CHAPTER 7 – REPORTING HUMAN CAPITAL IN COMPANY ANNUAL REPORTS

"Everything that can be counted, does not necessarily count; everything that counts cannot necessarily be counted"

- Albert Einstein 1879 - 1955

7.1 Introduction

Assets have an intrinsic value to the organisation, and at the same time they generate value for others. In other words, we add value to stakeholders through the deployment of our assets. So, when we talk about people in an organisation, there are two separate ways in which we can use the concept of value:

- What they are worth to us, and
- The value they add to others and the organisation.

We remunerate the individual based on their perceived worth as influenced by the market salaries for the position in which the individual is employed.

The person contributes with his Human Capital individually as well as within a team where the value is even greater than that of one single individual. It is the intrinsic worth of people that comprises the Human Capital available to us, and at the same time that worth is creating an asset by it's contribution to the organisation.

Money is used to fund purchases of or rent/lease physical (tangible) assets and in their day- to-day use. It is also employed by people, both in managing the tangible assets and in building intangible assets, such as brand value, customer loyalty, efficient processes, and new knowledge. An intangible asset, like any other asset, generates value or even subtract value i.e. assets can turn into liabilities (negative asset value).

The value and use of an asset attracts certain expenses (administration costs). Increasing the value generated from an asset requires investment in that asset (training and development, initiatives for increasing efficiency etc), and certain factors determine or influences the manner in which the asset is applied and used.

This chapter looks at the framework for the reporting of, measuring and improving of Human Assets and the organisational function that is linked to the management of this resource.

7.2 Principles for Reporting

A reporting model is required as a standard for reporting Human Capital. This model needs to take into consideration the general accepted accounting principles and be innovative and future orientated to enable the reporting of Human Assets. The model needs to be sensitive to those factors that provide the company a competitive edge.

7.2.1 Principles

Reporting on Human Capital requires certain expected and accepted principles based on good practice of reporting:

Principle	Method of address
Provide both the effect on revenue growth and operating margin to balance the contribution, demonstrating potential income (revenue) and the conditions required to realise this	Show value to the stakeholders in respect of Human Capital value contributions, including the impact of the costs of such contributions on the operating margin
	Information on possible barriers to the effective development and utilisation of Human Capital and the impact on customers and employee performance that may impact on revenue generation
Provide the value of the asset productivity and the information that may influence the application of the asset within the organisation which can be measured (benchmarked) against competitors	Information on the human assets deployed and the value being contributed - be future-oriented
Report on external factors which influences stakeholders	Information on the factors that influence the contribution of Human Assets i.e. productivity, meeting legislative requirements, potential risks and influence of market conditions.

Table 11: HR Reporting Principles

7.2.2 Features of the report

Information is relevant to the identification of Human Capital and should be available in both quantitative and qualitative indicators. A distinction between primary and secondary indicators is required.

The framework incorporates information on both the short-term and the long-term, highlighting both investments in and depreciation of human assets. It provides information not only on Human Capital "staff" but also on the management and utilisation of the flow of Human Capital. Categorizing the workforce is an essential component to this reporting framework.

There are multiple themes of indicators to reflect the value add from Human Resource Management - these are important to guide the tactics deployed by HR to enable the value creation.

- Indicators to highlight possible barriers to the under-utilisation of Human Capital based on gender, age or ethnic origin are not depicted in the framework, however, the level of adoption of employment equity in the organisation is an important distinction and required to be shown.

- Indicators to highlight the contribution to social or community projects i.e. a companies social responsibility is an important distinction.

7.3 Company Annual Report

When reporting from a financial perspective in company annual reports, the Human Resources asset value needs to be taken into account. The Rand value of the Capital invested is not difficult to obtain, and is currently available as part of the normal Chart of Accounts within an organisation. The total cost of Human Resources does however need to reflect (as a line item) all categories of the workforce, including consultants employed to execute activities on behalf of the organisation, part-time labour employed from time to time as well as fixed term contractors. People are employed by the organisation with the objective of trading their skills and knowledge for monetary reward. The capabilities applied have the same or similar effect on the organisation whether a full-time employee or that of a part-time employee or contractor.

The effect of revenue should be accounted for to balance this investment in HR capital. Balanced, these two amounts equate to the Human Capital Value Addition. An example of what such a Human Capital Statement may look is illustrated below, providing an account of potential risk and risk mitigation factors for this category of assets. This is required to ensure that shareholders have a full view of the deployment of the Human Assets in the organisation.

Human Resources Annual Statement					
	Yr01	Yr02	Yr03	Yr04	Yr05
Human Capital Value Addition					R 3 997 246
Corporate Social Investment					R 34 800
BEE Charter Score					0.0
% of Critical Workforce with successors identified					80%
% Increase in Critical Workforce					2%
Hire to Separation Ratio					12
Median age (All Employees)					42
Management to Staff Ratio					1:18
Employee Satisfaction Index					4.2
Employee Turnover Rate					2%
Days lost due to workplace accidents					145
Human Resources Strategy Statement: Approach to the acquisition, development, management and performance of Human Capital					
Social Corporate Investment Statement: Application of Social Investment Funds and impact thereof on the country (social and economic)					
Best Practices: Description of Best Practices (maximum 3) employed by the organisation which may influence the bottom line					

Figure 33: Example HC Corporate Report

7.4 Conclusion

Delivering "value" is why organisations exist. This is clearly about providing "sustainable returns to shareholders" for those companies that have owners and investors. Even non-profit organisations that create value for their stakeholders, though it may not be measured financially, have the same goal. It is safe to assume that stakeholders will only want to continue their association with an organisation if their expectations of value are being met. In the new era of knowledge workers, organisations and markets need to look for value beyond the traditional net book worth, which reflects only the physical and financial assets. Intangible assets such as Human Resources, which due to the nature of the knowledge worker in the 21st century contributes most, if not all of currently unaccounted value.

