders are now, more than before, finding their voice on issues such as diversity in the boardroom, the removal of groupthink and diversity within the talent pipeline. Organisations such as Legal & General and Aviva have been increasingly vocal on their expectations of companies and see the lack of diversity at the senior levels as a potential governance risk.[15]

Over recent years we have seen a significant increase the in Government and Regulatory requirements. The Lord Davies Review[16] started the trend on increasing transparency on what was happening at board level with the launch of 'Women on Boards' in 2011. Since then, requirements on reporting Gender Pay Gaps by April 2018 and the encouragement within the Finance Sector to commit to the principles of the Women in Finance Charter. Although the focus has been on gender, the Sir John Parker Report[17] and the McGregor-Smith Review[18] on ethnicity are planning to shift that focus.

A level of healthy competition may also be required to gain board attention. Many will ask what their competitors are doing for fear of being left behind in the talent attraction stakes.

The Starting Point – what the data is telling you
It would be very difficult to gain Board attention without having data and trends to articulate your current position and the impact this focus could have within the business. This area has been quite stark in the past, however, increasingly companies are getting their data capture methods in order and now seriously thinking about the data required to understand where the issues are within the business as well as where the diversity and inclusion strategy should focus.

Examples of key data and information you should consider and would be valuable to gain board attention include:

- **Employee Demographic Data** - to measure the employee composition at different job levels by different elements such as gender, age, ethnicity, sexual orientation and disability.
- **Employee Opinion Survey Data** - if used well, is a great source of information for you to understand the levels of inclusion within the organisation. A combination of asking specific questions linked to D&I as well as analysing all question results by employee demographics (as outlined above) will give you a solid picture of the internal perceptions.
- **Talent Management Data** – reviewing data from every element of the employee life cycle will give you a wealth of knowledge and insights into what is happening within the organisation and where the 'points of pressure' are.

All of the above information is hugely important when seeking board attention as this shows where creating a more diverse and inclusive workplace can have an impact on the success of the business.

For example, an Investment Bank found that their maternity return rates were one of the worst in the industry. They found that if they increased their return rates to industry average (70% at the time) they could save over £1m per annum on recruitment costs into the roles previously held by those who went on maternity. They created a 'Parental Programme' to respond to this issue. Two years later their return rates were above the industry average and they were making significant saving on their annual recruitment costs.

Creating the case of 'Why is this important?' and 'Why now?' from the above sources will ensure you create the best possible case to gain the board's attention – one message is critical – diversity and inclusion are enablers to deliver the business strategy and not an end in itself.

The Levers that make a Difference for Diversity and Inclusion
To deliver a truly effective, and sustainable, diversity and inclusion strategy across an organisation the principles of creating a more diverse and inclusive workplace need to be embedded into everything the business does. Unfortunately, many continue to see this as additional to business rather than fundamental to support business delivery. As companies mature in their thinking they do start to consider the additional opportunities and levers that can accelerate the creation of an inclusive workplace.

For example, a large financial services firm recently announced an office move. What they hadn't initially appreciated was that the move was a great opportunity to review how employees could work differently and more effectively. Through HR, Technology and Property working effectively together they were able to use the office relocation as a launch of their agile working programme and set the tone as to how employees could work more flexibly. This sparked a wider programme of manager awareness events of performance managing for outputs rather than presenteeism and encouraging team conversations as to how they could work differently and smarter. By leveraging a project that was already underway within the business, they were able to accelerate a positive impact on the wider diversity and inclusion strategy.

There are many levers, such as the above, to harness. To do this successfully the key is to (i) engage as many people as possible in the D&I efforts and (ii) give them the knowledge and the tools to be able to embed this into their work.

In the D&I strategy book 'Inclusive Leadership – the definitive guide to developing and executing an impactful D&I strategy – locally and globally[19]' we share the STAR Framework that enables companies and individuals to identify where they are on both engaging and embedding D&I into their work.

This framework identifies progress with the:

- **Level of engagement with colleagues across the whole organisation** – e.g. how well the business case is articulated, how much managers and leaders think about D&I in their day-to-day activities.
- **Level of embedding into business as usual** – e.g. the level of accountability established for measures such as good people survey results, whether this is a consideration in outsourced contracts for people focused activities.

The four I's give an indication of where the organisation is and what it needs to focus on to be able to leverage opportunities across the business e.g. increase engagement or increase awareness of how to embed into daily activity.

Inertia – small pockets of activity that are stand alone and will cease as soon as the person driving them either leaves the organisation or loses interest. For example, an individual or a small group of individuals set up an employee network that is purely led by volunteers and doesn't gain any support from the organisation, either financially or otherwise.

Initiatives - campaigns that are driven by very engaged and committed individuals – this may well result in a lot of disjointed activity and no real impact into the business.

Imposed – changes are made by the business, but do not bring their people along with them. This could result in resentment and a feeling that this is being done to them and not with them. There may also be a feeling that other groups are being favoured without any real understanding of the rationale for this.

Inclusion – activity is being embedded into everything the business does and the majority of the employees are engaged and understand why there is a need for change as well as how the change will happen. This creates the sustainable change to the culture that is ultimately sought. For example, an organisation naturally thinks about the D&I implications and impact in any new project or process they undertake.

Within HR, as the gatekeepers and custodians for the majority of people processes, everything HR does at every stage of the employee life cycle is an important lever to embed D&I thinking into practices and processes to be able to create real, sustainable change.

Levers that HR can, and should, influence include:

Outsourcing Projects

Be it elements of recruitment process, sections of Leadership Programme delivery or Employee Assistance Programmes, HR is the gatekeeper for many outsourcing and supplier relationships – where others are delivering products and services on the organisation's behalf.

A clear expectation within all of those contracts should be that the outsourcing company / supplier (i) fully understands and supports the organisation's aims and aspirations about diversity and inclusion and (ii) contractually agrees to embed this into their delivery on the organisation's behalf. By doing this, the organisation can influence quickly how D&I is being embedded into their practices and processes and positively impacting a diverse workforce.

Search Firms and Headhunters

Many companies start their D&I efforts within the recruitment process. This is a great way to influence the level of diverse talent coming into the business. Increasingly, employers are stipulating that those supporting them to review the market are supplying them with diverse long and shortlists – many challenging back for a further review if not seeing the diversity they require in the first attempt.

The Independent Review into Executive Search and their impact on the Lord Davies Women on Boards agenda shares an overview of the actions Executive Search Firms should be taking to support companies to increase the diversity of their hiring pools. Many of these practices are useful to consider for all levels of recruitment[20].

Learning and Development Programmes

Many companies have been, at some point, in the throws of delivering Unconscious Bias training or mandatory D&I awareness throughout their organisations. These are all worthwhile activities, however, until elements such as this are embedded into broader company and leadership training they will continue to be seen as an 'add-on' and separate to the day-to-day management of the business. HR has a key lever to embed areas such as unconscious bias in decision making, inclusive leadership behaviours and the impact of diversity on business performance into mainstream learning and development programmes.

Performance Management / Objectives

Although there is much debate about the future direction for performance management there is no doubt that objective setting, regular feedback and performance assessments are important business disciplines. All of these elements are important opportunities to embed D&I into the business.

Some organisations, such as Barclays, have D&I measures included within their business scorecard – others have a link to diversity within their people measures. HR plays an important part in encouraging the business to include the relevant business measures into their objectives and measure progress on a regular basis – just as we would any other important business measures.

External programmes such as the Women in Finance Charter ask companies to create meaningful targets on gender representation and linking the performance against those directly back to executive pay. This not only increases the importance but also highlights the accountability across the business for delivery. HR should leverage these opportunities to not only engage more people across the business but to also increase the levels of accountability for gaining traction and making progress.

Reports to the Business

HR professionals have the opportunity to highlight challenges and progress made on diversity and inclusion within the business via every business report and update they deliver.

An important lever to use is the one of transparency – ensure that D&I is included in every report, presentation and project update that the business receives. For example, when sharing the distribution of performance ratings across the business and bonus rewards ensure the data shared also shows the differences by gender, ethnicity, age etc. and highlight where the data is not available. By ensuring that reports such as this become the norm rather than the exception, this will increase the wider business awareness as well as get people much more comfortable with talking about these issues.

The above are some important, and impactful, levers that HR professionals can use to engage employees on the D&I agenda as well as embed into all the company does – there are many more. Everything we do as a HR function should have D&I embedded throughout – role modeling to the business as to how this is done. However, HR professionals may not automatically know how to embed D&I into what they do on a daily basis. We should be mindful of that and ensure that appropriate awareness, education and support is given to everyone within the HR function to be able to deliver this important element of their role.

Pay and Reward

Gender Pay Reporting vs Equal Pay Audits: What's the difference? Beyond compliance

From 6 April 2017 large private and third sector employers (a legal entity employing 250 or more employees) will have to collate metrics around pay and bonus provisions and publish these in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. This will require reporting annually with the first such publication by 4th April 2018. The report must be published on the employer's website and a government sponsored website. These Regulations require limited pay data to be presented by reference to the gender make up of each employing legal entity.

There are several methods specified under the Regulations by which the employer is required to report on its gender pay information. These are:

- the overall gender pay gap by reference to both the mean (average) and median (middle) hourly pay during a pay period which includes the snapshot date of 5 April;
- the mean and median gender bonus gap over a 12 month period;
- the proportion of male and female employees who receive a bonus during that 12 month period and
- the proportion of male and female employees in four pay bands or quartiles – lower, lower middle, upper middle and upper.

This last method is based on the employer's overall pay range and divided up so there are an equal number of employees in each quartile and is intended to show the gender pay gap at different levels of seniority across the organisation. It is anticipated that many organisations will want to explain or support their Gender Pay Gap results with additional commentary, providing information and examples of initiatives or additional analysis of data. Some organisations may wish to undertake more detailed analysis and conduct an equal pay audit (or may do so already). This section examines the key legal obligations and the distinctions between Gender Pay Reporting and Equal Pay Audits.

What's the Difference?

Equal pay audits and gender pay reporting both address the issue of disparity of pay between men and women in the workplace but they concern themselves with different aspects:

- equal pay audits look at whether men and women in the same employment performing equal work are receiving equal pay, as required under the Equality Act 2010;
- the gender pay gap is a measure of the difference between men and women's average earnings across an organisation or the labour market and is expressed as a percentage of men's earnings. It captures differences in pay on a much broader level.

The most recent statistics from the Office of National Statistics[21] show that the UK's overall gender pay gap is 18.1% and for full time employees it is lower at 9.4%. Paying men and women equal pay does not prevent there being a gender pay gap if the majority of senior, highly paid employees in an organisation are male (which is invariably the case).

An equal pay audit is aimed at checking that an organisation is complying with its equal pay obligations and has three main purposes: to identify differences in pay between men and women doing equal work, to investigate the causes of any differences and to eliminate instances of unequal pay that cannot be justified.

The equal pay audit model outlined by the Equality and Human Rights Commission ('EHRC') in its Statutory Code of Practice[22] (the EHRC Guidance) sets out five main steps:

- Decide on the scope of the audit and the information required;
- Determine roles where men and women are doing equal work;
- Collect and compare pay data to identify any significant pay inequalities and assess the reasons for them;
- Establish the cause of any significant pay inequalities and assess the reasons for them i.e. decide whether discrimination is a factor; and
- Develop an equal pay action plan to remedy any direct or indirect pay discrimination.

Key considerations for an Equal Pay Audit

The EHRC Guidance outlines considerations for an organisation when deciding the scope of an equal pay audit which include:

- Ensuring buy-in and support of management: senior management will need to be committed to putting right any unfair pay inequalities, have the authority to do so and have an action plan in place should there be differences which cannot be justified.
- Consider involving workforce representatives: this should maximise the validity of the audit and the success of any subsequent action taken so it is important to involve them in formulating any action plan.

- Decide whether to carry out a full audit or staged audit: it may be advisable to do a staged approach concentrating on areas where there is a high risk of unequal pay; although this carries with it the risk of an equal pay claim being made before the whole process is complete.
- Decide who should be involved: should it be handled internally or with external expertise?
- Expect gaps: this doesn't mean pay discrimination has occurred and it's important to remain objective when analysing the reasons for pay differences.
- Have a clear and transparent methodology: it is important to be clear about the methodology being used to arrive at decisions following the audit which can be achieved without sharing personal information about particular individuals' pay.
- Think about how intentions are communicated to employees: the guidance gives as an example consideration to explaining that the audit may result in changes to pay.
- Consider using a job evaluation scheme: although not a formal requirement this will help meet legal obligations under the Equality Act 2010.
- Check pay gaps in other pay elements: this includes performance related pay, working time pay or benefits. If there are significant differences, review the policies and practices that influence these.

WHAT HOLDS ORGANISATIONS BACK? TALKING POINTS

One of the big hurdles is the fact that this is such a broad subject, with many and varied potential areas for analysis. Each organisation will have to decide what to prioritise and at what stage in their progress they are, largely informed by acknowledging their own priorities and areas of risk. Knowing what is happening in the sector and what issues arise, will also help inform the inputs needed (data analysis) and objectives and changes sought (outputs). It is worth considering also the guidance available from ACAS on how to Prevent Discrimination and Support Equality.[23]

There are however some points to keep in mind:

- **Employee confidence** – Some individuals may be unwilling to participate or even volunteer and respond to monitoring. Gathering data is often an incremental process; background work and communication needs to be undertaken, explaining why steps are being taken to collect and gather personal information, alongside assurances around confidentiality and personal information.
- **Definitions** - We have already identified how complex the range of personal information can be in terms of measuring the diverse nature of ones workforce. The best advice here is for an organisation to make incremental progress, to perhaps start with the easier categories for analysis and monitoring and then develop a more sophisticated model. Using well recognised categories and familiar definitions will also help with comparative analysis as well as helping to show the approach taken is not controversial.
- **Data protection and privacy rights** – Although monitoring is not a legal requirement in the UK, it is best practice and the Data Protection Act 1998 does permit employers to gather such information as a legitimate step and in compliance with the data protection objectives around lawful processing. If the monitoring is to extend outside of the UK, keep in mind that in a number of European jurisdictions (France and Germany for example) gathering certain types of data around ethnic background and nationality runs the risk of being unlawful. Also transferring such data across borders requires data compliance to be considered carefully. (Cross reference here to Chapter four on Data Protection).
- **Setting Targets – using the data** - Perhaps one of the most controversial uses to which data can be put, in the sense that opinion is often divided within business, is to actually set targets. This is one of the key pledges in the Women in Finance Charter: "setting internal targets for gender diversity in our senior management". The Charter also requires firms to report on progress against these internal targets as a good way of supporting transparency and accountability. There is nothing unlawful in setting targets which is no more than an objective for an organisation. An organisation can also decide to take positive action by adopting ways to improve and encourage greater diversity and participation rates. Returnships for those who have taken career breaks (predominantly women) are becoming increasingly popular.
- **Individual accountability** - Setting targets and objectives is also an important way to secure commitment: not just from senior management but middle managers and those who are often taking decisions about staff. These can translate into personal commitments and objectives for teams and individuals or as it is described in the Virgin Money Report "turning talk into action". Targets and objectives can be introduced in many different ways: through individual performance development reviews, at senior executive level as well as by reference to the organisation as a whole and individual business units or departments. Doing so will also help to identify specific responsibilities and make individuals accountable.

EQUAL PAY AUDIT CASE STUDY

Introduction and overview

Our client is a well-known organisation in the sports sector with a workforce of just under 900 employees of which only 9% are female. In view of the impending gender pay gap reporting regulations, to minimise any potential reputational damage and to provide a future defence to any equal pay claims, it was considered sensible to carry out a job sizing project to deliver a fit-for-purpose framework for 2016/17 and beyond. The project was delivered in an agile way so as to avoid any disruption to normal business operations.

Job sizing is a consistent, logical, defensible systematic process for determining the relative size of roles within an organisation so that a policy of equal pay for equal work can be evidenced and forms the basis for decisions relating to pay. The client also received a detailed gender pay gap report prepared at the same time. The analysis disclosed significant gender pay gap percentages in mean basic salary and mean annual bonus, but a significantly smaller median salary gap and a non-existent median annual bonus gap.

Detailed job sizing

The detailed sizing of roles involved an in-depth analysis of over 70 selected roles across the business. This involved meeting with selected senior managers, a detailed evaluation of each identified role based objectively on the requirements of the role, followed by vertical feed-back and sense-checking to build up a complete hierarchy framework of the roles considered in detail. Performance of any individual in the role evaluated was irrelevant to the job evaluation process, as was any demographical information (for example details of personal characteristics).

Role hierarchy

Once this initial framework was in place, all other roles which were similar, dissimilar or distinct to the roles evaluated in detail were slotted in to the pecking order so that a full hierarchy of roles could be built.

Roles were then banded together by level to give structure to the overall job hierarchy; this can take place irrespective of whether or not such levels are formalised or not.

Final report

The final report set out each employee line graded by level. The target average salary for each level was identified and actual salaries and bonuses were compared by level targets; each employee's salary was then classified relative to the target salary for that level and by reference to their gender.

Recommendations

The recommendations for the business included an examination of whether there were any justifications for pay differentials identified by this analysis and, if not, to consider options such as flexing budgeted pay and bonus pots to address outliers and achieve better total remuneration cohesion by level. Proposals included pay freezes for significant overpaid outlier roles and one-off above average uplifts as part of the annual pay review for underpaid outliers. The framework and information generated allowed detailed investigation, recommendations and remedy where direct gender pay discrepancies existed.

As women were under-represented in this particular business, recommendations were also made for a review of recruitment strategies to tackle any bias as well as for the development of new strategies to attract a more balanced workforce. These included a review of the promotion process, mandatory gender equality and unconscious bias training and showcasing successful women (regardless of seniority) to promote equality internally and externally.

Key benefits for the client

- The process underpins competitiveness. The pay indicators for each level detailed in the report can be used to establish the worth of roles in the external job market and ensure that the employer is competitive.
- It saved money: enhancing the quality of salary information invariably reduces costs in the short, medium and long term – and is a downward influence on payroll costs.
- It eradicates pay differentials in genuinely identical roles and roles of similar worth (assuming there is no objective justification for this differential)
- It avoids distractions; employees can become confident that they are being fairly rewarded, internally and externally.
- There is reduced reputational risk.
- The business is able to demonstrate a policy of equal pay for equal work.

FBN Bank (UK) Limited Gender Diversity Case Study

FBN Bank (UK) Limited (FBNUK) is a specialist international bank focused on facilitating trade between Africa and Europe by providing world-class international banking and trade services. They operate from London, Paris and Lagos. By supporting companies and individuals with interests in Africa, Europe and the Middle East, FBNUK aims to continue to be part of the dynamic and exciting African growth story and its bright future. First Bank of Nigeria Ltd, their parent company has a rich heritage, as the first bank in Nigeria, and indeed Africa. For more than a century, First Bank of Nigeria Ltd has distinguished itself as a leading banking institution and a major contributor to the economic development of Nigeria and Africa.

GENDER DIVERSITY APPROACH

As an employer, FBNUK is committed to equality and valuing diversity within its workforce. Their goal is to ensure that these commitments, reinforced by their values, are embedded in their day to day working practices with all of their employees and customers.

In 2016, under the leadership of the new CEO, FBNUK championed a proactive approach to balancing gender diversity as the first topic of diversity, within senior leadership roles within the organisation. The aim was to build a healthy balanced team.

In order to achieve this the following actions were undertaken:

- Identifying and coaching high potential female employees.
- Actively sourcing, and encouraging their recruitment channels to source, female applicants with the right skills.
- Reviewing their lifestyle benefits including increasing maternity pay entitlement, and using the City HR Association benchmarking survey data to assess their metrics against the market.

FBNUK is making good headway in encouraging a gender diverse organisation. The organisation has been monitoring the results of this initiative. The metrics speak for themselves.

- An increase in the percentage of female members of the Executive Management Committee from 0% to 38%,
- A 22% increase in women in management positions,
- 5 women promoted/increased roles.

In addition, FBNUK has also been instrumental in promoting their gender diversity changes at recent Women in Leadership events, two which have been run by the British Council of Africa. The event in March 2017 was chaired by FBNUK's CEO.

It can be seen that excellent progress has been made. FBNUK is continuing to look for new ways of continuing with this initiative, as well as continuing to embed their values on all elements of diversity.

Paul Cardoen, CEO, states *"I am a big believer in the value of diversity in business. Aside from my personal anecdotal experience of managing teams where women brought in broader perspectives and a long-term view, there are also many compelling studies and statistics that prove that businesses with more diverse teams deliver better performance and better profitability."*

Summary

This chapter has reflected on the progress being made by firms on broadening the Diversity and Inclusion agenda by using robust people analytics to test the success of internal initiatives, to track the progress made against challenging targets and to measure employee perception on the journey being undertaken.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

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CHAPTER TEN: MERGERS AND ACQUISITIONS: DUE DILIGENCE TO PROGRAMME RESILIENCE

Mergers and Acquisitions

There is significant agreement that Human Capital considerations and HR's strategic partnership in the full cycle of any Merger and Acquisition (M&A) transaction is becoming ever more critical for successful integration. Looking beyond M&A activity, management of human capital is a core pillar in the strategic framework of any organisation and focusing on the key people metrics is fundamental to supporting the decisions that need to be made by leaders throughout the organisation. This is even more so, at the important junctures on the M&A journey.

Introduction

This chapter is not intended to provide a finite list of metrics, but it is intended to feed into the complex framework of conversations happening within the HR community on

1. The value-added activity the HR function/CHRO needs to bring to the Executive table in planning and implementing a merger or acquisition
2. The extent to which – and when – HR is involved in M&A transactions
3. What indicators are either essential, value added or aspirational to support and steer the integration activity in the desired direction at the applicable deal stage

Approach

Given the complexity of deal structures and methodologies, this chapter is going to draw on the Mercer's Balanced Scorecard approach[1] which simplifies and focuses on the following core stages of any M&A transaction as follows

Stage 1: Target Selection

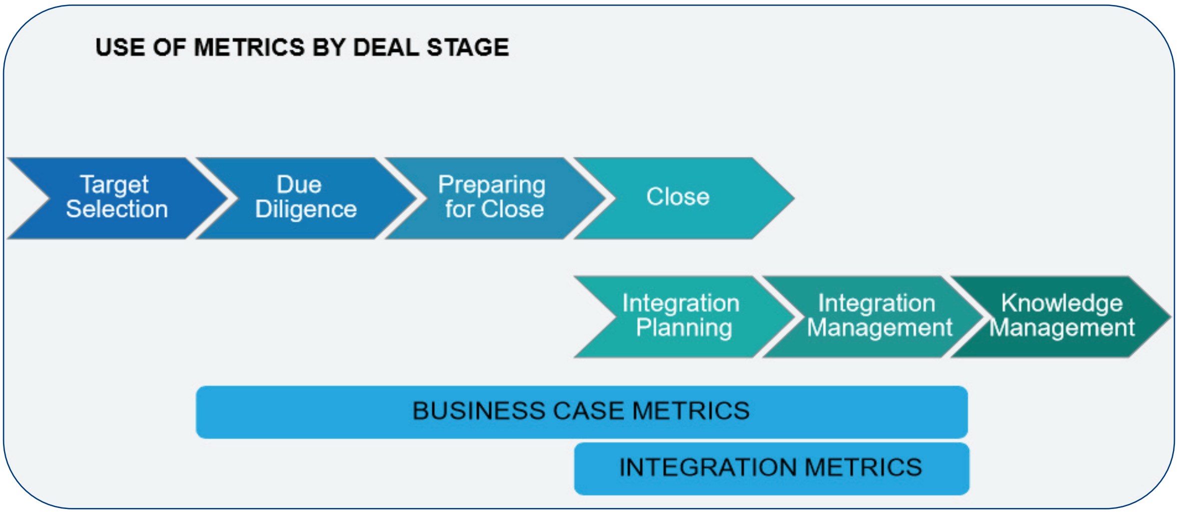
Stage 2: Due Diligence

Stage 3: Preparing for Close

Stage 4: Close

These four core stages are underpinned and informed by

- Business Case Metrics (including people data and analytics)
- Integration Metrics (including people data and analytics)



Mercer's Balanced Scorecard[1] approach – Model 1: use of metrics by deal stage

In addition, and given the cross-functional challenge of managing any integration, this chapter will only provide examples of the people metrics that could be built into the scorecard. The model below[2] illustrates an example of a scorecard that includes additional functions to those of people metrics, namely: Financial, Customer/Products and Operations/Technology. From this it can be seen how HR data aligns with the other key business areas in looking at an M&A transaction.

Financial	Customers/Products
Revenue EBITDA Cost synergies / Operational cost savings	Customer acquisition / retention Market share Cost sell revenue New product development
Operations / Technology	**People**
Productivity / utilisation Timing of operations integration Number of complaints Knowledge transfer	Human capital productivity HR effectiveness Key employee retention Organisational engagement

Mercer's Balanced Scorecard approach[2] Model 2: High Level example metrics

Assumptions

There are also a few assumptions to be considered for this chapter.

The first assumption relates to the HR/HRMS business process reengineering that needs to be considered as part of the integration activity, but will not be covered in any great depth. This in no way down plays the importance and amount of effort that is required to get the HRMS activities landed successfully as part of an M&A integration.

An Oracle White Paper on Growth of Mergers, Acquisitions, and HRMS (2001)[3] cited HR/HRMS business integration activities into three categories:

- HR policy and plan alignment
- The organisation of the HR function
- HR Service delivery model

These categories are excellent in exploring the activities of the "Acquisition's HR Function" but there are people metrics that fall outside of this which inform the leadership on the likely success of integrating their target. Some aspects are explored later when examining the due diligence process. It is, therefore, assumed that the data (derived from respective applicable HR processes and parallel integration activity referenced above) required to support metric builds, is readily available from legacy companies involved in the deal.

The second assumption being made is HR will be involved from the 'Due Diligence' stage and all the way through Integration Management/Post-deal activity. The next section will provide a high-level overview of the HR's role (CHRO mandates from CEO) and will allude to the 'Target Selection' deal stage for contextual purposes only.

Context of HR's Role in M&A

Taking Mercer's Balance Scorecard, as depicted in Model 1 earlier, it is useful to work through this sequentially to identify the requirement for HR Analytics.

Stage 1: Target Selection

Opportunity Identification

At the target stage, it is unlikely that people metrics will play a role. An exception to this might be the acquisition of an HR consulting firm where the HR team might be asked to make a target recommendation based on their perception of the business, its reputation and its likely fit with – and added-value to - the organisation. It can therefore be assumed that HR analytics will commence from Stage 2 – Due Diligence.

Deal Preparation

However, once the target has been identified there will be some initial work for the HR leadership or HR Programme Leader. Assuming that the deal at this stage is confidential whilst the parties are in the early stages of negotiating or structuring the multitude of legal activities, this will entail establishing an M&A infrastructure (framework, tools, and roles) within HR, identifying skill sets that allow effective deal assessment and integration management. HR fully needs to understand the strategic objectives of each deal to align HR M&A activities accordingly. The HR Programme Leader will need to identify significant human capital risks that impact prioritisation of the target including - and not limited to - cultural misalignment alongside the incumbent talent and leadership capabilities.

Integration Planning

The HR Programme Leader will then need to plan responses to Human Capital Risk identified in due diligence stage that affect value creation during the integration. More importantly, is the need to build a workforce communication plan that proactively responds to talent and workforce-wide retention and engagement risks.

Integration Management

Next comes the need to monitor and respond to Human Capital Integration Risks that arise and affect value creation, ensuring that synergies and opportunities for the value creation are captured.

