CHAPTER 4 - RESULTS AND DISCUSSIONS

"There is no major decision that takes place in the company in which [the VP of HR] is not involved, and I fully expect him to have an opinion on business decisions. As CEO, I use [the VP of HR] as a personal consultant and sounding board for ideas and problem solving." - Chairman and CEO, ARCO

4.1 Introduction

This chapter describes the analysis of the empirical part of the study aimed at fulfilling the primary research objectives as described in Chapter 1. The main research objective was to develop a framework which can be used for reporting Human Capital as part of company reporting. Human Resource practitioners need to be able to identify and leverage activities, interventions and/or actions which will provide qualifiable results that demonstrate shareholder value for the organisation. This reporting framework with categories provides a holistic, future-orientated account of the human assets in a company, leading to a new model / theory.

In order to develop this framework, the study investigated the following:

1. Insight required by stakeholders into the Human Capital employed by organisations.

2. What Human Capital reporting and information are relevant, reliable and consistent for internal and external stakeholders.

3. Which Human Resource Management components can be used for comparative external reporting.

Consideration was also specifically given to consequences (please read as benefits) such as:

1. Strategic alignment of human resource development related initiatives.

2. Measurement of ROI for HR initiatives.

3. Related value propositions against which measurements can take place and against which HR development policies, procedures, guidelines and/or initiatives can ultimately be aligned.

It needs to be understood that the following research reflects largely the qualitative aspect of the research, and will be dealt with in literary format. This is an integration of the data obtained through the triangulation process.

4.2 Current situation - Human Capital Value Add

An understanding of the current situation relating to the functional area of Human Resources Management as well as the management of Human Capital (people) in South African organisations was one of the key starting points for the data collection phase of this study.

This is important at two levels:

1. Providing insight into the current practices and thinking within the industry and specifically the organisations in which the potential interviewee operates.

2. As an initiator to the thinking required to develop a model for the future which will be considered beneficial to the development of Human Assets in the organisation.

Using the survey developed for the Executive and Senior HR Managers group also worked as an initial "screening" that enabled the researcher to focus on those individuals or companies who had already shown some thinking or interest in the topic under consideration.

4.2.1 Findings

4.2.1.1 Category 1: Human Resource Management Today

An understanding of the management of the HR function and the level of maturity of this discipline is required to assist in evaluation of the input and discussions. At the start of the semi-structured interviews, ensuring alignment on the context of the study, the researcher had to explain some of the theoretical models and thinking as it pertains to measuring Human Assets. This also sparked discussions on what the current levels of understanding are and the importance of Human Resources as a function in the organisation.

Nine organisations were identified through the judgement sampling (post the initial survey). This portion of the interview was guided by Questions 2, 3, and 6 (Appendix A) to determine the current status of HR reporting within the organisation. The responses were very similar in that they all confirmed that Human Capital was considered as a key driver of the companies' performance and that "it is very obvious that People are our most important asset".

The senior HR managers interviewed confirmed that they believed that the HR strategies are aligned, thus enabling the business strategy, and this was confirmed by the executives interviewed. The methods to demonstrate or prove that this is so posed its own challenges as this group explained in great detail the diverse methods which they use to report on people issues within the organisation. In probing the link to the bottom line, many faltered and were not able to clearly articulate how their key indicators (such as demographics, turnover, exit interview data - reference Table 2) relate to their bottom line. An exception to this is organisations in the Mining industry – they were able to link their key indicator, absenteeism, to the loss of productivity and thus the direct impact on the bottom line. They also linked this indicator to the line management report - manpower plan. The latter report has evolved during the lifecycle of mining to include many factors, including that of the skills level of the workforce (it initially started as a report that lists the quantity of the workforce available for shifts) and potential impact of trends in sick leave or unplanned absences.

Of key interest were the comments regarding the shift in focus for organisations and the demand on HR practitioners, particularly post-ERP systems implementations (see Category 3 below). The role of the HR practitioner is clearly changing and one of the issues identified by this group is the lack of understanding and knowledge for the new role. This is also a finding throughout this study as one of the key barriers to an effective model for Human Capital reporting.

4.2.1.2 Category 2: Reporting key indicators - Internally and Externally

Executives and Senior HR Managers were asked in their initial survey to list the key indicators they currently use (internally and externally) within their organisation and then rate the importance of linking their key indicators to company profitability on a 5-point scale.

Industry	Reported	Indicators	Associated with your company's profitability or competitiveness	Complicatedness (1 - 5)	What prevents you reporting this externally?
Consulting	Externally	Commitment/ satisfaction	1 To a great extent	Very straightforward	
		Demographics	2 To some extent	Very straightforward	
		Informal feedback to management (spontaneous Q&A sessions, socials)	2 To some extent	Straightforward	
		Turnover	1 To a great extent	Complicated	Not something that can be shared externally
	Internally Only	Feedback from the Staff Mentorship Program	2 To some extent	Complicated	Not something that can be shared externally
		Individual Employee Competency and Development Plan	1 To a great extent		
Energy	Externally	Demographics	1 To a great extent	Very straightforward	
	Internally Only	Absenteeism	2 To some extent	Very straightforward	Other: (Please specify)
		Commitment/ satisfaction	2 To some extent	Straightforward	
		Exit Interviews	2 To some extent	Straightforward	Not something that can be shared externally
		Recruitment and selection	2 To some extent	Straightforward	Not enough time
		Staff Attitude Survey	2 To some extent	Complicated	Not something that can be shared externally
		Training ROI	2 To some extent	Complicated	