For stakeholders to assess the real value of an organisation, they need to be fully informed of physical, financial and human assets. In order to do this, organisations will need to provide enough information, of reliable source and in a format understandable (if not standard) to it's shareholders. This framework sets out to provide just such a method.

Chapter 8 will conclude this study with a summary, recommendations, limitations and proposed further studies.

CHAPTER 8 - CONCLUSIONS AND RECOMMENDATIONS

"Everyone is looking for a quick fix, but what they really need is fitness."
- Kevin Myers (2005)

8.1 Introduction

A company's management of its Human Resources and its ability to align them with it's strategic objectives play a key role in the company's level of success. Increasingly, HR practitioners face the challenge of quantifying the value of HR management processes and their worth to the company. There is a need to focus beyond mere acceptance that HR management is good practice and common sense, and instead measure the actual value it brings.

Executives regard the HR function as facilitators of administrative needs rather than as strategic business partners and seems interested in having HR fulfil only the basics (i.e., getting the HRIS data accurate) instead of gathering insight into the strategic realm of the business. This thinking is outdated as the HR landscape has changed, and the acknowledged critical role of people management demands that HR performs a strategic role in the key decision-making team. This also means that HR has to raise its own profile and prove that it can add value.

This requires managing more than just the simple operations. It means defining the organisation's HR strategies to attract, retain, and support the right people and linking Human Capital strategies to the right technology solutions to maximise efficiencies. It means linking technologies and HR processes to business strategies and objectives, assisting in the tactics business leaders want to deploy to leverage their investment in the Human Resources of the organisation. It means showing in financial terms, the value creation of the Human Resources of an organisation.

The objectives defined at the start of this study was to explore the fields of Human Resources and finance to formulate a reporting framework that will integrate these fields in the area of value extraction from human assets. This framework will assist Human Resources practitioners to link their contribution and the contribution of the Human Resources within the organisation to the bottom line of the organisation. Taking into consideration that it may be argued that there is no difference between money measures and other measures. Both are uncertain and all are dependent on the observer. The main reasons why the money measures seem more "objective" and "real" are that they are founded on implicit concepts of what a company is and that the measures have been around for so long that they are guided by definitions and standards.

With this context in mind, the framework developed during this study provides an approach to support organisations in improving their ability to:

1. Analyse, design, manage and strategically align their HR processes

2. Identify Human Resources' contribution to the business

3. Identify a method of evaluating, especially in quantitative terms, the value added by the company's human assets

Simply stated, the Human Capital invested in the organisation is a key factor in the performance of the organisation. The talent of the organisation stems from their Human Resources, flowing from the people within the organisation. This means that the most effective practices for the attraction, deployment, retention and even separation of people and the organisation has a direct impact on the bottom line and thus shareholder value. How these resources are applied may add to the value of the organisation or even detract from it.

Based on the above, how aligned HR practices are with the stakeholders' values needs to be measured, improved and reported on as part of good governance to enable stakeholders and potential stakeholders in an organisation to have a holistic view of the real value of the organisation. These practices are not limited to what the HR function does / does not do, but include all aspects of people management within the organisation.

Conventional wisdom dictates that a company's management of its Human Resources and its ability to align them towards strategic objectives play a key part in a company's level of business success. This is a generally accepted fact of corporate life, but increasingly, HR practitioners face the challenge of quantifying just what this contribution is and the worth of HR to a company.

During the semi-structured interviews, the researcher explored the topic of HR management reporting in-depth and it became clear that the "pressure" for HR analytics and/or reporting has been brought about by various factors, key amongst which are the requirements for cost-cutting efforts and justification of spending, as well as the increasing requirement for corporations to be more accountable and provide more transparency for their activities. HR functions are at risk of being overlooked if they are unable to accurately justify HR investments and show returns.

Complacency by the HR function would mean reduced ability to demand the required amount of financial attention for continued investment in people-related aspects of business. When asked how difficult or easy it was for HR to obtain funding, HR managers felt that as long as they stick to the budgetary guidelines, it is reasonably easy as "everyone realises the value of the people and developing them and of course we have to pay them or this business will come to a complete standstill". Although HR are pressured for lower increases or even decreases in budget (by %), they are not required to compete from the same base or to the same degree as other functions such as Finance.

Reporting on Human Capital may indeed require a different, innovative perspective; however funding the Human Resources and the initiatives developed to increase the value added by these resources, remains of monetary importance. The organisation is faced with the challenge of applying its cash or investment from shareholders to those initiatives that will generate most value. As it is the people or Human Resources of the organisation who makes these decisions as well as executes the activities that generate this value, investment needs to be made to ensure that the bar is continually raised for the Human Resources.

Including Human Assets in the chart of accounts will require an adjustment of the current accepted methods of reporting financial results. The basic principle that net profit equals revenue less expense remains to drive those initiatives that organisations focus on, but extracting value from the assets of the organisation, will need to include the value encapsulated in the human assets of the organisation. The categories of expense should include the total cost of Human Resources; i.e. all categories of the workforce, including consultants employed to execute activities on behalf of the organisation, part-time labour employed from time to time as well as fixed term contractors, but so should the value generated by these groups.

