

Human Capital Management

July 2005

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it's who you know

The Growing Significance of Human Capital Management

“On average, organisations spend 36% of their revenues on human capital expenses.”

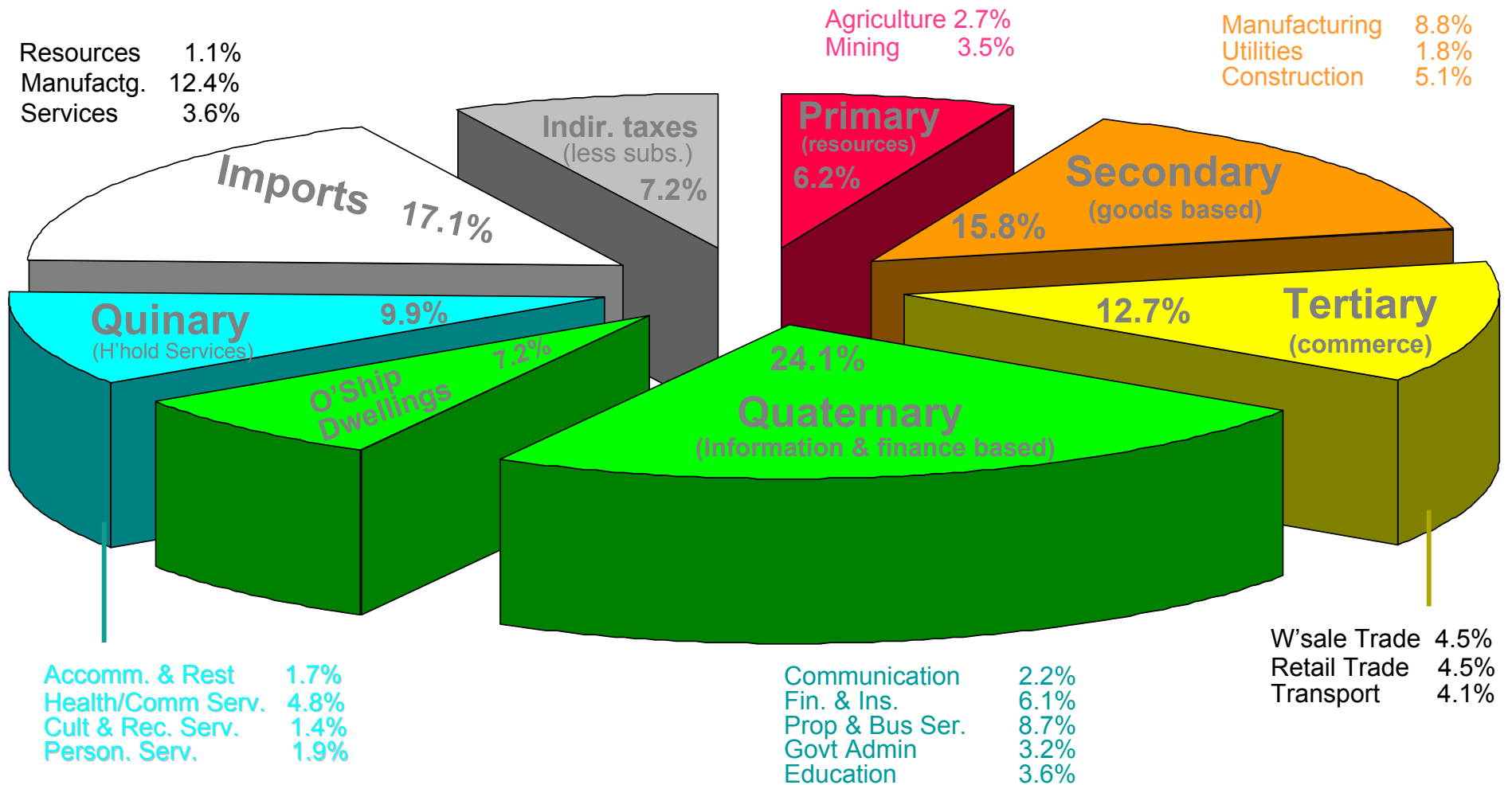