Industry	Reported	Indicators	Associated with your company's profitability or competitiveness	Complicatedness (1 - 5)	What prevents you reporting this externally?
		Turnover	2 To some extent	Very straightforward	Not something that can be shared externally
Mining	Externally	Absenteeism	2 To some extent	Straightforward	Little support from senior management
		Commitment/ satisfaction	1 To a great extent		
		Demographics	2 To some extent	Very straightforward	
		Productivity	2 To some extent	Straightforward	
	Internally Only	Absenteeism	1 To a great extent	Very straightforward	Not something that can be shared externally
		Demographics	1 To a great extent	Very straightforward	
		Exit Interviews	2 To some extent	Straightforward	Not something that can be shared externally
		Performance management	2 To some extent	Strategically not viable	Not something that can be shared externally
		Recruitment and selection	2 To some extent	Straightforward	Not enough time
		Skills Gap	1 To a great extent	Complicated	
		Turnover	1 To a great extent	Very straightforward	Not something that can be shared externally
		Turnover	2 To some extent	Very straightforward	
Other (please specify)	Externally	Demographics	1 To a great extent	Straightforward	
		Employee brand	2 To some extent		
		Recruitment and selection	2 To some extent	Complicated	Other: (Please specify)
		Training ROI	2 To some extent	Complicated	

Industry	Reported	Indicators	Associated with your company's profitability or competitiveness	Complicatedness (1 - 5)	What prevents you reporting this externally?
		Turnover	2 To some extent	Very straightforward	Not something that can be shared externally
	Internally Only	Absenteeism	2 To some extent	Very straightforward	Other: (Please specify)
		Best company to work for	2 To some extent	Straightforward	Not something that can be shared externally
		Commitment/ satisfaction	2 To some extent	Straightforward	Not something that can be shared externally
		CSR	1 To a great extent		
		Performance management	2 To some extent	Straightforward	Other: (Please specify)

Table 2: Key Indicators

From the evidence presented in Table 2, it can be concluded that those indicators that are reported on externally are metrics which are considered "Very straightforward" or "Straightforward". A single exception, Recruitment and Selection as identified as complicated by Industry Other, was discarded by the researcher as non-valid data due to the broadness of this function. In probing the reason for the more complicated indicators not being reported on externally, the group stated that the level of complicatedness is not considered as a limitation to reporting externally, but rather that time (linked to the complicatedness of the reporting) and strategic or competitive reasons i.e. "not something which can be shared externally" is the key driver in the reluctance to report externally on this information.

4.2.1.3 Category 3: Technology Systems utilised for Human Capital Management (HCM)

Technology systems are important enablers for knowledge management and reporting of HRM. All organisations interviewed used some form of technology-enabled systems, 90% using an ERP system which is integrated with other functional areas within the company (refer Figure 25 below).

The company using a non-ERP system indicated that the size of the company does not warrant the use and expense of such as system.

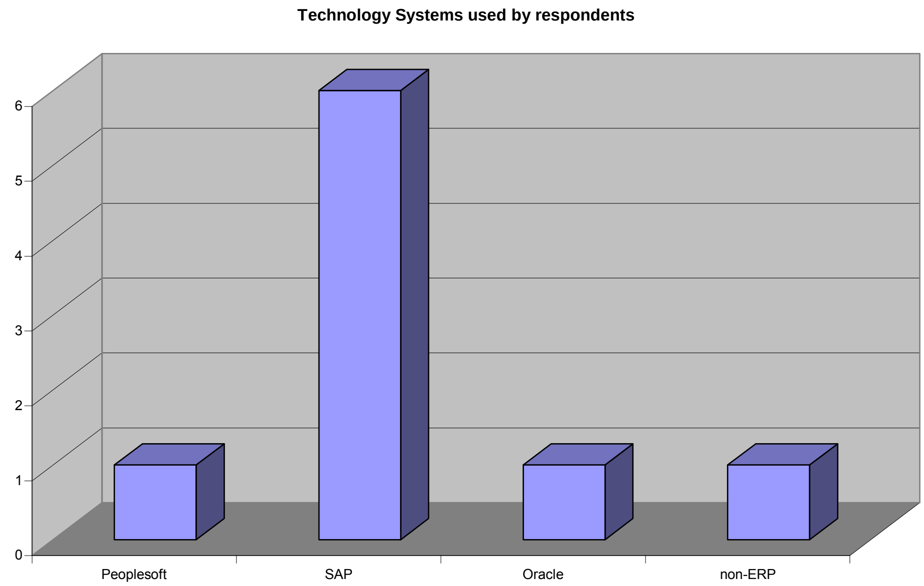


Figure 23: Usage of Technology Systems

Questions 5 and 6 guided the researcher in determining the relative importance of using a system to enable reporting and analytics of Human Capital information. Without exception, the interviewees confirmed that the system(s) inform and guide them (through best practices built into the system) in the reporting and reporting requirements.

Of key interest is that the users of the systems (HR functional staff) were trained on the functionality of the system, but not necessarily on the application and usage of the reports or data analytics. As part of the ERP systems implementation, reports were identified (by the business) as required and where standard reports were not available, reports developed specifically. One organisation setup an HR team (HR business solutions) to specifically address the HR business requirements and employed an analyst who specialises in data warehousing and reporting. The other organisations all depend on an IT support function to provide them with relevant reporting and data analyses, and they specify the business requirements. As the HR specialists are not trained on data mining or analyses, this may be considered as a barrier to moving reporting in this environment to the next level.