Post-Deal Assessment/Knowledge management

Finally in the Target Stage, track Human Capital M&A metrics, assessing and documenting the extent to which human capital objectives were realised and the impact on overall deal objectives. It is essential to solicit feedback from key stakeholders, capturing best practices and lessons learned to improve on HR's future performance.

Stage 2: Due Diligence

Several firms entering an M&A deals tend to identify material HR risks early in the due diligence process to ensure these are captured in the valuation model. Drawing on Rimmer and SanAndres (PwC)[4] 2012 paper on HR due diligence for M&A, HR due diligence efforts are focused around following four areas:

1. Employee demographics and key terms of employment.
2. Material compensation and benefit programmes.
3. Management talent assessment.
4. Human resource transition challenges.

These areas can yield valuable insights to key synergies and risks, helping to reveal any HR related red flags.

1. Employee demographics and key terms of employment

Understanding the target company's employee demographics is key to assessing whether there is an opportunity to reduce the number of staff and achieve associated cost synergies that could be reflected in the financial model. Knowing employee locations is also another way to assess and determine 'Best Cost' location strategy.[5] It could also help anticipate potential labour issues due to the complexities of labour laws in certain jurisdictions. Therefore, terms of employment and associated agreements require review to ensure that the financial implications and any payments related to changes in terms due to M&A activity are fully understood.

In the CEB Report[6] a due diligence framework was published and fully attributed to Seagate Technologies.

Applicable Areas of Review in Seagate's due diligence dashboard looked at:

- Employee Headcount, Management Layers/Spans
- Open Personnel Requisitions
- Employment Agreements
- Severance Policies/Costs
- Union Contracts/Labour Risks

2. Material compensation and benefit programmes

Employee compensation is often the largest, single cost to a company and it is key to understand the target company's compensation programmes early in the due diligence process. Establishing the amounts involved, payment triggers and the timing of payments are critical as is establishing financial responsibility of triggering change. This is a similar picture with understanding benefit plans: HR need to know the type of benefit plans, associated cost of these programmes on financial statements and what impact the proposed transaction will have on benefit plan participation and/or cash contributions to the benefit plans.

Applicable Areas of Review in Seagate's due diligence dashboard:

- Compensation Plans and Costs
- Equity Plans and Obligations
- Benefits Plans and Costs

3. Management talent assessment

Rimmer and SanAndres (2012)[7] state that the approach to management assessment will very much depend on the nature of the deal. With certain executive functions for example Legal, Human Resources, Finance and Marketing where a public company is to be taken private, the presumption is often that an effective management team is largely in place. However some functions or aspects of roles undertaking such functions may not be needed in a non-public environment for example, investor relations.

Assessments may result in high-level classification of each management team member, examples of which could include: essential to the success for the business; important in the short-term transition but future importance not confirmed; essential in short-term transition, no long-term role; not required at all. The outcome in each case will determine the approach in setting the compensation packages, but ultimately and in principle, there is a trade-off of realising short term cost saving synergies versus longer term gains by investing in talent to drive applicable change forward.

Applicable Areas of Review in Seagate's due diligence dashboard:

- Voluntary Turnover Overall and by Key Employees
- Succession Plans/Executive Risks of Departure
- Employee Survey Results or 360-Degree Results

4. Human resource transition challenges

According to Rimmer and SanAndres (2012) the discussion of human resource transition commences at HR due diligence and is again dependant on the nature of the deal[8]. Key considerations are how might the target company's human resource related run-rate and one-time cost implications of the alignment impact of Benefits, Compensation, Human Resource operating platform and Human Resources function.

It would be short-sighted to focus only on financial risks . Hence the need to assess management talent and navigation of the HR transition challenges, as these will drive the success and economics of the company and therefore, provide the ultimate return on investment of the deal.

Applicable Areas of Review in Seagate's due diligence dashboard:

a) Compliance Risks

Stage 3: Preparing for Close and
Stage 4: Close

During and Post Execution: Integration Metrics

Building on the Mercer's Balanced Scorecard a 'drone view' of M&A people metrics, this section of the chapter will provide sample metrics that will support Integration Planning, Integration Management and Knowledge-Management as well as carrying out a Post-Deal Assessment Review.

A. Undertaking a Cultural Audit and Organisational Alignment

A CEB Corporate Leadership CHRO Quarterly report (2015)[9] sums this up succinctly – cultural integration is slow by definition and for any M&A deal to excel, organisational cultures need to be integrated effectively. Truly understanding the values, beliefs, attitudes and behaviours of legacy and combined organisations can be time consuming and the inaccessibility of information gathered through various avenues (employee surveys, target stakeholder focus groups, leader and customer interviews, reviews of HR policies and practices) could obstruct an in-depth culture assessment.

B. Employee Value Proposition

It is important that the acquiring entity also understands the Employee Value Proposition of both organisations that not only seeks to align culture and values but recognises those factors that employees value about working for a firm. Whilst key drivers will often relate to tangible aspects such as the reputation of the firm, its employer brand, the reward programme, relationships with colleagues and management, career development and training opportunities, there are the intangible aspects that also need to be preserved. These can include the office environment, the location of the office, access to light and even the air-conditioning.

C. Organisation Design

M&A activity, like other large-scale enterprise-wide change, provides an opportunity to set a new course across the various functions of the newly combined business. A PwC People Integration report (2011)[10], discusses the importance of how capturing M&A value by making the most of human capital post deal starts well in advance of Day One. To establish the applicable HR metrics to be built into this stage of the deal, it is important to understand what 'setting the course' involves. Amongst other things and at a very high-level, it is the establishment of clear leadership, new organisational structure and role clarity, a reasoned approach to employee retention and an achievable, concrete plan in the form of a roadmap for making the transition to the next stage in the organisation's growth. Whilst decisions about organisational structure and job role cannot be fully executed until after the transaction closes, smart acquirers and successful integrators begin sizing up senior managers and key specialists early in the due diligence and pre-close integration planning processes.

Professional Services Support throughout the M&A Transaction Cycle
The strategic objectives are, therefore, drivers for the HR metrics to be base lined and tracked throughout deal stages i.e. due-diligence through to post-deal close. Given the complexity of running a programme such as an M&A, people aspects of the integration cannot be dealt with in a silo from the rest of the effort – human capital issues are critical to every work stream. Often consultancies are brought in to manage end-to-end aspects of the deal or simply support specific human capital elements of the deal.

These consultancies draw on a range of resources to provide HR with a toolkit to support the design work. These include (and are not limited to) thought leadership forums, proprietary frameworks, survey tools, diagnostic tools and benchmarking databases. This chapter will not focus on organisation design approaches/methodologies in great detail but will look to provide sample metrics that that can be built into supporting analytics to help drive key human capital decisions at applicable stages in the deal process.

Post Stage 4: Close - Integration Planning and Integration Management

Not all integration projects have budgets that allow for dedicated consultancy support or sophisticated tool licensing to support them through the M&A cycle. Below is a sample of a high-level view of an organisation's structure and related metrics built using basic a Excel 'tool' (inclusive of Pivots to support limited 'slice and dice' and drill-down facility) and link to PowerPoint for presentation. This example is utilising dummy data for illustrative purposes. The aim of the view is to draw attention to salient organisational metrics, whilst telling a story. The tool allows further analysis and investigation to support opportunities for relevant synergies, be they cost synergies, talent or succession planning, product development etc.

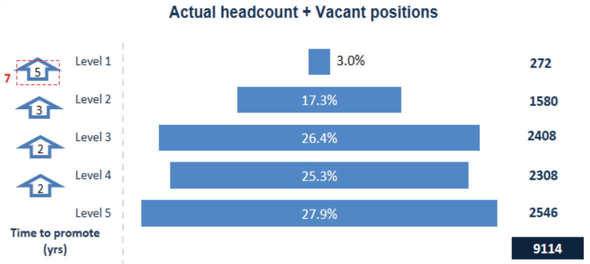
These people metric examples, arising from integration models, include

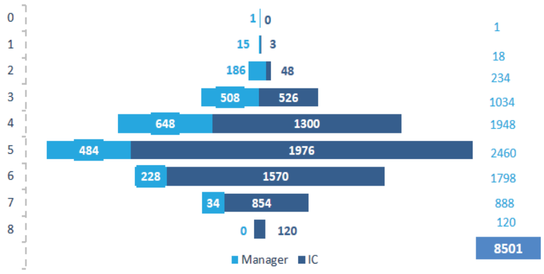
- Spans of Control (SoC)
- Headcount (Actual versus Vacant)
- Headcount managed (Direct, Aggregate)
- Manager and Individual Contributor (IC) ratios
- Human Capital cost (eg Total Compensation, Fully Loaded Cost)
- Layers analysis
- Organisation Structure
- Time to promote (Promotion velocity)
- Attrition
- Benchmarking

Taking many of the facets above (and please note some of the abbreviations), here is how HR might visualise this in a "one stop" overview for the leadership.

Layer level charts help highlight salient organizational statistics

Dummy data: illustration only





Layer	Lvl 1	Lvl 2	Lvl 3	Lvl 4	Lvl 5	Total	Mgrs	ICs	Avg. SoC
0	1	0	0	0	0	1	1	0	**18**
1	17	0	1	0	0	18	15	3	**8**
2	130	74	10	6	14	234	186	48	**6**
3	108	582	214	72	58	1034	508	526	**4**
4	10	672	722	320	224	1948	648	1300	**4**
5	0	164	912	782	602	2460	484	1976	**4**
6	0	16	376	614	792	1798	228	1570	**4**
7	0	0	34	314	540	888	34	854	**4**
8	0	0	2	38	80	120	0	120	**-**
Actual HC	**266**	**1508**	**2271**	**2146**	**2310**	**8501**			
Mgrs	240	864	756	240	4		**2104**		25%
ICs	26	644	1515	1906	2306			**6397**	75%
Avg SoC.	**6**	**4**	**4**	**3**	**3**				**4**
Indicative Cost Actual HC (USD)	**54.3M**	**212.8M**	**207.0M**	**114.5M**	**67.3M**	**655.9M**			
Vacant Positions	6	72	137	162	236	613			
Total HC	**272**	**1580**	**2408**	**2308**	**2546**	**9114**			
Indicative Cost Total HC (USD)	**55.5M**	**223.2M**	**218.3M**	**121.9M**	**73.7M**	**692.7M**			
Vol. Attrition 12 mnth rolling	**14%**	**10%**	**11%**	**15%**	**17%**	**14%**			

Key observations

1. Wide Range of employee seniority levels at same layer - potential to improve balance
2. # of Lvl2 < layer 5 and Lvl3< Layer 6
3. Middle layer with Soc < 6. High number of Lvl3 with low span of control
4. Low SoC Lvl1 and Lvl2s, risk of under-management
5. Company A overall SoC slightly lower than PwC Saratoga 25 percentile of 4.4 for SoC in 'Other Finance' industry sector
6. Lvl2 and 3 voluntary attrition rates consistently lower than other grades and Overall vol. attrition rate – impact on promotion velocity above and below mid-level management
7. Time to promote between Lvl 2 and Lvl 1 higher than industry average. Risk losing senior talent at Lvl 2 to lack of promotion opportunities

25% : 75%

Managers : ICs

Example of how basic metrics can start to tell a story when brought together

The sample slide above also highlights the need for cross-functional data sets and HR specialism engagement. Working in collaboration with HR leads from respective HR specialist areas for Subject Matter Expertise input, aims to ensure findings and/or questions, are fed back into respective work streams involved in integration planning.

For example:

- 'Key observations' commentary is supported by HRBP and HRIS Analysts reviewing the numbers to make sense of current state and support recommendations up to the HR integration team/CHRO
- The Talent team may be keen to understand why 'time to promote' is so long at senior levels in some parts of the business. Could this be a cause for higher attrition at lower levels in the other parts of the business because of low promotion velocity or opportunity for vertical growth?
- Costing data and definitions need to be supported by the applicable Finance and Compensation partner. If the fully loaded cost total is largely attributable to a benefit in a high-cost location, do the Compensation and Benefits team need to be engaged to address re-negotiating vendor agreements?
- The Compensation team may need to look at attrition levels to understand if compensation packages at certain levels are inflated. If so, are staff in this situation less inclined to leave and if yes, are attrition rates lower in that part of the business? On the flip side, if the business is paying below internal or market benchmark salary levels at a certain level and attrition is high, could this be the reason for employee initiated departures at that level?
- The Talent Acquisition or Resourcing teams may need a review of all vacant positions – it is not value add to apply a design principle and address a particular issue, only for future hiring activity to exacerbate the exact same issue. For example, having an over inflated population base in a part of the business that has a high percentage of vacant positions
- Metrics in isolation may not give an obvious indication of risk level, state of organisational 'health' etc. For this reason it is worth considering utilising benchmarking services of specialist consulting firms in this arena. This provides insight into industry, peer or aspirational comparators and how a respective business or function currently ranks or compares against the applicable metric(s). More importantly, benchmarking could support setting the target thresholds for where the new business needs to get to as part of developing KPIs, KRIs for the balanced scorecard

Post Stage 4: Close: Knowledge Management and Post-Deal Assessment

Accountability

The course has been set: Baseline, Diagnostics and Design are complete. The challenge for the integration team becomes Execution. From a metrics perspective, this translates implementation strategy in transparent reporting. It is leadership's role to commit to the course and be accountable to the design principles set in place. One way of tracking progress against change objectives is to build a basic OD dashboard that clearly defines the set of design principles, target SMART metrics and thresholds that need to be met. This could be as intricate as using Oracle BI EE KPI and scorecards[11] or simply building out the design principles using the sample format in Figure 6 below.

Business Function	IT
Principle 1	*Definition: Average span of control (SoC) of 8 and a maximum of 8 layers of management from the CEO*

Headcount	Target min SoC	Average SoC	Variance From Target	Target Managers < L8	Managers < L8	Variance From Target
	8	7	-1	-	0	0

Required Action	HRBP to work with Business Operations lead to increase SoC

Sample Design Principle: dummy data for illustrative purposes

Post- Deal Assessment

To recap, HR's role at this stage is to track Human Capital M&A metrics, assessing and documenting the extent to which human capital objectives were realised and the impact on overall deal objectives. The CEB Corporate Leadership Council's paper (2006) on HR's role in Mergers and Acquisitions provides two examples of post-deal assessments (1) Deutsche Bank's 'HR M&A Performance Assessment' and (2) Intel's 'HR M&A 360-Degree Performance Assessment'. The feedback loop from key stakeholders is necessary to support continued improvement within HR.

Coming back to the balanced scorecard referenced at the beginning of this chapter, it is crucial that HR continues to monitor key people metrics aligned to the overall strategic objectives of the acquiring business as set out at the beginning of the M&A journey. There are a number of specialist consultancies that provide insight into key HR metrics, Analytics and supporting benchmarking.

Summary

Irrespective of whether overall M&A market activity remains at current levels, rises or falls, as long as debt funding is relatively cheap and economic growth slow, M&A deals will continue. In order to be successful when adopting the balanced score card approach to track applicable metrics, three key stakeholders' requirements need to be satisfied. These are the investors, customers and employees. It is the employee or people base that are the most difficult to measure, especially given the shifting internal and external environmental factors. Effective change management is key to integrating an organisation's most vital resources (its people), with business strategy. It is therefore, critical that HR plays a role in every work stream and at every stage of the deal, given the growing evidence of deal failures where Human Capital risks were not planned or adequately managed. Having sight of and executing on the right metrics, is integral to HR fulfilling that role successfully.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

References

[1 & 2] Adam Rosenberg and Alexandra Hadley (July 2014) 'The Well-Prepared Deal Maker – The importance of metrics for successful M&A transactions'. www.mercer.com/content/dam/mercer/attachments/global/webcasts/mercer-the-importance-of-metrics-for-successful-manda-transactions.pdf

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[7] Steve Rimmer and Aaron SanAndres, PwC (2012) '*Human resource due diligence*', p.7, 9 and 10 www.PwC.com/us/en/hr-management/assets/PwC-human-resource-due-diligence.pdf

[8] ibid

[9] www.cebglobal.com/member/corporate-leadership-council/research/report/15/chro-quarterly--q4-2015/cultural-integration-during-m-a.html?

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[11] Oracle Business Intelligence Enterprise Edition www.oracle.com/technetwork/articles/grid/o11bi-195122.html

CHAPTER ELEVEN: OFFSHORING

> Implementing an offshoring strategy is often one the largest change programmes that an organisation will go through. It requires meticulous prior planning, a delicate transition process and continuous monitoring long after implement-ation. The cultural change that commonly comes hand in hand with offshoring is often seen as a barrier, but overcoming this concern can be achieved.

This chapter provides insights into the key metrics that should be implemented throughout an offshoring project. These include, headcount analysis, cost vs benefit, statistical talent assessment and operational metrics. It requires meticulous planning, sensitive transition process management and continuous monitoring long after implementation. Cultural change is often seen as a barrier and this chapter also describes how this concern may be overcome.

Implementing an offshoring strategy is often one of the largest change programmes that an organisation may face. A high level of analysis and research needs to be conducted to get it right. Establishing a baseline of both quantitative and qualitative metrics will ensure a rounded view and is key to success. This chapter provides insights into these metrics and advice on implementation of an offshoring project.

HR and Operational Metrics: Why do they matter when offshoring?

Prior to considering whether an offshoring opportunity is right for a company, it is evident that a high level of analysis and research needs to be conducted. An important factor that is often overlooked when gathering specific metrics, is the need to move away from simply collecting data and presenting the results. The power of HR metrics comes from the ability to interpret the findings to answer a specific dilemma and to influence organisational decision making. Getting this activity right is crucial to the success of correctly identifying an offshoring opportunity and to the extent and scope to which the project should be pursued. There are specific metrics that can be considered and driven by HR throughout an offshoring project, however establishing a baseline of metrics first and foremost is a key element to success. Establishing a baseline not only provides a point of reference for future and progressive measurement, it also clarifies which metrics are important in achieving specific goals of the project and overall alignment with business objectives. Quantifiable and practical metrics should be reflected in order to analyse against the agreed baseline, identify a desired end state, monitor progress, highlight pitfalls along the way as well as project and plan future progress of the offshoring transition. Qualitative metrics assess performance capabilities, quality of service and form a foundation to the KPIs developed for an offshoring strategy. A balanced view of both quantitative and qualitative measures will ensure a well-rounded approach. Presenting this information on a metrics dashboard is often a useful tool for assessment, as it will track KPIs and highlight key data points when reporting on areas of progress.

What should be measured throughout an offshoring project and why?

Key metrics to be considered and driven by HR when offshoring include:

Headcount Analysis: Conducting a comprehensive headcount analysis and functional diagnostic reports is the first and most significant activity when considering an offshoring opportunity. The principles and objectives of the organisation's strategy will determine the scope and granularity in which it will proceed in terms of headcount reduction. Agreeing a baseline for headcount when defining and establishing the target operating model (TOM) will support success criteria, not only for the organisation but also in managing the vendor expectations. In order to validate a realistic number of roles that could be performed offshore, it is important to work closely and provide support to the departmental work-stream leads to ensure a comprehensive analysis is conducted and used effectively. Through critical analysis of the current state of headcount, opportunities will become apparent for new efficiencies, standardisation and control frameworks to be gained. Once the retained organisation is established, there is a need to analyse the job architecture of newly created roles (as well as existing, redesigned roles) and to conduct an up to date job grading and levelling exercise. This ensures that HR metrics of the retained organisation are current and reflective of the changes undergone. Ongoing headcount analysis is required once the offshore team has been established. Knowing exactly who are the joiners and leavers on the offshore account are just as critical as knowing the onshore teams.

Cost vs. Benefit: This is a critical analysis of metrics, which is guaranteed to involve Board level questioning: i.e. how much will it cost and how much can we save? At the core of many offshoring strategies is the objective to reduce current costs and improve efficiencies in the process. Financial metrics will support this activity as they judge the organisation's ability to transform operational performance into achieving financial goals. Conducting an initial analysis of functional costs; including salaries, expense base and training and development, against the capabilities of an offshore vendor can assist in establishing areas to consider offshoring. This can result in determining certain end-to-end activities or entire functions that would benefit from being performed offshore. Of course, the overall scope of the strategy will depend on what the vendor can offer and how much they will charge to do it. Deloitte[1] reported that "value is being achieved through the impact of innovation, ease of relationship management, and improved strategic flexibility, not just cost savings". So, here lies the debate and investigation between the organisation and the vendor; i.e. who can create value and superior capabilities, reduce costs and generate new efficiencies for improved business operations?

Statistical Talent Assessment: Analysis of talent data should be considered to ensure that the talent pipeline is not adversely affected through any offshoring analysis, preparation or activity. Data to consider would comprise of job descriptions, competencies and the performance tracking of roles in scope, as well as skills matching matrices for any pooled roles that may be impacted by the offshoring exercise. Managing expectations and providing transparent information of the project will assist in ensuring that the onshore talent is engaged and potentially developed throughout the project. A full review of the 9-box grid will identify key talent that is essential to retain. Considering a retention strategy early can assist in any adverse risk, as well as recognising how top talent within the company might be developed and involved in the project or overall restructure.

Operational Metrics: Operational metrics represent an important measurement for analysis as they assess the performance of day-to-day organisational activities. Developing good quality metrics, before the initiation of an offshoring project is often overlooked. If an activity is not measured in the current state, there is no way to know if a vendor can execute it any better; leaving a reduced degree of leverage when assessing the KPI's and overall management of the vendor service leave agreement (SLA) in the long term. Analysis of these metrics in the current state identifies gaps in process efficiencies and structural mismanagement that could be addressed. Common operational metrics for analysis will differ between industries, but widely consist of:

- processing times
- response times
- turnaround times
- quality control / accuracy measures
- processed volume
- referral counts.

Developing these metrics into KPIs will pave the way for measuring onward performance (Scorecard Assessment) and identifying areas in which the vendor capabilities may be lacking. Monthly MI (management information) packs, specified by function will track quantitative and qualitative metrics, allowing oversight from both parties.

Driving commitment & change of an offshoring transition:
It is evident that organisations remain under pressure to transform their services, improve value and find new cost savings measures to continue to thrive in today's markets. Arvato[2] reports that it is clear from their research that a growing number of organisations are seeing outsourcing as a feasible strategy to address these challenges through innovating new ways of working. Driving these change strategies requires senior management buy-in, with persistence and commitment to influence from the top down.

Implementing an offshoring strategy is often one the largest change programmes that an organisation will go through. It requires meticulous prior planning, a delicate transition process and continuous monitoring long after implementation. The cultural change that commonly comes hand in hand with offshoring is often seen as a barrier, but overcoming this concern can be achieved.

HR can provide support to impacted functions through targeted cultural awareness training. It is often the case that the onshore organisation will need to visit the vendor overseas for the knowledge transfer process, and vice versa. Understanding the differences in business practices, culture and etiquette of your vendors will enhance the relationship for success. From a wider perspective and for the importance of driving commitment company-wide, communicating process changes and providing training and support to the organisation as a whole will ensure efficiencies are gained with the new business structure.

During the statistical talent assessment, and in designing the target operating model (TOM), it may be the case that the organisation is at risk of losing talented employees due to the offshoring of their current role. It could be argued that offshoring projects could adversely affect a company's talent pool, but it is important to consider how to retain and develop talent, even though roles are at risk of redundancy. Assessing transferrable skills and seeking opportunities for redeployment will safeguard against losing valued employees in the talent pipeline. Engaging employees in development plans, before the impact of redundancy, is vital in both the analysis and strategy of offshoring.

What holds organisations back? Risks & Mitigations

According to the Arvato Outsourcing Index[2], UK organisations spent £1.04bn in deals on outsourcing customer services (more than any other function), up 132% year-on-year. However, just 4% of these deals were delivered entirely offshore, down from 6% in 2015. So, what holds organisations back from offshoring and how can the potential risks be mitigated?

Implementation

Leading an offshoring project can be daunting, costly and damaging to an organisation both internally and externally, if not executed correctly. However, this should not deter organisations from implementing an offshore strategy. To mitigate these risks and concerns, it is important to work with the vendor to leverage their knowledge, expertise and methodology to provide control and visibility to avoid any potential risks. Early due diligence with the vendor creates alignment of strategy through verifying their parameters and capabilities. Agreeing and implementing a phased transition of the project will allow strong governance, the time to rectify any mishaps and minimal disruption to your "business as usual" activities. Running each business unit as a separate offshore portfolio with varying timelines is often necessary, as functions may require differing transition approaches and targeted change management programmes. In many cases, overseas vendor secondments are used on complex areas to build solid organisational knowledge, document rule-based and transactional processes, address any risks to the project and to facilitate onward learning to other vendor employees. **Establishing a robust framework for implementation is a key consideration to any offshoring project**. Investing time into vendor relationship management is important to mitigate potential implementation risks and to act quickly, should any arise.

Knowledge transfer

There is often fear of losing valuable knowledge throughout the transitional period, as well as the difficult task of integrating both the onshore and offshore teams to work together to achieve the transfer. In order to mitigate the risks during this process, knowledge transfer should be systematically planned and monitored closely. Based on operational constraints and process complexity, an optimal approach for the knowledge transfer is designed and agreed. There are differing models of knowledge transfer (e.g. Train the Trainer, Train the Batch, two-way secondments) and design will depend on the needs of the project. Knowledge transfer itself generally involves documentation and standard templates completed between the onshore and offshore teams, which if executed effectively will retain the tacit knowledge. A strategic element to achieve this is maintaining a sensitive and human approach to the employees involved; providing preparation, understanding and support of their involvement.

Cultural Barriers

Culture can be one of the largest barriers to offshoring. Integrating both teams is a cultural change to the working environment and can impact communication channels, productivity and commitment. It is evident from research that western cultures differ immensely from countries most popular in providing offshoring opportunities, such as Latin America, Asia and India[3]. In comparing and contrasting the differences of the vendor, cultural awareness training is a common approach to highlight and communicate the differences in cultural practices. Facilitating these sessions will indicate a conscious effort and intention to shift current practises to work productively with offshore teams.

