THE HAMBLEDEN GROUP

INVESTORS IN PEOPLE

A PRACTICAL TOOL FOR BUSINESS GROWTH

Research Report No. 4

A Study of Comparative Business Performance Before and After Recognition

February 2001

FOR USE BY PRIVATE SECTOR EMPLOYERS

Contents

1 Executive Summary

This report is based on research carried out by Hambleden Group Limited, sponsored by the Department for Education and Employment (DfEE), and published in September 2000. The aim of the research was to compare the financial performance of companies that had been recognised as Investors in People with UK companies in general.

The Companies House database was searched for companies that are recognised Investors in People and which had provided enough data to assemble eleven financial benchmarks of corporate achievement. The performance of the Investors in People companies was compared to the performance of all companies filing accounts with sufficient data. The comparisons were made for 1998, the year in which the most recent returns were available, and for 1994 when a relatively small number of companies were recognised as Investors in People.

The comparison of companies with and without Investors in People recognition enabled conclusions to be drawn regarding:

a) Relative performance before, i.e. in 1994, and after, i.e. in 1998 following Investors in People recognition

b) Comparative growth rates between 1994 and 1998

With respect to relative performance we concluded that:

1. Investors in People companies *with over 200 employees* were performing above the median for their size of company against most of the benchmarks, *even before* recognition

2. On the whole, Investors in People companies *with 50-199 employees* were underperforming against the median benchmarks before recognition

3. All Investors in People companies were performing above the median for their size of company *after* recognition

With respect to comparative growth we concluded that:

1. Investors in People can consolidate the achievements of large companies

2. Investors in People can help medium-sized companies grow faster

We then decided to expand this piece of work in order to include additional data that will prove interesting and useful to practitioners in the field and to companies wanting to benchmark themselves financially against the Investors in People Standard.

We have taken this opportunity to express opinions based upon our own field work over the last 5 years, visiting 1000 businesses at Board level that employ 50 or more people. We benchmarked their financial performances against comparable businesses holding the Investors in People Standard and against the human resource practices of the UK's long term high performing businesses.

We have added our expanded conclusions below and inserted 11 pages of industry statistics at the end of this report.

This is what we see:

1 *Strong financial advantages for those companies recognised as Investors in People*

2 *Investors in People improving company financial performance – it is not the case that just high performing companies tend to do IiP*

3 *Investors in People companies growing faster than others - as follows:*

Export sales	***Dramatic additional*** growth
Profits	***Additional*** growth
Net worth	***Additional*** growth
Return on capital	***Additional*** growth
Return on assets	***Additional*** growth
Employee numbers	***Reduced*** growth
Employee remuneration	***Additional*** growth
Sales per employee	***Additional*** growth
Profit per employee	***Dramatic additional*** growth
Return on the wagebill	***Additional*** growth

We believe that:

Size does not matter - but has its differences

Medium size businesses benefit hugely - doing it to reinforce growth plans - establishing structure and focus - delivering great steps forward

Large businesses benefit notably – doing it to reinforce strong market positions - liberating rigid structures - empowering many small gains

Industry (nearly) doesn't matter

9 out of 11 industry groups developed a 73% growth rate advantage following recognition.

Nearly 50% of the companies were manufacturers and 25% were businesses with employees who face the public.

The type of business does not matter but it is most popular with...

Complex businesses - using it to liberate a total quality culture across many interconnected processes

Public facing businesses - using it to liberate committed front line attitudes, giving the customer a great service experience

The bottom line is…

1 Investors in People works because it is modelled on the human resources practices of the world's best businesses

2 Investors in People businesses outperform their unrecognised peers

3 Investors in People businesses overtake their unrecognised peers

4 Investors in People clearly works for any size and type of business as an instrument for beneficial financial change

5 All Investors in People companies seem to do it to liberate some form of performance growth

2 Background

2.1 Background to Investors in People

2.1.1 What the Standard is

Investors in People is the national Standard which sets a level of good practice for improving an organisation's performance through its people. The Standard provides a framework that organisations of all types can use to help them improve their performance.

The Standard is based on four main principles*

Commitment - An Investor in People is fully committed to developing its people in order to achieve its aims and objectives

Planning - An Investor in People is clear about its aims and its objectives and what its people need to do to achieve them

Action - An Investor in People develops its people effectively in order to improve its performance

Evaluation - An Investor in People understands the impact of its investment in people on its performance

The Standard is a key strand of the government's workforce development agenda which aims to improve the quality and quantity of training and development in the workplace.

April 2000 wording

2.1.2 Origins

In the late 1980s a National Training Task Force (NTTF) was set up following a government white paper entitled 'Employment for the 1990s'. The NTTF was charged with two prime responsibilities:

- to set up a network of Training and Enterprise Councils (TECs) in England and Wales and Local Enterprise Companies (LECs) in Scotland

- to develop a strategy to encourage employers to increase their commitment to the training and development of their workforce

The outcome of the strategy, which was developed through a number of working groups, was the Investors in People Standard launched at the CBI Conference in November 1990. During the next ten months a series of pilots took place to test and refine the Standard. This culminated in the recognition of the first 28 Investors in People on 16 October 1991.

2.1.3 Strategic significance

Two of the eleven *National Learning Targets* for England for 2002 relate to Investors in People, as follows:

- 45% of medium-sized or large organisations recognised as Investors in People

- 10,000 small organisations recognised as Investors in People

2.1.4 Investors in People UK

In 1993, Investors in People UK was set up as a Non-Departmental Public Body (NDPB) to provide business leadership for the Standard on behalf of the Secretary of State for Education and Employment. The Company has three main objectives:

- national ownership, leadership and direction of the Standard, including promotion at national and local level

- maintenance of the Standard and national quality assurance of the assessment process

- assessment against the Standard of national organisations, including TECs, LECs and industry organisations

2.2 Background to this Report

2.2.1 The 1996 Hambleden Report No. 1 'Investors In People Review'

In 1996 we asked 'do Investors in People perform differently from other companies, financially?' Observation and experience convinced us that they did, but we wanted hard facts. Our study was a snapshot of companies which had become recognised by 1995. How well were they performing relative to their peers who had not? What we found was a huge apparent advantage, but no causative link between Investors in People and profitability. Although the companies we studied were performing better than most, we did not know how well they had been doing before they were recognised.

2.2.2 The 1998 Hambleden Report No. 2 'Return on Human Capital'

An addendum to the 1996 report (No. 1) which introduced the new benchmark 'Return on Human Capital' by recalculating the 1996 figures.

2.2.3 The 2000 Hambleden Report No. 3 'Investors in People – Before and After'

In this report we again examined financial performance in an effort to provide more persuasive evidence of a link between Investors in People and improved business performance. Our concern was financial performance *over time*. We looked at data from companies that had attained the Standard by 1998 and compared their performance in that year to that of 1994, four sets of figures back, before they achieved Investors in People recognition. The comparison group consisted of companies similar in various respects (size, industry group) which did not have Investors in People recognition.

2.2.4 The 2001 Hambleden Report No. 4
'Investors in People – A Practical Tool for Business Growth'

Strongly based on Report Number 3 this publication includes additional data such as industry tables and opinions based on practical experiences derived from our field work with the 1996 and 1998 research. We have included knowledge derived from individually benchmarking 1000 businesses, employing 50 or more people, with their directors, where we linked financial performance gaps to corresponding gaps in their human resource practices.

The main purpose of this publication is as a practical working document to position the Standard as a business tool. It is aimed at the hands-on people inside companies and in the field who do not get rewarded for their efforts unless a concrete result is obtained.

For that reason, it is issued free of charge to all bona fide users.

3 Method

3.1 The brief

Our original brief from the Department for Education and Employment was:

1. To update our 1996 examination of the financial performance of recognised Investors in People companies using Companies House data

2. To compare the financial performance of recognised Investors in People companies with sector averages

3. To introduce a before and after recognition comparison of the performance of recognised Investors in People companies

3.2 Building a database

The first task was to search the Companies House database for those companies, with and without Investors in People recognition, which reported reliable and complete sets of performance data, to be used in the construction of eleven indicators of financial performance (hereafter called "benchmarks").

