An introduction to the Maturity Institute and OMS LLP for Boards, EXCOs and investors

The Maturity Institute (MI) 5-point Standard

1. Views corporate purpose, and organizational maturity, as the never ending pursuit of value maximization (Output, Cost, Revenue, Quality)
2. Measures corporate maturity level against a 'AAA' Scale (Toyota is original benchmark)
3. Checks observance of MI's Ten Pillars (core management principles), which causally link human capital management to material business value
4. Seeks evidence of the rigorous application of MI's whole system, strategic framework
5. Assesses people risk as significantly material to performance, operations and value creation

The Mature Corporation is based on the sustainable improvement of top and bottom line by:

- Being a highly responsible and sustainable organization with human governance at its core
- Taking innovation and improvement to the next level of whole system management
- Significantly outperforming '*immature*' competitors on cost and quality
- Pro-actively assessing people risk and managing it accordingly
- Reporting comprehensively on the value of its human capital to the enterprise

What is maturity? Essentially, maturity is about maximizing the value of all of people connected to the organization including its supply chain. The language of maturity enables uniform communication about the hard value of the most important intangibles - people and corporate culture. Maturity analysis is a new perspective, designed to address a specific gap within economic analysis. As Robert Armstrong, a senior economics correspondent at the Financial Times, says in his recent piece on the VW emissions scandal:

"... I will confess I understand little about how corporate cultures work or how to improve them….I think I understand money pretty well; culture puzzles me. But culture is there and it matters. And if we ignore it, there will be more dieselgates in the future."

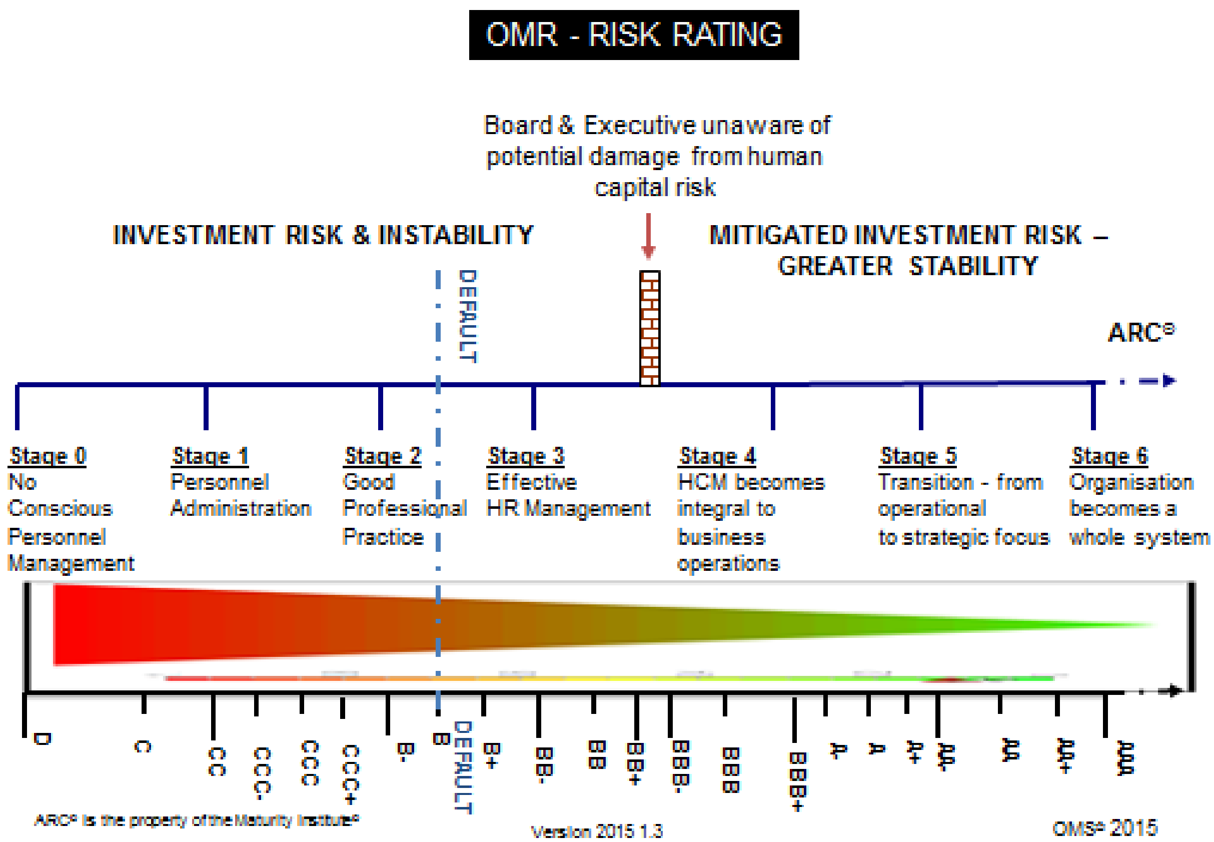
MI has been working seriously over the last five years to take the concept from the pages of theory to the realities of the shop floor. How do we improve performance in a sustainable manner that benefits customers, employees and the company? How do we compete for the best people? How do we make the company an employer of choice, managing value, rather than an exploiter just managing cost? How does a company get ahead of the innovation curve? MI and OMS LLP have answers that make sense, are proven and offer sustainable advantages.