Regulatory risks & data protection

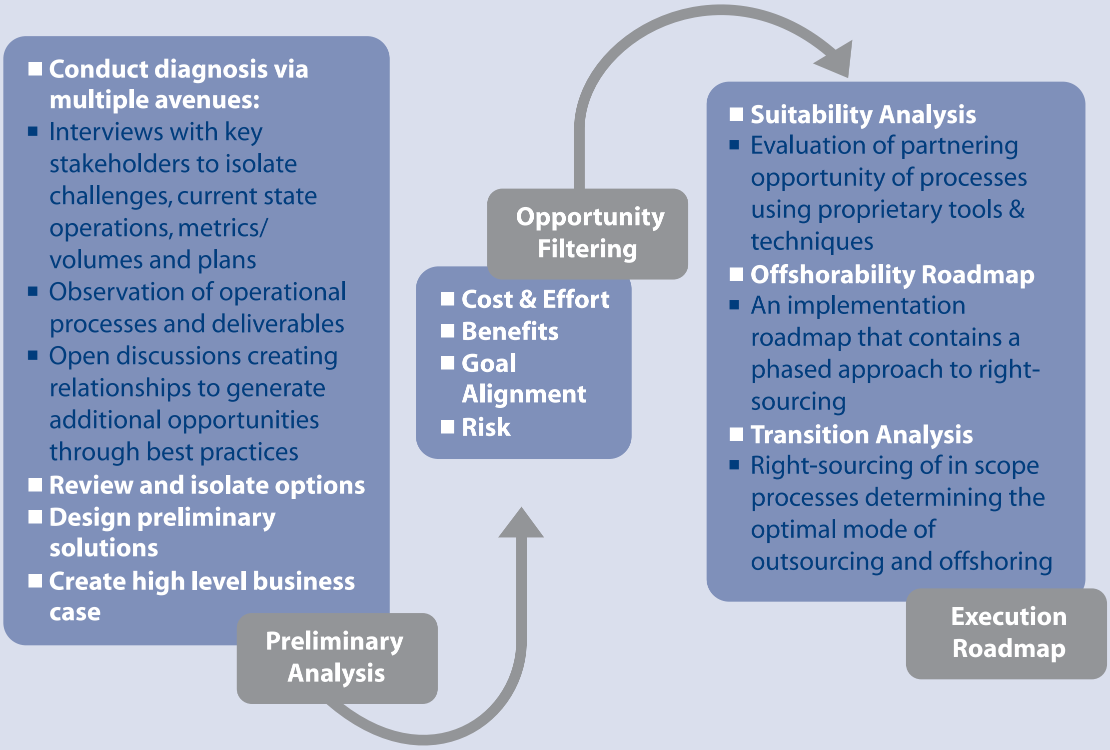
It is often the case that industries and organisations that are looking to offshore have stringent laws, regulations and compliance obligations to adhere to. Detailed due diligence requirements should be identified early. Strong collaboration between the vendor and organisation risk and compliance departments is imperative. It is often the case that offshoring projects entail the storing of data outside the EU. The General Data Protection Regulation ensures privacy and data protection is considered thoroughly in this instance. As a general rule, regulatory & data risk would not completely grind an offshoring project to a halt; it is just important to be aware and informed of the risks that may affect the organisation and to leverage the expertise of the vendor to work together in mitigation.

CASE STUDY: GUIDELINE OF APPROACH TO AN OFFSHORING PROJECT

The principle of the restructure and offshoring project was to create a centralised business model for the organisation's global support functions. This aimed to remove 'shadow' functions and duplication of work to ensure more clarity and accountability around support roles globally. In defining the new target operating models (TOM) for the functions in scope, it was important for the project team to make best use of the centres of expertise and to ensure that value adding and business focussed roles remained in the UK. In essence, administrative and process driven tasks were offshored; and in a smaller capacity, outsourced to third party providers. The primary rationale derived from the need to address a high cost base and to support a strategy that required nimble decision making in a volatile market.

The change process undertaken was transparent and well communicated to staff on a global basis, regardless of whether they were in scope and impacted by the project or not. Being the biggest change operation the organisation had undergone; it presented challenges and required tough decision making from management and the project team. Due to the number of roles that were impacted by the offshoring project, it triggered the obligation to collectively consult with the onshore business. This responsibility guided the process of Collective Consultation to ensure redundancy dismissals were mitigated and information behind the offshoring rationale was shared and approved by business representatives (in this case study: employees appointed to an Information and Consultation Forum facilitated a two-way communication between their constituencies and project sponsors).

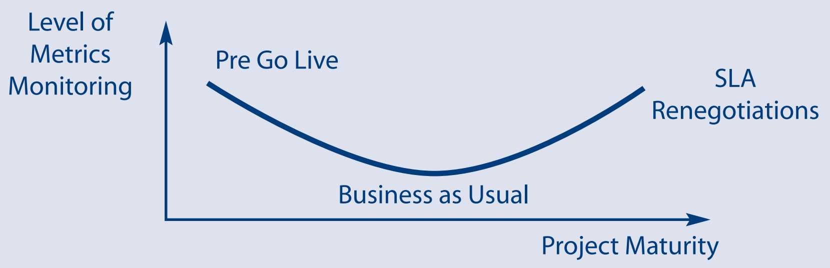
The preliminary process itself is illustrated below in Graph 1 and matured between the vendor and project team to develop an overall strategy, opportunities and an implementation timeline. The execution of this timeline was then communicated by function and meticulously followed, tracked and analysed for improvement along the way. This element needs to be flexible to absorb change as the project matures. Various project and governance meetings were held with stakeholders, to review operational progress, highlight risks and concerns and to monitor overall progress to the plan and alter if necessary. The roles and responsibilities of each stakeholder were communicated early to enable understanding and commitment to the project.



Graph 1. Preliminary Process to Offshoring Project

Post Go Live Measures – SLA Management

The principle SLA metrics measured in this case study were volume processed, quality and turnaround times. Graph 2 below shows the level and degree to which metrics are measured and how it changes with the maturity of an offshoring project. In the 'pre go-live' stages, key SLA metrics were heavily monitored with increased oversight and control. As the project transitioned to BAU, it was proven through monthly MI packs that the vendor was exceeding SLA requirements and the level of necessary metrics monitoring reduced. Subsequent and differently critical monitoring is then required as the agreement approaches renegotiations. At this stage, additional activities may be assigned to the vendor or a revisit to KPIs may be beneficial to the strategy.



Graph 2. Level metrics are monitored over an offshoring project

In assessing the offshoring case study in its entirety, there are certainly celebrations of success, lessons learnt and elements that could have been done differently.

Lessons learnt and elements that would be looked at differently:

- Do not underestimate the travel and accommodation costs for staff visiting the offshore provider.
- Avoid communicating language that can be misconstrued – simple, clear messages are key.
- Try not to let the impacted onshore team leave the organisation too quickly, as it will increase risk of the knowledge transfer failing.
- Determine early if and when there will be a freeze on recruitment, as a reduced headcount is likely to impact BAU (business as usual) while the retained organisation will be undertaking knowledge transfer and training.
- Think about staff attrition rates of the vendor. Gather a solid understanding, as the offshore team and their management requires stability to ensure success.
- Developing a retention strategy will assist in mitigating 'flight risks'.
- Identifying key talent and ensuring they are engaged with the project from the outset.
- Empower managers to lead their functions through the change.

Summary

This chapter has discussed the key metrics that an HR professional may apply when undertaking an Offshoring Project. It contains practical advice and detailed information concerning the various issues that should be considered.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

References

1 Deloitte 2016 Outsourcing Survey

2 Arvato Outsourcing Index – Q3 2016

3 IDG Communications, Inc. 2007

SECTION C

TECHNIQUES AND TECHNOLOGY TO PREDICT OR PLAN FOR THE FUTURE

CHAPTER TWELVE: PREDICTIVE ANALYTICS

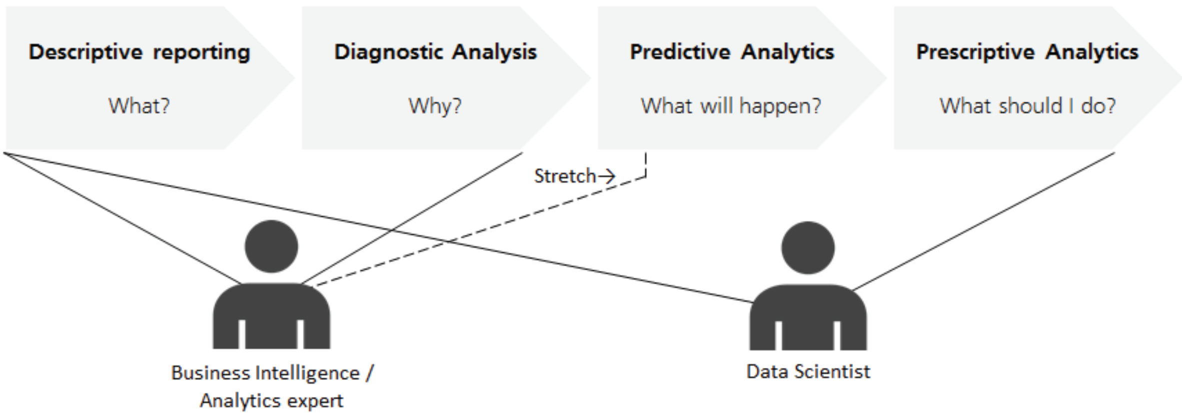
This chapter describes how the HR function can utilise predictive analytics to support business planning and operations. Predictive analytics has become an umbrella term within HR for any advanced People Analytics techniques which are either predictive in the traditional sense or can be used to inform decisions which influence future events (for example who to hire).

What is predictive analytics?

"Prediction is very difficult, especially if it's about the future."
Nils Bohr, Nobel Laureate in Physics

Business leaders are increasingly turning to HR to provide "Predictive Analytics" which guide strategy and decision-making. In the purest sense this means analysing data to make predictions about future outcomes or events. In practice it has become an umbrella term within HR for any advanced People Analytics techniques which are either predictive in the traditional sense (above), or can be used to inform decisions which influence future events (for example who to hire). Methods range from exploratory analysis using a Business Intelligence approach to Machine Learning and Artificial Intelligence which require a Data Science skill set.

The scope of predictive analytics and how it fits between Business Intelligence (BI) and Data Science are subject to debate. By any measure however, predictive analytics require a higher level of skill than traditional descriptive reporting. Therefore predictive analytics is sometimes used as a differentiator of Data Science.



Analytics Continuum: Business Intelligence experts can tackle some predictive analytics and in some cases provide data driven insights which can form Prescriptive Analytics, but their tool set is comparatively limited. Data Scientists on the other hand are at home in Predictive and Prescriptive Analytics. Data Scientists can also be leveraged for Descriptive and Diagnostic Analysis if it involves Big Data or advanced techniques (for example Network Analysis) but are generally over-qualified for most reporting and analysis in the Business Intelligence space.

How can it be utilized?

Business Leaders and the HR Analytics community are coming up with new ways to leverage Predictive Analytics. Some common themes have become standard fare, and are areas that have begun to be explored at UBS:

Predicting success

This type of analysis seeks to identify factors which drive potential for promotion, high appraisal ratings or business performance. This analysis could be leveraged in promotion decisions and training nominations.

Predicting voluntary leavers

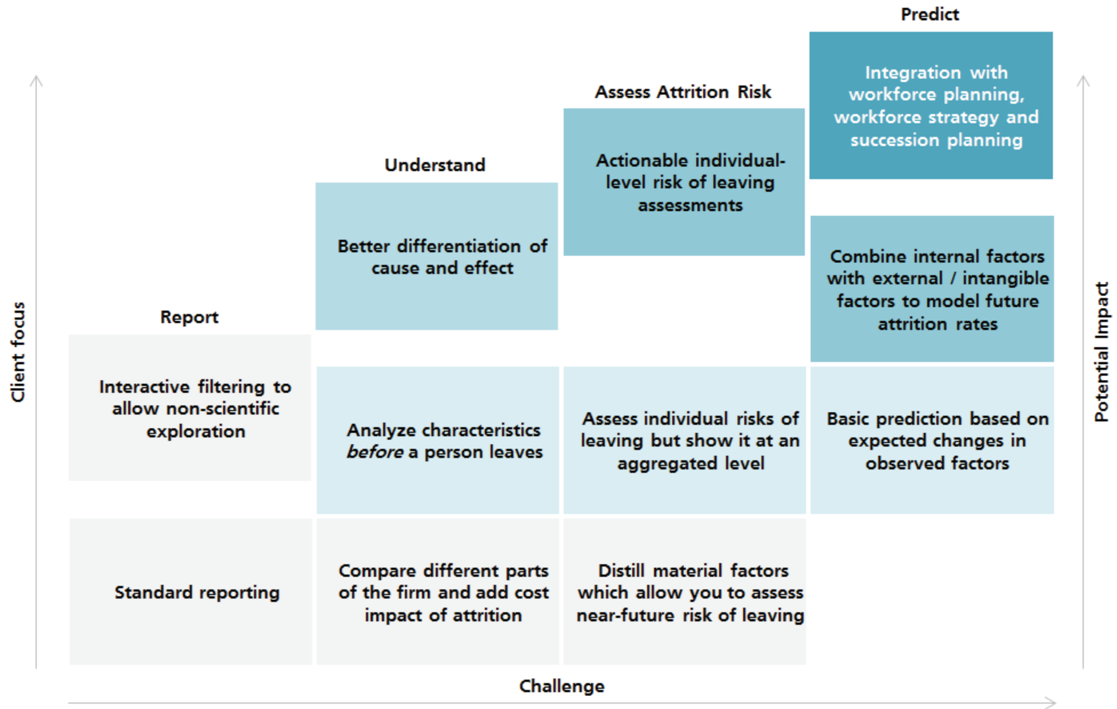
A common theme in predictive People Analytics is assessing which employees are most likely to leave in the future. This is often termed Attrition Prediction, and more and more firms have developed this capability, for example UBS and Credit Suisse.

"…an employee's own stated intention to leave the organisation is only right 12% of the time"
Rodger Griffeth & Peter Hom, 2000

Generally, it is most practical to use internal HR data such as tenure, promotion and career progression, Reward (salary, bonus, benefits), work-life balance, demographics, training etc. These can be combined with business data such as revenue generation and external factors such as salary benchmarks, company performance and market performance. Together, this information can be analysed to formulate patterns in attrition & retention hotspots and used to drive business decisions such as which types of employees to target for retention initiatives.

San Francisco-based firm HiQ has developed an alternative approach which measures the 'pull factors' from the hiring market to assess, how discoverable an employee is and how desirable their skills are in their local job market.

One possible maturity model for developing attrition prediction capabilities is shown below:



Predicting employee risks

Identifying employees who are at a high risk of non-compliance with policies, regulations or laws is of particular interest in regulated industries such as Financial Services. Data about employees' behaviour both inside and outside the firm (for example on social media), access rights, adherence to rules, experience and demographics can be used to form a risk profile which can then be used for targeted monitoring or training. In some firms this analysis may be the responsibility of the Risk or Compliance functions.

Predictive hiring

Traditionally hiring decisions relied on the judgement of the hiring manager or HR professionals. This human process leaves a lot of room for error either because of poor judgement or because of non-aligned goals (for example a hiring manager may be motivated to fill a position with anyone, as long as they can start tomorrow). It is still uncommon, and not undesirable, to completely remove human judgement, but predictive analytics can help those involved make better informed decisions.

One approach involves predicting employee tenure. By analysing the characteristics of past joiners and correlating them to the resulting tenure after joining the firm and expected revenue generation, you can calculate a predicted lifetime value (e.g. revenue generation). When compared to projected cost (full compensation / predicted tenure) this can be used to calculate a Return on Investment (ROI) per prospective hire. In this sense each hiring decision has a break-even point.

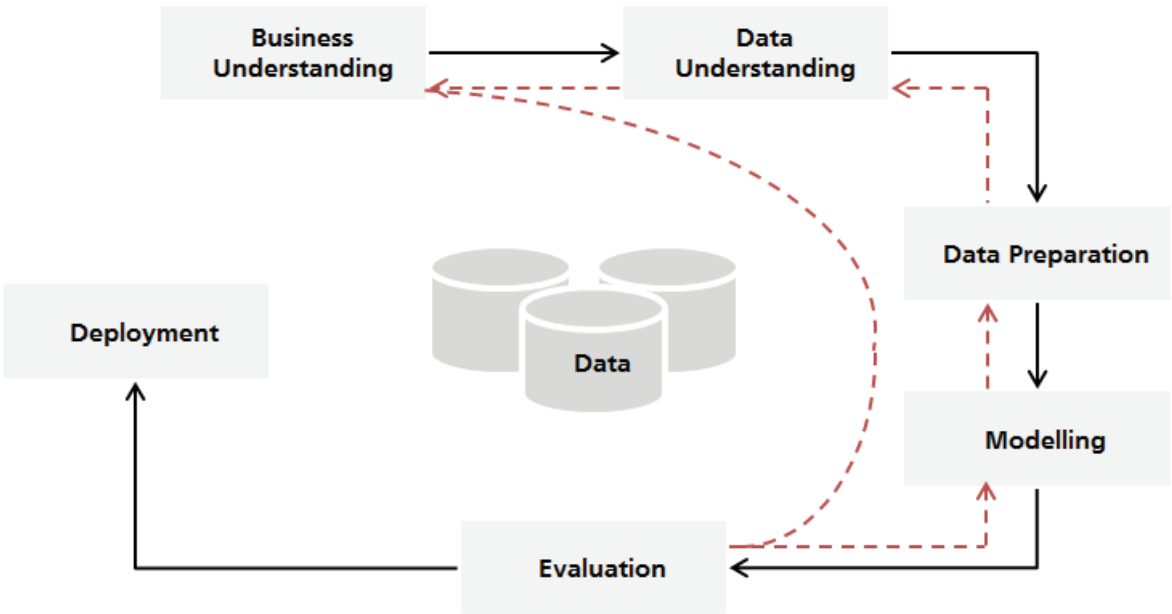
Anticipating changing skills demand

Conduct a What-if Analysis (Sensitivity Analysis) of the impact of future skills requirements on the firm, particularly in the context of emerging roles or dying technologies/products. For example, where can the organisation find enough data scientists in five years' time? This type of analysis can directly inform workforce planning and help organisations to be ready for the future.

How to approach a predictive analytics problem

Defining the problem statement and solving it is critical if predictive analytics or data science functions are to provide actionable insights. Do not start with the dataset, start with a question. Starting with the dataset will lead to rather interesting yet isolated findings with no real actionable outcomes. There are a few frameworks which can help the organisation approach the problem, for example SEMMA (Sample, Explore, Modify, Model, and Assess) and DCOVA (define, collect, organize, visualize, and analyse), which stem from the world of business statistics.

CRISP-DM (Cross-Industry Standard Process for Data Mining) is a six-step standardized process for Advanced Analytics which starts with a good understanding of the business problem and ends with deployment of the solution that satisfies the specific business need. Each step is built on the outcome of the preceding one, and the whole process can be iterative and time-intensive. UBS uses CRISP–DM since it puts business understanding at the front and centre in initiating projects.



CRISP DM standard for approaching predictive analytics projects

CRISP DM provides the right guidance beyond predictive analytics to text, image, AI (artificial intelligence) and projects which may appear to be more non-linear.

"In bulk hiring, Abacus ranking helps us better shortlist candidates since it is difficult to differentiate candidates just by reading the responses"
UBS Lead Campus Coordinator, Asia-Pacific

ABACUS was one of UBS's first projects to leverage predictive analytics within HR. It has since been rolled out in the UK and Asia-Pacific and is actively used in their respective hiring seasons. The success of this project has helped them to raise awareness and increase the appetite for this type of analytics across the HR function.

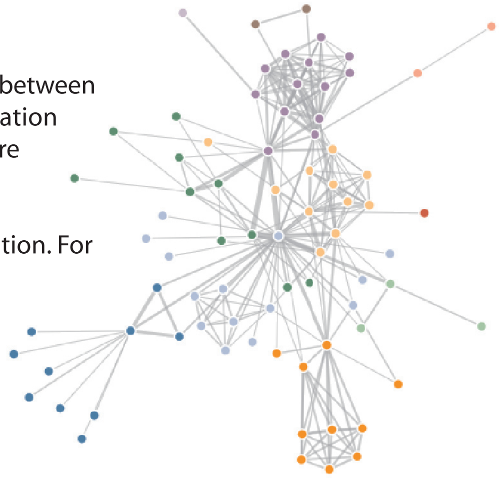
During this project there were some key learnings from introducing a tool like ABACUS into an existing process that they have subsequently been able to leverage in future projects:

- It is critical to on-board regional stakeholders early in the process – without sponsorship and adoption the tool would have had limited impact.
- Training end-users (in this case recruiters) in the tool helps to build trust in the process.
- The design of the tool needs to consider the location specific nature of the hiring process. The tool may be required to accommodate regional and cultural differences.
- "Computer says no" syndrome; UBS found they needed to give some general guidelines for handling applications which do not score highly – human judgement in the process is still important.

Beyond Predictive Analytics

As the predictive analytics capability grows within an organisation, there are opportunities to adopt additional techniques to support this further, including some areas UBS has branched into on the visualization side.

Network analysis



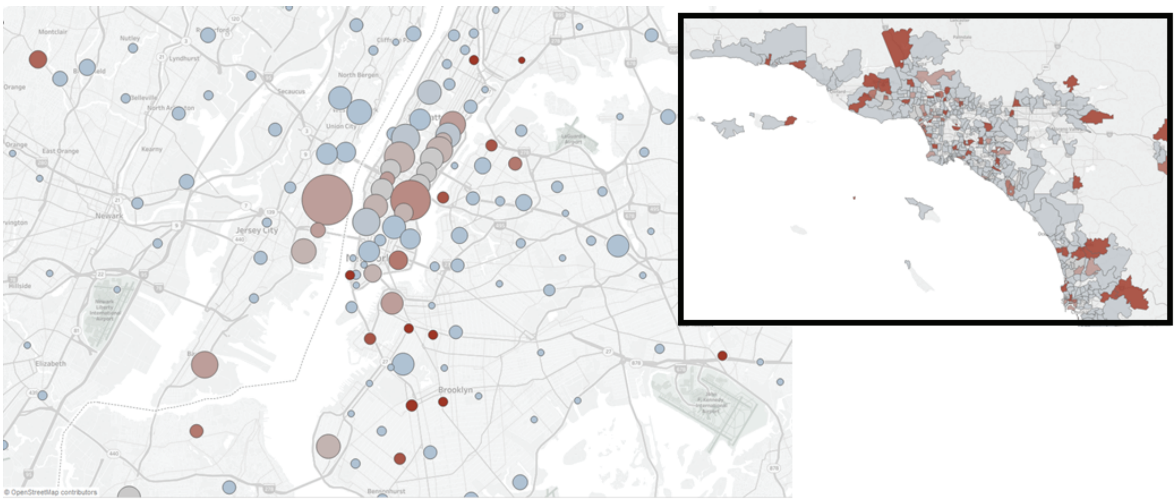
Network Graphs can be used to show complex relationships between individuals or other data dimensions (locations, education establishments, characteristics etc.). Generally, special tools are required for this type of analysis.

This can be used to map Informal Networks in an organisation. For example, to identify Influencers, Blockers and Key Person Dependencies, or to measure Collaboration.

Example Network Graph (right) drawn with d3.js, from https://bost.ocks.org/mike/fisheye/. Another program which could be used for graphing is Gephi.

Geospatial data

Geospatial data is information about a physical object that can be represented by numerical values in a geographic coordinate system (e.g. Latitude and Longitude). This means mapping your workforce or other relevant HR dimensions. The below map showing employee attrition by post codes and areas was created in Tableau:



As descriptive reporting, adding maps can enrich the user experience and help them navigate the data. At the more advanced level it can also be used as part of a deeper analysis or predictive model.

What needs to be considered?

Employing Predictive Analytics positions within a People Analytics team can provide strategic advice to internal clients. The ideal team needs a range of skill sets, with Predictive Analytics generally requiring a higher level of technical achievement than descriptive reporting. Team composition needs to be balanced, and include people who can interpret business requirements, visualize data and explain analysis to a senior audience. One of the greatest challenges may be helping less technical HR colleagues and Business Leaders ask the right questions for Predictive Analytics and helping them to use the outcomes to make meaningful decisions.

As organisations push the boundaries of People Analytics they need to keep in mind whether what they are doing is legal (e.g. data protection regulations), ethical and in line with the firm's culture. Just because the data is available, the organisation still needs to consider whether it is appropriate or not to use that data in a given way. As dynamic as the technological advances are in analytics, data protection regulations will also continue to evolve and so this should be factored in throughout the analytics journey.

Summary

This chapter has discussed how HR may utilise predictive analytics and explained the role of data science techniques to support HR business information and insights.

Appendix 1 contains a Consolidated Metrics Chart for chapters where a summary would prove useful. This is not applicable for the information in this chapter.

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DCOVA : Berenson, M. L., D. M. Levine, and K. A. Szabat, Basic Business Statistics 13th Ed., (Boston, MA.: Pearson Education, 2015)

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Retaining Valued Employees, Rodger W. Griffeth, Peter W. Hom, 2001

A Meta-Analysis of Antecedents and Correlates of Employee Turnover: Update, Moderator Test and Research Implications for the Next Millenium, Rodger W Griffeth, Peter W. Hom, Stefan Gaertner. Journal of Management 2000, Vol. 26, No. 3, 463-488

CHAPTER THIRTEEN: THE USE OF BENCHMARKING SURVEYS TO PLAN FUTURE PEOPLE INITIATIVES

This chapter discusses the range of external benchmarking surveys that are available to the HR practitioner. It looks at how organisations use benchmarking surveys to support management decision making.

The use of surveys is widespread in the financial services sector. There are many reasons that organisations choose to undertake a benchmarking process. According to '*Benchmarking: A tool for continuous improvement*'[1] reasons for participation can include things like competitive analysis, re-thinking strategy, improving operational efficiency, gaining insight into new ventures, quality programmes and cost reduction reviews.

Why do organisations choose to participate in Benchmarking Surveys?

The HR world includes numerous organisations that offer to provide comparative competitor data and benchmarking information on a wide variety of topics. Organisations that participate in surveys seek to understand what is going well, and where they need to focus their efforts, as well as understanding how they have performed against their comparator group. Their aim is to assess their own internal activities against external practices and perspectives.

In order for external benchmarking data to be valid and informative, it is most important that

- Comparisons are made with relevant peer organisations
- Data is reliable and accurate
- Analysis is informed, relevant and insightful.

What types of Benchmarking Surveys are available?

Remuneration: In the financial services sector the most widely used form of benchmarking relates to remuneration. Reward in the City is sophisticated, complex and highly competitive. Benchmarking will influence and drive decisions regarding pay practices in the business and will provide impartial external data against which the value of individual roles can be assessed.

Many organisations participate in an annual salary survey which compares their remuneration practices with those of a similar size, sector and location. Salary surveys can be conducted on a generalist basis, or a more specialised approach for specific sectors or business lines.

Internal Engagement Surveys: These are internal bespoke employee surveys which are commissioned by an organisation that are run on an annual or biennial basis, or on an ad hoc pulse basis. These are normally to assess engagement levels within an organisation, or to gauge the success of a specific initiative or proposal. The information the company receives through the analysis of the results will be used to put in place specific initiatives to respond to the survey findings.

Club Surveys: These are run by external providers for private companies on a club basis to provide them with insights and a better understanding of specific issues. The City HR Association Benchmarking Survey of HR Policies and Practices is an example of a club survey. Companies pay to participate and the analysis is generally maintained as private to the organisations that participate.

Public Engagement Surveys: These are run by external companies that publicise their results. They are sometimes free to participate in. Some of these external engagement surveys enjoy an influential reputation and provide public visibility and kudos for the organisations that are ranked highly in the survey. The Sunday Times Best 100 Companies To Work For, and Glassdoor are examples of this type of survey. They are completed by employees who are guaranteed anonymity.

Public Surveys which address a specific issue: These surveys provide benchmark information for employers to measure their progress in specific areas of employment policy and practice, particularly around diversity and inclusion initiatives. Examples include:

- Stonewall Top 100 Employers – the definitive guide to the most inclusive employers in Britain in 2016 www.stonewall.org.uk
- Business in the Community Race Equality Awards 2016 and Business in the Community Opportunity Now Diversity Benchmark (gender) www.race.bitc.org.uk
- Women in Finance Charter www.womeninfinance.org.uk
- Social Mobility Employer Index www.socialmobility.org.uk

What do organisations do with their Benchmarking data?

Communication is key to good management. Employees' expectations are often raised when an organisation undertakes an employee survey. Failure to communicate the results and to act on them can be detrimental to trust and employee engagement.

When an organisation has less positive feedback, it is important that management seeks to understand fully what needs to be addressed and the reason for the feedback. The organisation must then be prepared to act on the findings and be seen to address the issues by the employees.