A list of recognised Investors in People organisations, as of October 1999, was supplied by Investors in People UK. This was matched against data on all reporting companies in the UK held at Companies House; that is, those Limited Companies and Public Limited Companies required to file *full* accounts. Our search resulted in a list of 1,143 recognised companies with sufficient data to calculate all eleven benchmarks.

Investors in People recognised organisations	15,368
Recognised Ltd & plc companies with (any) financial data	5,642
Records with insufficient financial data	4,499
Records with sufficient financial data	**1,143**

The 15,368 recognised organisations included a significant number where either no or insufficient financial data were available for the following reasons:

- public sector and unincorporated organisations do not report to Companies House
- some companies are part of larger groups and their accounts are consolidated with group accounts when they are filed
- a significant number of small and medium size companies are not required to file full accounts due to their size. Typically these companies file an abbreviated balance sheet and either no, or an abbreviated, profit and loss account
- some recognised companies may not have been matched with Companies House records due to variation in the way that their names have been recorded

3.3 Measurement criteria

DfEE's brief indicated preferred methods of presentation, which included *median performance*. A median is calculated by arranging all the recorded values in order of magnitude and taking the middle value. Thereby, exactly half of a given population will have greater values than the median and exactly half will have less. The significance of this method is that by identifying the middle performance we have avoided any distorting effects on the average caused by high or low performance at the extreme ends of the band.

This can be further expressed in *quartiles*, that is, by adding further lines 25% and 75% up the list. We have referred to companies in the top two quartiles as 'dominant'.

3.4 The benchmarks used

We analysed performance data in terms of 11 indicators which are fully explained in the relevant section of the report. These are largely consistent with DfEE and Department of Trade and Industry (DTI) impact measures used to assess the effectiveness of Government-funded programmes on those companies assisted by TECs, Business Links and Chambers of Commerce.

•	Sales turnover
•	Export turnover
•	Return on sales
•	Net worth
•	Return on capital
•	Return on assets
•	Number of employees
•	Average employee remuneration
•	Sales per employee
•	Profit per employee
•	Return on human capital

These benchmarks cover those areas of corporate financial performance which we believe to be affected by the collective capabilities of a majority of employees. So, for example, we have included sales turnover and profit, but neither debt nor cash ratios.

3.5 Industry sectors

The eleven industry sectors named in this report are derived from Standard Industry Classifications (SIC). There are nearly 1,000 individual SIC codes and these can be grouped into 60 broad classifications. With financial data available for only 1,143 companies we needed to group companies together in a way which would potentially have statistical validity and therefore reduced the number of groups to eleven. Every company in our study was assigned to one of the eleven sectors, fully explained in the appropriate section of the report. They are:

• Primary industries
• Heavy manufacturing/Construction
• Light manufacturing
• Wholesale distribution
• Retail distribution
• Transport
• Technology/Communications
• Business services
• Finance/Property services
• Retail services
• Public services

3.6 Company size

DfEE divides companies into four groups by number of employees for monitoring and targeting purposes. These are:

- under 10 (micro)
- 10 to 49 (small)
- 50 to 199 (medium)
- 200+ (large)

Companies with fewer than 50 employees were eliminated from this study as insufficient financial data were available from Companies House. This report, therefore, is concerned with large and medium-sized companies.

4 Relative Financial Performance of Investors in People Companies

We examined the financial performance of ***16,399 companies with between 50 and 199*** employees and ***8,242 companies with over 200*** employees.

We compared their 1994 figures and their 1998 figures. By 1998 ***473 of the medium-sized companies***, and ***475 of the large ones*** had become recognised as Investors in People. We wanted to see how medium and large companies performed respectively when their performance was measured against the *median* performance of other medium or large companies.

On the following pages we first explain each benchmark, then show the findings in a table with a summary of their significance.

The percentage differences expressed in each table show the proportionate relationships between the two scores.

The narrative beneath each table comments on differences in growth rates.

4.1 Sales turnover

Definition

Turnover = all the sales invoices for the year, excluding credit notes and VAT.

Use as a comparator

Turnover determines a company's *market power relative to its peers*. Generally, if it is in the top quartile (the top 25%) it is able to set the pricing and product agenda and recruit the best staff. If it is in the bottom quartile it may be forced to be a follower, less profitable and struggling to attract the best people. Or, on the other hand, it might occupy a special niche in the market, and be very profitable.

Interpretation

Sales rising above the trend in the sector indicate growing market share. However, they could be accompanied by a cash shortage, thin profits, or even losses resulting from 'buying' growth. Sales falling below the trend in the sector might indicate operational difficulties with a product or service, or a failure to deal effectively with new competition.

4.1.1 Medium-sized companies

SALES TURNOVER - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	£5.10m	All companies, median	£7.00m	Growth in all companies 37%
IiP companies, median	£5.20m	IiP companies, median	£7.00m	Growth in IiP companies 35%
There was almost no difference in starting position and none in the finishing position.				

Conclusions

There is no significant difference in sales turnover growth rates between Investors in People companies and all companies. Nor can we find links between sales turnover and staff skills. We conclude that Investors in People has no comparative impact on sales growth. Interestingly, their high net worth does give them the financial strength to raise sales ifthey choose to.

4.1.2 Large companies

SALES TURNOVER - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	£26.00m	All companies, median	£37.20m	Growth in all companies 43%
IiP companies, median	£34.40m	IiP companies, median	£48.50m	Growth in IiP companies 41%
Large IiP companies began with a sales turnover 32% above the median and turnover in 1998 was 30% above.				

Conclusions

Large companies electing to become recognised Investors in People grew at a similar rate to all companies and the same remarks apply as for medium-sized companies above.

4.2 Export turnover

Definition

Sales turnover in respect of goods and services invoiced to entities outside the pound sterling currency area.

Use as a comparator

Export turnover indicates the international focus of the business. It could indicate UK market saturation or a technological edge of some sort. In general, export sales are less profitable than domestic sales.

Interpretation

A rising share of sales coming from exports might suggest a fully exploited UK market, with overseas trade receiving most attention. A falling share might indicate the effect of a strong home currency on prices.

The tables opposite express export turnover first as actuals (actual sales figures in brackets) and then as a percentage of total sales turnover.

4.2.1 Medium-sized companies

EXPORT TURNOVER - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	(£0.85m) 16.6%	All companies, median	(£1.10m) 16.1%	Decline in all companies -3%
IiP companies, median	(£1.00m) 19.10%	IiP companies, median	(£1.60m) 23.3%	Growth in IiP companies 22%
Medium-sized IiP companies began with an export turnover content 18% above the median and finished with an export turnover content 45% above.				

Conclusions

Investors in People companies were exporting more in 1994 and their export turnover had grown significantly four years later while others declined. Exporting is more difficult than domestic sales, requiring more knowledge and determination, so there could be a link to investment in human resources. We conclude that Investors in People companies have more markets, and work harder at keeping them, than the median company.

4.2.2

EXPORT TURNOVER - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	(£3.90m) 15.1%	All companies, median	(£5.30m) 14.2%	Decline in all companies -6%
IiP companies, median	(£6.00m) 17.6%	IiP companies, median	(£12.00m) 24.9%	Growth in IiP companies 41%
A pronounced difference in performance. Large IiP companies began with export turnover content 17% above the median and by 1998 had achieved a figure 75% above.				

Conclusions

Export markets are more difficult and complex to succeed in than the home market. The proportion of sales into export markets grew in large Investors in People companies with a remarkable 47% growth rate advantage. This could indicate, among other factors, investment in higher skills, e.g. in languages, market research, local regulations, distribution systems.

4.3 Return on Sales

Definition

Return on Sales, also known as pre-tax profit margin, is computed by *dividing pretax profit by sales turnover* (x100). This is the amount of profit left in the business after all allowable costs have been deducted prior to taxation. We have added back interest paid and directors' earnings in order to create a "level playing field" for comparison purposes. Directors' practices differ widely between the extremes of extracting all spare cash for personal use and making the company operate on borrowed funds, or making modest cash withdrawals and using retained profits (shareholders' funds) to finance the business. This approach irons out such differences. This profit definition is applied consistently throughout our analysis.