4.2.2 Lessons learned and considerations

From the evidence presented above and the data analyses, the following lessons regarding the current status of HR in South Africa was learned:

- HR is still fighting the battle to be considered a strategic business partner. Although the value of people (Human Capital) is considered key for organisations today, the value of the HR contributions remains unproven and challenged.

- Organisations report on the latest trends rather than specific issues which can be considered a competitive advantage in their industry and the reporting are mostly lagging (re-active).

- ERP technology enables the HR function and the built-in best practices in these applications assists HR practitioners in providing reports. These reports are not necessarily analysed with a view of identifying trends, nor are they necessarily valued (and read) by the line function. A perception by senior HR managers is that the line manager asks for reports (during system implementation phase) that they do not use. (Please note: line managers were not interviewed).

- HR practitioners do not determine which reports should be included in company external reporting.

The above categories provided an insight into the culture prevailing in South African organisations regarding the utilisation and perceived value of the HR function's contributions. It also confirmed that Human Capital (people) is considered a key asset for organisations.

4.3 Reporting on Human Capital

Evaluating the current reporting on Human Capital provides insight into the type and levels of reporting in South African organisations, and more importantly, which reports provide organisations with insights into the effective usage of their Human Capital. Understanding the internal and external reporting, and what metrics are being applied by the HR function, as well as the link to the organisational strategies and impact on the bottom line, is the key focus of this dimension.

4.3.1 Findings

HR Managers surveyed and interviewed had varied opinions regarding reporting on the Human Capital within an organisation. Although interviewees were all in agreement that reporting from a Human Capital or Human Resource Management perspective is required, and that Human Capital is the most important asset within a company, not many were clear on exactly what should or should not be reported on.

4.3.1.1 Category 1: Most important indicators

When asked what the top most important reports (indicators) are, i.e. those issues of most concern in the organisation, respondents gave varied answers, depending on the type of industry and maturity of the organisation, which was to be expected.

Issues top of the list are illustrated graphically below (Figure 23).

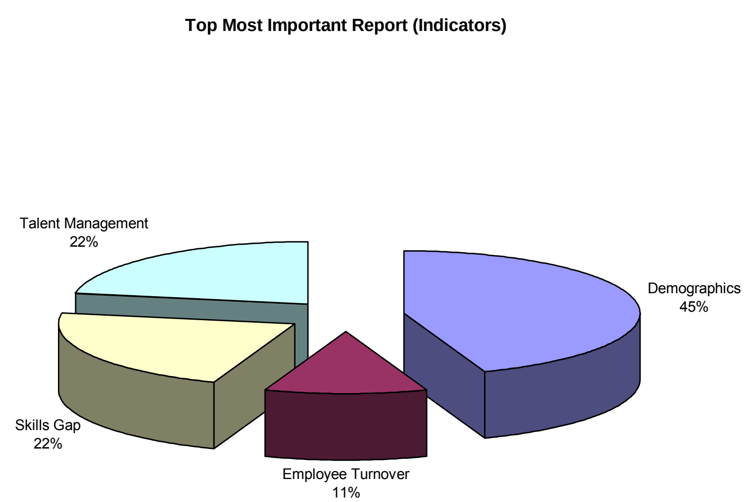


Figure 24: Top Most Important Indicators (Reports)

When asked "Were the indicators developed by the HR function alone or in conjunction with others (example: finance or strategy colleagues)?" the answers were fairly diverse:

- 42% of respondents stated that they had input from the business.

- 52% stated that although they developed it within HR, it was aligned to the business strategy.

- 6% stated that it was developed by HR alone.

The researcher found that no distinction is made between the terms "report" or "metric" and respondents felt that whichever is the most applicable answer to the question can be considered.

The researcher probed to find out if any of the metrics measured in their scorecards (HR or Balanced Scorecards) are considered in the top indicators or reports. One respondent (from the Consulting Industry) answered positively that the report for "Individual Employee Competency and Development Plan" is also included in their HR scorecard as the number of employees with a competency and development plan (CDP). All other respondents were unable to link the metrics on their scorecard to the top indicators.

It is clear that these companies have varied levels of reporting or metrics in place, however linking these reports and metrics to the bottom line was not considered by those who selected them. Scorecards for HR are focused on the operational effectiveness of the HR function, and scorecards for the line functions include the people components only in one quadrant of their scorecards - Learning and Innovation Perspective (also called the People Dimension).

Figure 24 is an extract example provided by one of the interviewees. None of the metrics listed on the scorecard were identified as a Top Indicator for this particular company.

LEARNING AND INNOVATION PERSPECTIVE

	Target	Actual		Trend
% of critical jobs with 3 succession levels	100.0	110.0	110.0	↔

% of development plans and performance contracts	98.0	98.0	100.0		annually
Climate survey index	3.00	1.0	33.3	↓	bi-annually
Number of valid improvement suggestions received	5.00	4.5	90.0	↓	Monthly
Number of continuous improvements implemented	2.00	0.2	10.0	↔	Monthly
Number of incidents resulting in overtime work	-		0		Monthly
Hours spend on training and development as % of total working hours	5.0	5.5	110.0		annually
Number of man-hours working in other functional areas	120.00	130.0	108.3	↔	Monthly

Figure 25: Balance Scorecard Example

When asked "In your view, would there be value in the development of standardised HR measures for general use/use across your industry sector (locally and/or globally)?" 100% of respondents replied "Yes". Respondents also agreed (100%) that there are core HR indicators which ALL companies should report. Suggestions for these varied with the exception of the following three indicators.