Delivering "value" is why organisations exist. This is clearly about providing "sustainable returns to shareholders" for those companies that have owners and investors. The knowledge worker era requires the market to look for value beyond the traditional net book worth which reflects only the physical and financial assets. In order to address this requirement for the Human Assets of the organisation and HR will need to provide reporting that satisfies the principles that:

- Provide both the effect on revenue growth and operating margin to balance the contribution, demonstrating potential income (revenue) and the conditions required to realise this

- Provide the value of the asset productivity and the information that may influence the application of the asset within the organisation which can be measured (benchmarked) against competitors

- Report on external factors which influences stakeholders

The research demonstrated the different viewpoints from the various stakeholders (HR, Finance, Auditors and Executives) and their insight (or lack thereof) into the value contribution of the HR function as well as Human Capital. The lack of insight into the cross-functional disciplines of HR and Finance has become more emphasised and the change in the role of HR practitioners prevalent. This will require a re-look at the profile of HR practitioners to include skills that include financial and analytical competence. Likewise, the biased views towards financial measures limit the ability of auditors to audit the information in this discipline and will also require a look into the skills and knowledge of this.

8.2 Expected impact of results

In implementing the proposed Human Capital Measurement Framework, it is expected that companies will be able to achieve the following benefits:

Primary benefits:

- A framework to evaluate the company's Human Capital Value Addition.

- Be able to counter the one-sidedness of "people are costs" with "they also have worth as assets and they add value."

- Understand the relative value of individuals and teams, and make choices regarding which we must retain if required.

- Make informed and intelligent investment decisions, and understand the relative benefits of investing in people compared to other assets

- "Keep stock" of talent and expertise in a much more meaningful way than counting heads, and know whether the human assets available to us is increasing or decreasing.

Secondary benefits:

- Introduction of common language between HR, Finance and other business functions.

- Articulation of expected results between business strategic objectives and HR processes, investments, etc. (prerequisites not only for measuring HR efficiency and ROI, but also HR's impact on business results).

- Establishment of strategic and operational guidelines of HR performance management model.

- Operational tools and overall approach to design and implement HR strategy consistent with business strategy, including those measures that calculates the effectiveness and efficiency of such as strategy.

- Better conditions for a more balanced budget allocation based on business return analysis.

A further benefit is the proposed standard report for information supplied by organisations that is balanced and objective (refer example HC Report). This proposed report provides for Human Capital information without divulging details that is considered of competitive advantage, but meets the requirement for transparency to shareholders.

In order to understand key people issues in the organisation, shareholders have to understand:

- Why the workforce is shrinking or expanding.

- Whether the workforce profile fit the core business and strategy of the organisation.

- How reliant is the organisation on it's key positions and what are the risks associated with this.

- How to maximise the value which can be obtained from the available workforce which requires an understanding of:

  The size and composition of the workforce.

  Strategies for motivation, development and retention.

  Value of the skills, competencies and knowledge of employees in key / strategic positions.

  Succession planning.

Remuneration and reward linked to performance.

Employment practice (employment equity, diversity, compliance to charter).

8.3 Contributions of the present study

This study has contributed to the fields of Human Resources as well as finance; however, the overall value is in the holistic view of the contribution of Human Resources to increase the value of the organisation.

For Human Resources practitioners, this study provides a framework that links the activities and initiatives within this function to shareholder value.

- It assists HR practitioners to focus on those activities that really add value to the bottom line whilst controlling those that has the potential to detract value; i.e. aligning HR initiatives with the business strategy and tactics the operation wishes to employ.

- It provides HR with a method of reporting their own as well as the value contributed by the Human Resources of the organisation both internally as well as externally.

- It assists organisations to identify methods of extracting or increasing the Human Capital within the organisation.

- It assists HR practitioners in identifying information which can be compared to competitors and industry for assessment of their own position in the market.

For Finance practitioners, this study provides insight into the value that HR and invested Human Capital adds to the organisation and the method(s) with which to assess the value of this contribution. It also provides insight into those areas which can be benchmarked, using this technique to evaluate the efficiency of the applied capital.

For the organisation and stakeholders of the organisation, the framework enables organisations to assess their present organisational effectiveness and efficiency in applying the Human Resources of the organisation. It also provides insight into information regarding the application of human assets within an organisation, comparative by industry.

For researchers the benefits of the study are:

- A framework for Human Capital Reporting developed through literature review and empirical research.

- A framework that assists in linking metrics and business reporting requirements to allow organisations to extract value from their Human Capital.

The study identified areas for further study (e.g. developing a calculator for Human Assets as a line item on the balance sheet).

The body of knowledge on reporting for Human Capital and human resource management has expanded due to the findings of this research and serves as a contribution to the theory and research base of the field of organisational behaviour.

8.4 Recommendations for future work

This study was explorative and identified the need for further studies pertaining to reporting Human Assets and related areas. A brief statement of possible areas for future work includes formulating hypotheses for:

- The variables included in the HC framework are not significantly different in different industries.

- The HC framework does not include country specific issues and thus cannot be applied globally.

- A Human Capital Balance Chart of Accounts based on the principles of the report as identified in this study allows for a line item calculation in company Chart of Accounts.

- Lastly, an evaluation of the new role required of HR practitioners i.e. development of an adjusted job profile for Human Resource Practitioners should be investigated and tested.