Good results can be motivational for the organisation and the employees. They can provide good publicity and a feel-good factor for employees. Positive results validate the actions that the organisation has taken and endorse the culture that the organisation espouses.

City HR Benchmarking Survey of HR Policies and Practices

This is a highly comprehensive HR policies benchmarking survey which is used by financial institutions in the City. It is widely perceived as the definitive guide to HR activities and thinking amongst financial institutions and City firms. The Survey provides members with valuable evidence, data and analysis so that they can better understand the HR policies, practices, trends and spending being undertaken in the financial services market, both generically and within their own specific peer group.

The first edition took place in 2008 and it has been run every two years since then. The latest edition published its results in December 2016.

The Survey is extremely popular with participants, many of whom take part at every time. They take the view that it is essential to their HR operations. It is a closed survey, which means that the results are only available to 'All Participants' and the in separate reports for each 'Peer Group'.

The survey results are shown in a number of formats including:-

- commentary on, and explanation of, all of the issues covered in the survey including latest developments on regulatory directives and employment legislation
- bespoke company data comparison charts reflecting the ranking of each firm against "All Participants" and their "Peer Group"
- visualisation of data from flat graphs, pie charts and tables through to pictorial illustration of key points. Please see examples below

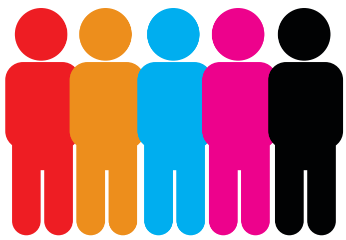
ABOUT THE PARTICIPANTS

- 51 Participants in the Survey – See Participants List
- Total Number of Employees within Participating firms were 171,786
- 33 participants (65%) feature HR on their board or Executive Committee
- SMCR HRDs include 11 designated as SMF and 27 designated MRT

CULTURE AND VALUES

- 90% have a values statement
- Culture measurement tools include Exit Interview Information (88%), Employee Survey (80%), Performance Management Feedback (74%)
- Embedded mainly through Staff Intranet and Handbook, Induction Programmes, Senior Management Communications and Appraisals.

DIVERSITY AND INCLUSION



- Increased ownership of D&I by Senior Management with firms reporting a wide-range of excellent initiatives to promote and embed D&I

One participant in the December 2016 City HR Benchmarking explains what can be derived from the survey and how it can be used to inform the leadership.

"The City HR Benchmarking Survey is an essential guide for all HR Practitioners in Financial Services. From my perspective, there is no other survey that provides such detail and specific market information. I have found it an extremely useful tool to review and justify changes to our policies and practices as appropriate. The data analysis of my organisation's ranking versus the other financial services companies both within my Tier and across Tiers has been one of the main drivers for me in this survey."
Vanessa Trigg, Head of HR, FBN Bank (UK) Limited.

Summary

While benchmarking surveys can be time-consuming to complete, it is clear from the large number of HR related surveys that exist, and their extensive use by HR departments, that these surveys are perceived as providing valuable information to participants.

Benchmarking surveys can provide organisations with valid and accurate external evidence to assist management decision making. Organisations that use benchmarking surveys effectively do not do so just to understand and follow the latest fad. They use the information contained in the survey, alongside other internal and external information they have at their disposal, to support rational evidence-based decision making.

This chapter has provided information on the various providers of Benchmarking Surveys and has explored the reasons organisations participate in these surveys.

Appendix 1 contains a Consolidated Metrics Chart for chapters where a summary would prove useful. This is not applicable for the information in this chapter.

References

1 *Benchmarking: A tool for continuous improvement* by Kathleen H.J. Liebried and C.J. McNair. New York: Harper Business 1992.

CHAPTER FOURTEEN: HR METRICS IN UNCERTAIN TIMES. MAINTAINING 'BUSINESS READINESS' TO INFORM ON CHANGE FROM BREXIT TO NEW GOVERNMENT INITIATIVES

This chapter sets out how to anticipate and analyse future trends and the drivers of uncertainty for HR and business. It demonstrates how HR metrics can help to facilitate business readiness in uncertain times.

Introduction

The environment in which organisations operate today is characterised by uncertainty, driven by legislation, regulation and government initiatives impacting people policies, practices, procedures and overall organisational culture. As a result, business readiness is critical to ensure strategy and operational execution is compliant and competitive; however, for many organisations the challenge is how to achieve the optimum approach to the desired level of readiness.

How do we know what is in the pipeline?

It is not only through regulation updates, white paper consultation, and formal channels that we become aware of the changes that are impacting the industry in which we operate.

Figure 1 provides a model which can be applied to analysis of the external environment. The PEST analysis provides a framework to organise an exploration of external factors. The model is not commonly used across the HR environment, but can challenge HR as a function to consider the external lens and the impact these factors have on their 'people'.

Political	Economic	Social	Technological
■ Evolution of CRD4 Regulations ■ BREXIT ■ US Election - Trump ■ Senior Manager 'Individual Accountability' Regime ■ Gender Pay Reporting ■ Social Mobility Index	■ Competition ■ Wage Rates ■ Other countries' economic policies ■ Lending policies	■ Increased Aging population ■ Changing workforce i.e. Millenials ■ Skills availability ■ Social Mobility ■ Business Ethics	■ Advanced technologies available e.g. Robotics ■ On demand service offering - removing the one-to-one contact

Figure 1 *PEST Analysis*[1]

As the world's major economies have matured, they have become dominated by service-focused businesses. But many of the management tools and techniques that service managers use were designed to tackle the challenges of product companies. Are these sufficient, or do we need new ones?

Throughout this section consideration and practical suggestions are provided for the HR practitioner to think about and build into an effective action plan as they continue to respond to an ever-changing environment. Figure 2 presents some key legislative influences creating uncertainty in 2017/18.

2017	2018
■ Trade Union Act: Important Public Services ■ National Minimum Wage & National Minimum Living Wage ■ Whistleblowing ■ Family Friendly Payments ■ Gender Pay Gap Reporting ■ Apprenticeship Levy ■ Compensation Limits ■ National Insurance Thresholds ■ Statutory Sick Pay ■ Immigration Skills Charge (Tier 2) ■ Salary Sacrifice Schemes	■ Gender Pay Gap: First Reporting ■ Termination payments: taxation ■ Restricting employment allowance for illegal workers ■ General Data Protection Regulation ■ Grandparental leave

Figure 2 *Regulations, Legislations 2017/18*[2]

Interpretation is critical to building effective strategies. A key recommendation when carrying out interpretation is to apply to the **employee life cycle**. We must not overlook the 'human' aspect in the work that HR carries out, and we should give consideration of each phase in the life cycle. It is helpful to provide structure and governance to the uncertainty that organisations are influenced by. This is complimentary to the mind set of evidence-based decision making, applying logical structure, and the use of judgement, data and facts. For many organisations uncertainty often requires a response in their operating or delivery model and having a structure for formulating the response is an important consideration.

What else is driving uncertainty within HR and the business?

A shortage of talent, inflexible immigration policy, changing working time regulations, continued evolution of technological solutions, location strategies, cost constraints i.e. inflationary pressures. These are a sample of influences driving uncertainty in a business environment impacting people as employees and clients.

Are we missing a story in the HR data available?

For many organisations (large or small) there is an assumption that the 'unknown' will become the 'known' through formal dissemination of information. However, a proactive recommendation is to consider the story that data and metrics can provide in order to get in front of the uncertainties. For example, simple leaver analysis and metrics can provide indicative inflationary pressures in society.

Example: Leaver analysis examining attrition metrics, reasons for leaving can provide an indication concerning whether there are particular inflationary pressures. Correlations between positive sentiment of leavers and reasons for leaving showing 'increased compensation' provides a key indicator that individuals have monetary pressures and are looking for an increase in salary to address the pressure. Analysis of this kind provides value in linking economic pressures with people decisions i.e. retention strategies and strategies relating to where an organisation may wish to hire and locate new employees.

How can HR Metrics facilitate readiness?

In June 2016, the UK economy was presented with the decision for Britain to exit the Europe Union, resulting in significant level of uncertainty across the Global economy. Following that decision, a new US President was announced adding to the woes of industry and markets across the world. The political disturbance that has been at the forefront of business leaders' minds since 2016 generates a multitude of questions relating to business strategies and in particular people strategies. The Case Study below provides an example of a large multinational organisation's response to some of the uncertainties that they face and the use of HR Metrics to reduce the impact on business activity.

Is there an opportunity for HR to leverage the uncertainty provided by external factors to advance the use of metrics into 'amber' and 'blue'?

Case Study – Are we ready for Brexit negotiations to conclude?

In 2016, the UK announcement to exit the European Union found markets across the world responding both positively and negatively. In the context of HR, many organisations identified a level of uncertainty amongst the workforce leading to a variety of immediate impacts. For example;

- Employees currently on international assignment deciding not to renew and return to their home countries;
- Candidates currently going through an on-boarding process with relocation packages, rescinding offers to remain in home countries or countries where visa / immigration policy will not impact employment rights;
- Negative attitudes towards fellow colleagues residing in countries outside of the UK, impacting morale and motivation of the workforce;
- Reduction in applications from the European Union for current open roles / positions.

These are a sample of the implications organisations felt across industry as a whole. For many firms, they quickly looked at key metrics including:

- What is the workforce composition i.e.
  - of non-UK nationals residing in the UK,
  - of UK nationals residing within the EU,

  - of UK nationals residing outside of the EU and UK,
  - of EU nationals residing outside of EU/UK?
- How many individuals have dual nationality linked to where they reside?
- How many current applicants are of EU nationality?
- What is the current cost of visas to key locations within the portfolio from outside of the EU?

Company X, a large financial services organisation based in the UK, used HR metrics to ascertain the scope of impact for its workforce. Following the initial assessment of the workforce the organisation set up an active senior leader working group, which had HR Analytics representation present, to define a strategic metrics pack. The metrics pack included the following:

- Current footprint distribution by location;
- Top 10 nationalities residing in and out of the UK;
- Turnover by corporate rank and nationalities;
- Hiring activities highlighting the corporate rank, nationalities and residing countries;
- Talent pipeline highlighting the corporate rank, nationalities and residing countries.

Summary

Many organisations find it a challenge to ensure operational execution is compliant and competitive in today's environment which is characterised by uncertainty and change. HR can assist the organisation by analysing the external environment and applying the employee lifecycle to apply structure and governance and adopting evidenced based decision making, using logical structure, judgement, data and facts.

Appendix 1 contains a Consolidated Metrics Chart which sets out the metrics in this chapter in the red, amber and blue zones.

References

1 *Pest Analysis* www.pestleanalysis.com/what-is-pestle-analysis/, Accessed April 2017

2 www.cipd.co.uk/knowledge/fundamentals/emp-law/about/legislation-updates, accessed April 2017

> “London is a leading world financial centre. Barriers to entry are low for starting new businesses, there is access to investment capital and talent is plentiful. Add to this a forward-looking regulator, and you have a truly favourable ecosystem for FinTech companies and products”

CHAPTER FIFTEEN: FINTECH: THE EVOLUTION OF FINTECH AND ITS IMPACT ON BUSINESS, HR AND RISK CONTROL

FinTech refers to the dynamic and evolving interplay between the worlds of Financial Services and Technology. FinTech offerings seize opportunities to increase efficiencies, broaden access, lower fees and transaction costs - or to simply make finance more fun, engaging and relevant.

The rise of technology, digital and mobile has changed not only what is possible, but also what is expected in a customer or transaction experience. We want things to be at our fingertips – and to be easy, secure, intuitive, fast, accurate and well-designed!

FinTech products cover a range of activities including payments, transactions, electronic trading, lending, peer-to-peer lending, transfers, fundraising, wealth management, and personal finance. InsurTech (Insurance Technology) and RegTech (Regulatory Technology) are areas in their own right and are considered subsets of FinTech.

Although the terminology is relatively new and start-ups may immediately spring to mind, FinTech has actually been around for quite a while. Over the last 30 years, for example, technology has completely changed the way trading takes place. Gone are the paper trade tickets, replaced by automated order management systems (OMS). OMSs and the pace of technology together paved the way for algorithmic trading, high frequency trading, dark pools, and further automation. While these concepts are now established in equities trading, electronification of fixed income trading is just beginning.

For a less specialized example, we all can relate to how contactless payments have fast become our new normal. Our morning latte experience is much improved by being that much quicker!

The world of financial services and how we interact with it will continue to evolve at speed.

Established Financial Services’ Relationships with FinTechs
Why is innovation more likely to come from new entrants rather than from established financial services firms? FinTech firms generally have the advantage of being smaller, more focused and more agile and therefore able to innovate faster. A start-up needs to know what are the one or two things it are going to do really, really well, to solve a problem or improve a customer experience. It then aligns resources and efforts accordingly. Rather than creating reams of business requirements documents, efforts are focused on launching and then iterating continuously based on real time feedback. Teams are smaller, arguably more engaged (more on talent later!) and it is easier to get everyone moving in the same direction. The people making the decisions and doing the coding are closer to their customers.

It is not easy: funding and trust are hurdles that new entrants face. The global financial crisis has played a big part in the rise of FinTech. With trust having been eroded in big banks, customers are more open to new offerings aimed at solving their problems. New entrants can also brand from scratch, demonstrating they truly understand and care about their customers. Azimo, an FCA regulated money transfer firm, has a video on its website talking about the challenges of having to live away from family to work in order to support family in their home country. The expectations, pressures and honour of being a ‘provider’ shine in this emotional video. Why is faster and more transparent money transfer important? Not because of fees. Because of family.

Transparency and trust go hand in hand. A great example of transparency in money transfer is TransferWise. On their homepage you can model the FX transaction, with a rate guaranteed for 24 hours. The fee and the exchange rate are clearly displayed. TransferWise charges a fee and then uses the mid-market rate, independently provided by Reuters without any markup. They also have a prominent explanation of how banks and other providers often add a markup to their exchange rate while advertising low fees, which could mean significant hidden charges.

Could traditional providers do this? Of course they can. The questions are why have not they and why are not they doing it, or not doing it as well? These are examples of problems and opportunities new entrants are taking advantage of for the benefit of the consumer.

On the technology side, traditional financial services firms are encumbered by robust legacy technology systems that are complex, interconnected and not built for mobile. Upgrading, building, replacing, migrating and regression testing parts of these systems can be a years long undertaking involving procurement, aligning many stakeholders, securing layers of approvals and reallocating resources from competing priorities.

The business is theirs to lose so traditional financial services firms need to find ways of harnessing these new products, services and technologies. They have many options in how their strategy or operations might interact with FinTech.

Potential options include: forming joint partnerships, buying from and selling to FinTech firms, setting up venture funds to fund FinTechs, white labelling FinTech products, establishing start up programmes to incubate FinTech companies, acquiring FinTech companies or launching their own FinTech subsidiaries. Staying close and in touch can offer advantages. One major retail bank has recently opened Rise London - a new spacious innovation centre in Shoreditch for its in-house banking and tech teams, as well as over 40 co-located FinTech start-ups.

Executives' View of Customers' Experience vis-à-vis Factors Important to Customers (%) 2016

	Customers' Importance of Factors While Working with Their Firms	Executives' View of Customers' Experience	
		Traditional FS Firms Provide Better Experience	Non-Traditional FS Firms Provide Better Experience
1	Security and Fraud Protection - (60.4%)	74.3%	5.4%
2	Quality of Service - (50%)	47.3%	21.6%
3	Better Value for Money - (47.2%)	13.5%	52.7%
4	Timely and Efficient Service - (46.7%)	10.8%	55.4%
5	Transparency - (45.9%)	12.2%	37.8%
6	Convenience - (45.4%)	20.3%	52.7%
7	User Experience - (35.2%)	9.5%	67.6%

Note: Only top 7 factors important for customers (from voice of customer survey) are considered for the comparative view of traditional and non-traditional firms experience

Question: "How important are the following factors when working with your financial services provider"?

Question: "Which type of firm do you think generally provides a better experience to the customers on these factors"?

Source: Capgemeni Financial Services Analysis, 2016; Capgemeni and LinkedIn WFTR Voice of Customer Survey, 2016; Capgemeni and LinkedIn WFTR Executive Survey, 2016

The FCA's Role in FinTech, Competition and Innovation

London is a leading world financial centre. Barriers to entry are low for starting new businesses, there is access to investment capital and talent is plentiful. Add to this a forward-looking regulator, and you have a truly favourable ecosystem for FinTech companies and products.

The FCA supports innovation and competition. Their strategic objective is to ensure that the relevant markets function well, with operational objectives to:

- **Protect consumers** – secure an appropriate degree of protection for consumers.
- **Protect financial markets** – protect and enhance the integrity of the UK financial system.
- **Promote competition** – promote effective competition in the interests of consumers.[1]

In 2014, the FCA launched Project Innovate, with the aim of "foster[ing] innovation that can genuinely improve the lives of consumers."[2]

In a truly groundbreaking move, in 2015 as part of Project Innovate, the FCA also launched the world's first regulatory sandbox. "The regulatory sandbox allows businesses to test innovative products, services, business models and delivery mechanisms in a live environment."[3] This is a unique opportunity to try a proof of concept "without immediately incurring all the normal regulatory consequences"[4] of the activity.

Firms have to apply to take part in the regulatory sandbox, and it's not limited to start-ups. Start-up Bud participated with "an online platform and app which allows users to manage their financial products, with personalised insights, on a single dashboard. Bud's marketplace introduces relevant services which users can interact with through API integrations."

Positive disruption is ultimately a good thing for consumers. Lower regulatory barriers will help to level the playing field, enabling new products and ideas to surface. This framework allows not only for controlled experimentation and learning but also helps the FCA to keep pace with emerging technologies, new products and business models.

Significance of China and the Emerging Markets

It would be difficult to talk about FinTech without mentioning China and the emerging markets. China is arguably the FinTech capital of the world.

This can be a topic in its own right, but we will touch on the salient points of why this is significant. The home market size of China is huge.

With the rise of mobile technology and a growing middle class in China and the emerging markets, FinTech is not having to face the hurdles of disrupting a status-quo. Here, people's first interactions with the internet are not through a traditional computer, but via their mobile device. This significantly influences the way that they interact with technology.

Faced with fewer regulatory requirements, new products and services can more easily make their way into the market. With many users accessing the internet and banking for the first time through their mobile, adoption rates can be staggeringly exponential.

We can see the role of technology and FinTech in democratizing financial services. People who were "unbanked" or "underbanked" in the developing world are now accessing financial products and services for the first time.

Talent Impact

The global financial crisis and compensation regulations have contributed to the cachet of working in finance eroding. We see trends of high potential graduates and millennials preferring to work in tech, media and consulting. What are some of the employee value proposition factors traditional financial services should consider as they compete for talent? If an individual is interested in finance, how will the employee value proposition stack up against FinTech alternatives? The great news is we get to consider what the roles of the future will look like and how we will get and keep the talent best suited to the work to be done.

- Culture – Is the culture casual or formal? Can I be myself at work? How important is the hierarchy? Does the work-life balance here suit me? Does what we say we care about as a firm match up to the physical environment and unspoken norms?
- Compensation – Do I have equity in the firm? What mechanisms exist for me to share in the upside of the firm's success? Am I fairly compensated? Is there a gender pay gap issue here?
- Stability – Will I be made redundant or will the firm still be here in X months/years? How likely is it that I will work here or want to work here for the next 10-20 years? How important is that if the length of our working lives can mean that we can have 3-4 different careers?! What are my options for progression if I do want to stay here?
- Impact – Are we on the cutting edge or part of the status quo? Are we playing to win or playing not to lose?
- Workload – Will the nature of my work allow headspace to think and be creative and innovative? Do I have the time or bandwidth to 'play at the edges' of my role to help teammates and expand my own learning?
- Focus – How is the role or the department positioned? What language is prevalent? Do we talk more about cost-cutting than investing and doing great work? Where do we spend most of our time? Is it in creating, brainstorming and building – or in stakeholder management?
- Learning – what skills and experiences will be gained by joining this role/department? How close to the customers is it? Will I get to see first-hand how a business is run if that's important to me? Is there an infrastructure to support my learning and development? Is my manager interested in my growth?
- Social Good – what role does the firm play in creating social good? Are the products and services truly benefitting society? Are the firm's Corporate Social Responsibility (CSR) initiatives an extension of the business, or simply a feel-good add-on?

Summary

This chapter has provided an overview of FinTech, how it relates to the established Financial Services industry, the FCA's role in FinTech, Competition and Innovation, the Significance of China and the Emerging Markets and FinTech's impact on Talent Acquisition and Management.

Appendix 1 contains a Consolidated Metrics Chart for chapters where a summary would prove useful. This is not applicable for the information in this chapter.

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CHAPTER SIXTEEN: THE ROLE, POTENTIAL AND IMPLICATIONS OF ADVANCED TECHNOLOGY

This chapter explores the advances seen in HR Technology, and the implications for the world of HR analytics. From advanced tools such as Cloud based systems to the impact of Robotics and Artificial Intelligence, the implications for HR will be dramatic.

Over the past few years there have been considerable advances in technology which in turn have profoundly affected the world of work. Adoption of technology has impacted employees, the HR function and the entire enterprise which in turn has resulted in both great opportunities, but also some concerns. The scope and capability of analytical tools has continued to evolve and this has influenced how we use information throughout the organisation including the HR function. Whilst it is not possible to predict with accuracy what the implications are for every organisation or even different industry sectors, it is possible to consider the capabilities of these recent advances and the trends that are being observed. The role of this chapter is to explore some of these technological advances and what the implications might be for the world of HR analytics.

1. Advanced analytical tools

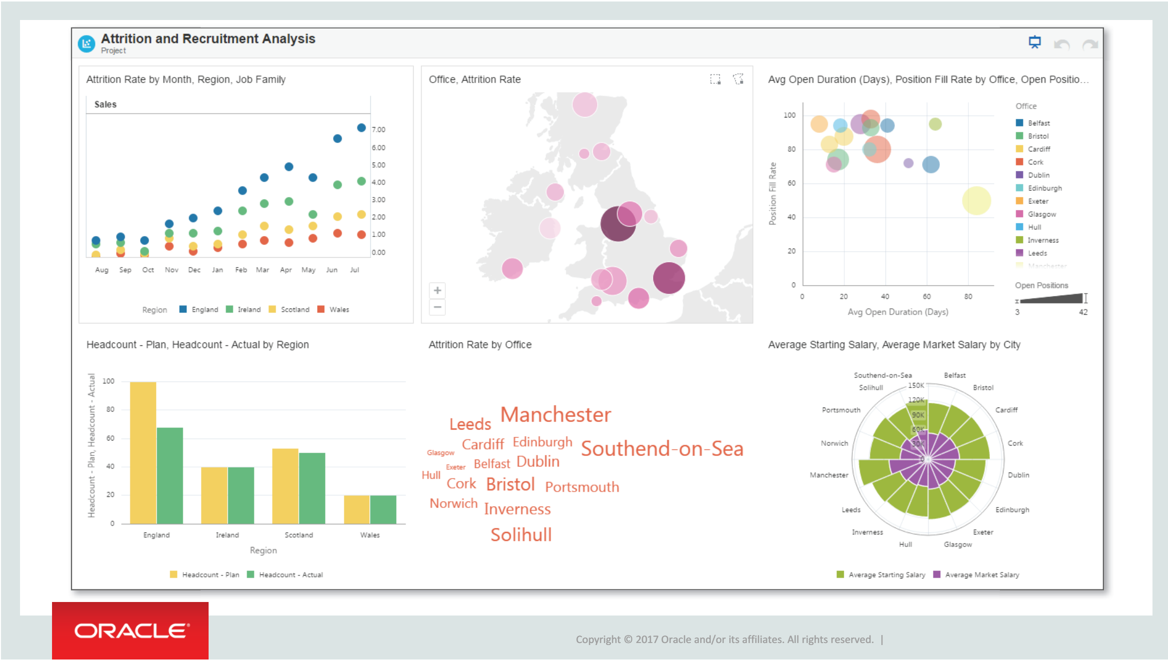
There are a broad range of analytical tools that have recently become available for organisations to exploit. However, it goes without saying that they are not all relevant for every organisation. Circumstances and priorities vary by industry and frankly some organisations are more mature in their development of systems and processes than others. It is important to recognise that, regardless of the organisation, the successful deployment of advanced analytical tools needs a strong foundation. The fundamentals need to be in place; clarity of data sources, a reasonable quality of data and the right skills to extract and interpret the data. We need to get the basics right. If HR is looking for support around the boardroom table for investment to deploy a new employee engagement strategy, this will not be taken seriously if there is disagreement over such basic information as how many people are employed in the business. However, once the organisation has matured, the foundations are in place and certain prerequisites have been met then the opportunity to adopt more advanced capabilities offers many options.

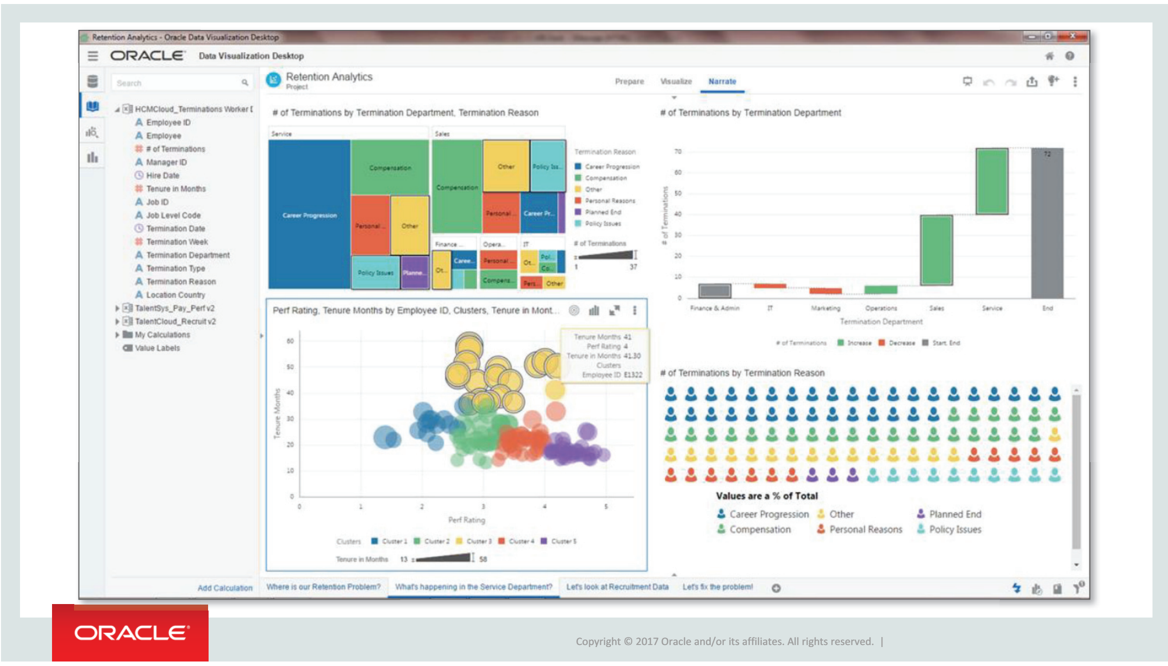
i Modern HR applications, typically delivered through the **Cloud**, are qualitatively different from their on-premise predecessors. They offer a user experience that is simple and engaging, the ability to access information through mobile devices and other 'tools of choice' and the opportunity to readily share information and collaborate with others. Management reporting is typically part of these systems, usually delivered through intuitive dashboards tailored to the role of the individual. They offer extensive operational reporting capabilities including a broad range of graphical formats, colour coding and drill down to subsequent levels of detail. In addition, exception based reporting is provided through alerts and notifications typically delivered through email and / or using mobile technology. Finally, advanced cloud applications deliver operational reporting embedded within business processes rather than through some separate management reporting system. This ensures that managers get the information that they need to make decisions, when they need it, as part of their normal way of working.

ii Much has been written in the last few years about **Big Data** and the ability to capture and interrogate vast amounts of information using data mining tools to uncover juicy nuggets of information. The typical use cases within the HR domain are the ability to capture lots of information pertaining to the recruitment cycle and combine it with performance data, sourcing data and other operational information. This enables analysis to be made to ascertain the best performers over the long term and develop new recruitment strategies that reflect the best sources / approaches for these candidates. Whilst there are obvious benefits to be made from such investigations the term 'Big' data is perhaps something of a misnomer. The data sets involved in the analysis of people data within an organisation are usually quite small when compared with the enormous amounts of transactional customer data that, say a large retail organisation might have access to. That said, the movement away from the more traditional and tactical operational reporting towards more strategic 'hypothesis based analysis' is potentially significant. It marks an increased focus on initiatives that can change the organisation, rather than merely reporting what has historically happened.

iii As reporting and analytical tools have become easier to use, so there has been an increasing focus on the way in which the data is being consumed by end users. **Visualisation tools** are now making it much easier for end users to access, interpret and understand the data that they are being presented with and their ability to interrogate it further. Historically the most important part of the analytics function was to make sure that the right data was presented in order for analysis to take place. The focus was on the content not on the representation and data was often reflected in a 'flat format'. However this approach was not very user centric and hence not conducive to easy interpretation. New visualisation tools enable data to be extracted and represented in a variety of new and much more engaging, almost pictorial ways.