Use as a comparator

The return on sales figure demonstrates a company's compound ability to buy and sell at best prices whilst controlling costs and quality, thereby creating cash surpluses to finance growth and/or dividend payments.

Interpretation

Rising return on sales indicates a company with good overall controls and successfully exploited opportunities; a falling figure might indicate almost any problem since all misfortunes come home to roost here.

4.3.1 Medium-sized companies

RETURN ON SALES - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	(£0.34m) 6.7%	All companies, median	(£0.45m) 6.4%	Decline in all companies -4%
IiP companies, median	(£0.34m) 6.6%	IiP companies, median	(£0.53m) 7.5%	Growth in IiP companies 14%
Medium-sized IiP companies began with return on sales 1% below the median and by 1998 had achieved a figure 17% above.				

Conclusions

Whilst all companies declined slightly, Investors in People companies showed an 18% growth advantage. Widening the performance gap demands higher skills across the business spectrum.

4.3.2 Large companies

RETURN ON SALES - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	(£1.30m) 5.2%	All companies, median	(£2.00m) 5.3%	Growth in all companies 2%
IiP companies, median	(£1.90m) 5.5%	IiP companies, median	(£3.00m) 6.2%	Growth in IiP companies 13%
Large IiP companies began with a return on sales 6% above the median and by 1998 had achieved a figure 17% above.				

Conclusions

Large Investors in People companies grew more than six times faster than all companies. Widening this performance gap demands a range of high skills across the business spectrum.

4.4 Net worth

Definition

The amount of financial value left in the company after all tangible assets have been valued and all liabilities deducted. Sometimes known as 'shareholders' funds'.

Use as a comparator

Net worth indicates whether profits after tax are being generated and whether they are being retained in the business to finance growth.

Interpretation

Growth indicates an intention to reinvest for further growth. Decline may be the result of losses, or shareholders removing funds for other purposes.

4.4.1 Medium-sized companies

NET WORTH - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	£0.76m	All companies, median	£1.10m	Growth in all companies 45%
IiP companies, median	£0.85m	IiP companies, median	£1.30m	Growth in IiP companies 53%
Medium-sized IiP companies began with a net worth 12% above the median and by 1998 had achieved a figure 18% above.				

Conclusions

Investors in People companies grew their net worth at a higher rate than all companies. This build in value could indicate that such companies have serious growth intentions, implying a willingness to recruit and retain people capable of bringing long-term company goals to fruition.

4.4.2 Large companies

NET WORTH - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	£4.30m	All companies, median	£5.60m	Growth in all companies 30%
IiP companies, median	£5.70m	IiP companies, median	£8.70m	Growth in IiP companies 53%
Large IiP companies began with a net worth 33% above the median and by 1998 had achieved a figure 55% above.				

Conclusions

Large Investors in People companies, worth around £1.4m above the median in 1994, had increased their advantage to £3.1m by 1998, which represents a growth approaching twice the rate of all companies. There would appear to be a link between Investors in People and increasing capital value.

4.5 Return on capital

Definition

Return on capital employed (ROCE) is also known as return on net assets (RONA). It is calculated by *dividing pretax profit by the total of assets less long term liabilities* (x100).

Use as a comparator

By calculating its return on capital, a business can evaluate its returns against those achievable from other investment opportunities by looking at the performance of the net value of the funds utilised. Different companies and types of investment carry different risk factors which need careful consideration in any comparison of return on capital.

Interpretation

Changes mean that the relationship between profit, assets and borrowings has moved in either a simple or complex fashion that needs examination first. Clearly, the goal has to be that of minimising the scale of borrowings and the net investment, while maximising the profit yield from both with safety.

The tables opposite first express capital employed as actuals (actual capital in brackets) and then as the percentage of profit return against it (ROCE).

4.5.1 Medium-sized companies

RETURN ON CAPITAL - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	(£1.20m) 29.6%	All companies, median	(£1.70m) 27.1%	Decline in all companies -8%
IiP companies, median	(£1.30m) 25.4%	IiP companies, median	(£1.90m) 27.9%	Growth in IiP companies 10%
Medium-sized IiP companies began with return on capital 14% below the median and by 1998 had achieved a figure 3% above.				

Conclusions

The return on capital of all companies declined over the period, whilst that of Investors in People companies increased significantly. This could imply the formation of a virtuous circle — enhanced business skills plus intent to grow, attracting even higher skills. This, in turn, helps a medium-sized company attract financial investors if it needs to.

4.5.2 Large companies

RETURN ON CAPITAL - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	(£7.00m) 19.2%	All companies, median	(£10.10m) 19.5%	Growth in all companies 2%
IiP companies, median	(£10.20m) 18.4%	IiP companies, median	(£13.40m) 22.4%	Growth in IiP companies 22%
Large IiP companies began with return on capital employed 4% below the median and by 1998 had achieved a figure 15% above.				

Conclusions

Large companies which achieved Investors in People recognition increased their return on capital employed at a rate 11 times greater than all companies.

4.6 Return on assets

Definition

The return on assets managed (RAM) is also known as return on total assets (ROTA). It is calculated by *dividing pretax profit by the value of the total tangible assets owned and used by the company* (x100).

Use as a comparator

The return on assets figure allows a company to evaluate its returns against those achievable from other investment opportunities. Different companies and types of investment carry different risk factors that need careful consideration in any comparison. Because it represents the return on all the assets used by the company, without any reduction for the borrowed element, it encourages management to be prudent in their sourcing and application of funds and holistic in their approach to earning a return for the shareholders.

Interpretation

Changes in return on assets managed mean that the relationship between profit and capital has moved in either a simple or complex fashion —which needs examination first. Clearly the goal must be to minimise the size of investments while maximising the profit yield from them.

The tables opposite first express assets as actuals (actual assets in brackets) and then express pre-tax profits as a percentage of total assets.

4.6.1 Medium-sized companies

RETURN ON ASSETS - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	(£2.30m) 14.7%	All companies, median	(£3.30m) 13.6%	Decline in all companies -7%
IiP companies, median	(£2.50m) 13.5%	IiP companies, median	(£3.40m) 15.7%	Growth in IiP companies 16%
Medium-sized IiP companies began with return on assets 8% below the median and by 1998 had achieved a figure 15% above.				

Conclusions

The return on assets for all companies declined over the period whilst that of Investors in People companies advanced substantially. This again could indicate the formation of a virtuous circle involving enhanced skills.

4.6.2 Large companies

RETURN ON ASSETS - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	(£13.40m) 10%	All companies, median	(£19.10m) 10.4%	Growth in all companies 4%
IiP companies, median	(£18.00m) 10.5%	IiP companies, median	(£26.50m) 11.3%	Growth in IiP companies 8%
Large IiP companies began with return on assets 5% above the median and by 1998 had achieved a figure 9% above.				

Conclusions

Large Investors in People companies grew at twice the rate of all companies during the period. Again, we seem to be looking at particularly effective business management, as good performance here implies prudent debt management.

4.7 Number of employees

Definition

The number of people employed on a full-time equivalent basis, i.e. the *total hours worked by all employees divided by the number of hours in a full time working week.*

Use as a comparator

Once the number of full-time employees is known, it is possible to assess productivity in relation to the profit and loss account statistics. Sales and profits can be computed to show what each person is achieving by comparison with those in other companies and industries.

Interpretation

Rising employee numbers without a corresponding rise in sales may signal planned expansion with higher sales to follow, or it may mean more difficult operating conditions or inefficient work practices. Falling employee numbers, without a drop in sales might mean contracting-out is taking place or systematic gains in productivity are being achieved.

4.7.1 Medium-sized companies

NUMBER OF EMPLOYEES - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	73	All companies, median	87	Growth in all companies 19%
IiP companies, median	86	IiP companies, median	99	Growth in IiP companies 15%
Medium-sized IiP companies began with employee numbers 18% above the median and by 1998 had reduced this figure to 14% above.				

Conclusions

The employment rate for all companies advanced significantly whilst that of Investors in People companies advanced more slowly. This indicates effective strategy in raising productivity.