The Corporate Leadership Council

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The Australian Economic Pie

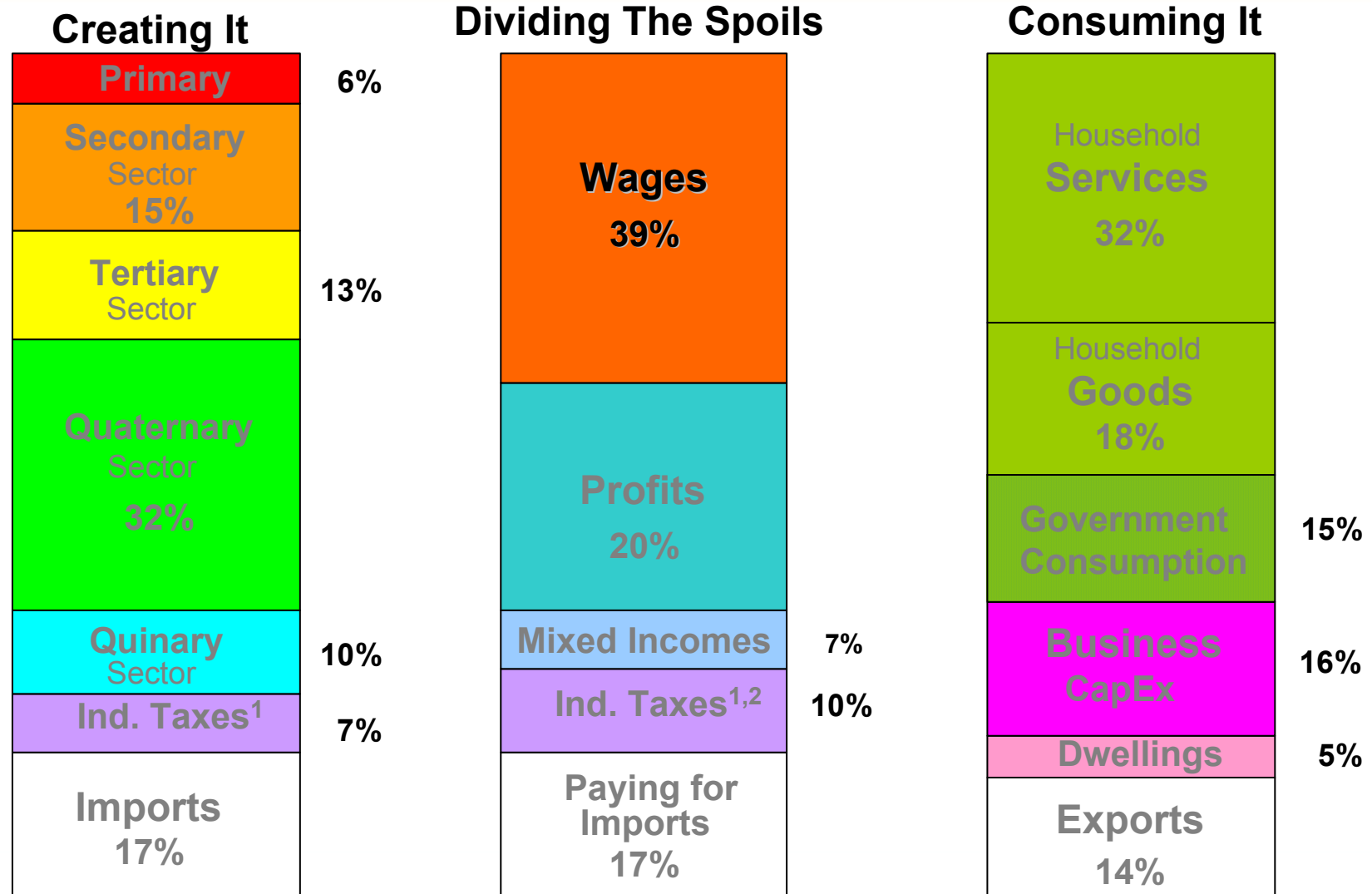
Industries & Imports Year to June 2004



GNT \$978.1 billion
(\$1 trillion in 05/06)

Source: ABS

Where the \$1 Trillion Goes!