These extend way beyond pie charts and histograms to include approaches such as scatter diagrams, bubble charts and heat maps. In addition, techniques are supported such as such as 'slice and dice analysis', manipulative modelling and what if scenario planning. This provides the opportunity to represent information in an easy to manage form, with a sense of narrative, almost as though the data is taking the user through a journey of analysis. This 'story telling' approach is still currently somewhat limited in its usage, but it is none the less extremely powerful when delivered well.





iv. In many regards the use of analytical tools within the HR function is way behind that in other parts of the enterprise such as Sales and Marketing. One example of this is the area of **Unstructured data**. Like customer data, much of the information that we hold on our employees comes from a variety of different sources, both internal and external to the organisation, and usually in a plethora of different formats. Some data such as salary, bonuses, deductions etc. will be held as financial data, usually in a core HR or payroll system. Some data such as job codes, roles, appraisal results and pay grades will typically be in a structured / codified manner often in an HR or talent management system. However there will also be other pieces of data which may be held in a more unstructured, less formal format, including textual information, email conversations or even video. To give an example, if we consider a piece of information such as an employee satisfaction survey, most of the answers will be in the form of a 'score between 1 and 10' ranking or something similar. However some of the richest information in such a survey will be the textual information held in the 'Tell us why' or 'Comments' field. Historically information in these formats has been difficult to analyse using existing approaches however this is changing. It is now possible to use techniques such as natural language processing to analyse the data and then represent it in the form of word clouds and sentiment analysis. This is similar to the way in which we interpret customer information from sources such as external Twitter feeds in order to really understand what people feel about our organisation. This has the potential to be extremely powerful in helping us understand more about our employees and what we can do to make them more effective and engaged. For example, if we consider people who leave our organisations, we might capture their reasons for leaving at an exit interview and then codify their response as, say, 'Reason 5 – left for more pay'. However, if we had access to all of their previous performance management information, personal aspirations, appraisal comments, peer feedback, customer feedback, survey comments, grievance comments, even their email data, then we would have a much clearer view of them as an individual and why they did decide to leave. Perhaps more importantly, we might have been able to see these indications in advance and then we would be able to intervene to address any issues before it is too late. Many organisations would see this as a step too far.

In summary therefore, there are a broad variety of advanced analytical tools that can help us understand more about our workforce. Many of these tools will already be in use in different parts of the organisation and there will probably be the required skills in place to use them well. We need to learn from their experiences and consider what changes need to be made within the HR function in terms of new ways of working, new skills, new roles and potentially new operating models. For example, do we establish or join an existing reporting 'centre of excellence'. As organisations mature, there is a move away from transactional reporting towards a more focussed approach on hypothesis based analysis that can drive strategic value throughout the function. We need to ensure that we have the right systems and structures in place to exploit this potential because the business impact could be considerable.

2. Automation and robotics

It has not been possible to open an HR publication in the past two years without some reference to the potential impact of robotics on the workforce. One hears stories of the myriad of jobs that will be lost due to the 'rise of the robots' and it is easy to see the concern. The big dilemma concerns who will be impacted, how severely and how many new jobs will be created to replace those that have gone? Whilst these scare stories do make for good reading and interesting conversations at industry conferences the technology industry can be prone to hyperbole and has a reputation for exaggerating the impacts, both positive and negative of 'this year's big thing'. However, the reality is that automation and robotics are here to stay and sure to have a considerable impact upon the workplace and the workforce of the future.

That said, automation, in its simpler forms, has been in place in some organisations for many years, often under the guise of 'workflow'. Automated software that is able to accept, interpret and act upon messages in now quite common, especially in customer facing scenarios. These technologies are now being increasingly adopted by the HR function that is looking to drive efficiency and standardise processes in order to ensure improved compliance and reduced costs. The increasing adoption of Cloud applications is driving this trend, since it places a focus on delivering standardised 'out of the box' processes across the enterprise. This rise in automation has also been facilitated by three key technology developments:

i **Self service applications** – processing is now being carried out by individuals themselves rather than being reliant on 'processing departments'. Customers now expect to place orders, receive services and support directly through using their own computers. The same is increasingly true of transactions within the organisation as well.

ii **Mobile devices** – the pervasive nature of smart phones etc has in large part driven the change in behaviour and expectations of both customers and employees.

iii **Robot process automation (RPA) tools** – these are similar to many other automation tools but can be deployed without the need for coding and hence can be easily managed by end users. This provides much greater flexibility and business processes can be modified much more rapidly.

In addition to technological developments there are a number of common business initiatives that are seen as being complementary to automation. The deployment of shared services as an effective operating model is now seen as quite standard. At the heart of such an operation is a drive towards standard 'lean' processes that can be readily delivered by automation. These are often supported by helpdesk systems that provide knowledge management and case handling capabilities that enable responses to customers to be effectively mined and their delivery automated. Common processes and requests can thereby be provided rapidly and at the lowest practicable cost.

The first generation of industrial automation tended to look at primarily 'blue collar' activities such as manufacturing. The focus is now on more administrative roles, typically office based. The accepted mantra is that by automating these activities, 'taking the robot out of the human', we are releasing people to work on more interesting and demanding activities, augmenting existing roles rather than replacing them. The jury is still out as to whether this is viable at a macro economic level.

In addition to the process management tools that are already in place in many organisations there are some more new technologies that could dramatically impact our organisations in coming years. A few of them are described below.

i **Chatbots** – software machines that are able to receive and process information received through conversation for example via text messaging services. In one possible scenario, an employee could ask for their outstanding annual leave balance by sending an sms message to an HR chatbot. The chatbot accesses the core HR system, receives and processes the data before sending a reply text to the employee who then reads the text and then schedules a days leave using the same device.

ii **Wearable devices** – a collective term for a broad variety of devices with an extensive range of applications that typically rely upon biodata. The most common examples are 'Fitbits', smart watches and other forms of personal data recording devices. These can capture and share personal data and be used to support well being initiatives and improve health. They can be used to monitor factors such as activity, stress, mood, sleep patterns etc. and suggest appropriate changes. They embody the concept of the 'qualified self'. Another example of note is sensors in the helmets of crane drivers that are capable of monitoring levels of alertness, primarily as a safety issue.

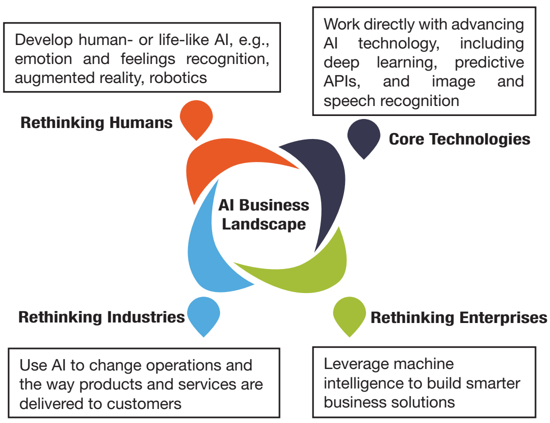
iii **Location based services** – driverless cars are not currently a common sight on the roads in the UK, but it cannot be that long before they make an entrance. At a smaller level we already see location based services being deployed in automated warehouses to monitor personal activity and suggest next movements for warehouse operatives. When location based services are combined with wearable devices the potential for new services and ways of working are considerable.

As levels of automation increase the amounts of data that are produced and captured is likely to rise exponentially. If this information can be effectively harnessed it is likely to give rise to many new opportunities to change both existing and to develop new business models. It does offer the potential to dramatically alter the shape of the workforce required to successfully run such an enterprise. We need to be aware of such considerations when developing our workforce plans.

3. Artificial intelligence and machine learning

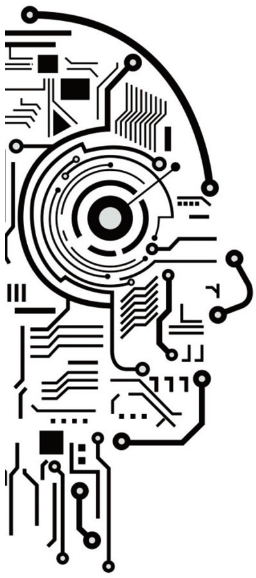
If one were to believe the press then Artificial Intelligence (AI) is a new and exciting phenomenon, whereas in reality it has been in place for many decades. The concept of AI is that it enables computers / machines / systems to think and act like humans and operate rationally to undertake certain activities. It first appeared in the 1950's but then largely stagnated due to expectations that were never realised. However, this new wave of AI is different, largely brought about by three factors; the decreasing cost of computing power, the trend towards Big Data / cloud computing and finally more advanced algorithms, e.g., deep learning. Investment in AI has tripled from ~$700m in 2013 to ~$2.4bn in 2016.

In essence, AI has been used to change the business landscape by being programmed to carry out processes based on human rationale and behaviours and thereby mimicking thought processes rather than relying on user input. According to joint research by Oracle and the London School of Economics (2017)[1] there are four areas in which it can be deployed and these are illustrated below, with some examples of how this might be applied.



Source: AI Business Landscape

AI typically takes one of three forms. First, it can be embedded in a product or service to provide end-customer benefits, e.g., Netflix uses machine learning to predict which movies a customer will like. Second, it can be embedded within an organisation's workflow in order to automate or improve operations, e.g., Uber's driverless cars and trucks can reduce risks to human drivers and cut costs. Lastly, it can be used to uncover insights that can inform operational and strategic decisions across an organisation, e.g., Facebook uses neural networks to gather information and insightfully categorize users for targeted advertising purposes. Detailed below are a few examples of how AI is already starting to have an impact in a variety of different industries.



AI in Finance & Banking: reducing headcount while remodelling the workforce. AI is infiltrating many roles across the financial services industry, both replacing the human workforce in the finance sector and enhancing their capabilities. In addition, many of the functions that take place in these industries are being targeted by technology start-ups and smaller disrupting companies. Many of these Finance Technology (Fintech) companies are based upon the use of AI and have been heavily targeted by investment and as a result have achieved significant growth in the past decade. Typical uses of AI include artificial assistants / bots, credit scoring, fraud detection and quantitative trading. The impacts of AI on the sector are likely to be quite profound. Recent estimates suggest that heavy job losses: 1.7 million or about 30% of current headcount would be cut by US and European banks by 2025 due to substitutions by technology. This is compounded by another trend, the growth of mobile and online banking which has led to a reduction in branches and headcounts as the transaction based function in the branches changes to become more advisory and consultative. Branches and associated staff make up 65% of the total retail cost base and hence are a prime target for automation. On the other hand, investment banks are remodelling their workforce. The recent trend is to look and react more like tech companies rather than traditional banks and this is reflected in their current skills mix.

AI in Retail: Minimising monotonous tasks and redefining customer experiences. Most major retailers have already started to deploy AI technologies in a number of areas. Examples include real time product targeting, location based marketing, real time pricing and incentives, conversational commerce, in store visual monitoring and predictive merchandising. The prime focus is often with customer experience and interaction, but some businesses are extending the usage of AI into the supply chain. In supply and marketing, repetitive tasks can be minimised, as machine learning is used to acquire and analyse information at every level of the supply chain. This can be complemented by product data provided through RFID (radio-frequency identification) tags and the 'Internet of Things'. AI technology has also been used to interact with customers and offer product recommendations, so as to deliver and enhance personalised customer experience. As a consequence of these changes the responsibilities of retail sales associates are likely to change as they become more responsible for creating an amazing customer experience that aligns with the brand's values. It may also mean that the workforce requirements across the organisation are likely to change to reflect this new norm.

AI in Healthcare: assisting professionals to increase the quality of medical treatment. The use of AI in healthcare is in marked contrast to other industries such as financial services and retail. It is primarily there to assist doctors and allied health professionals in providing quality healthcare at lower costs instead of pure job replacement. It comes mainly in the form of software capable of analyzing unstructured medical data to help clinicians in their health assessments as well as by assisting the drug discovery process in less time than previously needed. Further uses include healthcare research, medical imaging, virtual assistants, wearable technology, lifestyle management and hospital management. As in other industries the demands of the workforce are likely to change to reflect newly required skills. In addition, the rise of technology assisted healthcare will need to overcome certain barriers including ethical and legal concerns (i.e. the use and sharing of medical data) and professional barriers (i.e. reluctance from medical positions to embrace technology).

AI in Logistics: increasing efficiency through low-skilled employment replacement. Logistics is becoming an increasingly important industry in the United Kingdom and on a global scale. The UK market alone is around £60 billion, and around 150,000 VAT registered companies rely on road transport in order to operate effectively. The logistics industry has responded to increasing demands for efficiency, adaptability and scale through the use of various advanced technologies such as smart glasses / augmented reality (AR), optical character recognition, driverless forklifts and shuttles, self learning systems and digital identifiers / sensors. They have also begun experimenting with driverless vehicles on the road, as well as drones for batch size one and on-demand deliveries. Finally, there has been heavy integration of AI with other technologies. The

Internet of Things (IoT) has allowed many companies to remain connected to their vehicles and allow their AI systems to monitor every detail, including temperature, tyre pressure, optimal routes, and weather. Current AI technologies in logistics have replaced many-low skilled jobs but at the same time these innovations are enhancing worker capabilities and creating jobs that require new creative skills. Although AI technologies will replace specific tasks, this in turn will create new activities that will require soft knowledge and intelligent "know-how" in order to operate in an increasingly globalized and connected world.

If the impact of AI on organisations and their business models is likely to be profound, the impact upon us as individuals is likely to be more subtle. Machine learning and complex algorithms will be able to provide us with development paths and learning interventions that are more closely aligned to our personal needs. Opportunities exist to expand the use of internal mobility within organisations to benefit both the individual and the enterprise. Behavioural modelling and coaching initiatives will be able to support executive development programmes and drive culture change initiatives. By analysing an employee's digital footprint, what they do and when, we will be able to accurately predict flight risk or indicate an individual's propensity to disengagement. And we will be able to do this using data that is external as well as internal to the organisation. The more that we use technology, the greater the amount of data that will be generated. In turn, that data can be used to inform more effective decision making throughout the organisation.

5. The implications for HR

There is a great quote from Bill Gates that perhaps best describes our relationship with the adoption and exploitation of technology.

> *"People overestimate what they can do in one year and underestimate what they can do in ten years."*

Summary

Technology is here to stay, but there are a number of things for those working in HR to consider regarding it's impact on our organisations and people.

1. *However dramatic the impact of technology might be, the workforce of the future is likely to be different, requiring new skills and organisational structures. Workforce planning will become an increasingly important and complex activity. To achieve this successfully HR needs to fully understand what technology might be capable of delivering and how that can be applied to their organisation.*

2. *Issues such as Big Data and the move towards more strategic reporting capabilities should result in more proactive engagement between the HR business partners and the business units that they support. Business relationships are likely to change.*

3. *The legal and ethical frameworks within which businesses operate are in a period of flux. Just because it is possible to do things does not mean that they are the right things to do. The HR function is best positioned to understand these considerations and to ensure that the right things are done. When personal data is being captured in increasing levels of details of from a greater number of sources, how that data about employees is used is a matter of trust. HR has to assume the role as custodians of the organisations moral compass.*

4. *The power of technology is increasing at an alarming rate, but this has the potential to be a double edged sword. For example, on the one hand some AI algorithms used in medical diagnosis have been proven to be more successful in actually diagnosing patients than the doctors who initially constructed the algorithms. On the other hand, chatbots have been 'groomed' by users to use racist language and recruitment strategies have been designed that replicate the unconscious bias of the humans that designed them! Whilst technology can undoubtedly offer great advances and deliver substantial benefits to organisations we need to be alert.*

Appendix 1 contains a Consolidated Metrics Chart for chapters where a summary would prove useful. This is not applicable for the information in this chapter.

References

[1] Oracle / London School of Economics – white paper on Artificial Intelligence, Robotics and the future of HR and Learning 2017

Term/Acronym	Description	Chapter
AA	Annual Allowance	Chapter Seven
ACAS	The Advisory, Conciliation and Arbitration Service	Chapter Nine
AI Artificial Intelligence	Artificial Intelliegence refers to the theory and development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages.	Chapter Five, Twelve and Sixteen
AIFMD	The Alternative Investment Fund Managers Directive 2011/61/EU (or "AIFMD" for short) is an EU law on the financial regulation of hedge funds, private equity, real estate funds, and other "Alternative Investment Fund Managers" (AIFMs) in the European Union.	Chapter Seven
API integrations	Application program interface (API) is a set of routines, protocols, and tools for building software applications. An API specifies how software components should interact.	Chapter Fifteen
Attrition Prediction	Assessing which employees are most likely to leave in the future	Chapter Twelve
AR Augmented Reality	Augmented Reality is a technology that superimposes a computer-generated image on a user's view of the real world, thus providing a composite view.	Chapter Sixteen
BAU Business as Usual	Business As Usual generally means an ongoing and unchanging state of affairs despite difficulties or disturbances.	Chapter Eleven
BI Business Intelligence	The term Business Intelligence (BI) refers to technologies, applications and practices for the collection, integration, analysis, and presentation of business information. The purpose of Business Intelligence is to support better business decision making.	Chapter Twelve
Big Data	Data in the millions, billions & trillions of records, ie extremely large data sets that may be analysed computationally to reveal patterns, trends, and associations and interactions.	Chapters Two, Three and Sixteen
BIS	Business Information and Skills - Government Department which was changed in July 2016 - parts of which became the Department of Business Energy and Industrial Strategy	Chapter Nine
Bots	A bot is an application that performs an automated task, such as setting an alarm, telling you the weather or searching online.	Chapter Sixteen
BSB	Banking Standards Board	Chapter Seven
CEB	Corporate Executive Board	Chapter Ten
CEBMa	Centre for Evidence-Based Management	Chapter Eight
CGMA	Chartered Global Management Accountant	Chapter One
Chatbots	A chatbot is a computer program designed to simulate conversation with human users, especially over the Internet.	Chapter Sixteen
CIMA	Chartered Institute of Management Accountants	Chapter One
CHRO	Chief Human Resources Officer	Chapter Ten
CIPD	Chartered Institute of Personnel and Development	Chapters Five and Eight
COCON	FCA's Code of Conduct	Chapter Seven
Conversational Commerce	Conversational commerce refers to the intersection of messaging apps and shopping. Meaning, the trend toward interacting with businesses through messaging and chat apps like Facebook	Chapter Sixteen

	Messenger, WhatsApp, Talk, and WeChat. Or through voice technology, like Amazon's Echo product, which interfaces with companies through voice commands.	
CRDIV	Capital Requirements Directive IV	Chapter Seven
CRISP-DM	Cross-Industry Standard Process for Data Mining is a six-step standard process for Advanced Analytics	Chapter Twelve
CSR	Corporate Social Responsibility	Chapter Five
C-Suite	C-suite is a widely-used term used to collectively refer to a corporation's most important senior executives. C-Suite gets its name because top senior executives' titles tend to start with the letter C, for chief, as in chief executive officer, chief operating officer and chief information officer.	Chapter One
D&I	Diversity and Inclusion	Chapters Five, Six and Nine
D&O	Directors and Officers Insurance Policy	Chapter Seven
Data Science	Data science, also known as data-driven science, is an interdisciplinary field about scientific methods, processes and systems to extract knowledge or insights from data in various forms, either structured or unstructured, similar to data mining.	Chapters One and Twelve
DBA check	Disclosure and Barring Service to allow employers to request a criminal records check.	Chapter Seven
DCOVA	Define, Collect, Organise, Visualise and Analyse	Chapter Twelve
DPO	Data Protection Officer	Chapter Four
EBA	European Banking Authority	Chapter Seven
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation - an important standard measure of profitablilty	Chapter Ten
EEA	European Economic Area	Chapter Five
EHRC	Equality and Human Rights Commission	Chapter Nine
Employee Life Cycle / Employment Cycle	The employee life cycle is a human resources model that identifies stages in employees' careers to help guide their management and optimize associated processes.	Chapters One, Nine and Fourteen
ESMA	European Securities and Markets Authority	Chapter Seven
F&P	Fitness and Propriety	Chapter Seven
FCA	Financial Conduct Authority	Chapters Five, Seven and Fifteen
FinTech	FinTech refers to the dynamic and evolving interplay between the worlds of Financial Services and Technology	Chapters Five, Fifteen and Sixteen
FRC	Financial Reporting Council	Chapter Five
FSA	Financial Services Authority	Chapter Seven
FSB	Financial Stablity Board	Chapter Seven
GDPR	General Data Protection Regulation published in May 2016 and will come into force on 25 May 2018	Chapter Four
H&S	Health and Safety	Chapter Five
HMRC	Her Majesty's Revenue and Customs	Chapter Seven

HR Analytics	An HR practice enabled by information technology that uses descriptive, visual, and statistical analyses of data related to HR processes, human capital, organisational performance, and external economic benchmarks to establish business impact and enable data-driven decision-making (Marler and Boudreau, 2017)	Chapter Eight
HRBP	HR Business Partner	Chapter Ten
HRIS	Human Resources Information System, sometimes referred to as a human resources management system (or HRMS)	Chapter Seven
HRMS	Human Resource Management System	Chapter Ten
ICAEW	Institute of Chartered Accountants in England and Wales	Chapter Five
ICO	UK Information Commissioner's Office	Chapter Four
InsurTech	A subset of FinTech	Chapter Fifteen
Internet of Things IoT	Internet of Things IoT connectivity represents great potential. It can automate decisions and be a catalyst for new products and services, but only when insights come from data collected through secure connections and trusted devices.	Chapter Sixteen
KPIs	Key Performance Indicators	Chapters Five, Ten and Eleven
KRIs	Key Risk Indicators	Chapter Ten
LIBOR	London Interbank Offered Rate is a benchmark rate that some of the world's leading banks charge each other for short-term loans	Chapter Seven
LMA	Lloyd's Market Association	Chapter Seven
LTA	Lifetime allowance	Chapter Seven
LTIP	Long Term Incentive Plans	Chapter Nine
M&A	Mergers and Acquisitions	Chapter Ten
Machine Learning	Machine learning is a type of artificial intelligence (AI) that provides computers with the ability to learn without being explicitly programmed. Machine learning focuses on the development of computer programs that can change when exposed to new data	Chapters Twelve and Sixteen
MI	Management Information	Chapter Eleven
MiFID II	The Markets in Financial Instruments Directive is the EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded	Chapter Seven
Minimum Viable Product	A minimum viable product (MVP) is a development technique in which a new product or website is developed with sufficient features to satisfy early adopters. The final, complete set of features is only designed and developed after considering feedback from the product's initial users	Chapter Three
MRT	Material Risk Taker	Chapter Seven
NEDs	Non Executive Directors	Chapters Five and Seven
Network Analysis	The process of measuring movements of information in various parts of a computer network	Chapter Twelve

Neural Networks	A neural network is a computer system modelled on the human brain and nervous system.	Chapter Sixteen
NI	National Insurance	Chapter Seven
Nine (9) Box Grid	The 9-box grid is one of the most commonly used tools in succession planning and employee development. The 9-box grid plots employee performance against potential and is a valuable talent review tool for HR practitioners and for managers across all levels	Chapter Eleven
NPS Net Provider Score	NPS is a management tool that can be used to gauge the loyalty of a firm's customer relationships. It serves as an alternative to traditional customer satisfaction research and claims to be correlated with revenue growth.	Chapter Two
OD	Organisational Design	Chapter Ten
OMS	Order Management Systems	Chapter Fifteen
PCBS	Parliamentary Commission for Banking Standards	Chapter Seven
PEST	A PEST analysis (Political, Economic, Social and Technological) provides a framework to organise the exploration of external factors	Chapter Fourteen
PPF	Pension Protection Fund	Chapter Seven
PIA	Privacy Impact Assessment	Chapter Four
PPI	Payment Protection Insurance is an insurance product that enables consumers to ensure repayment of credit if the borrower dies, becomes ill or disabled, loses a job, or faces other circumstances that may prevent them from earning income to service the debt.	Chapter Seven
PRA	Prudential Regulatory Authority	Chapter Seven
Predictive Analytics	Predictive Analytics mean analysing data to make predictions about future outcomes or events, or analysing data to inform decisions which influence future events	Chapter Twelve
RegTech	A subset of FinTech	Chapter Fifteen
Regulatory Sandbox	Part of FCA's Project Innovate - the regulatory sandbox allows businesses to test innovative products…….in a live environment ….without immediately incurring all the normal regulatory consequences of this activity.	Chapter Fifteen
RFID	Radio Frequency Identification (RFID) is the use of radio waves to read and capture information stored on a tag attached to an object. A tag can be read from up to several feet away and does not need to be within direct line-of-sight of the reader to be tracked.	Chapter Sixteen
ROI Return On Investment	A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. ROI measures the amount of return on an investment relative to the investment's cost.	Chapters Two and Twelve
RPA Robot Process Automation	Robot process automation (or RPA) is an emerging form of clerical process automation technology based the notion of software robots or artificial intelligence (AI) workers. RPA tools can be deployed without the need for coding and hence can be easily managed by end users. This provides greater flexibility and business processes can be modified much more rapidly.	Chapters Five and Sixteen
SEMMA	Sample, Explore, Modify, Model and Assess	Chapter Twelve
Sentiment Analysis	Sentiment Analysis is the process of computationally identifying and categorizing opinions expressed in a piece of text, especially in	Chapter Sixteen

	order to determine whether the writer's attitude towards a particular topic, product, etc. is positive, negative, or neutral.	
SID	Senior Independent Director	Chapter Five
SIMF	Senior Insurance Manager Function	Chapter Seven
SIMR	Senior Insurance Managers Regime	Chapters Five and Seven
SLA	A service level agreement (SLA) is a contract between a service provider (either internal or external) and the end user that defines the level of service expected from the service provider. SLAs are output-based in that their purpose is specifically to define what the customer will receive.	Chapter Eleven
SMART metrics	Specific, Measureable, Attainable, Realistic and Timed metrics	Chapter Ten
SMCR	Senior Managers and Certification Regime	Chapters Five and Seven
SMF	Senior Manager Function	Chapter Seven
Solvency II firms	UK Solvency II firm is defined in chapter 2 of the PRA Rulebook: Solvency II Firms: Insurance General Application	Chapter Seven
Span of Control	The area of activity and number of functions, people, or things for which an individual or organisation is responsible. For this Chapter Ten, Span of Control indicates the number of direct and indirect reports a supervisor has within an organisation.	Chapter Ten
STAR framework	Enables companies and individuals to identify where they on both engaging and embedding D&I into their work.	Chapter Nine
TAA	Tapered Annual Allowance	Chapter Seven
TOM	Target Operating Model (TOM) is a description of the desired state of the operating model of an organisation. When working on the operating model, it is normal to define the "as is" model and the "to be" model. A Target Operating Model converts strategy ideas into operational plans	Chapter Eleven
UCITS5	UCITS stands for “Undertakings for Collective Investment in Transferable Securities”. It is a regulatory framework of the European Commission that creates a harmonized regime throughout Europe for the management and sale of mutual funds.	Chapter Seven
Unbanked, underbanked	Referring to people who do not use banks or banking institutions in any capacity. Underbanked persons generally pay for things in cash, or else purchase money orders. Underbanked persons also typically do not have insurance, pensions or any other type of professional money-related services	Chapter Fifteen
Unstructured Data	Unstructured data (or unstructured information) refers to information that either does not have a pre-defined data model or is not organized in a pre-defined manner. Unstructured information is typically text-heavy, but may contain data such as dates, numbers, and facts as well.	Chapters Six and Sixteen
Visualisation Tools	Data visualization is a general term that describes any effort to help people understand the significance of data by placing it in a visual context. Patterns, trends and correlations that might go undetected in text-based data can be exposed and recognized easier with data visualization software.	Chapter Sixteen
Word Clouds	Word Clouds are an image composed of words used in a particular text or subject, in which the size of each word indicates its frequency or importance.	Chapter Sixteen