8.5 Limitations of the present study

Due to the limited experience and knowledge on this subject, a full model for the calculation of Human Assets as a line item could not be completed and tested. The suggested framework developed during this study allows for reporting and proposes a model that may be considered as an exploratory step in such a calculation. The limitation is due to information of a qualifiable nature that is 1) lacking and 2) not linked to the specific impact on an organisation.

A further limitation is that not all industries in South Africa are represented. Organisations who have implemented some form of HR accounting are limited, and the number of HR consultants and students with a detailed understanding of this topic even more so. This has narrowed the sample size considerably.

Companies who have implemented more than just internal HR reporting could not be found and thus, this study, by default, was influenced predominantly by the literature reviews and global case studies. Even in global studies, there are several obvious weaknesses in applying HR metrics into an acceptable accounting framework.

The discussions with respondents lack an explicit understanding that takes into account the complexity of the interdisciplinary nature of Human Resource accounting. This is further complicated due to the sensitivity of the nature of the topic which is considered by most as either confidential or highly sensitive and of a competitive advantage.

To counter these limitations in the current study, the researcher took into account the very simple question “who benefits” throughout the analyses. Although the researcher was not able to test the model in a “real” environment although there is no question that the model can be tested and will yield satisfactory results, and recommendations for future studies are to use evaluation research to focus on the implementation of this model in companies.

ADDENDUM A - TERMS AND DEFINITIONS

GAAP - Generally Accepted Accounting Principles - These are accounting guidelines, formulated by the CICA's (Canadian Institute of Chartered Accountants) Accounting Standards Committee, that govern how businesses report their financial statements to the public. These rules, conventions, and procedures define accepted accounting practices.

GAAP are a combination of authoritative standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information. (http://www.finance.gov.ab.ca/business/ahstf/glossary.html#g)

BALANCED SCORECARD - A technique for measuring organisational success and identifying areas for improvement and action. The idea of the balanced scorecard came from management theorists Robert Kaplan and David Norton, who recognised that organisations often focused too much on financial criteria for performance management, thereby neglecting other features that help to deliver competitive advantage. Their solution was to devise a method by which managers can translate their vision into clear measures of success through balancing the financial perspective with three other, equally important perspectives: the customer, the internal processes, and innovation and learning. Each perspective requires the managers to identify different factors that are critical to success, and to devise key performance measures for these factors. The resultant 'balanced scorecard' will be a template for the organisation to evaluate its overall performance and identify areas of strength and weakness (Heery and Noon, 2001).

AFFIRMATIVE ACTION - is the term used to describe initiatives designed to promote equal opportunity and redress the existing disadvantage experienced by some groups. It is a combination of both positive action and positive discrimination.

ACOP - Approved Code of Practice - Issued by the Health and Safety Executive under the health and safety regulations, ACOPs are designed to provide detailed guidance to employers on how to comply with health and safety law. Like other statutory codes of practice they are not legally binding, but a failure to comply with the code may be used as evidence against an employer by a court of law.

BALANCE SHEET - in formal bookkeeping and accounting, a statement of the book value of a business or other organisation or person at a particular date, often at the end of its "fiscal year," as distinct from an income statement, also known as a profit and loss account (P&L), which records revenue and expenses over a specified period of time.

A balance sheet is often described as a "snapshot" of the company's financial condition on a given date. Of the four basic financial statements, the balance sheet is the only statement which applies to a single point in time, instead of a period of time. A modern balance sheet usually has three parts: assets, liabilities and shareholders' equity. The main categories of assets are usually listed first and are followed by the liabilities. The difference between the assets and the liabilities is known as the 'net assets' or the 'net worth' of the company.

CIPD (Chartered Institute of Personnel and Development) - A professional association for personnel/human resource practitioners in the UK. It offers advice and support to its members as well as promoting good practice and providing the accreditation for professional training courses and qualifications in personnel management. However, unlike other professions, such as accountancy, personnel/HR specialists are not obliged to become members of the CIPD, or to take professional qualifications; however firms may insist on CIPD membership and qualifications for their personnel staff. This was formerly titled the Institute of Personnel Management (IPM) but merged with the Institute of Training and Development in 1994 and became the Institute of Personnel and Development (IPD).

COMPENSATION - is payment for work which ‘compensates’ the employee for the ‘disutility’ of labour. The rather negative connotation associated with the term has led some personnel specialists to replace it with reward or reward management. ‘Compensation’ and ‘compensation and benefits’— ‘comp-and-ben’ - are also used to refer to the specialist activity involved in administering and managing remuneration systems and to the specialist group of managers who have responsibility for this area.

COMPETENCY BASED APPROACH - to managing people focuses on the skills and talents needed to be able to perform a particular task to a certain standard. The assessment of competencies is useful for various aspects of the management of Human Resources: setting standards of performance that can be expected from employees and appraising them against such standards; assessing the training and development needs of individual employees; and identifying the skills, abilities, and characteristics needed when recruiting and selecting new employees. Competency may be broken down into two categories: behaviour-based or work-based. Behaviour-based competencies are personal characteristics/attributes that contribute to effective job performance (for example, interpersonal skills, attitudes, motivation). Work-based competencies are specific skills and abilities required to perform the job to a specific standard (for example, the use of spreadsheet software, and fluency in spoken Zulu, management of a budget). A focus on competency not only allows for the development of employees, it also provides a new means of rewarding people; thus there has been a growing interest in systems of competence-based pay.