\$1007 billion (F) in 2004

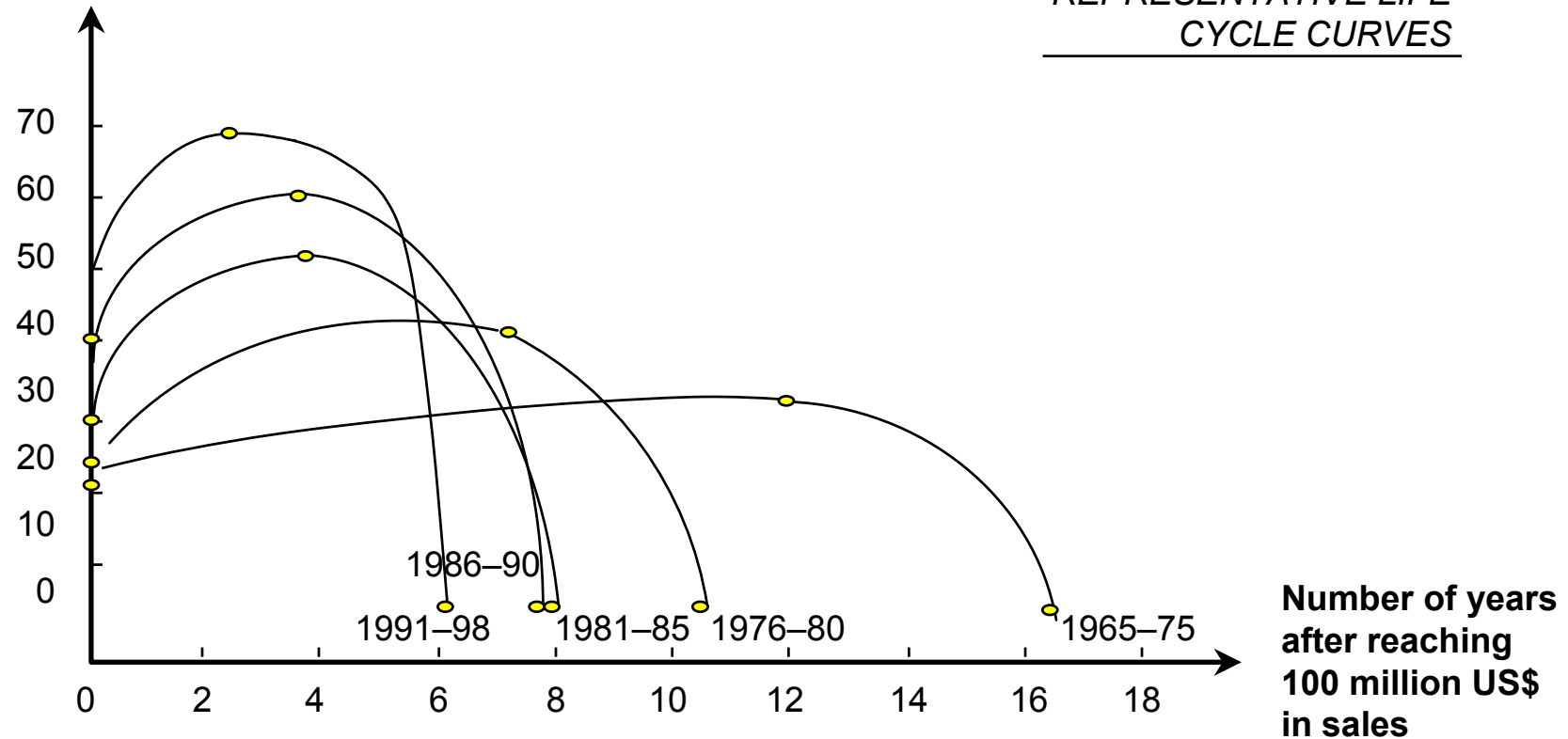
Agenda

- > Megatrends
- > Human capital trends of successful companies
- > Strategic response
- > Tactics

Consumer Tastes are Changing Faster

Earnings growth rate

3 years CAGR



Note: Curves are smoothed; based upon analysis of 15 largest single-concept retailers that reached 100 million US\$ in sales in each of the periods.
Source: Compustat; McKinsey analysis