APPENDIX 1

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

MEASURING UP: ADVANCED PEOPLE ANALYTICS FOR CITY EMPLOYERS SECOND EDITION JUNE 2017

Red	Amber	Blue
Minimum level	Added value level	Influencing and directing level
RECORDING **The HR metrics and data that all organisations should maintain for Statutory or base recording reasons.**	INFORMING **The HR metrics and data that all organisations *should* maintainif wanting to improve the integrity of data and decision-making.**	DRIVING **The HR metrics and data that many organisations could aspire to maintain not only to improve the range and depth of their HR information, but to facilitate more sophisticated information and decision-making from the Board down.**
Chapter Two: Aligning the People Agenda to the Business Strategy **Operational Data Analysis –** simple monitoring of data with no analysis, for example reporting absence and retention data. **Internal Compliance Reporting** – REMCO, Risk Committee etc. **Regulatory Reporting –** FCA, PRA, SEC etc. **Demographics –** Headcount by Location, business line or grade Cost of HR Function	**Chapter Two: Aligning the People Agenda to the Business Strategy** **Basic Insights –** basic data is analysed and correlations are explored between types of data to draw simple human capital insights. **Tactical People Metrics such as:** Attrition/retention including potential future trends Skills mix both current and future demand Succession Planning and leadership development People Budget and cost models for Transformation, Reward, Resourcing, Learning etc.	**Chapter Two: Aligning the People Agenda to the Business Strategy** **Insight Driving Performance –** human capital data is triangulated with other business data to identify performance drivers; and may be used to illustrate how organisations can leverage human capital to drive performance more effectively. **Blended metrics that couple HR data with business data to drive performance improvement** **Predictive Analytics –** using data to accurately predict future events such as headcount demand or talent pipeline **Return on Investment of HR Initiatives –** achieving a robust cash return amount to justify expenditure. **HR needs to be utilising the latest data prediction methods, visualisation tools and employing data scientists in order to leverage the best value from HR data**

Chapter Three: Mobilising HR Metrics – How to use the data The financial services industry is a heavily regulated area, which drives a minimum viable product for an HR analytics team, underpinned by demands from regulators from many jurisdictions for information about the workforce. HR practitions are bound by the data demands that regulation drives.	**Chapter Three: Mobilising HR Metrics – How to use the data** A core recommendation to effectively mobile HR metrics is to work to establish and embed core competencies across HR partners and to advance the capabilities of the HR Analytics function, Establish a Senior Advisory board, who will help to define the products and analysis that the HR analytics function invests in. This automatrically provides support and understanding from consumers that People Analytics with the HR environment has been established as credible client-centric analysis.	**Chapter Three: Mobilising HR Metrics – How to use the data** In today's current financial services industry, evidenced based management is an aspiration. HR could provide improved understanding on how to incorporate each of the following sources into the overall decision making process: 1. Scientific research finding 2. Professional experience and judgement 3. Organisation data, facts and figures 4. Stakeholder values and concerns.
Chapter Four: Data Protection: The impact on HR of the General Data Protection Regulation (GDPR) **DATA PROTECTION ACT 1998)** **Policies and Procedures** An organisation would be expected to have a data protection policy but it might not have much more	**Chapter Four: Data Protection: The impact on HR of the General Data Protection Regulation (GDPR)** **GDPR** **Policies and Procedures** Ensure that your organisation has a comprehensive set of internal policies and procedures which govern data processing activities within the organisation and ensure compliance with the GDPR (including a general data protection policy and more detailed guidance for specific areas of the organisation, such as the HR department). These will need to address general day-to-day compliance as well as more specific compliance issues such as data subject rights, data security and incident response and high-risk processing and impact assessments. Deliver mandatory training to employees on a periodic basis to ensure that they understand their obligations in relation to data protection law.	**Chapter Four: Data Protection: The impact on HR of the General Data Protection Regulation (GDPR)** **Policies and Procedures** Engage with your workforce in in relation to audit of your organisation's data processing activities and formulation of policies and procedures

	Conduct a thorough audit of your organisation's data processing activities to enable you to prepare the detailed records required by the GDPR and put in place a system to ensure that those records remain accurate and up to date.	
Data retention An organisation would often have a retention policy but erasure of personal data once it is no longer required may or may not happen.	**Data retention** A data retention policy should be created to specify the appropriate retention periods for personal data. Procedures for the secure erasure of personal data once it is no longer required should also be developed.	**Data retention** Move away from the usual approach of setting more or less uniform retention periods based on the claims limitation period to something more nuanced which takes into account levels of risk. Explore automated means for secure erasure of personal data.
Information notices Basic information is required to be provided to data subjects in relation to processing including to purposes, sources and recipients.	**Information notices** A GDPR compliant notice will require significantly more information to be provided than is normal practice under the Data Protection Act 1998. Revisit data processing notices and privacy policies to ensure that they use appropriate language and deliver the information required by the GDPR. Assess the mechanisms by which notices and privacy policies are delivered to data subjects to ensure that these meet the timing requirements specified by the GDPR. Implement a process for periodically reviewing notices and privacy policies to ensure that these remain an accurate reflection of your organisation's processing activities.	**Information notices** Engage with the best practice guidance provided by the ICO in relation to information notices and in particular how they are written.
Consents An organisation would often include consents in the contract of employment or otherwise seek to rely on consent in relation to processing (including for transfer of personal data outside of the EU).	**Consents** Consider how the organisation currently processes data and what grounds are relied upon for the lawful processing of the data (i.e. whether consent is required). Given the increased burden to be placed on data controllers in relation to consents, the imbalance of power in the employment relationship, and the ability of	

	data subjects to withdraw their consent at any time, it is likely to be beneficial to move away from consent and seek to rely on an alternative justification for processing data in relation to employees.	
Subject access An organisation would be expected to be able to deal properly with a subject access request, having regard to the ICO's code of practice.	**Subject access** Assess existing organisational policies and practices for responding to subject access requests and update these to accommodate the requirements of the GDPR, for example to speed up response times and train staff on the new requirements. Review existing data management and storage systems and facilities with a view to streamlining the processes for responding to subject access requests (for example, by making it easier to locate relevant documents).	**Subject access** Engage with the best practice guidance provided by the ICO in its code of practice.
Notification of breaches An organisation would be expected to have taken security measures and probably to have an information security policy.	**Notification of breaches** Carry out a risk assessment with regard to the personal data you process and the way in which you intend to process it, including an assessment of the data processing systems themselves. Employ security measures which are commensurate to the level of risk associated with the type of personal data and methods of processing. Keep the level of risk and the suitability of your security measures under periodic review to ensure that they remain appropriate. Carry out training and awareness activities within your organisation as to how to identify a data breach (or a risk of a data breach, e.g. the use of unencrypted portable storage devices, phishing emails etc.) and what needs to happen where a breach / risk is identified. Maintain and enforce an	

	information security policy. Create and maintain a data breach incident management plan for managing data breaches, whether at a central or local level within your organisation, to enable your organisation to react promptly in the event of a data breach and mitigate the resulting damage.	
Data Protection Officer No requirement, but an organisation would often have a data protection officer, perhaps without a particularly clear remit.	**Data Protection Officer** Appointment is mandated by the GDPR in certain circumstances (see above).	**Data Protection Officer** Appoint a DPO even if not mandated by the GDPR.
Chapter Five: Governance: The Role of HR in Informing Board Decision-Making	**Chapter Five: Governance: The Role of HR in Informing Board Decision-Making**	**Chapter Five: Governance: The Role of HR in Informing Board Decision-Making**
Measure status of **Configuration of the Board (where relevant depending on structure*)** ■ Executive Directors vs NEDS (excl Chair) split aiming for 50:50* ■ Committee Chairs for Remuneration, Audit, Risk, Nominations and Senior Independent Director (SID)* ■ Gender Diversity ■ Other Diversity and Inclusion characteristics including ethnicity	Benchmark and review pay levels for NED with Committee or SID responsibility Review of succession plan and talent pipeline to measure: ■ % of women ■ % by other Diversity and Inclusion characteristics	Audit Headhunter lists, internal appointments and succession plans to ensure that candidates are being considered from diverse groups
Remuneration The extent to which reward is ■ Transparent for Executive Pay ■ Aligned to individual and company performance ■ Enables the withholding or recovery of pay including via malus and clawback ■ Equal for diverse groups including women	Benchmark against peer organisations to ensure that pay recommendations are appropriate for size of firm and performance of the Executive team and overall company	
Succession Planning ■ Succession plan for all key roles including Senior Manager Functions under the Senior Managers and Certification Regime or Senior Insurance Managers Regime	**Resource Forecasting** ■ Number of job role/vacancies available for permanent and contract hires ■ Number of individuals required – or available- to fill outstanding and projected job roles	**Resource Forecasting** ■ Review of business plan against 5 year resourcing plan to consider such issues as Artificial Intelligence, Robotics and Automation ■ Understanding of differing skills requirements

■ Assessment criteria on succession nominees including behaviours and values ■ Diversity (see below) ■ Review of Organisational Design to ensure that people strategy is aligned to business plan	■ % female ■ % ethnicity ■ % other protected characteristics to monitor equal opportunities ■ Cost forecast of changing organisational design to meet future hiring, training and exit plans	■ Identification of roles which will be impacted ■ Evidence of existence of a Recruitment and Training Plan to accommodate changing organisation ■ Evidence of a redeployment plan
Diversity & Inclusion		
Women in Finance Charter or voluntary alignment to principles ■ Male Champion of diversity for those covered by the Women in Finance Charter ■ Agreement of female progression targets ■ Gender pay gap analysis – numbers and narrative ■ Monitor the other protected characteristics	**Brand management** ■ Evidence that D&I applied from school leaver recruitment to mid-career hires (including social mobility) and metrics on numbers hired year-on-year against each protected characteristic and as a percentage of hires in that timeframe ■ Participation in or review of the Social Mobility Employer Index	■ Set aggressive publicly stated targets for the pull-through of talent from diverse groups ■ Set target to ensure that organisations excels in one or more of the Social Mobility Employers Index
Risk		
Culture and Governance ■ Ensure that there is a method for 'measuring or assessing culture' and review reports ■ Ensure alignment between Risk, Audit, Compliance and HR.	■ Ensure that the organisation has a culture, risk and conduct dashboard which draws data from multiple sources	■ To minimize risk – and poor decision-making under stress, review data which evidence support of internal Employee Well-being and Mental Health Programmes
Conduct and Regulatory ■ Number of serious conduct issues ■ Number of conduct issues reportable to the Regulators ■ Number or H&S incidences ■ Whistleblowing incidences – numbers reported ■ Numbers founded	■ How many near misses relating to conduct issues and health and safety considerations ■ Number of Grievances including those upheld as a percentage ■ Number of Employment Tribunals and Types	
Remuneration and Pensions ■ Evidence from HR that reward and risk are aligned and meet governance and regulatory guidance including malus and clawback and that reward is aligned to risk ■ Pension scheme – regular reports from the Pension Plan Administrators and Trustees to ensure it is adequately financed to meet its current and future obligations		

■ Assurance that scheme, including Auto-Enrolment, meets the standards of the Pensions Regulator Employee Turnover and Reasons ■ Attrition analysis and metrics against each leaver reason		
Audit		
Risk, Compliance and People Policies are audited and monitored to ensure they (a) exist and (b) meet their core Key Performance Indicators	Review evidence of audit advice given with regard to shortcomings on people policies, metrics and Key Performance Indicators	
Assurance and evidence that all statutory and regulatory people processes are being adhered to or explanation of and red flagging of any deviation		
Internal Communications ■ Employee engagement survey metrics to demonstrate understanding of Board strategy and values.	■ Metrics to evidence that the values are being lived in the organisation via hard and soft data. ■ Hard data examples include performance management ratings, training programme statistics, and Employee Recognition Schemes. Also examine conduct issues by category ■ Soft Data examples derived from output from focus groups or unstructured data from appraisals or exit interviews	
External Communications Annual Report and Accounts or Website should contain people information on:- ■ Relevant employee information affecting the performance of the business ■ Transparency of information under the Stewardship Code including Executive Remuneration ■ Gender Pay Gap Analysis for firms over 250 employees with a corresponding narrative explaining differential	Participation in external benchmarking surveys to measure internal practices against peer firms. Embed best practice from these survey results.	Participation in Times Top 50 and other ranked reports for People Issues. Publicise tough internal KPIs on people issues ranging from career progression for diverse groups through to CSR initiatives in the community undertaken by staff to help others

■ Diversity and Inclusion Targets and Metrics **Contextual Factors – ie impact of politics, economy and technology** ■ Readiness for change through scenario modelling ■ Impact of technological advances on the business, its organisational design and the impact on people	■ Narrative assessment of political or economical factors affecting the business, including Brexit, and the projected impact on headcount and wider people issues ■ Short and long term impact of technological change including Artificial Intelligence and Robotics	■ Publish thought leadership to provide insights on people activities linked to the economy such as the transfer of staff to overseas locations; enhancing employment opportunities in depressed areas and the people implications of new technologies
Board or ExCom Evaluation Conduct a Board Effectiveness Review for organisations: ■ in scope of the FRC's Guidance on Board Effectiveness (2011) every three years ■ not in scope as appropriate.	Board or ExCom Evaluation may include a review of: ■ Mix of skills, experience and knowledge on the Board ■ Diversity and Inclusion statistics ■ Metrics on issues arising from Employee Engagement Survey and exit data which impact on Board effectiveness ■ Culture diagnostic results: HR to provide analysis on gap between the desired and actual state of culture. Board to determine remedy ■ Current Governance Map for organisations in scope of SMCR and SIMR ■ Data for identifying risks (see above) ■ Review of external data including Customer Feedback Surveys, Industry Rankings and external relevant benchmarking.	Assessment of future needs relating to skills, experience and knowledge
Chapter Six: Culture: Setting the Tone at the Top and Measuring it's Effectiveness **Employee Engagement** Data to ensure employees understand 'the tone from the top' including values ■ Evidence of the extent to which the values are being lived via hiring metrics on number of applications, D&I	**Chapter Six: Culture: Setting the Tone at the Top and Measuring it's Effectiveness** ■ Analyzing data to ensure individuals understand the strategic direction of the organisation	**Chapter Six: Culture: Setting the Tone at the Top and Measuring it's Effectiveness** Amber and Blue Sky Actions ■ Walk the floor to understand the "word on the street" and to experience the atmosphere and

monitoring and evidence of behavioural fit in firm ■ Feedback on leadership and managerial behaviour in shaping and living the values	■ Review outcomes of focus groups and team off-sites ■ Seek unstructured data from surveys to see what is important to employees other than questions asked	environmental conditions ■ Witness collaboration and teamwork ■ Hear first hand what is important
Recruitment and internal appointments ■ Evidence that individuals are selected against the values	■ Conduct psychometric testing or other assessment techniques or questionnaires to test behavioural fit	Blue Sky Thinking ■ Investigate correlation between cultural indicators (positive and negative) and other factors
Training data ■ Induction, supervisory, management and leadership development, employee conduct rules and ethics training to ensure that the values are embedded	■ Conduct psychometric testing or other assessment techniques or questionnaires to understand further training needs	
Performance management ■ Appraisals and related reports to include a rating for behavioural elements ■ D&I monitoring across all protected characteristics to ensure equal opportunity		
Remuneration Planning: ■ Performance aligned to reward and behavioural values ■ Provision for withholding of remuneration, or retrieval, where performance falls short		
Speak up ■ Evidence that a mechanism exists for whistle-blowing ■ Utilisation rate of speak up policy ■ Annual report reviewed and approved by the Whistle-blowing Champion		
Conduct ■ Disciplinaries – reportable incidences to the regulator (by categories of Senior Manager, Certified Persons and general employees) and outcome ■ Total number of disciplinaries in the organisation, with outcome and remedy to minimize future instances ■ Grievances – number, reasons and those upheld ■ Dismissals – those founded and remedies taken		

<table>
<tr>
<td>Leaver and Exit Interview Data
■ Provide statistics on attrition rates against categories for reason
■ Number of leavers of a voluntary and involuntary nature
■ Extent to which the values are being lived by the leadership, middle management and colleagues

External Factors
■ Customer satisfaction reports or
■ Fines/sanctions by Professional Standards Boards or Regulator
■ Firm's Ranking relating to the sector / eg Edelman's Trust Barometer) or other market research
■ Data breaches which undermine public confidence particularly resulting in fines or data breaches</td>
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<tr>
<td>Chapter Seven: Financial Services Regulation: Accountability and Reward</td>
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<tr>
<td colspan="3">REGULATION
Health Warning! Please note that the regulatory requirements differ across the financial services sector and depends on asset size, financial disciplines undertaken and their employee population. As such, there is no "one size fits all" solution. This section should only be used as a checklist for consideration and not for action. Organisations should seek advice from their professional advisors if in any doubt.</td>
</tr>
<tr>
<td>CONDUCT AND RISK

■ The Governance Map
■ SMF Statements of responsibility
■ Allocation of prescribed responsibilities
■ Recruitment procedures
■ Training and employee communication
■ Exits and Terminations including reason
■ Whistleblowing
■ Identify 'Senior Managers' and those covered by the certification procedure
■ Consider the global implications of SMCR
■ Assume continual monitoring of conduct and fitness and</td>
<td>■ Employment contracts, job descriptions and relevant internal policies
■ Insurance coverage
■ Identify current and future roles affected
■ Ensure alignment of all HR Policies with statements of the firm's culture and values as articulated by Board
■ Ensure talent pipeline of individuals ready, willing and able to assume SMF roles</td>
<td>■ Review policies on scope of D&O coverage and firm's position on providing indemnities</td>
</tr>
</table>

propriety of those on the succession plan		
Recruiting New Staff		
■ Board's top down approach to culture ■ Person specification – competence and experience should be aligned to required behaviours ■ Interview process – to be aligned	■ Assessment tools – to include attitude, ethics and values ■ Psychometric testing – to test for alignment of thinking style to required competencies and behaviours	
On-boarding process (including reference checking and employee background screening)		
■ Regulatory references: to go back 6 years and to include criminal records check for SMF roles ■ Offer letter and supporting documents ■ Induction programme for all staff ■ Handover documentation		
Training		
■ Leadership development programme ■ Management development programme ■ Regulatory and Compliance training ■ Training to all employees about the Senior Managers Regime, Certification Process, Conduct Rules and the organisation's expectations regarding culture, values and behaviours	■ Counselling or coaching on the implications and implementation of SMCR to those designated 'Senior Manager' on an individual basis.	
Performance management		
■ Update performance management processes ■ Incorporate data on risk behaviours and breaches.	■ Consider measurement of behaviours including "gateway" or minimum standards	
Reward		
■ Ensure that reward is aligned to performance ■ Ensure process generates evidence of risk adjustment to variable reward	■ What reward elements will arise from SMCR, e.g. clawbacks, malus etc.	

Conduct breaches		
■ Compile report on number of reportable breaches and actions taken	■ Compile report of near misses with regard to risk	
Whistleblowing		
■ Ensure speak up policies are in force ■ Appoint Whistleblower's Champion and ensure that the prescribed responsibilities are understood	■ More in-depth interviews to protect those in SMF roles	
Exits and terminations		
■ Review leavers procedure and consider amending to include handover processes	■ Ensure exit interview data is reviewed to uncover any indications of systemic or individual failures in terms of regulatory compliance	
Regulatory References		
■ Maintain and update employee records gong back 6 years		
TRAINING & COMPETENCE		
■ Collate, report and record data on training undertaken over past year to demonstrate fitness and propriety		
REMUNERATION CODE		
■ Data required by the UK Regulators (PRA & FCA) on remuneration policies, mechanisms for deferrals, time span of deferral and the details of any 'special packages' paid to specific individuals such as guaranteed bonuses ■ Data on malus or clawback due to performance shortcomings ■ Records on deferred compensation for leavers ■ Ensure all positions impacted by regulation are known, current and reviewed to ensure compliance		

EBA Guidelines / CRDIV

- Evidence of shareholder approval for 2:1 ratio
- List of those eligible for a fixed allowance including duration and job responsibilities

UCITSV and AIFMD

- Identification of UCITSV, AIFMD & MIFID staff to ensure compliance with reward elements

Solvency II and Insurance Distribution Directive

- Identification of those staff impacted by Solvency II and review of data to ensure compliance with these provisions
- Review reward and performance elements of individual pay and what is best for the customer in-so-far as the selling of insurance is concerned.

THE PENSIONS REGULATOR

Auto-enrolment

- Employers must maintain accurate records on their workers including staging dates, company scheme and personal payroll data

Life Time Allowance and Tapered Annual Allowance

- Companies need to have a strategy for people affected by the LTA or the TAA and robust records in this regard

Employee Benefit Programmes – Salary Sacrifice Schemes

Benefits Administrators should review their employee benefits programme in light of the Finance Bill 2017 to:

■ Identify those impacted and provide the necessary communications ■ Understand the costs involved to the employee and employer for those benefits which now attract tax and NI contributions **Gender Pay Gap Reporting** (as detailed in the D&I section of this guide) ■ Complete gender pay gap analysis and a detailed understanding of what factors are driving the headline numbers.	■ Analyse what is driving pay differentials, merit awards, bonus awards, recruitment, promotion increase, performance distribution etc to ensure that there is no evidence of structural bias in the reward system	
Chapter Eight: Valuing Your Talent **Attraction of Talent** ■ Headcount reporting ■ Organisational / departmental budget ■ Resourcing budget ■ Executive succession **Identification of Talent** ■ 9 box grid or other performance / potential system to identify talent distribution of top 10% **Talent Engagement and Retention** ■ Employee Opinion Survey results ■ Retention data ■ Exit interview themes	**Chapter Eight: Valuing Your Talent** **Attraction of Talent** ■ Manpower Plan ■ Global / Local Succession Plan ■ Effectiveness of Recruitment Method ■ Tracking applications, conversion rate to hire and cost saving against hiring from original sources ■ External benchmarking: ▪ cost per hire ▪ numbers hired ▪ fees paid ■ EVP and total compensation analysis to ensure effective employee attraction ■ D&I metrics to ensure the attraction, hiring, promotion and development of a diverse workforce **Identification of Talent** ■ Performance/ potential data at all levels ■ Data from development interventions eg psychometrics, 360 feedback ■ Top Talent Register **Talent Engagement and Retention** ■ Historical analysis of EOS data ■ Promotion rates ■ External hires v internal promotions – by level	**Chapter Eight: Valuing Your Talent** **Attraction of Talent** ■ Time to fill data ■ 12 months new hire turnover rates ■ New hire / new to role performance data ■ Data to assess/ validate talent attraction- particularly prevalent on campus ■ Gender, ethnicity and social data on recruits to avoid unconscious bias ■ 3-5 yr Strategic Workforce Plan **Identification of Talent** ■ Holistic view of a successful employee, including performance, potential, values, behaviours, business performance & engagement data **Talent Engagement and Retention** ■ Ranked external benchmark of EOS data ■ Structure exit interviews by

Talent Development ■ Personal Development Plan	■ Wellbeing strategy, policies and processes ■ Internal networks – both formal & informal ■ Performance management completion rate **Talent Development** ■ Career plan ■ Leadership development programs	external 3rd party ■ Retention of top talent ■ Market research on company values, products, business results and brand ■ Review of social media insights e.g Glassdoor **Talent Development** ■ Blended learning interventions ■ Technical / professional Academies ■ Talent forum and brokers
Chapter Nine: Diversity and Inclusion: What Next to Move the D & I Dial?	**Chapter Nine: Diversity and Inclusion: What Next to Move the D & I Dial?**	**Chapter Nine: Diversity and Inclusion: What Next to Move the D & I Dial?**
DIVERSITY	**DIVERSITY**	**DIVERSITY**
Analyze employee population by ■ Race, colour and nationality ■ Gender ■ Age	**Analyze employee population by** ■ Red column, plus ■ Religion & belief ■ Sexual orientation ■ Disability – physical & mental ■ Have diversity data ready to paticipate in any public procurement / tender exercise	**Analyze employee population by** ■ As before plus ■ Cultural background ■ Educational background ■ Social category (to measure social mobility) ■ Geographical base
Workforce Profile Total numbers of employees by: ■ By division ■ Department ■ Work area ■ Grade	**Workforce Profile** Assessing the data from the red zone against: ■ Flexible working ■ Agile working	**Workforce Profile** ■ Positive action to improve any under- representation of groups ■ Evidence improved declaration over time in majority of categories
Recruitment and Selection Record numbers of individuals: ■ Applying for a post ■ Appointed	**Recruitment and Selection** Record and review numbers of individuals: ■ Applying for a post ■ Shortlisted ■ Interviewed ■ Appointed	**Recruitment and Selection** Further data analysis: ■ Annual trend analysis against targets set ■ Action Plans to improve where targets not met ■ Annual review of targets
Employee Behaviour & Experience Review and analyse the number of: ■ Disciplinary cases ■ Grievance cases	**Employee Behaviour & Experience** ■ Disciplinary and Grievance cases by protected characteristics ■ Satisfaction and Engagement levels (EOS findings)	**Employee Behaviour & Experience** ■ Trends on any discipline & grievance cases over time showing changes in representation of different groups with an analysis and plans to improve.