4.7.2 Large companies

NUMBER OF EMPLOYEES - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	344	All companies, median	440	Growth in all companies 28%
IiP companies, median	428	IiP companies, median	518	Growth in IiP companies 21%
Large IiP companies began with employee numbers 24% above the median and by 1998 had reduced this figure to 18% above.				

Conclusions

As for medium-sized companies, the pattern is repeated, in that Investors in People companies are able to grow their workforces at a slower rate, thus raising comparative productivity.

4.8 Average remuneration

Definition

The average wage paid to employees, that is, management and staff, but not directors. It is derived by d*ividing the number of Full Time Equivalent employees into the total wages and salaries bill for the company*. Social security and pension contributions are excluded.

Use as a comparator

Knowledge of this figure permits analysis of local labour costs and the company's need for, or focus on, expertise. Regional differences in remuneration need to be considered here.

Interpretation

A rise in average remuneration might indicate a growing need for new skills from people who cost more, or the need to reduce employee turnover by 'purchasing' stability. Falling or static average remuneration might suggest a company de-skilling or shrinking, or a high recruitment rate of young people on low starting pay.

4.8.1 Medium-sized companies

Average Remuneration - Medium-Sized Companies				
1994		1998		Therefore...
All companies, median	£14.30K	All companies, median	£17.00K	Growth in all companies 19%
IiP companies, median	£13.50K	IiP companies, median	£16.80K	Growth in IiP companies 24%
Medium-sized IiP companies began with average remuneration 6% below the median and by 1998 had reduced this percentage to 1% below.				

Conclusions

Investors in People companies were able to establish a superior growth rate in employee earnings which enabled them to achieve near parity with all companies from a lower starting position.

4.8.2 Large companies

Average Remuneration - Large Companies				
1994		1998		Therefore...
All companies, median	£14.30K	All companies, median	£17.20K	Growth in all companies 20%
IiP companies, median	£14.30K	IiP companies, median	£18.30K	Growth in IiP companies 28%
Large IiP companies began with average remuneration precisely at the median and by 1998 had increased the figure to 6% above.				

Conclusions

Large Investors in People companies were able to achieve earnings growth at a rate nearly 50% higher than all companies. They seem to be using their purchasing power to buy higher expertise.

4.9 Sales per employee

Definition

Sales *turnover* per employee expresses the volume throughput of the company related to the number of people servicing that volume, and as such is a classic measure of productivity. It is calculated by *dividing total sales by the number of Full Time Equivalent employees.*

Use as a comparator

Knowing this figure enables analysis of labour effectiveness. Some companies sell products, other companies sell services, and yet others simply collect commission on goods and services sold and handled by others. Many sub-contract the labour-intensive parts of their productive processes. All these factors need consideration before making direct comparisons.

Interpretation

Bearing in mind the above reservations, a consistently rising trend could indicate a company that is investing in skills, knowledge and technology all at the same time, to drive a steadily rising output through finding faster and better ways of doing things. A falling trend could go with rising profit margins as the company moves into higher-value, but more labour-intensive markets. On the other hand, it might mean a company falling behind in the skills revolution.

4.9.1 Medium-sized companies

Sales Turnover Per Employee - Medium-Sized Companies				
1994		1998		Therefore...
All companies, median	£70.40K	All companies, median	£81.10K	Growth in all companies 15%
IiP companies, median	£60.30K	IiP companies, median	£71.60K	Growth in IiP companies 19%
Medium-sized IiP companies began with sales per employee 14% below the median and by 1998 had narrowed the gap to 12% below.				

Conclusions

Investors in People companies grew 25% faster than all companies and narrowed the gap, improving comparative productivity.

4.9.2 Large companies

Sales Turnover Per Employee - Large Companies				
1994		1998		Therefore...
All companies, median	£75.60K	All companies, median	£84.40K	Growth in all companies 12%
IiP companies, median	£80.30K	IiP companies, median	£93.70K	Growth in IiP companies 17%
Large IiP companies began with sales per employee 6% above the median and by 1998 had achieved a figure 11% above.				

Conclusions

Large Investors in People companies achieved productivity growth at almost half as much again as the rate for all companies. As a measure of productivity, this figure shows comparatively greater competence by people which results in them raising their output.

4.10 Profit per employee

Definition

This benchmark is calculated by *dividing the pretax profit by the number of Full Time Equivalent employees*.

Use as a comparator

Profit per employee expresses the overall performance of a company by taking into account the effective contribution of the human resource involved in achieving the result.

Interpretation

Profit per employee rising steadily can indicate a company where balance has been achieved between financial and human resource strategies. A falling trend might indicate the reverse. On the other hand, it could indicate a move to replace machinery with people in order to raise personal service levels.

4.10.1 Medium-sized companies

PROFIT PER EMPLOYEE - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	£4.70K	All companies, median	£5.20K	Growth in all companies 11%
IiP companies, median	£4.00K	IiP companies, median	£5.30K	Growth in IiP companies 33%
Medium-sized IiP companies began with profits per employee 15% below the median. By 1998 they had achieved a figure 2% above.				

Conclusions

Investors in People companies grew at exactly three times the rate of all companies. It follows that the more all known business skills are applied objectively, the greater will be the impact upon productivity.

4.10.2 Large companies

PROFIT PER EMPLOYEE - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	£3.90K	All companies, median	£4.50K	Growth in all companies 15%
IiP companies, median	£4.40K	IiP companies, median	£5.80K	Growth in IiP companies 32%
Large IiP companies in 1994 achieved profits per employee 13% above the median. By 1998 the figure had increased to 29% above.				

Conclusions

The recognised companies grew at more than twice the rate of all companies. It follows that the more all known business skills are applied objectively, the greater will be the impact upon productivity.

4.11 Return on Human Capital

Definition

The figure is calculated *by dividing the profit per employee by average remuneration* (x100). It supposes that the wage bill is an annual capital investment that a company makes in the expectation of getting a return.

Use as a comparator

This benchmark provides an interesting juxtaposition with return on capital employed (ROCE), since many companies now invest more each year in wage costs than is represented by the total value of their fixed asset investment. We hope that it will become the accepted financial expression of how effectively a company invests in its people, and therefore a key component in its valuation as a going concern.

Interpretation

Growth in return on human capital might indicate the achievement of balance and harmony between fixed asset and human capital investment. Convergence with ROCE might indicate a company in transition from a focus on things to a focus on people.

4.11.1 Medium-sized companies

RETURN ON HUMAN CAPITAL - MEDIUM-SIZED COMPANIES				
1994		1998		Therefore...
All companies, median	33.00%	All companies, median	30.50%	Decline in all companies -8%
IiP companies, median	29.50%	IiP companies, median	31.90%	Growth in IiP companies 8%
Medium-sized IiP companies in 1994 showed a return on human capital 11% below the median. By 1998 they had achieved a figure 5% above.				

Conclusions

Investors in People companies grew at exactly the rate at which all companies declined, indicating a more effective return on employment costs.

4.11.2 Large companies

RETURN ON HUMAN CAPITAL - LARGE COMPANIES				
1994		1998		Therefore...
All companies, median	27.30%	All companies, median	26.20%	Decline in all companies -4%
IiP companies, median	30.80%	IiP companies, median	31.60%	Growth in IiP companies 3%
Large IiP companies in 1994 showed a return on human capital 13% above the median. By 1998 they had achieved a figure 21% above.				

Conclusions

Large Investors in People companies grew at nearly the same rate at which all companies declined, indicating a growing return on employment costs.

4.12 Performance tables

The following four charts show a diagrammatical summary of the findings from the benchmarking exercise.