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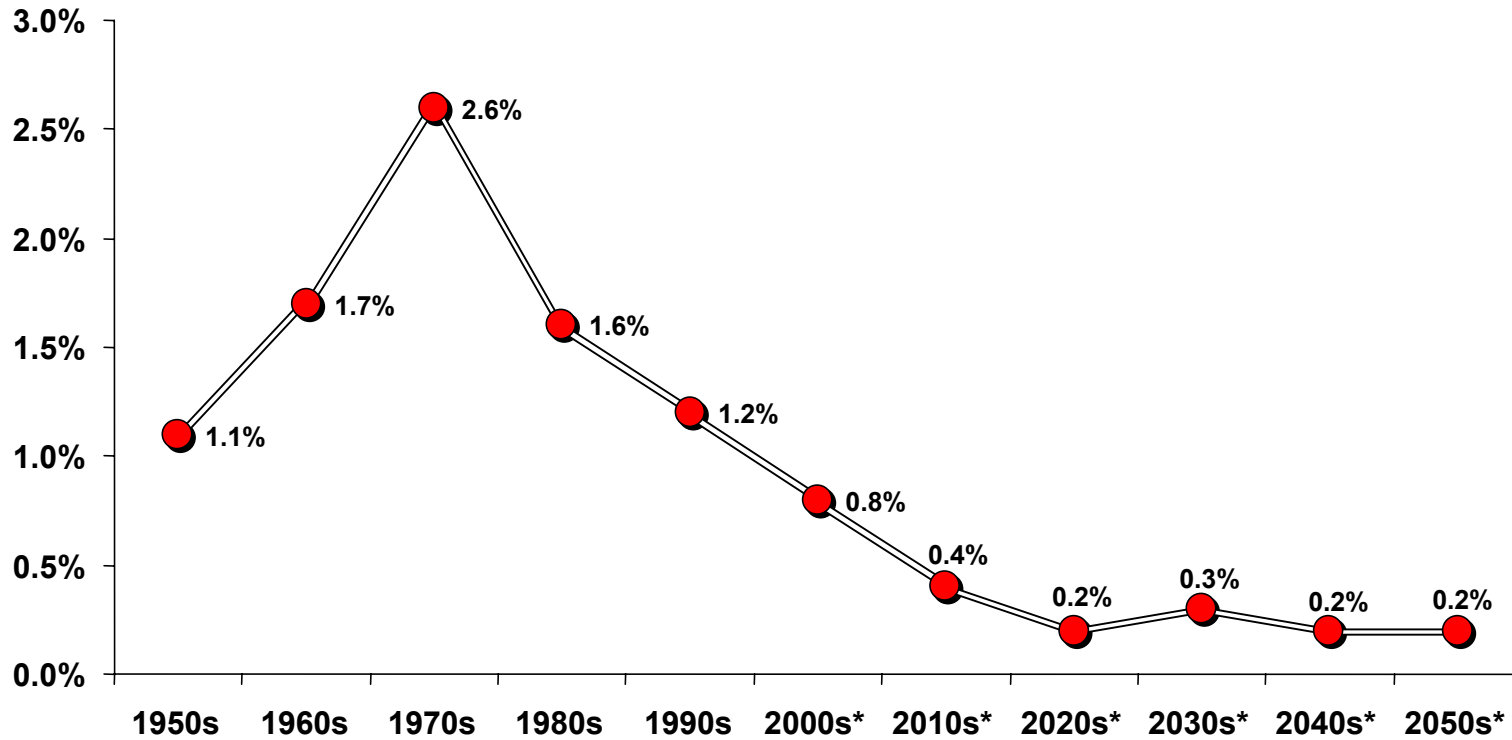
Customers More Demanding

Quicker, Better, Cheaper!

- > **Consumers are becoming armed with powerful technology – giving them more leverage than they've ever had before**