1. **BEE Charter or rating (demographics)** - this is predominantly related to the requirements from Government and/or stems from the strategic objective to ensure a more equitable workforce is deployed by the organisation. The topic in itself spawned a significant amount of time during the interviews, and it became clear that there are various schools of thought regarding the 1) effectiveness and accuracy of the information reported on and 2), the usefulness of such a report. This is outside the scope of this study, and it is suffice to say this is a dimension that is key in South Africa and considered as a very important indication of the commitment of South African companies to transformation for equitable employment.

As many sourcing contracts have a requirement for employment equity as a measure of evaluation, it may have a negative effect on a company's ability to provide products and/or services into the marketplace (especially to Government and parastatal companies which are considerably South Africa's largest spenders), and it has a direct impact on the bottom line. This metric is also included in all executive's KPIs (those interviewed and according to those senior HR managers interviewed for their executive team and/or board members).

Although this indicator is reported, mostly in industry charter format, the impact of this on the organisation (positive or negative) is not measured. This indicator is linked to an external factor that has a real impact on the bottom line. The fact that this indicator has been included in the KPIs of the top management team seems to have driven it down into the organisation and back down the value chain of HR (back to the attraction of staff). It can be concluded that if an indicator is included in the KPIs of the top management team, the relevant importance of this is elevated to a strategic level by default. This should be considered in the implementation of the proposed model as criteria for success.

2. Leadership pipeline / succession planning (assurance of the existence if not necessarily the details) - this topic, interlinked with talent management, was discussed considerably during interviews. Although there are different opinions as to the risk of making this information available internally (outside the HR function) or externally, the importance of having a plan in place and developing leaders for future is of equal high concern for executives and HR practitioners. Understanding the leadership pipeline and how to develop this, as well as the broader topic of talent management, is high on the agenda of all the HR practitioners interviewed. They are unclear as to how to reflect the success (or failure) of such a programme, however the programmes to address this have in all cases been put in place.

The discussion regarding the leadership development and succession planning programmes prompted the question regarding ROI being measured and tracked for HR programmes, to which 87% of those interviewed admitted not doing nor having the ability (tools, techniques or resources) to do this.

Concern regarding the shortage (supply) of key skills in the country makes the success of many HR programmes critical and as a result, the focus for ROI measures has been predominantly in Training and Development programmes. All respondents were familiar with the calculation of Training ROI.

3. Employee turnover - this lagging (historic) measure is reported on by all respondents and 46% of those interviewed admitted to not using this information, even if they do track or report it. One respondent mentioned that this may be used as input into the planning for recruitment; however this was not validated by the senior HR Manager within this company. As the staff turnover rate is very company and industry specific, the researcher also asked those who do use the metric if they compare their turnover rate with the industry average. This was confirmed, however internal benchmarking (i.e. comparing turnover in departments, divisions, teams) is not considered standard practice and only one respondent replied positively about (ever) having benchmarked this.

The turnover rate is very important on two dimensions: 1) to ensure that the company has a reasonable amount of "fresh, new blood" and avoid incestuous thinking and 2), to manage the cost and negative effect on employee efficiency due to a high turnover rate. As the staff turnover rate in an organisation may be considered a reflection of management, stability and workplace conditions within a company, this metric is considered important, however not necessarily of major strategic value.

4.3.1.2 Category 2: HR reports that support and/or enable business decisions

When probed as to what type of questions business managers need HR to provide answers to which can improve their decision making or add value to the business, a number of questions were identified:

Please note: Questions have been reworded for clarity. Comments in brackets are related and added by the researcher.

- Which segments of the workforce create the value for the core business (those components of the business where most of the revenue is initiated or generated)?

- Which areas of the business will be impacted by retirement (or unplanned leavers)?

- What impact will retirement have (on the skills and productivity necessary to meet future demand)?

- What is done to prepare successors (using coaching, training, cross-skilling or related HR programmes, and what is the success rate / ROI of such initiatives)?

- In what areas is there a shortage of skills - demand greater than supply (what are the potential top-line and bottom-line implications)?

- What skills will we need over the next medium term period (five years) that we don't currently possess? (Is there a supply of these skills in the market place?)

- How will we create capacity for those skills required during the next five years which do not currently exist? (What happens to the business if not found?)

- What is the staff turnover within critical areas (and how much does this cost in customers, productivity, innovation, and quality)?

- What are we doing to resolve the root cause of unacceptable staff turnover? (Are there areas where staff turnover is actually required / needs to be encouraged?)

Please note: Those interviewed were not certain that they were able to answer all or easily access this information if asked!

When asked about their strategic objectives and plans and what tactics they have established to allow for this, HR practitioners identified a number of overall objectives that they hoped to achieve through measurement. The objectives ranged from the improvement of the efficiency of the HR function through to partnering with business to help support business decisions.

- Increase HR's effectiveness and efficiency.

- Introduce HR to best-practice thinking and benchmarking expertise.

- Demonstrate HR's credibility and value-add.

- Support critical decision-making through data analysis (pro-actively).

- Align the "people" (Human Capital) with the business needs of the company through placement of the right person in the right position.

- Establish HR as a strategic business partner.