What the numbers tell us about culture at AT&T

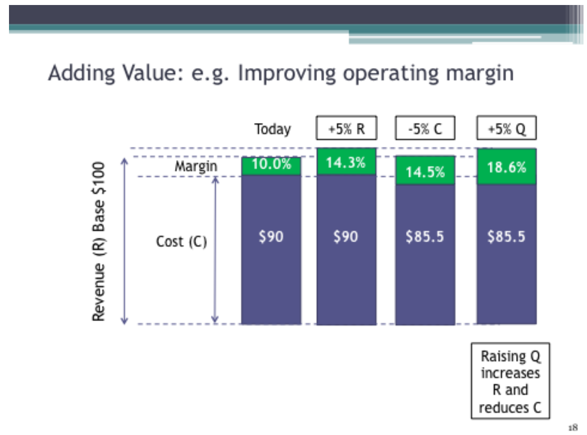
AT&T rate as a B+ company and is "poor" in human capital management terms, with a strategic focus on conventionally managing people as a cost rather than as a source of value. For example, AT&T talk about innovation. However their innovation initiatives, while attractive, generates far fewer ideas than equivalent programs such as Toyota. Additionally, at year end 2015, AT&T's market value was $214.9B and its book value $122.7B giving a premium of $92.2B; however its brand value[1] was $89.5B leaving almost no additional premium for other intangibles such as its work-force (human capital), relationships with suppliers and other 3rd parties.

AT&T

The Maturity Scale and [OMINDEX](#) has been developed using a 30+ question, analytical instrument that objectively analyzes the current state of a business. This also provides a starting point for improvements. The chart below illustrates how an organization might stand based on the response to the questions. Few firms score higher than a B, which speaks to the opportunities that exist and the inherent risks being carried but not understood.



Enterprise Value Decision Making



Decision making for the mature firm should be based on an analytical approach using 4 variables – output, cost, quality and revenue (OCQR). A one-dimensional approach (for example cost) has the effect of sidelining opportunities that may be beneficial to the firm and creating unnecessary but significant operational risks. Every decision should be reviewed with the 4 variables in mind. For example, if it is determined that a cost reduction with have a negative impact on quality, then another solution should be found. If headcount is to be increased, the question should be what revenue and output increase will result, what costs are incurred, and what is the impact on quality. Managers have a responsibility to think through and respond to these variables. Analysis for example, might lead to ways to improve processes rather than simply layering on people to do work.

Properly managing the variables as an enterprise will lead to better management decisions at the right level of the business. For example, we know some managers (offices or functions) cost more and some cost less and not just from a salary perspective, which is often the smallest component. There are variables that can be controlled like turnover (and its evil twin hiring [and training] costs), employment insurance, workers compensation, low productivity, rework from inaccuracy and a host of other variables that are not fully appreciated or measured. So why not consider their individual OCQR when making decisions?

Nestlé's big opportunity

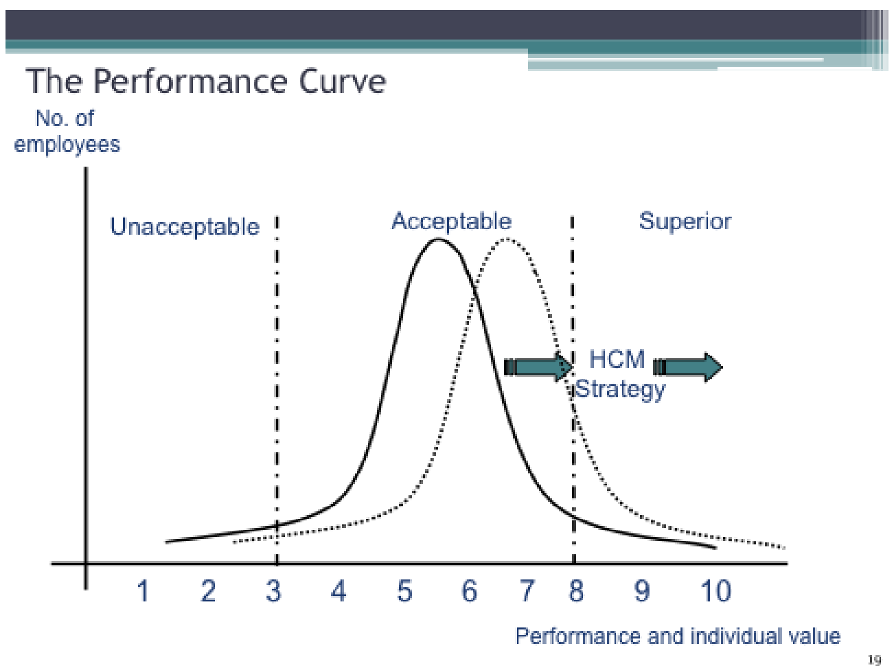
From 2013 to 2014 Nestlé's operating profit margins fell from 14.18% (CHF 13.068 billion) to 11.90% (CHF 10.905 billion). They since recovered slightly to reach 13.98% in 2015. Research conducted by OMS LLP, in conjunction with the Maturity Institute, shows that organizations below a BBB- level of maturity have huge gains awaiting them if the Executive team adopts a strategy to utilize mature HCM practices. In Nestlé's case, we are confident that an extra 5-10 percentage points on operating margins are achievable within 2 to 3 years. Based on Nestlé's 2014 figures, a 16.90-21.90% operating margin would equate to an additional operating profit of CHF 4.58 to 9.16 billion. While these figures might appear ambitious, they are in line with margin differentials achieved by companies with high value HCM. For example, A+ rated Toyota has a significant margin difference with its main competitors and has a market capitalization 3 to 4 times that of both GM and VW, while all companies produce similar volume.