4.12.1 The performance of Investors in People recognised companies compared with all UK companies

MEDIUM-SIZED COMPANIES			
		Below median	Above median
Sales turnover	**1994**	= to median	= to median
	1998	= to median	= to median
Export turnover	**1994**		+15%
	1998		+45%
Return on sales	**1994**	-1%	
	1998		+17%
Net worth	**1994**		+12%
	1998		+18%
Return on capital	**1994**	-14%	
	1998		+3%
Return on assets	**1994**	-8%	
	1998		+15%
Employee numbers	**1994**		+18%
	1998		+14%
Average pay	**1994**	-6%	
	1998	-1%	
Sales per employee	**1994**	-14%	
	1998	-12%	
Profit per employee	**1994**	-15%	
	1998		+2%
Return on human capital	**1994**	-11%	
	1998		+5%

4.12.2 The growth rate of Investors in People recognised companies compared with all UK companies between 1994 and 1998

MEDIUM-SIZED COMPANIES			
		Below median	Above median
Sales turnover -	IiP companies		+35%
	All companies		+37%
Export turnover -	IiP companies		+22%
	All companies	-3%	
Return on sales -	IiP companies		+14%
	All companies	-4%	
Net worth -	IiP companies		+53%
	All companies		+45%
Return on capital -	IiP companies		+10%
	All companies	-8%	
Return on assets -	IiP companies		+16%
	All companies	-7%	
Employee numbers -	IiP companies		+15%
	All companies		+19%
Average pay -	IiP companies		+24%
	All companies		+19%
Sales per employee -	IiP companies		+19%
	All companies		+15%
Profit per employee -	IiP companies		+33%
	All companies		+11%
Return on human capital -	IiP companies		+8%
	All companies	-8%	

4.12.3 The performance of Investors in People recognised companies compared with all UK companies

LARGE COMPANIES			
		Below median	Above median
Sales turnover	**1994**		+32%
	1998		+30%
Export turnover	**1994**		+17%
	1998		+75%
Return on sales	**1994**		+6%
	1998		+17%
Net worth	**1994**		+33%
	1998		+55%
Return on capital	**1994**	-4%	
	1998		+15%
Return on assets	**1994**		+5%
	1998		+9%
Employee numbers	**1994**		+24%
	1998		+18%
Average pay	**1994**		= to median
	1998		+6%
Sales per employee	**1994**		+6%
	1998		+11%
Profit per employee	**1994**		+13%
	1998		+29%
Return on human capital	**1994**		+13%
	1998		+21%

4.12.4 The growth rate of Investors in People recognised companies compared with all UK companies between 1994 and 1998

LARGE COMPANIES

		Below median	Above median
Sales turnover -	IiP companies		+41%
	All companies		+43%
Export turnover -	IiP companies		+41%
	All companies	-6%	
Return on sales -	IiP companies		+13%
	All companies		+2%
Net worth -	IiP companies		+53%
	All companies		+30%
Return on capital -	IiP companies		+22%
	All companies		+2%
Return on assets -	IiP companies		+8%
	All companies		+4%
Employee numbers -	IiP companies		+21%
	All companies		+28%
Average pay -	IiP companies		+28%
	All companies		+20%
Sales per employee -	IiP companies		+17%
	All companies		+12%
Profit per employee -	IiP companies		+32%
	All companies		+15%
Return on human-capital	IiP companies		+3%
	All companies	-4%	

5 Findings by industry sector

5.1 Introduction

Most businesses view themselves as part of a highly specialised sector consisting of perhaps only half a dozen direct competitors. At this level, special factors will set limits to performance ratios. We have not sought to address such detailed criteria but instead have established figures broadly indicative of performance achieved by the *median* company from a field in which companies carry out similar activities.

We need to point out that the sample sizes in most groups were relatively small for a high statistical confidence level, even when data for companies of different sizes were aggregated. However, the industry tables from our first report were based on fewer companies than represented here and those turned out to be perfectly usable in practice for benchmarking purposes. Therefore, with the benefit of many more companies contributing we feel quite confident in presenting the data here as "strongly indicative".

The results are summarised in the table opposite and presented in more detail, by sector, in the pages that follow.

5.2 Financial ratio comparison
Companies by industry sector - any number of employees

1,143 All-Size Companies With Investors In People Recognition Versus 38,652 All Size Companies					
INDUSTRY	(1) Total companies	(2) Total IiP companies	(3) Dominant start position	(4) Dominant finish position	(5) Superior growth rates
Primary	637	34	6	9	8
Heavy Manufacturing & Construction	6662	233	7	8	7
Light Manufacturing	7587	295	6	10	9
Wholesale	5842	89	5	7	8
Retail	6139	125	5	8	9
Transport	743	10	6	6	8
Technology & Communications	1712	46	6	8	9
Business Services	4314	113	4	7	7
Finance & Property Services	1948	53	5	7	7
Retail Services	1396	34	6	4	7
Public Services	1672	111	4	6	7
Total	38652	1143			
Averages	3514	104	5 (45%)	8 (73%)	8 (73%)

(1) Total number of companies in each sector with sufficient data available from Companies House to calculate all eleven benchmarks.

(2) Total number of Investors in People recognised companies with sufficient data available from Companies House to calculate all eleven benchmarks.

(3) The number of benchmarks, out of a total of eleven, where Investors in People recognised companies showed superior performance compared with all companies in 1994 i.e. before recognition.

(4) The number of benchmarks, out of a total of eleven, where Investors in People recognised companies showed superior performance compared with all companies in 1998 i.e. after recognition.

(5) The number of benchmarks, out of a total of eleven, where Investors in People recognised companies showed superior growth rates compared with all companies between 1994 and 1998.

5.3 Industry tables

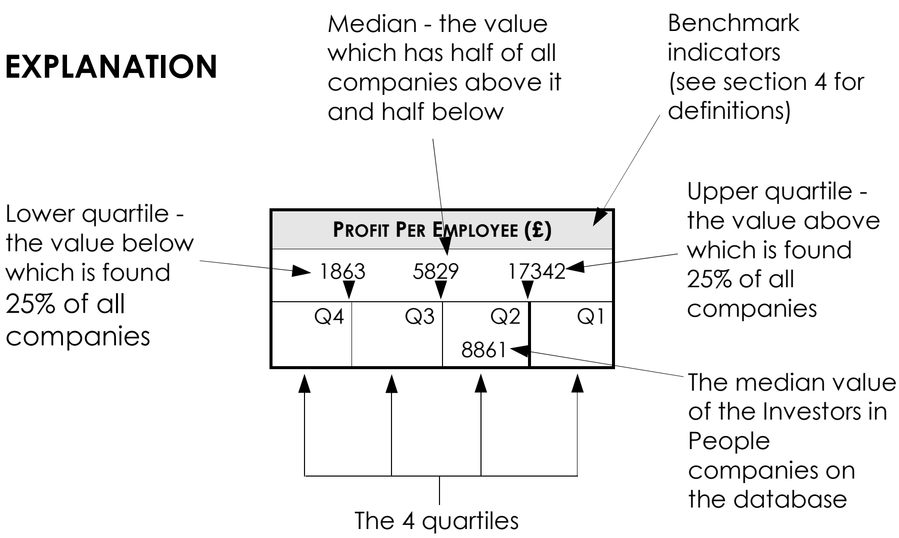
5.3.1 Interpreting the industry tables

The following tables are structured so that all 11 benchmark statistics appear together on one page for each industry group. The figures appearing in the top row of each benchmark box represent the performance spread of all companies in that industry group. The figure appearing in the bottom row of each table is the median score for all recognised Investors in People companies in that industry group.

The at-a-glance comparison should be of the two medians. If the bottom row score is to the right of the median score in the top row it means that the Investors in People companies in that industry are doing better than the rest.

The figures used in these tables are for the latest year, 1998, for which full Companies House accounts are now on file for all qualifying companies. Thus, they can be used with confidence to establish performance benchmarks for any business by comparing its actual 1998 performance with those of its industry group. From that point, it is a simple matter to calculate the financial advantage available to any business by embarking upon the Investors in People journey.

TABLE EXPLANATION



i Primary industries

Growing, extracting or processing animal, vegetable or mineral substances to produce energy and/or raw materials.