4.3.2 Lessons learned and considerations

The HR function is still operationally focused, but may be starting to take on a strategic role. HR strategies are set in alignment with the overall business strategy and this may invariably force HR practitioners to think more in terms of leading (forward thinking) indicators.

Executives' understanding and insight into the value of the Human Capital within the business is clear, albeit only at a qualitative level. People are seen part of the competitive advantage of the organisation and it is a conscious decision to invest in and develop the Human Capital of the organisation. Line managers are taking on a more "people management" role; i.e. learning to manage the people as assets of the organisation to draw value from other assets (financial and physical). The value added by the HR function is not as clear and is still being questioned.

Implementing so called "Best Practices" because they worked elsewhere or come built-in standard with the system, will not significantly improve HR's ability to achieve their objectives - the value in the systems are only effective if they are extracted. This requires the insight and know-how of HR practitioners. This knowledge and skill seems to be lacking in current HR practitioners and thus the ability to link the value of HR using reporting to the bottom-line impact is limited. This means that a lot of what may be termed "Value Add" HR activities are a waste of time and effort! Many reports run may not be worth the paper it is printed on and may end up in "File 13". It is unlikely that HR will achieve the full value of initiatives unless they are *really* strategically aligned and understood in the context of the organisational objectives, linked to the bottom line and their effect measured and demonstrated. This view is shared by the executives, however they are at an impasse as to how to achieve or enable it.

4.4 Using Metrics and Benchmarking

Using metrics to report on Human Capital and Human Resources Management is a very important component of the ability to link the value contribution of the HR function back to the organisations' bottom line. Benchmarking this information either internally or against industry best practices will provide the organisation with insight as to how they compare to the rest of the market in their industry and provide imperative for improvement. Many qualitative measures and ratios (quantitative) have been developed for HR, most often used being the Balance Scorecard. The employee or Human Resources quadrant on a company's scorecard is, however, often most likely to include meaningless metrics, unrelated to the bottom line. HR scorecards (refer Section 2) are used within the HR functional area.

4.4.1 Findings

Executives and senior HR managers surveyed indicated that they use HR scorecard reports to their Executive Committee or Board Meetings (71%) as well as within HR (86%) (Refer Table 3). The HR functions provide specific reporting to Line Management (100%), demonstrating that their reporting skills exist and (based on the assumption that the line reports are utilised) are considered of value to the operations.

HR Scorecard to Exco / Board	71%
HR Scorecard within HR	86%
Report to HR Directors	71%
Special reports for Line Management	100%
Special reports for Employees	29%
Report to External Stakeholders and Investors	29%
Separate Corporate Social Responsibility Report	43%

Table 3 HR Reporting

During the semi-structured interviews, it became clear that these reports have different impacts on the various businesses and that the reporting to a large degree has become "historical" i.e. there is uncertainty as to why particular metrics are being reported.

HR consultants and students were approached with a list of metrics for evaluation (see Addendum B) to obtain their input regarding the usability of these metrics, and if they can be considered to provide insight into the effectiveness and efficiency of the Human Resources function. They were also asked to evaluate the components of the framework to measure the value of Human Capital against a model for shareholder value.

Questions asked for the evaluation of the metrics include:

- Is the indicator/ metric applicable?
- Is the indicator/ metric complete?
- Is the indicator applicable to all types of organisations?
- Is the data for the indicator easily obtained?
- Is the calculation required for the indicator simple?
- Is the indicator understandable?
- Is the data objective, qualifiable and reliable?
- Does the indicator point towards sustainable improvement?
- Can the indicator be measured on an ongoing basis?

See Addendum B - Delphi Workshop Results

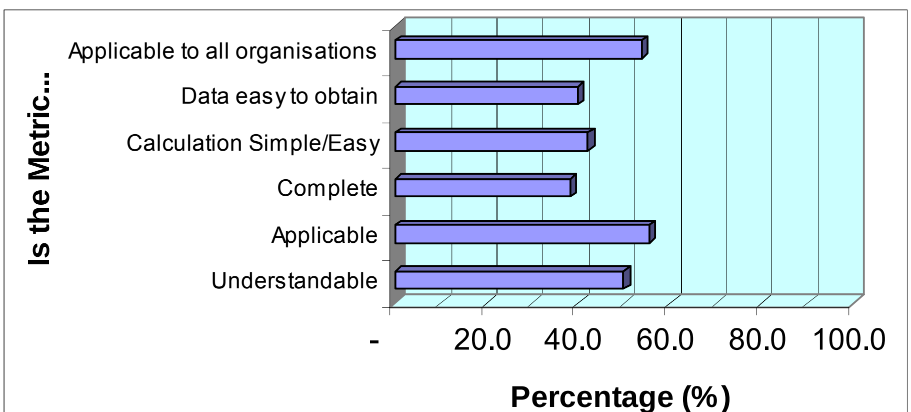
Respondents' results to these questions are categorised and reported on below (Table 4). The researcher accessed the knowledge regarding the metrics first by asking if the metrics is understandable to the respondents. Metrics not understood were discussed and explained during the Delphi-workshop.