	■ Retention ■ Exits & attrition	■ Culture audits looking at how different staff feel about prevailing customs, practices and behaviours ■ Establish targets and plans to improve
Training, Development, Promotion and Transfer Review the following data to eliminate unconscious bias ■ Training ■ Promotions ■ Performance ■ Potential	**Training, Development, Promotion and Transfer** Review against protected data to eliminate unconscious bias ■ Training ■ Promotions ■ Performance ■ Potential	**Training, Development, Promotion and Transfer** Evaluate against external benchmarks ■ Training ■ Promotions ■ Performance ■ Potential

Pay and Benefits
 	
■ Ensure adherence to and alignment with Equal Opportunities legislation
  ■ Pay
  ■ Allowances
  ■ Benefits
	Pay and Benefits
	
	■ Equal Pay audits – voluntary pay reporting (see Government Think, Act, Report guidance)
	■ Bonus
		Pay and Benefits
		
		■ Equal Pay audits – voluntary pay reporting (see Government Think, Act, Report guidance)
		■ Options, LTIP & deferred
		■ Additional discretionary provisions

Top Team and Talent Pool ■ Ensure adherence to and alignment with Equal Opportunities legislation	**Top Team and Talent Pool** ■ Diversity data of Board and Senior Management Team	**Top Team and Talent Pool** ■ Detailed monitoring of succession planning to meet government and organisational targets ■ Commit to the Women in Finance Charter

Working Patterns
 	
■ Establish flexible working policies
■ Monitor uptake to ensure both legal and organisational standards are being maintained
	Working Patterns
	
	■ Target and monitor uptake of flexible working
	  ■ By gender
	  ■ disability,
	  ■ work team/location
	  ■ Maternity leave returners
		Working Patterns
		
		■ Extend flexible working patterns to support carers and others with family responsibilities

HR Strategy and Policies ■ Ensure they are non-discriminatory (on grounds of protected characteristics)	**HR Strategy and Policies** ■ Ensure Diversity & Inclusion strategy continues to align with organisational values and aspirations	**HR Strategy and Policies** ■ Analysis of Equality Impact for different groups, with engagement of stakeholders and actions to mitigate and negative impacts, remove discrimination, promote good relations (between groups) and involvement in public life (of all groups)

Chapter Ten: Mergers and Acquisitions: Due Diligence to Programme Resilience

- Due diligence
- Employee demographics
- Key terms of employment (contractual, Trade union, Labour law)
- Compensation (salary, bonus, equity)
- Benefit programs, participation, levels, and cost)
- Management talent
- Human resource transition
- Turn over data (attrition)
- Succession plans/ risks of departure
- Employee Survey results
- Compliance risks

Chapter Ten: Mergers and Acquisitions: Due Diligence to Programme Resilience

- Cultural assessments
- Employee value proposition
- Employer brands
- Reward programmes
- Relationships with colleges and management
- Career development opportunities
- Office environment

Chapter Ten: Mergers and Acquisitions: Due Diligence to Programme Resilience

- Spans of control
- Headcount (actual vs vacant) and review of vacant positions
- Head count manufactured (direct, aggregate)
- Managed individual contributor ranks
- Human capital cost (total compensation and fully loaded)
- Layers analysis
- Organisational structure
- Time to promote
- Cross functional data sets
- Benchmarking
- Monitor key people metrics aligned to strategic objectives.

Chapter Eleven: Offshoring

Establish a baseline to provide a reference for future and progressive measurement.

Quantifiable and practical metrics should be reflected in order to analyse against the agreed baseline, identify a desired end state, monitor progress, highlight pitfalls along the way as well as project and plan future progress of the offshoring transition.

Qualitative metrics assess performance capabilities, quality of service and form a foundation to the KPIs developed for an offshoring strategy.

A balanced view of both quantitative and qualitative measures will ensure a well-rounded approach, eg.

- Headcount analysis
- Cost vs Benefit
- Statistical Talent Assessment
- Operational Metrics

Strong collaboration

Employee Consultation may be required under TUPE.

Chapter Eleven: Offshoring

Targeted cultural awareness training.

Understanding differences in business practices, culture and etiquette.

Consider how to retain and develop talent.

Engage employees in development plans.

Consider running each business unit as a separate offshore project with varying timelines, as functions may require different approaches and change management programmes.

Chapter Eleven: Offshoring

Chapter Fourteen: HR Metrics in Uncertain Times. Maintaining 'Business Readiness' to Inform on Change from Brexit to New Government Initiatives

BUSINESS READINESS REGULATION AND LEGISLATION 2017:

- Trade Union Act: important Public Services
- National Minimum Wage & National Minimum Living Wage
- Whistle Blowing
- Gender Pay Gap reporting
- Apprenticeship Levy: payment starts from April 2017 for firms with paybill of over £3million per annum
- Compensation limits
- National insurance thresholds
- Statutory sick pay
- Immigration skills charge (Tier 1)
- Salary Sacrifice Schemes

2018:
- Gender Pay Gaps: First reporting
- Termination payments: taxation
- Restricting employment allowance for illegal workers
- General Data Protection regulation
- Grandparental leave

BREXIT
Quantify:

- Number of non – UK
- Number of the UK nationals residing within the EU
- How many current applicants are of the EU and UK?

Chapter Fourteen: HR Metrics in Uncertain Times. Maintaining 'Business Readiness' to Inform on Change from Brexit to New Government Initiatives

BUSINESS READINESS REGULATION AND LEGISLATION 2017:

- Family friendly payments
- Gender Pay Gap reporting
- Apprenticeship Levy: Develop and implement strategy for hiring, training and assessing apprentices in order to re-coup levy payments by April 2019.
- Undertake a cost and benefits analysis to work out best usage
- Identify internal candidates for progression training under apprentice scheme

BREXIT
Quantify:
- Number of nationals residing outside of the EU and UK
- Number of EU nationals residing outside the EU/UK
- Turnover by corporate rank and nationalities
- Hiring activities highlighting to corporate rank, nationalities and residing countries.
- Talent pipeline highlighting to corporate rank, nationalities and residing countries

Chapter Fourteen: HR Metrics in Uncertain Times. Maintaining 'Business Readiness' to Inform on Change from Brexit to New Government Initiatives

BUSINESS READINESS REGULATION AND LEGISLATION 2017:

- Apprenticeship Levy: Develop and implement strategy for hiring, training and assessing apprentices in order to re-coup levy payments by April 2019.
- Examine the current apprenticeship scheme and map across to the new standards
- Undertake a cost and benefits analysis to work out best usage
- Identify internal candidates for progression training under apprentice scheme

BREXIT
Assess and cost:
- Amendments to the succession plan based on What If? scenarios

METRICS AS SHOWN IN VOLUME I MEASURING UP: A GUIDE TO PEOPLE METRICS AND PERFORMANCE FOR THE CITY MAY 2012

THE KEY STAKEHOLDERS

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

THE KEY STAKEHOLDERS

- Does the data add value?

THE KEY STAKEHOLDERS

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

HR AND THE BOARD

Culture Metrics for the Board

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

HR AND THE BOARD

Culture Metrics for the Board

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

HR AND THE BOARD

Culture Metrics for the Board

- Entrepreneurial culture measures.
- Risk culture measures.
- Other culture measures that link to strategic objectives eg attitude to excellent standards, energy levels, commitment to customer
- Predictive measures of behaviour in relation to risk

Talent Metrics for the Board

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

Talent Metrics for the Board

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

Talent Metrics for the Board

- Success rates for senior external hires (still in company after 3 years). What efforts impact the success rates of senior external hires?
- Diversity metrics which reveal where support efforts have been successful and lasting.
- Success of development initiatives for high potentials. Engagement data from high potential respondents
- Benchmarking data on the effectiveness of new diversity programmes

Employee Risk Metrics for the Board

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

Employee Risk Metrics for the Board

- Employee risk cases per division, business unit or operating company
- Detailed breakdown on Heath and Safety incidents by division, business unit or operating company

Employee Risk Metrics for the Board

- Effectiveness of mitigating actions on reputational impact, costs and numbers of incidents.

THE LEGAL FRAMEWORK

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

THE LEGAL FRAMEWORK

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

THE LEGAL FRAMEWORK

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

THE RANGE OF DATA UNDER THE HR MICROSCOPE AND THE MANAGEMENT OF RESOURSES

- Payroll data (e.g. records of employees' gross earnings, tax, NICs, student loan repayments, P11D expenses and benefits in kind, etc).

THE RANGE OF DATA UNDER THE HR MICROSCOPE AND THE MANAGEMENT OF RESOURSES

- Compensation and reward metrics (e.g. average fixed compensation, average variable compensation, employee benefit expense, etc)

THE RANGE OF DATA UNDER THE HR MICROSCOPE AND THE MANAGEMENT OF RESOURSES

- Leadership development measures (e.g. who are your next generation leaders, what is the probability of their success, etc)
- Future workforce planning and

- Records of periods of absence due to incapacity, maternity and paternity leave, etc.
- Pensions data
- Records of accidents and injuries at work
- Records required by regulators (e.g. evidence of 'fitness and probity' for FSA Approved persons)
- Hours worked

- Individual employee metrics and data (e.g. performance ratings, training records, potential ratings, etc)
- HR effectiveness and efficiency measures (e.g.: cost per employee of the HR function, average time to hire, etc)
- Satisfaction/Engagement scores

forecasting (e.g. the types of talent required in the future, the key demographic trends that may impact your business, etc)

- Assessments of the impact of HR programmes on organisational effectiveness
- External benchmarking
- Measurement of Return on Investment of Human Capital

METRICS ABOUT HR

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

Start-up phase

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

Outsourcing:

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

Challenging Market Conditions:

- Analyse activities and costs which can be reduced including headcount freezes, headcount reductions and re-negotiation of the cost of employee benefits such as medical insurance.
- Identify potential job redundancies, ensuring a fair selection process and employee consultation. Examine the costs relating to voluntary and compulsory severance, legal fees, compromise agreements and

METRICS ABOUT HR

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

Growth phase:

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

Challenging Market Conditions:

- Plan and budget to manage the workforce remaining with the organisation and measure, analyse and manage their needs in accordance with the amber and blue zones of this appendix.

METRICS ABOUT HR

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

- outplacement (including additional cost of legal advice for overseas locations)
- Restructuring Budget including a contingency against risk of employee claims.

Distressed and Failing Companies

- See red zone above.

Mergers and Acquisitions

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

Sustainable Growth and Maturity

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

What HR Should Know About the Business

- Headcount: Permanent and Temporary/Contract staff (see "Definitions")
- Number of Expatriates and ratio to local population
- Employee ratios relating to diversity

What the Business Should Know About HR

- The number of HR staff and the ratio of these to the total population supported

Mergers and Acquisitions

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

Sustainable Growth and Maturity

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

What HR Should Know About the Business

- Headcount: Front Office vs All Other Categories of Staff (see "Definitions")
- Employee engagement levels
- Productivity
- Succession Planning

What the Business Should Know About HR

- HR performance data including number of hires per annum, including the average time from first interview to hire
- Percentage of performance appraisals completed,
- Number of disciplinaries undertaken and the percentage leading to dismissal. Key reasons for dismissal based on analysis of those leaving to see if lessons can be learnt.
- the number of grievances settled in a satisfactory manner

What HR Should Know About the Business

What the Business Should Know About HR

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

	■ Annual attrition rate and the ratio of voluntary to involuntary leavers, particularly the number leaving by way of redundancy ■ Cost-savings derived from innovative HR initiatives: eg: employee benefit savings derived for successful supplier negotiations; reduced absenteeism and improved productivity through the introduction of wellbeing programmes; savings made on outsourcing certain HR activities.	corporate social responsibility or an award judged for a professional magazine
REMUNERATION ■ Employee Payslips listing all payments and deductions made; ■ Historical Pay-related data for current and past employees; ■ Pension scheme contributions for employer and employees ■ Employee benefits costs (e.g. private medical insurance premiums etc); ■ Data required for tax returns such as P60s, P11ds, P45s etc,; ■ Data required by regulatory authorities, e.g. FSA, on remuneration polices, mechanisms; details of the packages paid to specified employees (e.g. Code staff); ■ Director's pay and packages to be reported in published annual reports (plcs)	**REMUNERATION** ■ Employee Benefits Costs by individual/department etc. ■ Market data to aid remuneration decisions (e.g. salary surveys);	**REMUNERATION** ■ Data on employee benefits available on staff intranet – selection of flexible benefits, individual's package, value and usage; ■ Analysis of remuneration data against company financial performance (internal vs. external comparators); ■ Ability to report remuneration data in a variety of formats, e.g. graphical analyses which enable management to visualise different scenarios
TALENT MANAGEMENT METRICS **Attraction of Talent** ■ Headcount Report ■ Organisational / Departmental Budget ■ Resourcing Budget	**TALENT MANAGEMENT METRICS** **Attraction of Talent** ■ Manpower Plan ■ Global or Local Succession Plan ■ Monitoring of effectiveness of external Recruitment Methods ■ Tracking of applications via the company website, conversion rate to hire and cost saving against hiring from original sources ■ External benchmarking on cost per hire; numbers hired generically and by function; fees paid to external sources	**TALENT MANAGEMENT METRICS** **Attraction of Talent** ■ Market research to assess product and brand awareness in order to attract 'the right hires'(particularly prevalent on campus) ■ Ratio checks to ensure that the firm is attracting and hiring the best recruits from all backgrounds including male vs female applications ■ Evaluation of talent tests to ensure 'fairness' to all participants irrespective of gender, culture or nationality.

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

Workforce Data

- Total number of employees by:
  - Full time
  - Part Time
  - Contractor/temporary

Recruitment and Selection

- Record number of individuals
  - Applying for a post
  - Successful at interview

Employer, Employee Behaviour & Experience

- Review and analyse the number of
  - Discipline cases
  - Grievance cases

Training, Development, Promotion and Transfer

- Record number of individuals recieving training, promotions and transfers and monitor to ensure equal opportunities

Pay and Benefits

- Ensure equal opportunities are included in policy

Top Team and Talent Pool

- Ensure equal opportunities are included in policy

Workforce Data

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

Recruitment and Selection

- Record number of individuals
  - Applying for a post
  - Successful at interview
  - Sifted through to interview
  - Successful at interview

Employer, Employee Behaviour & Experience

- Review and analyse the number of
  - Discipline cases
  - Grievance cases
- record number of disciplinary and grievance cases by protected characteristic
- Satisfaction and Engagement levels (e.g. employee survey findings)

Training, Development, Promotion and Transfer

- Continuing monitoring of training, promotions and transfers against protected characteristics

Pay and Benefits

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

Top Team and Talent Pool

- Board and Senior Management Team composition

Workforce Data

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

Recruitment and Selection

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

Employer, Employee Behaviour & Experience

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

Training, Development, Promotion and Transfer

- Ongoing analysis to ensure equal opportunites

Pay and Benefits

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

Top Team and Talent Pool

- Detailed succession planning and monitoring of progress to meet government and organisational diversity targets

Working Patterns	Working Patterns	Working Patterns
■ Ensure conformance with flexible working policies and consider applications for flexible working in line with legal, and organisational policies in light of business needs.	■ Flexible working ■ By gender, disability, work team/location	■ Flexible working patterns extended to support caring or other family responsibilities
HR Strategy and Policies	**HR Strategy and Policies**	**HR Strategy and Policies**
■ Ensure they are non-discriminatory (on grounds of protected characteristics)	■ Regular monitoring of diversity and inclusion strategy and policies to ensure there is no discrimination	■ Analysis of Equality Impact for different groups, with engagement of stakeholders and actions to mitigate and negative impacts, remove discrimination, promote good relations (between groups) and involvement in public life (of all groups)
Gender Diversity	**Gender Diversity**	**Gender Diversity**
■ Diversity metrics to track % of high potentials are female (and other diverse categories)	■ Female career progression rates for Board/Senior Management positions and outlined in annual report ■ Return to work rates after childbirth or adoption ■ Career trajectory of women returners over three to five years	■ Use of the government's Think Act Report framework to assess effectiveness of internal actions ■ External benchmarking - measurement of the effectiveness of organisational policies and progress against external benchmarks (eg. Opportunity Now, Race for Opportunity, Stonewall, Disability Rights Commission etc.).

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

- HR metrics can demonstrate 'due regard' to:
  - eliminating discrimination, harassment and victimisation
  - advancing equality of opportunity for persons with a protected characteristic against those who do not have the characteristic
  - fostering good relations between those who do – and do not – have a protected characteristic.
- HR Metrics can further demonstrate that diversity and respect will be delivered to "consumers" of the public service
- Such metrics, as covered in the red, amber and blue zones could be used as evidence that diversity monitoring is in force and that progress will be made within the 'providing organisation'.
- Analyse the impact of Diversity Strategy and Policy of different protected characteristic groups against the key diversity areas outlined in this Diversity Section to ensure that these support equal opportunities and treatment of employees and customers.

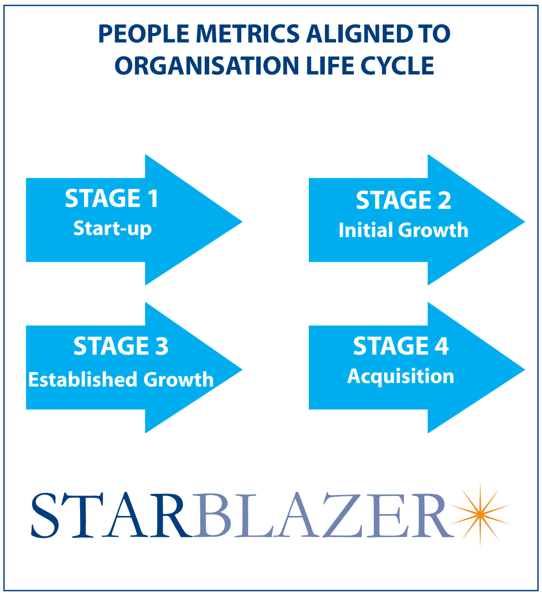
PROFESSIONAL SERVICE SECTOR - ADDITIONAL METRICS	PROFESSIONAL SERVICE SECTOR - ADDITIONAL METRICS	PROFESSIONAL SERVICE SECTOR - ADDITIONAL METRICS
Performance metrics ■ Utilisation rates determine how effectively people resources are being used ■ Conversion rates to measure how people resource time is converted into fee paid services to the client **Growth and development metrics** ■ Knowledge valuations based on the market value of the services, the time input by employees to provide the services, the perceived value to the client or service users or the value of the outputs and end ■ Growth metrics using competency frameworks and evidence of continuing professional development ■ Service development and standards contrasted with service level agreements and client feedback, including 360 degree individual performance appraisal	**Innovation and creativity metrics** ■ through ensuring that time invested in new products and ideas results in client service enhancement	**Client lead innovation and development metrics** ■ (e.g. clients investing time and effort to report back what services they most value and how best they would like them delivered)
HR TECHNOLOGY TO SUPPORT HR METRICS ■ Employee information database with pre-requisite personal details ■ Spreadsheets containing employee data and metrics such as the salary and bonus plan ■ Spreadsheets showing bonus deferrals ■ Payroll Information ■ Employee Benefits database	**HR TECHNOLOGY TO SUPPORT HR METRICS** ■ Real-time HR system with self-service reporting ■ Manager Information Database ■ HR Executive Reporting ■ Technology which integrates special applications into main HR system	**HR TECHNOLOGY TO SUPPORT HR METRICS** ■ Monitoring of Human Capital initiatives and actions against Key Performance Indicators (KPIs) ■ Predictive Reporting ■ The utilisation of Cloud Technology to host HR data with possible efficiencies in terms of HR Infrastructure spend and greater functionality.

APPENDIX 2

A STORYBOARD: PEOPLE METRICS ALIGNED TO THE ORGANISATIONAL LIFE CYCLE OF A FICTITIOUS COMPANY 'STARBLAZER INVESTMENT MANAGEMENT LIMITED'

This storyboard captures the key metrics of a fictitious company, Starblazer Investment Management Limited (SIML). Founded by Celeste Grande in 2012, it charts SIML's development from an asset management start-up business, through the growth stage to the eventual acquisition of a complementary wealth management organisation.

The story is a high level overview which plots business growth and people management processes alongside the corresponding HR metrics and technology advancements and draws on the content of the chapters contained in MEASURING UP: Advanced People Analytics for City Employers (2017). It may be used as a checklist for HR professionals in aligning people processes and analytics to the business strategy. The chain of events are key stages in the Organisation Life Cycle which is explained in the earlier City HR publication "MEASURING UP: A Guide to Metrics and Performance for the City (May 2012)1.



In the real world, the story of Starblazer Investment Management Limited cannot be told in isolation to the management information and performance measures which come from other functions including finance, compliance and the business units themselves. However, for the purpose of this guide, the focus is on the people management and the metrics considerations which drive the growth of the business.

STAGE 1: START-UP

STAGE 1
Board +
12 employees

START-UP PHASE
- Statutory Processes (eg payroll and recordkeeping)
- Embed Culture, Values, Governance and Regulatory Requirements
- Planning rather than decision-making
- Limited Technology (eg spreadsheets)

OCTOBER 2012

STARBLAZER

THE STORY: STAGE 1
Starblazer Investment Management Limited (SIML) was set up by Celeste Grande, a star Investment Manager. Celeste, in her capacity as joint Chair and CEO, persuaded a few colleagues to join SIML at the outset and one of these is Jamie Smith who has joined as the Chief Operating Officer. Jamie is responsible for IT, Operations, Compliance, Risk and Human Resources. SIML has a Board comprising four executives and one non-executive director and has 12 employees as at its start date of 1st October 2012. SIML has been funded by an entrepreneurial investor.

In this start-up phase, the structure of the business warranted that HR interventions under the leadership of the COO focused on:-

- Participating in the Regulatory Approval process by addressing the people elements involved in the overall compliance process.
- Reward for the main roles, which was highly geared towards equity as a stake in the future success of the company.
- Ensuring that individual performance was aligned to risk and reward and reflected the Board's risk appetite to yield an above average return on its investments but also to reflect high standards of client service.
- The tone-at-the top in developing the right culture. Behavioural values and conduct standards have been communicated and the way in which it would be measured. It was also vital to ensure that new employees were inducted appropriately.

People metrics were less of a priority since the focus was on building the client base, developing the business plan, additional capital raising and gaining approval from the Regulators. The main concern was meeting statutory requirements in terms of payroll and employee record-keeping and embedding the right culture and values to sustain the business.

Technology
Is basic consisting of spreadsheets with an outsourced payroll.

STAGE 2: INITIAL GROWTH

STAGE 2
Board
+ 47 employees

INITIAL GROWTH PHASE
- Governance, Culture, Regulation in place
- People analytics moving to advanced
- Utilisation of benchmarking data to align reward and develop HR policies
- Considering Cloud Technology

SEPTEMBER 2014

The Story of SIML Continues: STAGE 2
As the business became more established, it was the optimal time to review "the way we do things around here". It was important to ensure, as far as was possible, that all policies, procedures, metrics and analytics were being developed with a view to the future desired state and structure of the business to provide building blocks for the future. The headcount is now 47 employees excluding the Board.

Looking at the building blocks, Celeste and Jamie considered:

Recruitment
- **Business Structure:** What skills do we need today; what skills will we require tomorrow? How do we find the people we will need and will we be able to attract them to work for us? Are they based on-shore / off-shore and what metrics are required in order to assist the business in making that decision?
- **Cost:** Benchmarking of salaries and pay structures, to ensure fairness and appropriate levels and structures of pay against the market.

- **Governance:** Monitoring sources of recruitment and reviewing metrics around the demographics and diversity of successful and unsuccessful applicants to ensure inclusivity is promoted at all times.
- **Future requirements:** Not only should the future skills and talent be considered but turnover as SIML grows and becomes more established attrition is likely. Succession planning for key roles at this stage of growth should be considered.

Ongoing management

- Managing performance: How are expectations set and how is performance measured? Is this appropriate; does the focus need to be shifted as SIML grows?
- Talent (Risk) Management: Nurturing the successors to the founders. As a small and fast-growing business, there may be limited choice currently.
- Business structure: Is the appropriate structure in place to enable future growth and expansion?

People Metrics

- **Internal governance metrics:** Establish the metrics used to ensure Regulatory and Governance standards are being observed against internal measures. How will required data be collated?
- **Regulatory reporting and record keeping:** Identify the requirements and establish regular reporting and controls.
- **Reward:** How can we use reward to create and promote the culture we want?
- **Performance:** How will the performance of the company / teams / individuals be measured? How will the culture and priorities of SIML be promoted through the performance management process? What are the value-drivers?
- **Engagement:** Why are employees joining SIML? What makes employees stay (or leave) the company? Is senior management pleased with the levels of, and reasons for engagement?

Technology

Is investment in systems appropriate to support SIML in the future? Jamie recommended looking at Cloud Technology with the ability to download technical applications as required.

STAGE 3: ESTABLISHED GROWTH

STAGE 3
Board
+ 75 employees

ESTABLISHED GROWTH PHASE

- Governance, Culture, Regulation in place
- Predictive analytics to forecast trends such as attrition and manpower planning
- Utilisation of scientific data, personal and organizational experience and consideration of stakeholder needs to evidence certain HR practices
- Adopted Cloud Technology

NOVEMBER 2016

The Story of SIML Continues Further – STAGE 3

As SIML expanded in UK and opened a small office overseas, Jamie identified a requirement to establish more formal systems, processes and controls alongside the need for a new Head of HR, reporting to the COO. This proved to be a good time to review the HR processes, systems and employee reward structure in place to ensure it remained appropriate for future business needs. The stakeholder perspective was a critical feature to ensure that expectations were being met on behalf of employees, customers and investors.

The new Head of HR, Sam Hoskins, concluded that the 'basics' were in place but as SIML grew, the company required a more sophisticated approach to the collation and use of HR metrics to support and inform the business. This included a move into predictive analytics, where HR, working with finance and line management, would be able to add even more value to the decision- making process through taking an integrated approach with other departments and being more scientific.

Attrition, Recruitment and Retention

As SIML grew, the types of employee the company required began to change. Some of the employees who had been with SIML from start-up and in the growth phase were not looking to continue with SIML as it became more established and 'steady-state'.

The metrics that SIML was able to produce to predict this shift and prepare for the next stage of growth included:

- **Attrition:** Using unstructured data from exit interview feedback, comments at performance appraisal discussions, levels and trends in attrition. SIML was ready for a 'spike' in attrition and recruitment. The HR and senior management teams understood the change SIML was going through and they were prepared to and able to adapt with the changes required.
- **Recruitment strategy:** SIML changed their recruitment strategy (from in-house recruitment teams to outsourced recruitment providers; from agency and search firm led to company advertised). Metrics regarding cost, ratios (CVs: interviews: hiring ratios etc.), time to hire, success / performance of new hires in role in first 12 months etc. all supported the strategy.
- **Investment:** Investment was required in the 'Employer Brand' to differentiate SIML from competitors in the market and to aid the attraction and retention of the best employees. Metrics regarding recruitment and success of hires (such as cost; ratios; onboarding; employee feedback; retention rates; performance) supported the investment in the employer brand and aided future recruitment and enhanced the on-boarding experience.
- **Diversity:** The initiatives SIML undertook to ensure a diverse and representative employee population were recruited and retained included identifying and reaching out to specific talent pools at recruitment stage and launching internal initiatives to promote and support an inclusive working environment.

Talent Management: Career Development and Leadership

- **Development programmes:** Development programmes were identified for employees at key stages of their careers (skills, management, leadership development).
- **Succession planning:** A robust process for identifying potential successors for key roles within the business and supporting their development towards achieving the standards required for future roles was established.
- **Performance management:** Performance management was considered to be a priority in SIML. Feedback was gathered through pulse surveys and data was captured in the HR system to ensure a consistently high standard of support, coaching and performance conversations were being held across all areas of the business.
- **Strong leadership:** This played a key role in the success of SIML and the bench strength of SIML's future leaders needed to be assessed. Development plans, coaching etc. were put in place where necessary or appropriate.