Return on Sales (%)			
2.34	6.71	15.53	
Q4	Q3	Q2	Q1
		9.26	

Average Remuneration (£)			
11718	15179	20189	
Q4	Q3	Q2	Q1
		17619	

Return on Capital Employed (%)			
7.41	19.44	35.78	
Q4	Q3	Q2	Q1
	16.80		

Turnover Per Employee (£)			
49720	93000	157000	
Q4	Q3	Q2	Q1
		107561	

Return on Assets Managed (%)			
4.54	10.97	17.91	
Q4	Q3	Q2	Q1
	9.31		

Profit Per Employee (£)			
1863	5829	17342	
Q4	Q3	Q2	Q1
		8861	

Return on Human Capital (%)			
16.9	43.31	109.55	
Q4	Q3	Q2	Q1
		46.12	

Sales Turnover (£000's)			
3322	8810	29077	
Q4	Q3	Q2	Q1
		16146	

Number of Employees			
46	92	234	
Q4	Q3	Q2	Q1
		178	

Net Worth (£000's)			
631	1766	6293	
Q4	Q3	Q2	Q1
		6096	

Export Content of Sales (%)			
1.71	6.87	21.00	
Q4	Q3	Q2	Q1
		9.21	

In 1994, companies in this sector performed above the median level against *six* of the eleven benchmarks. In 1998, they performed above the median level against *nine* of them.

ii Heavy manufacturing and construction

Turning heavy materials into large products or assemblies.

Return on Sales (%)			
2.47	5.80	10.61	
Q4	Q3	Q2	Q1
	5.54		

Average Remuneration (£)			
15162	18000	21656	
Q4	Q3	Q2	Q1
		19374	

Return on Capital Employed (%)			
13.89	28.50	54.05	
Q4	Q3	Q2	Q1
	22.80		

Turnover Per Employee (£)			
56794	84988	140804	
Q4	Q3	Q2	Q1
		103143	

Return on Assets Managed (%)			
6.58	12.70	20.56	
Q4	Q3	Q2	Q1
	10.70		

Profit Per Employee (£)			
2516	5667	11128	
Q4	Q3	Q2	Q1
		6200	

Return on Human Capital (%)			
15.16	32.82	59.93	
Q4	Q3	Q2	Q1
		33.84	

Sales Turnover (£000's)			
3851	8529	23546	
Q4	Q3	Q2	Q1
			28813

Number of Employees			
49	86	191	
Q4	Q3	Q2	Q1
			254

Net Worth (£000's)			
435	1154	3423	
Q4	Q3	Q2	Q1
			3864

Export Content of Sales (%)			
5.18	16.31	39.68	
Q4	Q3	Q2	Q1
		27.55	

In 1994, companies in this sector performed above the median level against *seven* of the eleven benchmarks. In 1998, they performed above the median level against *eight* of them. They tended to be better funded than the others which lowered their returns.

iii Light manufacturing

Turning light materials into components or small assemblies.

Return on Sales (%)

Q4	Q3	Q2	Q1
2.94	7.11	12.06	
		8.46	

Average Remuneration (£)

Q4	Q3	Q2	Q1
14151	17500	21260	
	17463		

Return on Capital Employed (%)

Q4	Q3	Q2	Q1
11.95	25.99	48.64	
		27.10	

Turnover Per Employee (£)

Q4	Q3	Q2	Q1
53505	74081	106173	
		82780	

Return on Assets Managed (%)

Q4	Q3	Q2	Q1
6.46	13.75	22.22	
		15.66	

Profit Per Employee (£)

Q4	Q3	Q2	Q1
2440	5935	11135	
		7181	

Return on Human Capital (%)

Q4	Q3	Q2	Q1
16.41	35.54	61.72	
		43.24	

Sales Turnover (£000's)

Q4	Q3	Q2	Q1
4074	8209	20479	
		18376	

Number of Employees

Q4	Q3	Q2	Q1
56	100	225	
		174	

Net Worth (£000's)

Q4	Q3	Q2	Q1
478	1356	3896	
		3092	

Export Content of Sales (%)

Q4	Q3	Q2	Q1
6.23	21.01	48.02	
		30.18	

In 1994, companies in this sector performed above the median level against *six* of the eleven benchmarks. In 1998, they performed above the median level against *ten* of them.

iv Wholesale distribution

Getting manufactured goods or processed materials to business users and retailers.

Return on Sales (%)

1.95 4.41 8.19

Q4 Q3 Q2 Q1

6.42

Average Remuneration (£)

14648 18888 24930

Q4 Q3 Q2 Q1

18381

Return on Capital Employed (%)

16.78 33.76 63.38

Q4 Q3 Q2 Q1

35.27

Turnover Per Employee (£)

115750 188842 343019

Q4 Q3 Q2 Q1

151969

Return on Assets Managed (%)

6.68 12.89 21.19

Q4 Q3 Q2 Q1

14.47

Profit Per Employee (£)

4617 10349 21692

Q4 Q3 Q2 Q1

10804

Return on Human Capital (%)

28.65 57.12 101.72

Q4 Q3 Q2 Q1

53.99

Sales Turnover (£000,s)

4175 8752 21206

Q4 Q3 Q2 Q1

14628

Number of Employees

21 39 80

Q4 Q3 Q2 Q1

71

Net Worth (£000's)

377 980 2371

Q4 Q3 Q2 Q1

1533

Export Content of Sales (%)

2.46 7.65 25.48

Q4 Q3 Q2 Q1

3.88

In 1994, companies in this sector performed above the median level against *five* of the eleven benchmarks. In 1998, again they performed above the median level against *seven* of them.

v Retail distribution

Putting goods and materials into the hands of consumers.

RETURN ON SALES (%)

1.55 3.71 9.32

Q4	Q3	Q2	Q1
		6.26	

AVERAGE REMUNERATION (£)

9800 13667 17387

Q4	Q3	Q2	Q1
	13413		

RETURN ON CAPITAL EMPLOYED (%)

11.14 24.03 46.79

Q4	Q3	Q2	Q1
		24.15	

TURNOVER PER EMPLOYEE (£)

48143 117681 249404

Q4	Q3	Q2	Q1
	58217		

RETURN ON ASSETS MANAGED (%)

5.66 10.94 17.88

Q4	Q3	Q2	Q1
		11.83	

PROFIT PER EMPLOYEE (£)

2349 5459 10229

Q4	Q3	Q2	Q1
	4972		

RETURN ON HUMAN CAPITAL (%)

20.21 43.78 74.67

Q4	Q3	Q2	Q1
		47.61	

SALES TURNOVER (£000'S)

3738 8945 23764

Q4	Q3	Q2	Q1
		16634	

NUMBER OF EMPLOYEES

35 69 165

Q4	Q3	Q2	Q1
		160	

NET WORTH (£000'S)

315 934 2629

Q4	Q3	Q2	Q1
		1583	

EXPORT CONTENT OF SALES (%)

2.26 9.80 31.92

Q4	Q3	Q2	Q1
		11.93	

In 1994, companies in this sector performed above the median level against *five* of the eleven benchmarks. In 1998, they performed above the median level against *eight* of them.

vi Transport

Moving goods and materials between the above groups and users/consumers.

Return on Sales (%)			
3.17	5.85	9.48	
Q4	Q3	Q2	Q1
		8.43	

Average Remuneration (£)			
15240	17280	19524	
Q4	Q3	Q2	Q1
	16265		

Return on Capital Employed (%)			
15.18	24.04	39.19	
Q4	Q3	Q2	Q1
			49.59

Turnover Per Employee (£)			
52876	69261	98581	
Q4	Q3	Q2	Q1
51743			

Return on Assets Managed (%)			
7.68	12.45	18.49	
Q4	Q3	Q2	Q1
			19.79

Profit Per Employee (£)			
2686	5025	8438	
Q4	Q3	Q2	Q1
	4473		

Return on Human Capital (%)			
15.72	29.45	48.64	
Q4	Q3	Q2	Q1
	28.73		

Sales Turnover (£000's)			
3402	5706	15087	
Q4	Q3	Q2	Q1
		10488	

Number of Employees			
46	74	141	
Q4	Q3	Q2	Q1
			173

Net Worth (£000's)			
475	1017	2238	
Q4	Q3	Q2	Q1
		1190	

Export Content of Sales (%)			
5.29	19.18	39.89	
Q4	Q3	Q2	Q1
0			

In 1994, companies in this sector performed above the median level against *six* of the eleven benchmarks. In 1998, they still performed above the median level against *six* of them.

vii Technology & Communications

Designing and managing information and the systems which carry it for industry and consumers.