CORPORATE GOVERNANCE - the control and organisation of private corporations. It is an issue of relevance to human resource management for two reasons. First, it is argued with increasing frequency that national systems of corporate governance shape the pattern of employment relations within the economy. In the UK, the system of corporate governance emphasises accountability to shareholders and there is an active market for corporate control that encourages firms to seek a high return on investment. These features of corporate governance, in turn, are said to encourage short-term and an opportunist or adversarial approach to workforce management. Continental Europe systems exist that allow for worker participation in company management through works councils and worker directors as a measure of good corporate governance. This is also largely legislated in the USA through the Sarbanes-Oxley Act whilst guidance is offered in South Africa through the King Report and King II Report.

CFROI (cash flow return on investment) - is a one-year spot performance measure that uses only current year financial information. In its simplest form, CFROI is an estimate of a company's achieved real rate of return. The calculation can be performed using a financial calculator where the inputs are: **N - Asset Life:** An estimate of how long a business' productive assets will generate cash. **PMT - Operating Cash Flow:** Operating cash flow measures the cash produced by a business before financing and unusual items. **PV - Inflation-Adjusted Gross Assets:** measures the original or cumulative investment in the business. **FV - Non-Depreciating Assets:** represents the "terminal value" of a business e.g. land, investments, and current assets less current liabilities.

ETHNICITY - is the concept of categorising a person according to his or her ethnic group or origin. An ethnic group has a shared history and a cultural tradition of its own. These features are usually identified through characteristics such as a common geographical origin, a common language, a common literature, and a common religion or belief system. Normally an ethnic group will be a minority within a larger community. Because an ethnic group is a cultural construct, it is constantly changing and developing, thereby creating its own identity and redefining itself. This term encompasses the dynamic nature of a social group, and is used to replace the fixed and somewhat discredited concept of race.

HUMAN CAPITAL THEORY - is based on the assumption that individuals can affect their value in the labour market by choosing whether or not to take advantage of educational opportunities and training. If they do so, they increase their Human Capital and consequently will increase their value to employers. Human Capital theory suggests employees should be treated as individuals with specific sets of skills and abilities, so it emphasises competence-based pay as an effective remuneration system. Proponents argue this leads to a very meritocratic system and helps to achieve equal opportunities based on talent and ability, and regulated by a market economy.

HUMAN RESOURCE ACCOUNTING - is the technique of treating expenditure on the development of employees as capital investment. Accountants are frequently dismissive of this, arguing that it is impossible to put a monetary value on human assets that would be generally acceptable. Another ethical consideration is whether free human beings should be regarded as assets in the same way as legally owned property.

IiP (Investors in People) - a national standard of action and excellence in the UK. It specifies good practice for improving an organisation's performance through its people, thus making such organisations attractive for employees to work in. Organisations applying for the IiP award must (1) demonstrate commitment to invest in people to achieve business goals; (2) undertake planning about how skills, individuals, and teams are to be developed to achieve these goals; (3) take action to develop and use necessary skills in a well-defined and continuing programme directly tied to business objectives; and (4) constantly evaluate outcomes of training and development in terms of employee progress towards goals, the value achieved, and future needs.

In theory, it is designed to raise the standard of training and development in UK organisations, but in practice research reveals a mixed picture of success. Some organisations are fully committed to training and developing their employees, and are convinced that it will lead to improvements in performance. Others do the minimum possible to achieve the IiP recognition because they believe it is good for the company image, but will have little impact on performance.

JOB FAMILY - set of jobs based around common activities but conducted at different levels of the organisation. For example, a finance and accounting job family could embrace junior finance officers, senior accountants, and the finance director of the enterprise. A job family may form the basis of an integrated pay structure, such that all jobs within the family are managed using a common set of pay rules and procedures. The reason for basing pay on job families is that it allows rates of pay for each family identified to be set with regard to the external labour market. For example, the rates of pay for those within the finance job family can reflect the going rate for accountants and finance directors, with different rates of pay being established for those in other job families, such as operations or personnel management.

KNOWLEDGE-BASED COMPANIES - organisations whose success derives from their ability to create new knowledge, and use this as the basis for new products and services. Within the organisation, the emphasis is on 'knowledge management' whereby the processes and operations of the organisation are directed towards the creation of knowledge and its dissemination throughout the organisation. Essential to these processes are employees at all levels whose ideas and insights form the basis of knowledge creation, and provide the potential competitive advantage for the organisation. The idea of the knowledge-creating company has been developed by management theorists Ikojiro Nonaka and Hirotaka Takenchi, who drew upon Japanese companies such as Matsushita, NEC, and Kao to substantiate their arguments.

SUCCESSION PLANNING - is the process of ensuring that managerial posts are filled with effective managers through either identifying and developing talent with the organisation (through career management), or recruiting suitable people from outside the organisation. The process should be proactive, in the sense that it should include planning for both certainties—such as retirement—and eventualities such as resignation and vacancies as a result of internal promotions or transfers.

NETT CURRENT ASSETS - (also called working capital) refers to the total of current assets less the total of current liabilities.

NUMERICAL FLEXIBILITY - the policy of ensuring that the appropriate amount of labour is employed for the needs of the organisation. This may involve putting people on a variety of contracts to ensure that fluctuations in the demand for employees across the working day, week, or year are matched with the appropriate supply of labour. The most common forms of numerical flexibility are: (1) part-time working, (2) temporary/fixed-term contracts, (3) subcontracting.