Nestlé

Know where to start? Realizing the full potential value of an organization starts with a quick assessment its rating and existing maturity level – the crucial baseline. We know it is impossible to work simultaneously on all of the MI 10 Pillars and every element of the MI Standard. Of necessity an organization must choose areas of focus due to time, personnel and capability limitations. At the same time the approach has to be thoughtful because the pillars are interlinked and failure to move each forward will negatively impact on another pillar.

The value motive is a good place to start. One question to answer is, "what is the purpose of the organization?" One simple suggestion is that the purpose could be "***To produce the best quality product for the customers and communities we serve, at the best possible value."***

A purpose by definition is one sentence that is clear and is a guiding statement for the entire firm. Once there you can start build to a better organization. It is important to recognize that the process of improving human capital management is not a function, or a silo'd responsibility. It is an enterprise- wide commitment to *not just be a better place to work* but to be ***an organization that provides an opportunity for the full utilization of the capabilities of the personnel who choose to work there***. It is the only way to truly leverage the potential of the entire team and move results forward.



From purpose you can focus on mission, which might be:

'The mission of our company is to be the recognized leader in all markets we serve."

The performance management format could then be modified to iintegrate the 10 Pillars i.e. what is the minimum expectation as it relates to the company's goals? How can it improve? (This is a question for the company and its investors). What are the 1, 2 and 3-year plans? What is needed from the company in order for the plans to succeed? What is needed from the employee? How do you enhance the suggestion flow within the company? The goal should be 1 suggestion per employee per year. We measure this as 100% success (by contrast Toyota has reached 5/person/year!).

The preceding paragraph shows how the power of maturity emerges. Annual performance management *processes* often have conflicting purposes; e.g. an appraisal document that is filed every year to 'evidence' pay and progression, but also to identify objectives and development needs, and even to start the process of removing people from the organization. But a process that starts with 'how can the organization help the individual meet their goals that are consistent with the mission and purpose of the organization' is a process with power where no one can hide.

Barclays Bank strategic incoherence

Barclays has a low B: point 7 out of a possible 22. This translates as significant underperformance in terms of value realization from human capital. The magnitude of potential value currently lost includes a minimum 10% points on operating margin and material revenue loss arising from poor quality issues affecting client and customer engagement. Despite reference to a strategy and 'transformation' we see little strategic coherence or appetite for better human capital utilization. Furthermore, there is limited evidence of human capital risk mitigation beyond regulatory compliance in a company where material Human Capital risk remains high. Whatever strategic plans are put forward there is no reason why a low risk policy of mature human governance cannot be integrated.

BARCLAYS

Human Capital Risk

Finally there is the Human Capital Risk Analysis – an area of particular concern for any company. Despite the constant stream of material risk manifesting in companies, most identify and manage human governance risk through a very narrow lens – e.g. 'talent' attraction and retention, health & safety, or human rights. In reality, human governance risk arises out of organizational purpose and values to permeate all company systems: from decision-making, resourcing, reward, learning and performance management to quality assurance. Consequently, OMS adopts whole system human capital risk analysis to identify the nature and quantum of business risk that is inherent within an organization. This involves analysis of twelve core, and interrelated, human capital risk factors that have causal connection to material business risk.

BP whole system safety failure

BP's recently leaked internal safety review concluded that "a standard and global approach to managing engineering information and data throughout the life of an asset does not exist" at the company. BP is rated below the MI midpoint and while it has made some improvement to safety, material business risk remains, highlighting the failure of the company to build coherent management systems that can be effective across global operations.

bp