Metric	Understandable	Applicable	Complete
Total Compensation/Benefits as Ratio of Total Revenue	99%	100%	100%
Recruitment Resource Ratio	100%	100%	99%
Total Compensation as Ratio of Total Costs	100%	100%	99%
Incentive Cost Ratio	100%	100%	97%
Termination Rate	100%	100%	99%
EE Movements	100%	100%	97%
Acceptance Rate	100%	1%	99%
Employee Commitment	100%	100%	99%
Employee Motivation	100%	100%	97%
Employee Satisfaction	100%	100%	97%
Process Execution	100%	99%	97%
Retention of Key People	100%	100%	99%
Absenteeism rate by job category and job performance	100%	100%	99%
Accident costs	100%	100%	99%
Accident safety ratings	100%	100%	99%
Average employee tenure (by performance level)	86%	88%	94%
Average time for dispute resolution	84%	88%	93%
Benefits costs as a percentage of payroll or revenue	84%	86%	90%
Benefits costs/competitors' benefits costs ratio	82%	85%	87%
Compliance with fair employment practices / industry charter	83%	84%	88%
Compliance with technical requirement of affirmative action	79%	83%	87%
Comprehensiveness of safety monitoring	80%	83%	88%
Compensation of high performers compared to average performers	78%	83%	86%
Cost of HR-related litigation	78%	81%	86%

Metric	Understandable	Applicable	Complete
Cost of injuries	77%	82%	85%
Cost per grievance	78%	79%	55%
Cost per hire	74%	78%	83%
Cost per trainee hour	73%	78%	82%
Courses with highest number of attendees by competency	72%	78%	81%
HR department budget as a percentage of sales	72%	77%	80%
HR expense per employee	70%	76%	77%
HR expense / total expense	69%	74%	79%
Interviews per-offer ratio (selection ratio)	68%	72%	78%

Table 4: Top Most Important Indicators (Metrics)

The metric which scored the lowest was the total HR investment / earnings. Of the respondents 44% said this metric was understandable and 50% that it is applicable.



	Understandable	Applicable	Complete	Calculation Simple/Easy	Data easy to obtain	Applicable to all organisations
Metric	50.0	55.5	38.3	42.2	40.0	53.9

Figure 26: Median responses for all metrics evaluated

During the workshop discussion, it was clear that those skilled in finance understood the more financial metrics, whereas those respondents who had no financial background did not understand metrics with a strong financial grounding. This explains the phenomenon of the lower level of understanding of this metric. The median responses for the entire list of metrics presented during the Delphi workshop are illustrated in Figure 27 for all metrics evaluated. On average, 50% of the metrics listed were understandable to the participants of the Delphi-workshops with only 40% of data identified as easy / available to obtain. Those items identified as applicable had no significant difference to the percentage identified as applicable to all. One may conclude that any of the metrics considered applicable are applicable across all industries.

4.4.2 Lessons learned and considerations

A wealth of HR metrics exists and are being applied with varied degrees of understanding and insight. In the new role of HR, financial skills should be considered a prerequisite for HR practitioners.

Metrics is the starting point in evaluating the performance, efficiency and/or effectiveness of employees and the HR function. These metrics should not be contained in pure HR "softer" measures, but should include strong financial measures that demonstrate the value of HR initiatives at a financial, bottom line impact level.

The objectives of the organisation should define the key performance areas to be evaluated and inclusive of this should be areas of technology, processes, individual and team performance and impact on the customer. Using metrics provide the platform for benchmarking, both internally (amongst business units or divisions) as well as externally (against other industry players). Metrics and benchmarking are focused on the measurement of efficiency and effectiveness and relate to the function of Human Resource Management, rather than the efficiency and effectiveness of the Human Capital (person). It is important to understand the measurement of metrics, and using these for benchmarking has to be balanced and carefully assessed to ensure that it does not motivate or result in value detracting behaviour.

4.5 Comparative External Reporting on Human Capital

Comparative external reporting on Human Capital and the related value of Human Assets has been under discussion for a number of years. The Chartered Accountants of Canada (CICA) Board of Governors established a task force in May 1996 to review the CICA's standard-setting activities and a chapter of their final reporting was dedicated to what they call Beyond Standard Setting — A Structure for Innovation. In this report, it is stated that in addition to internationally-accepted accounting and auditing standards, the business world is demanding the profession move beyond the historical annual financial statements. These statements on which standards are focused, and into a future where knowledge is rapidly changing and the need for reporting is continuous, require consideration for where wealth is generated more by Intellectual Capital than by plant and equipment; and where the needs of decision makers are focused on measuring and enhancing organisational performance (Lord, 1998).

The Canadian Performance Measures Initiative (CPMI) began in late 1995 under the joint sponsorship of the CICA and several other organisations. It was charged with developing an integrated performance measurement framework with indicators relating to Intellectual Capital, quality, environmental performance, customer satisfaction, innovation, and other issues. Their recommendation in this report was to establish a "Centre for Innovation" to sponsor and champion initiatives that will meet this market needs (Lord, 1998). Although this centre was established, it would seem that not much has come from the investigation into Intangible Assets to be included in reporting. No consideration has been given to this by the Chartered Accountants of South Africa (contacted by the researcher in November 2005), and as such, the survey for auditors to gather their views on reporting Human Capital externally is the only base for this category.

4.5.1 Findings

Auditors interviewed were all (100%) of the opinion that although it would be beneficial to include the information in company annual reports, it would be difficult if not impossible to audit such information year after year. By implication, this means that the result of this study may only be a guideline for reporting, but that the report will not be able to be validated through the normal governance and audit structures within organisations. One cannot help but wonder if it needs to be legislated before this very important aspect of the business is valued. Taking into consideration the defined role of auditors, the accountability for this information and the obligation to report on this remains with the directors of the company.