PEST analysis - an audit of an organisation's environmental influences with the purpose of using this information to guide strategic decision-making. The PEST technique involves assessing four sets of factors: Political/legal, Economic, Socio-cultural, and Technological. The assumption is that if the organisation is able to audit its current environment and assess potential changes, it will be better placed than its competitors to respond to changes.

SHARED SERVICES - typically HR administrative services that are consolidated in a service centre and accessed by managers from different business divisions and strategic business units via different channels such as telephone or intranet (self-service). In large multinational companies shared services may be provided from a single centre to staff across the globe, with service centre staff fielding inquiries and offering advice on a broad range of company policy, procedures or general HR activities.

TACIT SKILLS - or tacit knowledge are acquired through experience in an organisation and arise from detailed familiarity with equipment, procedures, co-workers, and customers. One of the justifications for employee participation is that it allows managers to draw upon these tacit skills and feed them into the decision-making process.

TOTAL REMUNERATION - consists of three elements. The first is base pay, expressed as an hourly rate or annual salary. The second is variable pay, which consists of additional supplements, bonuses, and other payments that typically are linked to performance. The third component is benefits or indirect pay, including cash payments like occupational sick pay and maternity pay and non-cash awards like paid holidays and health insurance. Increasingly it is recommended that companies calculate and manage total remuneration for each employee as a means of securing tighter control of labour costs.

ZERO BASED BUDGETING - a technique that requires departmental managers to propose and justify their entire budget for the year. It is a planning system that assumes the starting point for each year is no budget, rather than the traditional method of using the previous year's budget as the baseline.

ADDENDUM B - DELPHI WORKSHOP RESULTS

Data results of Delphi Workshops - % of participants who answered Yes

	Is the indicator / metric applicable?	Is the indicator / metric complete?	Is the indicator / metric applicable to all types of organisations?	Is the data for the indicator / metric easily obtained?	Is the calculation required for the indicator / metric simple?	Is the indicator / metric understandable?	Is the data objective, quantifiable and reliable?	Does the indicator / metric point towards sustainable improvement?	Can the indicator / metric be measured on an ongoing basis?
Costs per Full-Time Employee	100	26.6	100	100	100	100	100	100	100
Total HR investment / earnings	50	97.87	52.13	36.17	40.43	43.62	39.36	26.6	56.38
Revenue per Employee	100	100	-0	100	100	100	100	100	100
Total HR investment / revenues	48.94	25.53	51.06	35.11	39.36	42.55	38.3	25.53	55.32
Total Compensation/Benefits as Ratio of Total Revenue	100	100	100	100	100	98.94	100	100	100
Turnover by recruiting source	47.87	22.34	50	35.11	39.36	41.49	38.3	22.34	54.26
Training Investment per Employee	100	96.81	-0	100	100	100	100	96.81	100
Turnover costs	46.81	21.28	48.94	34.04	37.23	40.43	36.17	21.28	53.19
Training Remuneration Factor	98.94	96.81	-0	-0	-0	100	-0	96.81	100
Turnover rate by job category and job performance	45.74	23.4	47.87	32.98	37.23	40.43	36.17	23.4	52.13
Recruitment Resource Ratio	100	98.94	100	100	100	100	100	98.94	100
Variable labour costs as percentages of variable revenue	44.68	21.28	46.81	31.91	36.17	38.3	34.04	21.28	51.06
Total Compensation as Ratio of Total Costs	100	98.94	100	100	100	100	100	98.94	100
Worker's compensation costs	44.68	22.34	45.74	31.91	35.11	37.23	34.04	22.34	50
Incentive Cost Ratio	100	96.81	100	100	100	100	100	96.81	100
Workers compensation experience rating	42.55	21.28	44.68	29.79	34.04	36.17	31.91	21.28	48.94
Termination Rate	100	98.94	100	100	100	100	100	98.94	100

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Access to business information to facilitate decision making	43.62	18.09	45.74	29.79	34.04	36.17	31.91	18.09	47.87
EE Movements	100	96.81	100	100	100	100	100	96.81	100
Adherence by the workforce to core values	41.49	17.02	43.62	28.72	34.04	35.11	30.85	17.02	46.81
Acceptance Rate	1.06	98.94	100	100	100	100	100	98.94	100
Average change in performance appraisal rating over time	40.43	15.96	42.55	28.72	31.91	34.04	30.85	15.96	45.74
Employee Commitment	100	98.94	100	-0	-0	100	-0	98.94	100
Change in employee mind-set	39.36	14.89	41.49	27.66	30.85	32.98	28.72	14.89	44.68
Employee Motivation	100	96.81	100	-0	-0	100	-0	96.81	100
Climate Surveys	38.3	13.83	40.43	26.6	30.85	31.91	28.72	13.83	43.62
Employee Satisfaction	100	96.81	100	-0	-0	100	-0	96.81	100
Consistency and clarity of messages from top management	37.23	11.7	39.36	26.6	29.79	30.85	27.66	11.7	42.55
Management Leadership	100	2.13	100	-0	-0	-0	-0	2.13	100
Customer Complaints / Praise	36.17	11.7	38.3	26.6	29.79	30.85	27.66	11.7	41.49
Knowledge Generation	100	-0	-0	-0	-0	100	-0	-0	100
Customer satisfaction with hiring process	35.11	9.57	37.23	26.6	29.79	30.85	27.66	9.57	40.43
Knowledge Integration	100	-0	100	-0	-0	100	-0	-0	100
Degree of financial literacy among employees	35.11	9.57	36.17	26.6	28.72	29.79	27.66	9.57	39.36
Knowledge Sharing	100	-0	-0	-0	-0	-0	-0	-0	100
Degree of race and gender by job category	34.04	10.64	35.11	24.47	26.6	27.66	25.53	10.64	38.3
Process Execution	98.94	96.81	100	100	100	100	100	96.81	100
Dealing with poor performers	34.04	7.45	35.11	23.4	25.53	26.6	24.47	7.45	37.23
Retention of Key People	100	98.94	100	100	100	100	100	98.94	100