Labour-force Growth will Slow to a Crawl

Compound Annual Labour-Force Growth, Per Decade



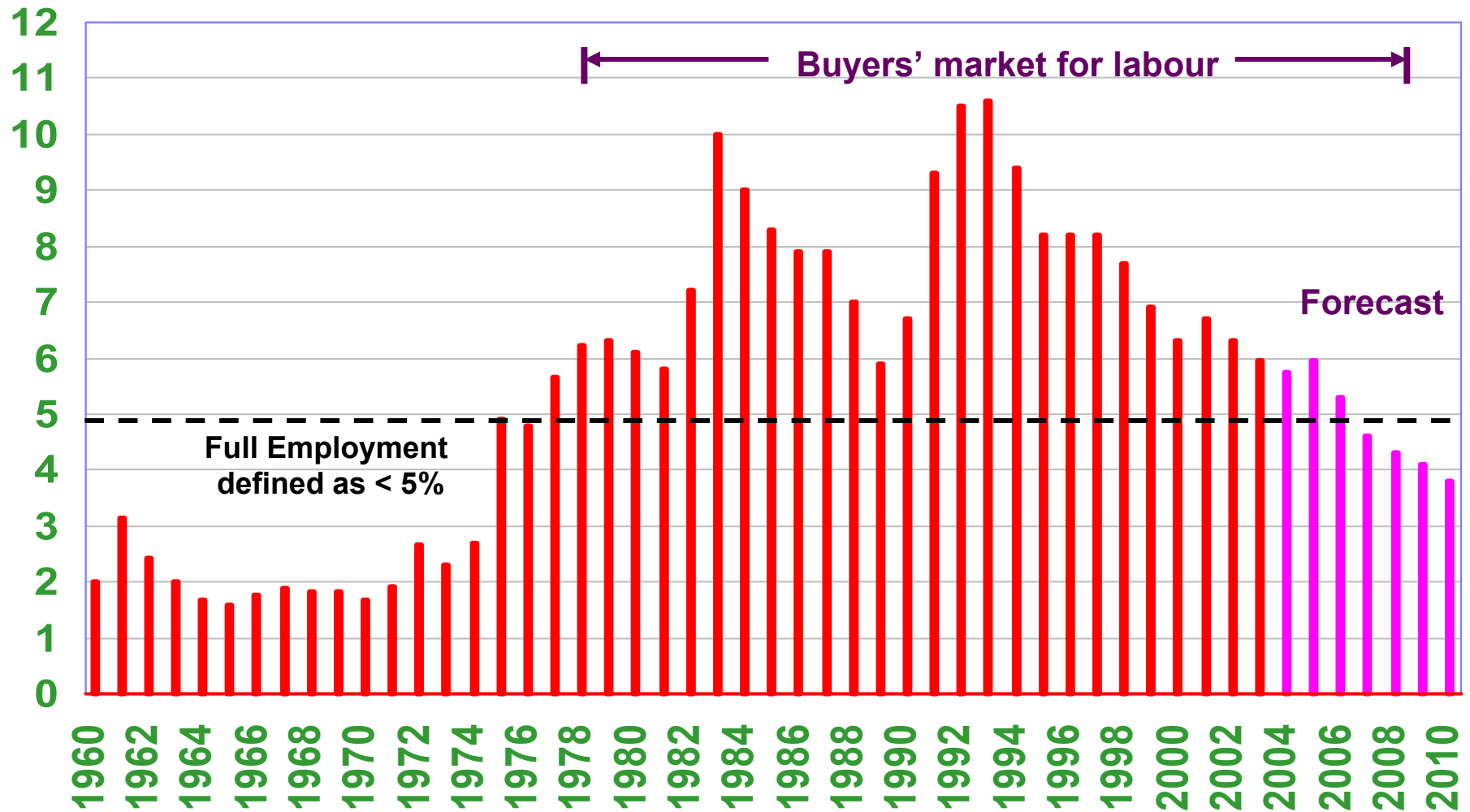
Data: Watson Wyatt Worldwide

—●— Labor-Force Growth (Population = 16-65)