4.5.1.1 Category 1: Is it essential to share strategic information with all stakeholders?

Auditors were asked whether they consider it essential to share certain information with all stakeholders. In determining the importance of sharing information with stakeholders, from an auditors' perspective, the key business questions gathered from the research into reporting on Human Capital were categorised into themes and included in the auditors' questionnaire. They were asked to indicate whether this information should be readily available and shared with company stakeholders.

Auditors - Q: It is Essential to share the following information with all stakeholders?

Information Question	*Yes*
1. Which segments of the workforce create the value for which we are most rewarded in the market?	100%
2. Which areas of the business will be most impacted by impending waves of retirement?	100%
3. What is being done to prepare successors?	100%
4. What impact will anticipated retirement have on the skills and productivity necessary to meet future demand?	100%
5. Which segments of the workforce will be most impacted by the areas where the talent market is heating up (i.e., demand will outpace supply)?	100%
6. What is the potential top-line and bottom-line implications of demand outpacing supply in the talent market per segment of workforce?	100%
7. What skills will be required over the next five years that the company don't have currently?	100%
8. How will the company create capacity for skills which they currently do not have?	100%
9. What is staff turnover within critical areas?	100%
10. How much is staff turnover costing the company In customers / productivity/ innovation / quality?	100%
11. What is being done to resolve the root cause of high staff turnover?	100%
12. What is being done to retain our key / core workforce segments?	100%
13. Is the company actively developing talent portfolios or workforce plans that will help us to understand and communicate the financial consequences of talent decisions on business?	100%

Table 5: Information readily available and shared with stakeholders

Table 5 presents the findings from auditors to determine which information is required for reporting to stakeholders (including internal and external stakeholders). The entire list was considered to be essential by respondents. This confirms the requirements identified by the executives and senior HR managers. Auditors were also asked what other information should be provided. Table 6 below lists the additional information they consider to be essential and the rationale provided for this.

Information	Reason / rationale for being essential to report externally
A statement by management as to whether they have adequate skills in the company to run the business efficiently	This is important bearing in mind the current shortage of qualified and trained staff in the country.
What effects transformation has had on the skills base of the company	In many instances staff is being replaced by previously disadvantaged individuals. As this portion of the population has a significant shortage of skills, previously trained persons may be replaced by inappropriately qualified personnel. This will effect the efficiency of the organisation.

Table 6: Additional Information considered essential by auditors

Table 6 also indicates that auditors consider the listed information important for both internal and external stakeholders. The issue of the level and quality of skills was also identified by a number of the senior HR managers interviewed and the consideration of the level of skills as well as the potential negative effect of transformation (Employment Equity) on the Human Capital of the organisation a consideration. The effects of transformation on the skills base of the organisation may also be linked to the question "*Is the company actively developing talent portfolios or workforce plans that will help us to understand and communicate the financial consequences of talent decisions on business?*"

The question regarding the reporting of this information identified as essential, as described above, was also evaluated for relevance to report externally by the auditors. The percentage of respondents who considered the category theme questions to be reported on externally is illustrated in Table 7. From this table, it is clear that leading indicators and financially linked indicators has been given preference for external reporting by the Auditor group.

Auditors - Q: This information should be shared with External?

Question	Yes

Question	Yes
1. Which segments of the workforce create the value for which we are most rewarded in the marketplace?	0%
2. Which areas of the business will be most impacted by impending waves of retirement?	100%
3. What is being done to prepare successors?	86%
4. What impact will anticipated retirement have on the skills and productivity necessary to meet future demand?	43%
5. Which segments of the workforce will be most impacted by the areas where the talent market is heating up (i.e., demand will outpace supply)?	43%
6. What is the potential top-line and bottom-line implications of demand outpacing supply in the talent market per segment of workforce?	43%
7 What skills will be required over the next five years that the company don't currently possess?	43%
8 How will the company create capacity for skills which they currently do not have?	0%
9. What is staff turnover within critical areas?	100%
10. How much is staff turnover costing the company in customers/productivity/innovation/quality?	43%
11. What is being done to resolve the root cause of high staff turnover?	14%
12. What is being done to retain our key / core workforce segments?	29%
13. Is the company actively developing talent portfolios or workforce plans that will help us to understand and communicate the financial consequences of talent decisions on business?	100%

Table 7: Information to be shared externally

Even though the impact of retirement and what is done to prepare for successors as well as staff turnover in critical areas have all been identified as information to be shared with external stakeholders, the respondents did not consider that the impact (strategically or financially) should be reported on externally. Taking into consideration that a lack of transparency—in historical results or in what the company is saying about the future—raises a red flag with investors, a potential negative effect on forecasts (refer Chapter 1: Measuring Shareholder Value) may be eminent should these categories be reported on exclusively.

Demand and supply factors (information themes 5, 6 & 7) which have a direct correlation with staff turnover and risks linked to a lack of succession planning, with a mean score of 43%, is of particular interest. These factors have the potential to provide a valuator with insight relating to asset productivity as well as potential for revenue growth (negative or positive) and as drivers of future performance (leading indicators), may be compared (benchmarked) with other organisations. The lack of understanding the HR environment and the cause and effect in this environment is a major barrier of constraint for auditors of HR information.

4.5.2 Lessons learned and considerations

The lack of integration and alignment between Human Resources and Finance practitioners in their level of insight and focus on the financial aspects of Human Capital reporting may be considered as the biggest barrier to calculating and reporting the value of Human Assets in organisations.