Reward

- Move from emphasis on equity, except for the most senior employees, to more 'traditional' benefits became important to offer new employees, in part to be able to offer a competitive package, but also to ensure the employees and their families were appropriately supported.
- Benchmarking of benefits, salary, bonuses and equity were important to ensure that SIML was not over-paying or under-paying. Benchmarking influenced and drove decisions regarding pay practices in the business and provided impartial external data, against which the value of individual roles were assessed, in support of the equal pay agenda.

Decision-Making

- The COO demanded more rigorous and robust evidence on which to make key decisions. One of these related to the company's strategy to attract millennials. The new Head of HR decided to engage a leading academic to conduct research which would make recommendations on SIML's employer brand, internal processes and communication tools. Enhanced digitization and better technology was a key desired outcome, using digital platforms such as social media to engage and manage this population. The organisation's past experience of attraction and on-boarding was reviewed by a summer intern, who had personal experience of working at SIML and other firms, was put in charge of the project. A budget of £500k was subsequently allocated to change attraction and employer branding methods in SIML.

People Metrics

Having previously provided the 'snapshot' management needed to quickly identify specific areas of risk and focus, these now needed to be advanced. The organisation needed to predict its workforce needs for the future and to be in a state of readiness to respond to Political, Economic, Social and Technology changes. It also needed to be more scientific in its evidence gathering and analysis of past organizational and personal experiences, thinking through the consequences of decisions for all stakeholders.

Technology

The Cloud system was working well for SIML but the recommendations from the Millenial Project showed that digitization would also benefit the wider employee population. Two apps were created. The first was a "straight-through" recruitment process which the candidate accessed via their mobile phone from application, through employee vetting to offer and then the second was "Working@SIML" which was a self-service employee information system.

The story ends (and begins again) here – STAGE 4

STAGE 4
Board
+ 126 employees

ACQUISITION

- Governance, Culture, Regulation in place
- Reinforcement of culture
- Due Diligence
- Integration Planning and management
- Cloud Technology and digitization through mobile friendly HRIS and apps

JUNE 2017

Celeste and the Board at SIML have successfully targeted a wealth management firm which is entirely UK-based and complements their existing business. Bear and Plough Wealth Management has an extensive client base and a product range which services individuals rather than corporate investors.

Having targeted their desired acquisition, carried out their due diligence and conducted their pre-merger investigations, the transaction was completed on 14th June 2017.

Pre-Merger People Implications: Preparation for Close

In order to understand how to successfully integrate the two organisations, as part of the due diligence process SIML undertook extensive analysis of key people data to inform its structuring of the organisation post acquisition. The people aspects that were explored in- depth included:-

- **Employee demographics** in terms of the organisation structure, roles undertaken and the terms and conditions of employment. This would help inform an understanding as to how best to deploy staff in the integrated organisation, and should this not be possible to determine the cost in any staff reduction exercise.
- **Reward structures** to see how the two organisations could be effectively harmonized in terms of pay and benefits for all staff and to specifically understand the configuration of Executive Pay. An important aspect here was to gain a full understanding of any equity and deferred compensation arrangements for eligible individuals. As well as being important in discharging company and legal obligations, there were also implications for the finance team in terms of the accrual of future costs.

- A management talent assessment was undertaken to produce an organisation structure using the best talent available in the two organisations.
- Transitional HR Risk Analysis was also deployed to ensure that talent was retained, employees remained engaged and that stakeholders would receive an enhanced experience through the merger of the two firms. It also looked at the risks – in terms of cost, attrition and litigation – from integrating the terms and conditions and specific pay and benefit arrangements.

People Metrics

HR metrics were critical to provide insight, identify areas of potential risk, assess the people-related cost and model the potential impact of business decisions. Post merger, SIML relied on the use of employee demographic data to inform the design of the organisation, to manage executive compensation and deferred bonus arrangements and to harmonise pay and benefits. Metrics were also used to determine the requirement for different employee development programmes and predictive analytics were used to help prepare the business for likely levels of retention and attrition.

Above all, ensuring that the right culture pervaded in the newly integrated firm was a major consideration. Facilitated focus groups proved useful in producing a slight modification to the firm's values and the tone-from-the-top was once again communicated, to be embedded in the harmonized policies as these evolved over the coming months.

Technology

All employee records and the associated people activities were uploaded onto the Cloud Technology operated by SIML to facilitate integrated reporting. The mobile apps were modified to reflect the newly integrated organisation and were due to go live two weeks after the acquisition.

Celeste Grande became Executive Chairman of the newly integrated company, and her existing management team remained in situ. The CEO of Bear and Plough Wealth Management was promoted to CEO of the combined group and their Finance Director took early retirement.

STARBLAZER

Trailblazers in investment and wealth management

HOW HR HELPED CHARLES STANLEY TRANSFORM ITS BUSINESS

This case study describes how Charles Stanley transformed their business and the considerable role played by HR in supporting this change. It emphasises the importance of employee and wider stakeholder engagement to achieve the turnaround. It emphasises the importance of employee engagement to achieve change and provides insights into the activities undertaken and the KPIs and HR metrics the organisation used.

There are few companies with a heritage as impressive as Charles Stanley's. It can trace its origins back to a banking partnership in Sheffield in 1792. It is one of the oldest firms on the London Stock Exchange, having been a member firm since 1852, and is cited as the 15th oldest financial services business in the world.

Today Charles Stanley Group provides wealth management services to private clients, charities and a number of institutions. This venerable UK wealth management business employs nearly 1,000 people, at its London head office and 23 regional offices, who look after the assets of approximately 95,000 clients with funds under management and administration, valued at over £20 billion.

Traditionally, the company had operated a very clear "top down" management approach.

Change of business model

Towards the end of 2014 Paul Abberley became CEO. The business recognised that there was an urgent need to modernise from a traditional investment management model akin to stock broking into a more holistic offering of wealth management.

The company identified 3 improvements metrics:

- Customer satisfaction
- Shareholder satisfaction
- Employee engagement.

To achieve the necessary results, the company needed to undertake a considerable amount of change across all aspects of the organisation.

In late 2015 the company appointed Kate Griffiths-Lambeth as HR Director, to work closely with the CEO and the Executive Team, to support the business structure change, and ways of working, to modify the approach towards reward and recognition, and to help achieve a significant cultural shift.

The HR function worked in partnership with management, employees and self-employed individuals across the Group to hit the target results of a return to profit and the transformation of the organisation.

The company faced two significant challenges during this period of evolution.

- The business was experiencing significant organisational and cultural change. Engagement with employees and other individuals took place at a time when they were fearful for their job security and uncertain about the future. Job requirements were different, with some roles incorporated into new teams or areas and some aspects automated to ensure efficiency and enhanced client experiences.
- Charles Stanley had not previously specifically focussed on engagement and, with the exception of the CEO and HR Director, did not have broad knowledge or experience in this area. In addition there were concerns amongst staff over confidentiality and voicing opinions during a period of change. The company retained the services of an external expert organisation, which provided guidance, objectivity, psychological insight, reassurance to staff and analytical skills during the research phase.

Aligning HR processes and KPIs to the new business model

In November 2015 HR launched the Engage for Success project. It had 5 main objectives:

1 To understand the current level of employee engagement within Charles Stanley.
2 To identify areas for improvement now, in transition and in the future.
3 To track progress against engagement during the transition.
4 To set future benchmarks, so that engagement would be an ongoing measure as part of the organisation's KPIs and communicated to the wider market.
5 To introduce a sustainable model for Charles Stanley's employee engagement.

The organisation took a strength-based approach by asking people what works, rather than focusing on what did not.

HR facilitated a series of short workshops to better understand how engagement looked and felt for individuals, and used these insights to design a bespoke feedback survey, which was launched in November 2015. This was the first ever employee engagement survey conducted by Charles Stanley. The survey defined Engagement as being when:

"An organisation values their people and the work that they do, and the people value their organisation and the work that they do."

There is conclusive evidence that individuals who share a mutual-gains relationship with the organisation in which they work tend to deliver improved business performance.

In addition, in November 2015, HR launched a Group Leadership Development Programme, to upskill business leaders and to facilitate networking. The programme raised awareness of the importance of leadership, particularly during times of change.

In January 2016 two identical Group-wide Conferences were held to communicate the results and topics that had been raised by the survey and hence would resonate with the attendees as well as providing a route to business transformation. The CEO presented the organisation's strategy and, for the first time, people across the Group were provided with the opportunity to see the Executive operate. Attendance was open to all and self-nominated. The identical events approach allowed all members of a team to attend but maintain staff cover.

The results of the 2015 survey provided the company with a baseline to introduce change and improve employee engagement. It gave rise to the following actions:

- Focus group discussions; to gain a deeper understanding of specific aspects of the survey feedback.
- Manager's toolkit; with tools and related training, to give managers the confidence needed to have continual great conversations with their team members.
- Eight work-streams; which were led by employee champions, and facilitated by the project team, aimed to explore and improve the specific themes that were raised in the survey and at the Group Conference, as listed below.

1. Client Experience focused on:
   - Offering a truly bespoke service to be built around the client, which differed from offering a "one size fits all" solution,
   - Putting themselves in their client's shoes, including understanding how clients access the digital offering – what works and what does not work.

2. Growing Assets initiatives included:
   - Introduction of a client 'recommend a friend' scheme,
   - Working with marketing and respective business areas to launch of a range of seminars to promote Financial Planning, Intermediary Sales and Investment Management.

3. Reward & Recognition identified ways to:
   - Improve transparency and fairness,
   - Improve recognition and incentives.

4. Careers & Management concentrated on:
   - Improving the perceived quality of managers at all levels,
   - Changing the existing career culture and providing a framework to maximise development opportunities.

5. Processes & Systems developed:
   - An approach to identify solutions for systems/process hurdles.
   - Initially focused on the client-take-on process to make it easier and a better experience for all parties involved.

6. "One Charles Stanley" & Communications explored ways to:
   - Create a deeper 'One Charles Stanley' culture, and
   - Improve Communications e.g. look/style/content/frequency.

7. Leadership & Values defined Charles Stanley's first ever Organisational Values, namely:
   - Caring -Employees are the priority. Charles Stanley will strive to earn and maintain each employee's trust by promoting what is in their long-term interests.

- Fair - Always act with integrity in a transparent, respectful and professional manner.
- Progressive – Charles Stanley will combine an innovative culture with a traditional personalised service.

8. Diversity and Inclusion developed an 18 point plan designed to:
    - Encourage a more flexible/agile workforce,
    - Develop a more inclusive and diverse workforce,
    - Improve networking opportunities.
    - Each work-stream was set up by/with volunteers and was sponsored by a member of the Executive Team on a topic that was outside their normal brief. Employees self-selected the work-stream they would be involved in, and there was a good mix of all levels of employees. This resulted in robust, challenging and constructive discussions.
    - Each work-stream suggested initiatives, some quick wins and some longer-term improvements.
    - This was a collaborative working approach. It involved 200 employees who had volunteered to be actively involved including contributing to the survey, attending workshops and driving the success of the 8 work-streams.
    - The HR Director was ultimately responsible for any major decisions, and the project sponsor was the CEO.

In June 2016 Paul Abberley, Chief Executive Officer, stated that
"Our three-fold priorities for the year ended 31 March 2016 were to arrest the decline in profitability, determine, and begin to implement, the strategic direction for Charles Stanley and build the foundations upon which we can drive sustainable growth. Solid progress was achieved in each. We have reduced our losses by £5.8m, refocused on core activities that will allow us to deliver high levels of customer satisfaction, and made significant progress in terms of making the Group more efficient over the long-term. We look forward to another year of progress as we pursue our aim of becoming the UK's leading wealth manager."

And in July 2016 the Chief Executive Officer informed investors that
"While I believe that much has been achieved, considerable work lies ahead. With skilled execution and sensible stewardship, our vision of becoming the UK's leading wealth manager by 2020 is still firmly within our sights."

Against the background of a huge amount of change, in November 2016, a second engagement survey was shared to understand employees' perceptions of how Charles Stanley had improved, what was consistently great, and to identify areas for improvement. The outcome enabled Charles Stanley to adjust their focus/approach and to champion any changes required through the voice of their employees.

The results of the 2016 survey showed significant improvements from 2015 relating to how people felt about their work and working life. Some of the key metrics from the results of the 2016 survey are compared to the results of the 2015 survey.

How did the business transformation measure up?
It is worth noting that since the start of its change programme Charles Stanley has experienced:
- 11% increase from 56% to 67% on the Employee Engagement Index score.
- 36% increase in response to the question "My work gives me a feeling of personal accomplishment"
- Overall improvement in the vast majority (95%) of questions, with some showing a 30% improvement
- Direct co-relation is seen between the scores which showed a significant improvement and the eight work-streams which had been set up following the 2015 survey. These improvements ranged from 1% to 36%

At the 2017 Group Conference the HR Director summarised 2016 achievements concluding that change cannot happen without engagement.

Significant progress has been achieved as measured by the three key metrics identified in 2015 – customer satisfaction, shareholder satisfaction and employee engagement.

The business culture is changing and the company has returned to profit.

Evidence of change
In 2016 Charles Stanley was awarded three Investors Chronicle FT awards for Stockbroker of the Year, Best Self-Select ISA provider and Best Full Service Stockbroker; and six Defaqto 5 Star Ratings across the following services: Bespoke Discretionary Management, Collective Portfolio Services (direct custody), DFM Model Portfolio Service, Collectives Portfolio Service (on platform), PanDynamic Model Portfolios and PanAsset Model Portfolios.

In 2017 it was awarded the 3D ARC award. The Head of Communications has been short-listed as a Rising Star of the Year in the inaugural Women in Finance Awards 2017, which is supported by the HM Treasury's Women in Finance Charter, trade bodies, advisory firms and companies of all size from across the UK, for her work in enhancing communications – an area of significant concern in the 2015 survey.

Client satisfaction has been measured and Charles Stanley is pleased to report that it now has

- 8.7 Average overall satisfaction (the industry average is 8.2); and
- 54.6% Net Promoter Score (the industry average is 36.5%).

What next?

The process of continuous improvement continues. Engagement Scores are a key performance indicator for the overall business performance and something which everyone is accountable for and measured against.

The HR team is currently sharing the Organisational Values throughout the company to underpin FCA conduct risk.

The 2017 survey will to continue to measure engagement and engagement metrics will continue to be used as drivers for the Group as it continues to improve. The HR motto for the action leading up to the 2017 survey is "72 by 72". In other words to have at least 72% of employees in each business area and at each location respond to the survey and for the overall Engagement Index response to be at least 72%.

Charles Stanley is undertaking a significant journey of transformation and the path has been challenging, but the positive results and achievements to date, using metrics grounded in engagement speak for themselves.

Charles Stanley has achieved its business improvements and HR transformation by engaging with their employees throughout the process of change. It has used the Engagement Index as a key.

With thanks to Kate Griffiths-Lambeth, HR Director at Charles Stanley, for providing this detailed case study

APPENDIX 4

STANDARDS MATTER: THE INCREASING INFLUENCE OF STANDARDIZATION IN PEOPLE MANAGEMENT AND DEVELOPMENT

When someone says that we live in an increasingly interconnected world, we immediately think of the obvious – seamless cross-border travel, trade and communications. But we rarely consider what enables all of this to work quite so seamlessly, nor are we conscious of the invisible world of standards that provide the foundation and structure for our daily lives.

From the gauge of a screw, the precise composition of materials, the code operating our smartphones to the processes used in manufacturing, assembly, distribution, delivery and support services - everything has been painstakingly negotiated by technical specialists, industry and government to establish standard specifications that all parties can agree and adhere to.

Essentially standards reflect an agreed way of doing something or the technical and quality specifications for making something. They are developed through the collaboration and consensus of technical experts in the field, brought together by national standards bodies such as the British Standards Institution (BSI) and the International Standards Organisation (ISO). These standard setting bodies and the groups of standard makers they convene represent key stakeholders for the standards to be developed, such as government agencies, industry, academia, special interest and user groups, and industry and employer bodies.

The objective of standardization is to optimize compatibility, interoperability, safety or quality and to ensure efficient coordination across increasingly complex supply chains. A consequence of standardization is that it speeds up and makes more efficient the management, design, manufacture, sale and movement of products.

For government, standards provide a basis for public policies on, and simplifies the regulation of, quality, environmental protection and safety.

For the user, standards ensure the quality, safety, characteristics and specification of the product or service - most of us will recognize the Kitemark as the mark of a quality product that we can trust but few of us know that the Kitemark was first registered in 1903 by our National Standards Body, the British Standards Institution (BSI), which was established in 1901 and was the world's first national standards body.

While standardization is part of the history of human civilization, the modern coordination of standards is set by and with the International Standards Organisation (ISO). Founded in 1947, ISO - this short form name is derived from the Greek isos, meaning equal, is the world's largest developer of voluntary International Standards today with a membership of 162 countries working collaboratively to develop some 21000 standards.

International standards have proven invaluable in modern globalized economies and one of the most significant benefits is enhancing the network effect. Standards increase compatibility and interoperability between systems allowing information to be collected, documented, shared and compared within a larger network, and consequently attracting more potential users to use the new standard.

The most successful standard ever developed started out as a British Standard - this is ISO9001 Quality management, which is a certifiable standard that sets out the criteria for a quality management system that can be used by any organisation, large or small, regardless of its field of activity. According to ISO, there are over one million companies and organisations in over 170 countries certified to ISO 9001 as part of global supply chains that ensure that customers get consistent, good quality products and services, which in turn brings many benefits. There is also recognition of the importance of the development and motivation of people under ISO 9001 with the development of supporting standards ISO 10015 and ISO 10018 which provide guidelines for 'Competence management and training' and for 'People engagement' respectively.

In advanced service economies, the role of people in delivering value to organisations is considerable. In corporate valuation, intangible value is an increasing consideration in valuing a business. Consequently, the management of people so that value creation is optimal is important. Key to that is the quality of the function responsible for people management and development, the HR function (see https://hbr.org/2011/12/why-hr-really-does-add-value).

To that end, in 2010 ISO authorised the creation of technical committee TC260 with the remit of standardization in the field of human resource management for organisations of all types and size and across all sectors. ISO TC260 invites the broadest possible participation of ISO members and there is a large and growing body of experts eager to get involved in HR standardization, currently there are 26 countries participating as full members of TC260, including the UK, with a further 24 countries having observer status.

One of the challenges in developing these international standards is finding consensus around the different cultural views of appropriate workforce practices, and the experts representing member countries on TC260 are charged with developing a suite of international standards that will offer broad, coordinating guidance for people professionals and also for managers and business owners with people management responsibilities recognizing that the standards it develops need to reflect that people management and development practices are less well established in some countries and in small to medium size organisations.

Therefore the committee seeks to facilitate the development of standards that codify organisational guidelines, processes, practices and systems in the field of people management and development, however it is described - including human resources, human resource management, human capital or personnel.

To date the following standards have been developed by TC260 by consensus and subject to consultation and comment prior to publication:

ISO 30400:2016 Human resource management – Vocabulary

ISO 30405:2016 Human resource management – Guidelines on recruitment

ISO 30406: Human resource management -- Sustainable employability management for organisations

ISO 30408:2016 Human resource management – Guidelines on human governance

ISO 30409:2016 Human resource management – Workforce planning

ISO 30409:2016 Human resource management – Cost-per-hire

In addition, there is another previously published two-part standard that now falls under the remit of TC260 - this is ISO 10667:2011 which provides standardization of assessment service delivery and the procedures and methods to assess people in organisational settings.

Standards that TC260 workgroups are actively developing now include:

ISO 30401: Human resource management - Knowledge management systems

ISO 30410 -13: Human resource management – Metrics (Impact of hire, Quality of hire, Retention and Turnover)

ISO 30414: Human capital reporting for internal and external stakeholders

ISO 30415: Diversity and inclusion

ISO 30416: Human resource management – Workforce management

ISO 30417: Human resource management – Professional competency framework

ISO 30418 - Engagement

The journey of standardization in HRM is enabled by the sustained collaborative effort and the expert contributions of TC260's people professionals, for example the painstaking work done by the work groups on vocabulary, metrics, workforce planning and human capital reporting. The first and second of these ensure that across all the standards developed under the TC260 family, the terminology operates throughout consistently and that the formula for the building blocks of HR metrics are agreed. These are the essential foundations for a data-driven, evidence based and analytical approach to people management and development and which will yield beneficial improvements in:

- the currency and quality of people management and development practice
- the development of an inclusive international community of practice
- consistency of terminology to facilitate knowledge and practice exchange
- consistency of measures, metrics and analysis to support effective benchmarking and reporting of the intangible value of people.

At a systems level, standards like Workforce planning and Human capital reporting provide organisations with a clear approach to understanding how and why they exist, what value they provide and consequently the optimal way to harness productive human and capital resources (including investments in automation and in future, intelligent systems) to deliver value to their customers. They are intended to help organisations adapt to and exploit demographic shifts that influence the workforce and they specify the minimum effective approaches and measures and the essential metrics that inform workforce planning and human capital reporting practices. The former aims to reduce the barriers to exchange (trade) of talent across regions by harmonizing the processes to physically move talent and the assessments of their competence (skills, knowledge, abilities) and the latter provides a standardized and consistent approach to recognizing and reporting the value people bring to organisations – which should be of particular interest to the investment community.

While participating in TC260 individual countries are also taking strategic decisions about the kinds of standards that will best serve the interests of their economy. In the United Kingdom, the Human Capital Standards committee, HCS1, was convened by BSI in 2011 with the remit of supporting the work of TC260 and also to oversee the development of National Standards in the field of people management and development. Like their international counterparts these British Standards are also developed by experts representing employers, academia, industry and professional bodies including CIPD, CMI ACAS and the TUC. As standards are a vital part of organisational life and are a defining feature of reputable professions that provide a 'quality assured' basis for ethical and effective practice HCS1 has adopted a principles-based approach to people management and development. The suite of standards focus distinctively on principles for valuing people in organisations and provide a framework for organisations to establish managerial accountability and support for flexible, innovative and sustainable practices to achieve the full potential of their people.

The principles articulated in the BS76000 family of standards are:

a) people working on behalf of the organisation have intrinsic value in addition to their protections under the law or in regulation, which needs to be respected;

b) stakeholders and their interests are integral to the best interests of the organisation;

c) every organisation is part of wider society and has a responsibility to respect its social contract as a corporate citizen and operate in a manner that is sustainable;

d) a commitment to valuing people who work on behalf of the organisation and to meeting the requirements of this standard which is made and supported at the highest level; and

e) each principle is of equal importance.

The reason for this principles based approach is that business models are likely to evolve and disrupt - signalling that existing models and precise HRM process guidance is liable to date. Taking a principles led approach enables the standards to maintain the quality of decisions and relevance of the outcomes as opposed to the quality and stability of the process.

Another consideration of the principles approach was to take a systems approach. Given the networked nature of organisational relationships today, it would be optimal to look at how organisations can begin to look beyond themselves and instead understand their role as a node in a network, a network of employment relationships that span employees, contractors, volunteers and a vast network of suppliers, partners and customers.

To that end, standards in the UK people management and development system encompass a framework for valuing people; diversity and inclusion and learning and development:

BS 76000 – Human resource – Valuing people is a framework standard that is based on a set of high-level principles for valuing people. It promotes a structured and thoughtful approach to people value management that enable organisations to assess the extent to which their HR policies and practices promote long term effectiveness; shared values and social sustainability to ensure the mutual respect and contribution of everyone who works on their behalf.

BS 76005 – Valuing people through diversity and inclusion is a code of practice for organisations intended to facilitate fairness and dignity at work. Developed in collaboration with a range of diversity and inclusion specialists it provides a framework of recommendations for reviewing, assessing and undertaking a competent and principled approach to diversity and inclusion to enable an organisation to demonstrate its commitment to valuing people in its widest sense.

PD 76006 – A Guide to Learning and Development is an accessible document written for all those responsible for learning and development of individuals, teams or organisations. Developed by a range of different learning and development experts this guide provides an essential 'roadmap' to the use of learning and development as a means to maximize the value of people in the organisation. Including options to identify priority learning and development areas; innovative ways to meet learning needs; and options to evaluate the success of learning practices.

Future work planned relates to health and well-being and principles of measurement.

In demonstrating the value of the principles, the quality of the talent entering the organisation's people resources is important, hence the push towards greater diversity and inclusion while building the sophistication and maturity of the leadership and management to commit to building and supporting increasingly diverse and inclusive workplaces. The code of practice seeks to provide organisations with a range of issues which it has to consider around diversity and inclusion rather than a compliance focus on the protected characteristics identified under UK law.

The learning and development guide focuses on the development of the potential of the people in any organisation so that their potential and the potential value of that investment is realised, for individuals and for organisations and their stakeholders.

Maintaining the health and well-being of the workforce is another pillar that will support a principled approach to people management and development. Without a clear idea of the workforce requirements and job design, it is unlikely that any organisation can support sustainable success.

There are clear and constructive approaches in this family of standards to challenge leadership and management to develop and support a culture that enables people to give of their best in a manner that is dignified, respectful and mature.

These standards are designed to operate under the principles ultimately providing a data-driven, evidence based manner of making people management and development decisions in a sustainable and principled manner. The UK approach makes a clear distinction that while the arguments for efficiency and optimal interoperability are valid in the realms of benchmarking, the management and development of people requires a strong ethical underpinning.

The standards outlined above are merely the tip of the ice-berg. There are myriad standards on organisational governance, resilience and business continuity and on smart working that will influence future organisational priorities and direction. While the users of standards provide invaluable feedback to the shape of these standards we cannot forget the economic imperative - the principal driver of standards is economic as standardization facilitates efficiencies by building global interoperability into products and systems, which in turn supports global supply chains and trade.

However, the march of standardization in the complex field of people management and development will continue apace. People metrics are essential to organisations and the decisions they take, and as technologies and systems evolve to collect more and more data to support measurement of inputs, processes and outputs, it is likely the future of people management and development will also change.

People and their development are, and shall remain, an important source of value creation, and investment, and organisational standards in this area must be specific, consistent, and measurable and be of benefit to organisations, their stakeholders and wider society.

The future of standards is about the ethical use of data, metrics and evidence based decision making on the investment in, and development of, people. And standardization will happen and it will happen fast as organisational leader, shareholder and investor demands for analytical and predictive insights increase.

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APPENDIX 5

INFOGRAPHIC SUMMARY OF EVIDENCE-BASED PRACTICE

MEASURING UP

ADVANCED PEOPLE ANALYTICS FOR CITY EMPLOYERS

In the era of big data, digitisation and major technological advances, how important are people analytics to informing organisational decision-making?

People analytics have become an important part of the HR Toolkit. Many firms are setting themselves challenging targets on key people issues to enhance the employee proposition. They are also investing in implementing and measuring initiatives that support external stakeholders and which in turn have an beneficial impact on their brand. Therefore, people metrics not only help to influence internal decision-making but demonstrate to external sources that progress is being made with regard to the organisation's most important asset - its human capital.

This book is the second in the Measuring Up series and is an advanced analytics guide for City Employers. Other City HR Association publications include:-

Measuring Up: A guide to people metrics and performance for the City 2012

Managing People Risk in the Financial Sector 2013

Performance with Integrity: LInking Performance to Values 2013
(in conjunction with the City Values Forum)

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