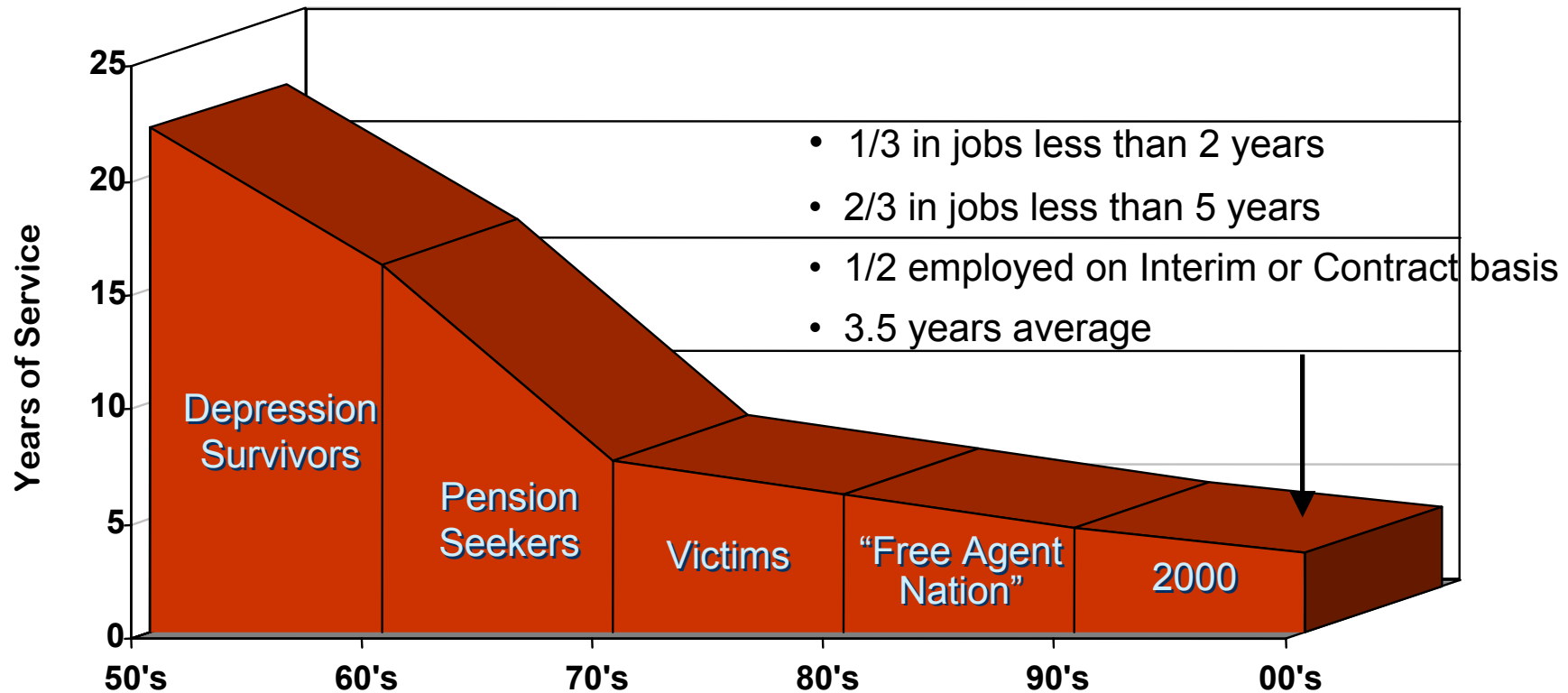
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Unemployment in Australia



Declining Employee Tenure



Source: US Department of Labor (BLS) Employee Tenure Surveys, 1995-2000

They're on the move ... there's fewer of them ... and loyalty is out!

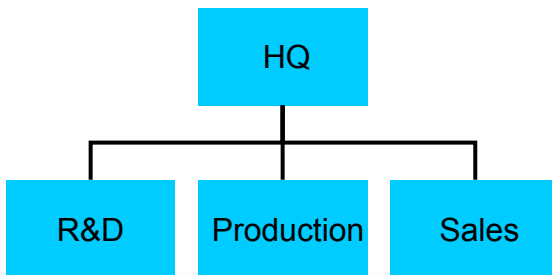
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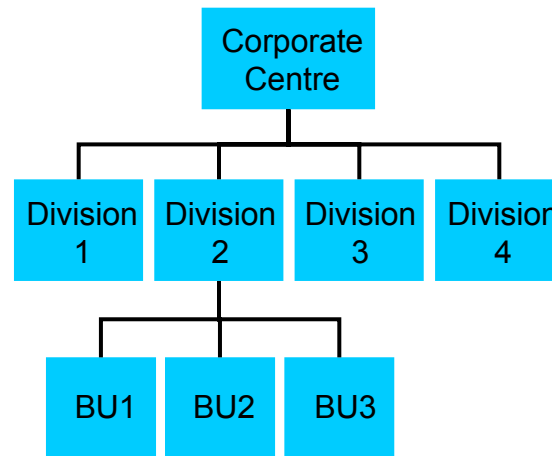
Organisational Structures