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Employee Commitment Survey Scores	31.91	6.38	34.04	23.4	26.6	26.6	24.47	6.38	36.17
Relational Capital	100	2.13	100	-0	-0	-0	-0	2.13	100
Employee competency growth	31.91	5.32	32.98	22.34	24.47	24.47	23.4	5.32	35.11
Structural Capital	100	-0	100	-0	-0	-0	100	-0	100
Employee development opportunities	30.85	6.38	31.91	23.4	24.47	24.47	23.4	6.38	34.04
Value Alignment	100	-0	100	-0	-0	100	-0	-0	100
Employee turnover by performance level and controllability	28.72	3.19	30.85	21.28	22.34	22.34	21.28	3.19	32.98
Absenteeism rate by job category and job performance	100	98.94	100	100	100	100	100	98.94	100
Extent of cross-functional teamwork	28.72	2.13	30.85	21.28	22.34	22.34	21.28	2.13	31.91
Accident Costs	100	98.94	100	100	100	100	100	98.94	100
Extent of Organisational Learning	27.66	1.06	29.79	19.15	20.21	20.21	19.15	1.06	30.85
Accident safety ratings	100	98.94	100	100	100	100	100	98.94	100
Extent of understanding of the firm’s competitive strategy	26.6	1.06	27.66	20.21	21.28	21.28	20.21	1.06	29.79
Average employee tenure (by performance level)	88.3	93.62	90.43	73.4	77.66	86.17	80.85	93.62	97.87
Ready access to the information and knowledge	25.53	1.06	26.6	19.15	20.21	20.21	19.15	1.06	28.72
Average time for dispute resolution	88.3	92.55	89.36	72.34	76.6	84.04	78.72	92.55	96.81
Required employee competencies are reflected in recruiting	23.4	1.06	25.53	19.15	20.21	20.21	19.15	1.06	27.66
Benefits costs as a percentage of payroll or revenue	86.17	90.43	88.3	71.28	75.53	84.04	78.72	90.43	95.74
Employees are clear about the firm’s goals and objectives	23.4	3.19	24.47	18.09	19.15	19.15	18.09	3.19	26.6
Benefits costs/competitors’ benefits	85.11	87.23	87.23	69.15	73.4	81.91	76.6	87.23	94.68

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costs ratio									
Extent to which employees are clear about their own goals	23.4	3.19	23.4	17.02	17.02	18.09	17.02	3.19	25.53
Compliance with fair employment practices / industry charter	84.04	88.3	86.17	71.28	75.53	82.98	77.66	88.3	93.62
Reward knowledge creation and sharing	21.28	1.06	22.34	15.96	17.02	17.02	15.96	1.06	24.47
Compliance with technical requirement of affirmative action	82.98	87.23	85.11	68.09	71.28	78.72	73.4	87.23	92.55
HR is helping to develop necessary leadership competencies	20.21	1.06	21.28	17.02	18.09	18.09	17.02	1.06	23.4
Comprehensiveness of safety monitoring	82.98	88.3	87.23	68.09	73.4	79.79	74.47	88.3	91.49
HR does a thorough job of pre-requisition soft-asset	18.09	1.06	20.21	15.96	15.96	15.96	14.89	1.06	22.34
Compensation of high performers compared to average performers	82.98	86.17	85.11	65.96	70.21	77.66	73.4	86.17	90.43
HR leadership is involved early in selection	18.09	1.06	20.21	14.89	15.96	15.96	14.89	1.06	21.28
Cost of HR-related litigation	80.85	86.17	82.98	65.96	70.21	77.66	71.28	86.17	89.36
Extent to which HR measurement systems are seen as credible	18.09	2.13	20.21	13.83	13.83	14.89	14.89	2.13	20.21
Cost of injuries	81.91	85.11	82.98	64.89	69.15	76.6	71.28	85.11	89.36
Information is communicated effectively to employees	15.96	2.13	19.15	13.83	14.89	14.89	13.83	2.13	19.15
Cost per grievance	78.72	55.32	81.91	65.96	70.21	77.66	72.34	55.32	88.3
Average employee can describe the firm's HR strategy	15.96	2.13	18.09	12.77	13.83	13.83	12.77	2.13	18.09
Cost per hire	77.66	82.98	80.85	63.83	68.09	74.47	69.15	82.98	87.23