Return on Sales (%)			
0.56	6.90	14.18	
Q4	Q3	Q2	Q1
		11.65	

Average Remuneration (£)			
20000	26911	35041	
Q4	Q3	Q2	Q1
	26241		

Return on Capital Employed (%)			
14.35	49.40	99.81	
Q4	Q3	Q2	Q1
		52.05	

Turnover Per Employee (£)			
57654	84988	134118	
Q4	Q3	Q2	Q1
	75138		

Return on Assets Managed (%)			
2.77	17.95	32.18	
Q4	Q3	Q2	Q1
		21.15	

Profit Per Employee (£)			
1175	7735	16678	
Q4	Q3	Q2	Q1
		9097	

Return on Human Capital (%)			
4.94	29.87	58.16	
Q4	Q3	Q2	Q1
		36.01	

Sales Turnover (£000's)			
2480	5493	15052	
Q4	Q3	Q2	Q1
		8094	

Number of Employees			
30	62	139	
Q4	Q3	Q2	Q1
		127	

Net Worth (£000's)			
1	437	1544	
Q4	Q3	Q2	Q1
		1389	

Export Content of Sales (%)			
4.26	17.14	43.97	
Q4	Q3	Q2	Q1
	4.42		

In 1994, companies in this sector performed above the median level against *six* of the eleven benchmarks. In 1998, they performed above the median level against *eight* of them.

viii Business services

Applying specialist expertise to business consumers.

Return on Sales (%)

1.5 | 5.96 | 12.51

Q4	Q3	Q2	Q1
		6.43	

Average Remuneration (£)

16145 | 23990 | 33221

Q4	Q3	Q2	Q1
	21064		

Return on Capital Employed (%)

19.55 | 55.17 | 116.06

Q4	Q3	Q2	Q1
		56.30	

Turnover Per Employee (£)

46073 | 84188 | 153763

Q4	Q3	Q2	Q1
	53095		

Return on Assets Managed (%)

6.91 | 18.51 | 34.33

Q4	Q3	Q2	Q1
		19.83	

Profit Per Employee (£)

1731 | 8400 | 20541

Q4	Q3	Q2	Q1
	5744		

Return on Human Capital (%)

27.83 | 50.80 | 76.96

Q4	Q3	Q2	Q1
	28.01		

Sales Turnover (£000's)

2238 | 5064 | 13510

Q4	Q3	Q2	Q1
		5629	

Number of Employees

27 | 61 | 180

Q4	Q3	Q2	Q1
		96	

Net Worth (£000's)

94 | 489 | 1534

Q4	Q3	Q2	Q1
		542	

Export Content of Sales (%)

1.37 | 2.23 | 16.12

Q4	Q3	Q2	Q1
		8.47	

In 1994, companies in this sector performed above the median level against *four* of the eleven benchmarks. In 1998, they performed above the median level against *seven* of them.

ix Finance & property services

Applying specialist expertise to the financial & property concerns of individuals and companies.

Return on Sales (%)			
4.60	15.59	28.71	
Q4	Q3	Q2	Q1
		16.73	

Average Remuneration (£)			
18076	24782	38934	
Q4	Q3	Q2	Q1
	22462		

Return on Capital Employed (%)			
6.49	32.46	86.06	
Q4	Q3	Q2	Q1
	10.81		

Turnover Per Employee (£)			
47529	100206	264786	
Q4	Q3	Q2	Q1
		174000	

Return on Assets Managed (%)			
3.35	13.32	30.53	
Q4	Q3	Q2	Q1
	13.20		

Profit Per Employee (£)			
5847	17681	50188	
Q4	Q3	Q2	Q1
		31084	

Return on Human Capital (%)			
28.84	67.05	164.95	
Q4	Q3	Q2	Q1
		152.13	

Sales Turnover (£000's)			
1818	5194	28765	
Q4	Q3	Q2	Q1
			43352

Number of Employees			
23	47	147	
Q4	Q3	Q2	Q1
			224

Net Worth (£000's)			
298	1558	12497	
Q4	Q3	Q2	Q1
			14549

Export Content of Sales (%)			
10.22	40.15	78.23	
Q4	Q3	Q2	Q1
	15.69		

In 1994, companies in this sector performed above the median level against *five* of the eleven benchmarks. In 1998, they performed above the median level against *seven* of them and were better funded.

x **Retail services**

Applying specialist expertise to individual consumers.

Return on Sales (%)			
0.0	6.49	16.93	
Q4	Q3	Q2	Q1
	4.61		

Average Remuneration (£)			
9611	15674	24536	
Q4	Q3	Q2	Q1
	12627		

Return on Capital Employed (%)			
1.80	14.86	41.69	
Q4	Q3	Q2	Q1
		16.08	

Turnover Per Employee (£)			
28385	53342	106352	
Q4	Q3	Q2	Q1
	39892		

Return on Assets Managed (%)			
0.55	8.37	20.17	
Q4	Q3	Q2	Q1
		12.19	

Profit Per Employee (£)			
231	3945	11720	
Q4	Q3	Q2	Q1
	2800		

Return on Human Capital (%)			
2.30	29.27	74.07	
Q4	Q3	Q2	Q1
	25.08		

Sales Turnover (£000's)			
1498	3145	9429	
Q4	Q3	Q2	Q1
		3923	

Number of Employees			
28	63	142	
Q4	Q3	Q2	Q1
		83	

Net Worth (£000's)			
157	1000	3303	
Q4	Q3	Q2	Q1
	928		

Export Content of Sales (%)			
2.63	10.12	35.34	
Q4	Q3	Q2	Q1
	2.97		

In 1994, companies in this sector performed above the median level against *six* of the eleven benchmarks. In 1998, they performed above the median level against only *four* of them.

xi Public services

Services provided by Government.

Return on Sales (%)			
0.94	6.97	17.14	
Q4	Q3	Q2	Q1
	6.69		

Average Remuneration (£)			
7076	10841	16177	
Q4	Q3	Q2	Q1
		11647	

Return on Capital Employed (%)			
2.58	10.16	21.61	
Q4	Q3	Q2	Q1
		13.18	

Turnover Per Employee (£)			
13711	21956	47235	
Q4	Q3	Q2	Q1
		22189	

Return on Assets Managed (%)			
2.14	8.54	15.64	
Q4	Q3	Q2	Q1
		10.44	

Profit Per Employee (£)			
312	1778	4264	
Q4	Q3	Q2	Q1
	1671		

Return on Human Capital (%)			
3.07	18.70	45.50	
Q4	Q3	Q2	Q1
	15.43		

Sales Turnover (£000's)			
1120	2003	5189	
Q4	Q3	Q2	Q1
		2742	

Number of Employees			
48	83	164	
Q4	Q3	Q2	Q1
		102	

Net Worth (£000's)			
341	1088	2974	
Q4	Q3	Q2	Q1
	1004		

Export Content of Sales (%)			
2.35	4.86	30.29	
Q4	Q3	Q2	Q1
1.32			

In 1994, companies in this sector performed above the median level against *four* of the eleven benchmarks. In 1998, they performed above the median level against *six* of them. They were probably instructed to become recognised.

6 Conclusions

We did not ask the directors of each company why they had become recognised as Investors in People, several other pieces of research have already done that. Instead, we compared the published financial figures, expressed them, and then made comments based on logical inferences. But we then thought about what might have been going on for them behind the figures. We decided that our experiences of directly interacting with several thousand businesses on this subject over the last 10 years qualified us to take some educated guesses - so we have included these.

6.1 The financial benchmarks

Looking at all the sizes and types of company we conclude that Investors in People recognition appears to have little impact on ***sales turnover***.

Rather, the Standard seems to have been used by top management to make their businesses more effective rather than bigger. Several managing directors questioned, quoted the old saw "Turnover is vanity - profit is sanity".

Turning, however, to ***export turnover expressed as a % of sales***, we find an association between Investors in People recognition and growth in export performance. With larger companies it is particularly noticeable. Exporting is a much tougher proposition than domestic sales and it must follow that higher levels of skill are needed to make it work. The Investors framework can identify and deliver that.