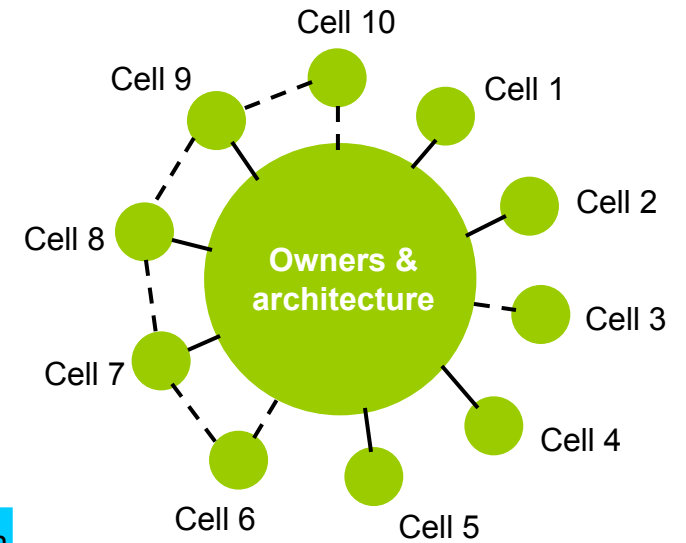
Traditional



US Style Corporate



Atomised



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Outsourcing

“23% of companies with more than \$1 billion in revenue are planning to consolidate their HR under one outsourcing provider.”

“80% of companies that outsource HR functions would do so again.”

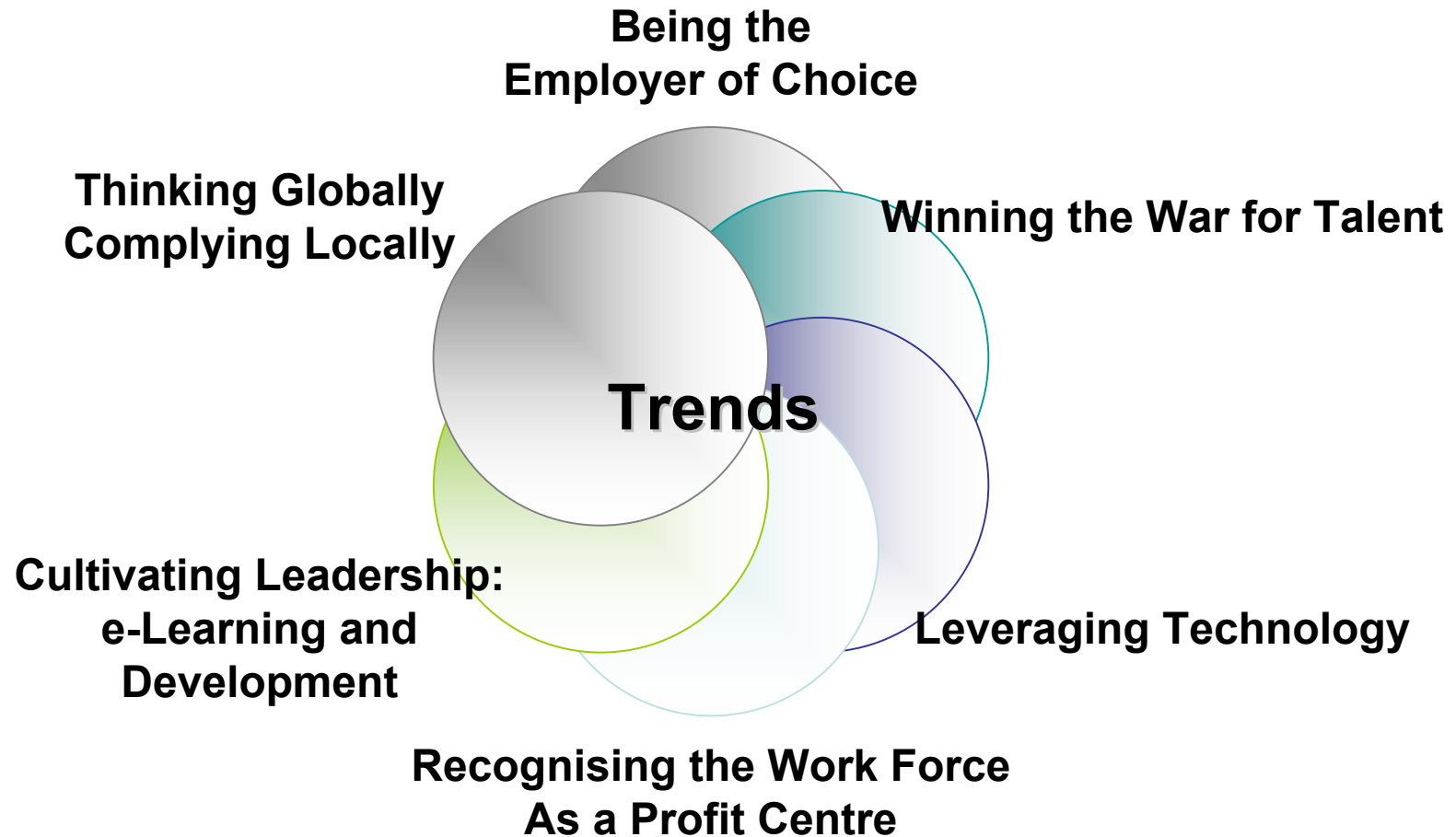
“91% of companies that have outsourced at least one key HR function, report having achieved their objectives.”