- Understanding that the market value of an organisation is bigger than its book value and attributing this to “intangible assets” seems to be an easy way out. Understanding the value and impact of these intangible assets - in particular the application of Human Capital that has an effect on the assets - requires an understanding of this discipline by those who govern and audit to ensure that reliable, fair values are attributed to the organisation’s assets.

- A lack of insight into the discipline of HR and its impact on the bottom line can clearly be seen by the responses received from auditors. This seems to indicate simply that a “new breed” of auditors may be required for auditing information on Human Assets. Accountants should not be asked to value this asset, just as accountants are not asked to value physical assets, but rather taught about the aspects which may be considered for such a calculation.

- Depreciation of assets can be applied using the generally accepted principles and guidelines by government. A similar model should be considered for Human Assets - it simply requires a lot more innovative thinking and approach. “I cannot audit these factors” was a comment made by the Audit partner of the team surveyed - this does not take away the fact that this information is considered “essential” to stakeholders as confirmed by 100% of those surveyed.

The GAAP rules for company reporting do not make provision for the level and information required for Human Capital reporting. The question of whether or not it is the GAAP rules which need to be adopted or Human Capital reporting which needs to be conformed remains the key, critical question.

4.6 Further results of semi-structured interviews

Other topics of discussion during the semi-structured interviews have been categorised and are briefly discussed below:

4.6.1 Preferred Employer / Employer of Choice Status

Most of the respondents mentioned the strategic objective for their company of becoming a Preferred Employer / Employer of Choice, which, with the current shortage of certain skills in South Africa, seems to be indicative of the war for talent and again links into the HR programme for talent management.

The ubiquitous phrase, "An Equal Opportunity Employer" of the 1990s has been replaced in recruiting advertisements with "A Preferred Employer." The un-stated implication is that the company truly values diversity and has a culture, policies and practices that make it a comfortable and productive working environment for people of different cultures (ethnic origin), people with disabilities, homosexuals, immigrants, senior citizens, and women. Today, the working environment benefits and opportunities offered to employees are considered in a more serious light as a key differentiator.

Most HR practitioners stated that they do not currently see their own organisation as a "preferred employer" and are not totally confident about the possibility of becoming one; however they state that this is the goal or focus of their HR strategy and tactics. The same question posed to executives had a different response - they are of the opinion that their organisation has plenty to offer and may be considered a "Preferred Employer".

Many organisations have entered or considered entering the prestigious "Best Company to Work for" competition which allows the benchmarking of their offerings against other South African companies. This survey is administered by Deloitte and the employees' and employers' perceptions are assessed according to the following dimensions:

- Job Satisfaction

- Leadership
- Relationships and Trust
- Management Style
- Training and Development
- Communication
- Change and Transformation
- HR Policies and Procedures
- Rewards, Recognition and Performance
- Management Diversity
- Values and Culture

Where there are sufficient participants, an industry ranking and comparison is provided. In addition to being ranked among the total sample, participants are able to be ranked against companies within their particular industry. The prestige of this award, however, comes from being published as one of the Top 50 in the annual publication of “Best companies to work for in South Africa” by the Financial Mail, which is considered a key differentiator for attracting talent.

4.7 Conclusion

This chapter reports on the empirical research results obtained through the surveys, Delphi workshops and semi-structured interviews, the conclusions drawn from this information, and the lessons learned. The data was grouped into categories and assigned to support the primary and secondary objectives of the research.

There is a gap between the competence, understanding, interpretation and views between executives, HR practitioners and auditors (finance practitioners). Linking these disciplines to set a common ground basis for HR reporting to be taken into consideration in the valuation of businesses is critical. Reaching this common ground may have very many different paths it can follow, however this study focuses on increasing the knowledge and skills of HR practitioners to bring their reporting methods closer to those in the finance discipline.

The researcher acknowledges that the requirement for auditors, especially those who will be required to audit this type of reporting, will need to include an improved understanding of the HR discipline, however she does not necessarily believe that those in the finance discipline are required to have the same level of depth in HR metrics and reporting - this function should rather be included in the new role for HR. The latter is considered a huge challenge which is demonstrated throughout the results of the data / information gathered from respondents in this discipline and the next Chapter provides a framework which will assist in bridging that gap.

Best practices and demands from industry (including Government) drives the focus areas for HR and could be considered the root cause of the reactive reporting style prevalent. This is also evident from the discussion focus such as Employment Equity or BEE Charter reporting, which is topical for a number of reasons. Including this measure as a KPI for executives elevated this metric to the relevant strategic level which prompted the reporting framework for this metric. A key learning from this includes the fact that the BEE Charters have been defined and set per industry with industry is leading the initiative. Does this prove that an industry standard is possible for Human Capital Reporting?

When probed about the seeming misalignment between HR and business, some comments from Executives were:

"*I value the hard work of HR but I worry that our company may not know which HR issues are the most strategic ones, versus operational.*"

"*I know in finance, but I am not sure about HR.*"

"*HR cannot articulate its perspective with as much precision as finance or even line managers.*"

"*I wish HR had more to offer here.*"

These comments clearly shows that HR practitioners need to realise and understand that something needs to be done - demonstrating the strategic value of HR in understandable business terminology is crucial.

Chapter 5 will provide a proposed framework for Human Capital reporting which addresses all the elements identified during this study, linking it to the company bottom line and top line with the primary objective of providing a framework for external reporting to be included in company reports.