As to ***return on sales***, attainment of the Investors in People Standard appears to be associated with rising profits. To achieve that, all the skills in a business need to be deployed at once - from negotiating good selling margins, to incurring only those costs that create value, such as delivering a fault free product, on time.

Growth in ***net worth*** is highly significant. There is no corporate goal greater than that of building capital value for shareholders, with its implications for job security and personal growth potential for employees. Investors in People companies enjoy net worths well above the median and our judgement is that not only are these companies skilled at making money they are also skilled at retaining it.

Despite that, ***return on capital*** is above the median, regardless of company size, and rates of growth in this area were also well above the median. That means that these companies do not just acquire and sit on rising cash reserves, but have developed the ability to keep on investing them successfully for a rising payback.

Return on assets is particularly significant as an attraction to shareholders, and we found that Investors in People companies had higher returns on assets than the median and were growing those returns at a faster rate than the median. In these companies the managers had clearly learned superior skills in deploying all of their companies resources wisely and effectively.

They also ***employed more people*** than the median, but were increasing employee numbers at a slower rate indicating growing relative productivity. This is not just a matter of skills but crucially of attitudes. However skilled the employees may be, their constructive engagement is essential in finding all the ways of continually improving what they do. The necessary goodwill comes from taking employees seriously and by management being proactive in their personal development and progress through Life. Investors in People is very clear on this.

As to ***average remuneration***, recognised companies were hovering around the median before they attained the Investors in People Standard. Once they did so, the level of average remuneration grew at a faster rate, reflecting increased investment in human resources and the ability to pay more, that typically comes with recognition.

Sales per employee also rose relative to other companies with attainment of the Standard. Please see the productivity comments above on employment growth, which apply equally.

The final two benchmarks are critical. With the quickening pace of business change, the value of intellectual capital is rising in relation to the value of fixed capital. Profit per employee and return on human capital are increasingly important to managers and analysts and yet are hardly in use. The growth rates for ***profit per employee*** and ***return on human capital*** for Investors in People are much greater than those for non-recognised companies. It is clear that an employer committing to the Standard is sending a powerful signal to its employees about its intentions towards them and, as we see, it is repaid handsomely.

6.2 Company size

In both medium-sized and large companies recognised as Investors in People, there is a high correlation between recognition and improved financial performance when compared to non-recognised companies. Our results indicate that all companies showed improvement, with that of the medium-sized Investors in People companies being the most marked. These companies tend to use the Standard to professsionalise their businesses as part of a growth strategy and it clearly works. Large companies tend to use it as part of a total quality strategy to introduce empowerment and build on an already superior market position. That works too.

6.3 Industry

The predominant groupings are manufacturers, and businesses with staff that face individuals. The reasons are not difficult to see.

Manufacturers are the most complex of businesses and expend a great deal of management effort on getting large numbers of interconnected processes to work smoothly. That is the key objective for them. The more they can empower employees to make the right decisions on the ground, the more likely they are to succeed, since management cannot be there for every transaction at every process interface. Thus, the introduction or maintenance of, a total quality culture, lends itself very logically to the Investors in People framework since it achieves that with safety.

Public facing and service businesses, by contrast, have the key objective of delivering fast, friendly, effective, and informed service to the customer. Without that, there are not enough repeat customers. To do this, employees must be well versed in the company's products, plans, structure, and sources of knowledge, but above all they must be able to take good decisions on the spot. That demands a framework where all this can happen in safety, and the Standard enables that.

The bottom line

1 The Investors in People Standard helps companies to get a better financial performance than would be possible by other means. We ought not to be surprised at this because it is modelled on the human resource management practices of the UK's best businesses.

2 There is evidence here that recognised companies outperform their unrecognised peers in straight comparisons and that they overtake their unrecognised peers in growth comparisons.

3 The Standard clearly works for any size and type of business as an instrument for beneficial financial change, using it to liberate some form of performance growth.

Annex 1 - The authors

This report was compiled by

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Until 1988 Duncan worked in international automotive distribution at main board level. Having established Hambleden in 1988 to focus on helping businesses derive higher financial performance from people, he visits at least ten companies a week, all over the UK. He questions Chairmen, Chief Executives and Finance Directors, to learn how they manage their people and other assets, and then benchmarks their business performance against these practices. This identifies ways of improving their links between human resource management and their main concern, which is to be financially successful.

Duncan developed the conclusions in this report and wrote the narrative.

David's career included engineering and management roles with Philips, and in the offshore oil business. Since 1991 he has worked in senior management and organisation development roles in TECs. Investors in People is a specialism - he is an Assessor. David works with medium-sized companies, helping them to improve their financial performance through developing their people.

David collected and calculated the figures for this report.

Annex 2 - Acknowledgements

The authors are indebted to *Dr Steven Windmill*, Head of Research and Strategy at Thames Valley Enterprise, for independent validation (by himself or members of his team) of data sources, input samples, calculations, outputs and assumptions. *ICC Information Ltd* went out of their way to supply us with the difficult Companies House data we required.

Annex 3 - Contact details

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Annex 4 - A brief history of Hambleden Group

The Hambleden Method. Developing management teams to create high financial returns.	**1986**
Management Information Systems. Methods for management to track KPI's of people effectiveness in financial terms.	**1987**
Managing Change. Management development from business strategy to create growth.	**1988**
Investors in People (IiP). System development, piloting, London launch, selling it to the business community.	**1991**
Case Studies. Research into the financial performance of specific companies which adopt IiP.	**1994**
Research Publication. 'The Financial Performance of Companies which Develop People (i.e. adopt IiP).	**1995**
National Marketing. Making the IiP financial case to businesses based on evidence.	**1996**
The People Benchmarking Report. Analysing and linking business performance ratios and management practices in targeted businesses.	**1997**
Return on Human Capital. A formula to help businesses assess the financial effectiveness of their people investment.	**1998**
The Hambleden Model. A practical, plain-English Business Excellence framework, for 4-hour use with boards of SME's.	**1999**
Research Publication. The impact of IiP on corporate financial growth.	**2000**
Network Building. Getting co-operation from CEO's to work together on government planning.	**2001**

Annex 5 - Hambleden Group Project Philosophy

All Hambleden projects are rooted in the idea that business success can only sustainably come from the ***knowledge - skills - attitudes*** of the people in a company.

Therefore our projects always focus on getting these 3 things right.

But we are not a training firm!

We start with what the business needs to achieve in terms of its markets - products - customers - financial performance. Only when these situations and their solutions are clarified and agreed upon do we then turn to the people issues.

These issues are developed into a strategic plan setting out what the business has to achieve - and how. The people must be subordinate to it so what follows is a process of testing the capabilities and commitment of the people against the demands of the plan.

The result will be a movement of people into the most useful roles for them and recruitment of new people to fill the roles for which no one internally is qualified. Next comes focused development to give them the skills and knowledge they need to meet their personal objectives - all of which collectively make up the strategic plan.

The Hambleden approach to people development is about getting business results as the primary goal and constantly ensuring that all people development activity serves the imperative of being fundamentally useful to the company that provides it.

Some examples:

- Finding new markets for an engineering business
- Rescuing a cash and carry company
- Managing succession for a restaurant chain
- Integrating new acquisitions for a construction firm
- Driving costs down for a publisher
- Raising sales for a software house
- Lifting product quality for a packaging manufacturer
- Increasing productivity for a currency dealer
- Reversing profit decline for an office supplies distributor
- Getting commitment from staff in a transport contractor

Annex 6 - Some Hambleden Group services that relate to this report

- *Designing and installing a reporting system to measure the profit impact of your people development investment*
- *Developing your managers to get sustained business results from their employees*
- *Developing a culture in your business that sustainable financial results can only come from smart people management*
- *Turning around business performance by developing a targeted financial results strategy and driving it through people commitment and skills development*
- *Developing partnership and supply chain relationships for enhanced profit performance*
- *Finding the right customers through targeted relationship development*
- *Developing your own all purpose best practice management template*
- *Raising product quality whilst reducing costs by developing your people*
- *Turning your wagebill into a capital investment*

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