The Conference Board 2004

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Human Capital Management Trends



Strategic Response for Planning & Procurement

- > Get commitment – top down

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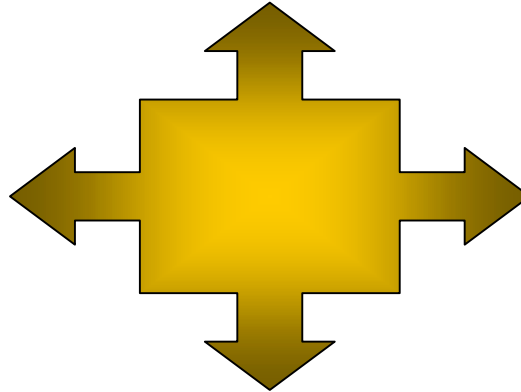
The Financial Impact of HCM

Greater Shareholder Returns

Organisations with effective human capital practices provide returns to shareholders three times greater than companies with weak human capital practices

Impacting M&A Pricing

Human capital is increasingly a factor in M&A pricing



Increasing Revenue

Organisations with effective HCM produce 35% higher revenues per employee

Early Financial Indicator

Human capital indicators provide early warning that the company may experience difficulties meeting its financial goals, e.g. high turnover raises a red flag from a risk perspective

Strategic Response for Planning & Procurement

- > Get commitment – top down
- > Develop metrics – qualitative & quantitative

Develop Metrics

- > What you measure gets managed
- > Above the line & hidden costs
- > Survey “end users” regularly – ask the right questions – on-line/off-line

Strategic Response for Planning & Procurement

- > Get commitment – top down
- > Develop metrics – qualitative & quantitative
- > Provide a business case – above & below line

Provide a Business Case

- > Analytics of historical performance & cost
- > Analytics of “gaps” to “ideal scene”
- > Impact on business goals – Qualitative -
Quantitative

Tactical Response

- > Ask the tough questions:
 - » How easy is it to attract people?
 - » How many unsolicited resumes are received because of your company's "name"?
 - » How long does it take to fill job vacancies?
 - » How frequently are job offers rejected/accepted?
 - » How often can jobs be filled internally?
 - » How much do we spend per hire (externally & internally)? Did you miss business targets due to lack of talent? What was the opportunity cost?
 - » How are retention rates and exit interview results?

Tactical Response cont

- > Make leadership accountable by linking HCM metrics to bonus- HCM goals tied to plan?
- > Retain core HR – outsource/streamline the rest
- > Demand measurement & feedback on on-going basis

Just do it! Top 10%!

Human Capital & Competitive Advance

“Take our twenty best people away and I can tell you that Microsoft would become an unimportant company.”

Bill Gates, Microsoft

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The logo features the word "talent" in a white, italicized, sans-serif font, followed by a superscripted "2" in a grey, sans-serif font. The background is a dark blue gradient with large, stylized, semi-transparent shapes in a lighter blue shade, resembling the letters "T" and "2".

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