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Average employee can describe the firm's strategic intent	13.83	2.13	17.02	13.83	14.89	14.89	13.83	2.13	17.02
Cost per trainee hour	77.66	81.91	79.79	62.77	67.02	73.4	68.09	81.91	86.17
Sharing of large amounts of knowledge with employees	12.77	2.13	15.96	12.77	13.83	13.83	12.77	2.13	15.96
Courses with highest number of attendees by competency	77.66	80.85	78.72	61.7	65.96	72.34	67.02	80.85	85.11
Firm has turned its strategy into specific goals	11.7	2.13	14.89	11.7	12.77	12.77	11.7	2.13	14.89
HR department budget as a percentage of sales	76.6	79.79	77.66	61.7	65.96	72.34	67.02	79.79	84.04
Top management shows commitment and leadership	10.64	2.13	13.83	10.64	11.7	11.7	10.64	2.13	13.83
HR expense per employee	75.53	76.6	76.6	60.64	63.83	70.21	64.89	76.6	82.98
Percentage of employees making suggestions	10.64	2.13	12.77	10.64	11.7	11.7	10.64	2.13	12.77
HR expense / total expense	74.47	78.72	76.6	59.57	63.83	69.15	63.83	78.72	81.91
Percentage of PDI promotions	10.64	2.13	11.7	10.64	10.64	10.64	9.57	2.13	11.7
Interviews per-offer ratio (selection ratio)	72.34	77.66	75.53	59.57	63.83	68.09	64.89	77.66	80.85
Percentage of workforce that is promotable	7.45	2.13	10.64	9.57	9.57	9.57	8.51	2.13	10.64
Lost time due to accidents	72.34	47.87	75.53	58.51	62.77	68.09	62.77	47.87	80.85
Employees with experience outside their current job	7.45	2.13	9.57	8.51	8.51	8.51	8.51	2.13	9.57
Measures of cycle time for key HR processes	72.34	47.87	74.47	57.45	61.7	67.02	61.7	47.87	79.79
Percentage of retention of high-performing key employees	6.38	2.13	9.57	8.51	8.51	8.51	8.51	2.13	9.57

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Number of applicants per recruiting source (by quality)	70.21	47.87	73.4	57.45	61.7	67.02	61.7	47.87	78.72
Consistent and equitable treatment of all employees	6.38	-0	8.51	7.45	7.45	7.45	7.45	-0	8.51
Number of hires per recruiting source (by quality)	69.15	46.81	72.34	55.32	59.57	64.89	59.57	46.81	77.66
Performance of newly hired applicants	5.32	-0	7.45	7.45	7.45	7.45	7.45	-0	7.45
Number of courses taught by subject	68.09	43.62	71.28	55.32	59.57	63.83	58.51	43.62	76.6
Planned development opportunities accomplished	4.26	-0	6.38	6.38	6.38	6.38	6.38	-0	6.38
Number of recruiting advertising programs in place	67.02	42.55	70.21	53.19	57.45	62.77	57.45	42.55	75.53
Ratio of HR employees to total employment workforce	3.19	2.13	5.32	5.32	5.32	5.32	5.32	2.13	5.32
Number of safety training and awareness activities	67.02	43.62	69.15	52.13	56.38	61.7	56.38	43.62	74.47
Requests for transfer per supervisor	1.06	-0	4.26	4.26	4.26	4.26	4.26	-0	4.26
Number of poor performers who left per level	67.02	42.55	69.15	52.13	56.38	61.7	56.38	42.55	74.47
Retention rates of critical human capital	2.13	-0	3.19	3.19	3.19	3.19	3.19	-0	3.19
Number of stress-related illnesses	64.89	40.43	67.02	50	54.26	59.57	54.26	40.43	72.34
Success rate of external hires	2.13	-0	2.13	2.13	2.13	2.13	2.13	-0	2.13
Number of training days and programs per year	65.96	42.55	65.96	50	54.26	58.51	54.26	42.55	71.28
Survey results on becoming “the” employer	1.06	2.13	1.06	1.06	1.06	1.06	1.06	2.13	1.06
Offer-to-acceptance ratio	63.83	39.36	65.96	50	54.26	58.51	54.26	39.36	71.28

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Proportion of high performers to average performers	62.77	38.3	64.89	48.94	53.19	57.45	53.19	38.3	70.21
Percentage of and number of employees involved in training	63.83	39.36	64.89	47.87	52.13	56.38	52.13	39.36	69.15
Percentage of correct data in HR information system	59.57	37.23	62.77	46.81	51.06	55.32	51.06	37.23	68.09
Percentage of employee development plans completed	60.64	37.23	61.7	46.81	51.06	54.26	50	37.23	67.02
Access to appropriate training and development opportunities	59.57	36.17	60.64	45.74	50	53.19	48.94	36.17	65.96
Percentage of new material in training programs each year	57.45	35.11	59.57	44.68	48.94	52.13	47.87	35.11	64.89
Percentage of payroll spent on training	57.45	32.98	59.57	44.68	48.94	52.13	47.87	32.98	64.89
Percentage of performance appraisals completed on time	56.38	32.98	58.51	43.62	47.87	51.06	46.81	32.98	63.83
Response time per information request	55.32	29.79	57.45	42.55	46.81	50	45.74	29.79	62.77
Sick days per full-time equivalent per year	54.26	30.85	56.38	42.55	46.81	48.94	44.68	30.85	61.7
Speed of salary action processing	53.19	30.85	55.32	40.43	44.68	47.87	43.62	30.85	60.64
Time needed to orient new employees	53.19	29.79	55.32	39.36	43.62	46.81	42.55	29.79	59.57
Time to fill an open position	53.19	28.72	55.32	39.36	43.62	46.81	42.55	28.72	58.51
Total compensation expense per employee	51.06	27.66	53.19	37.23	41.49	44.68	40.43	27.66	57.45