

THE SMARTER ANNUAL REPORT

How companies are integrating financial
and human capital reporting



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Sponsored by Halogen Software

About the authors

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A note for readers

This report uses the American spelling of English words. Apologies to those that prefer the more traditional form, in so far as Dr. Johnson managed to achieve any standardisation!

Sponsor message

Halogen Software is excited to be sponsoring this study on a subject that is very relevant to the future of the HR profession.

We got involved in this work because we feel Halogen has a significant role to play in this future in two important ways:

- Improving insight on talent and human capital
- Improving management of HR and business outcomes

Improved insight

This study focuses on the insights about human capital that companies are sharing with investors; however we know that the same type of information is valuable for leaders in smaller and mid-sized organizations, whether privately held, publicly traded, government or not-for-profit. As this study shows, your stakeholders want better information about human capital. Part of our mission at Halogen is deliver talent management software and solutions that help give you that information, and answer fundamental questions about your talent.

Improved management

Even more than better insights, your business leaders, boards and investors want better outcomes. Halogen's talent management solutions help organizations like yours build an aligned and engaged workforce; achieve better results and a lasting competitive advantage. Our solutions not only help you report on news about your talent and human capital, but they help you ensure that it will be good news.

Thanks for reading this study. We believe it is an important work, and we look forward to any questions you have about how an integrated Talent Management suite can help improve both insight and outcomes.

For more information go to: www.halogensoftware.com



Read this first

Zoom in on what's important to you.

If you want...

...a **quick understanding** of the issues and what you should be doing

→ Read the **Executive Summary**

...**detailed information on the reasons** behind the movement to smarter annual reports

→ Read **Section 1: What's the Issue?**

...to see specific examples of what **human capital information** is being put **in annual reports**

→ Read **Section 2: Human capital – what gets reported**

...to see examples of **how firms tackle the idea that performance information should be integrated**

→ Read **Section 3: Telling the story of integrated value creation**

...our **conclusion on how to report human capital information and improve corporate reporting**

→ Read **Section 4: Recommendations for reporting on human capital**

and

→ Read the **Appendix: more tips for smarter reporting**

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EXECUTIVE SUMMARY

This report provides guidance on how companies should respond to the movement to improve annual reporting to stakeholders, and in particular the provision of better human capital information.

What is happening?

There is a well-established global movement to improve annual reports so that they go beyond narrow financial reporting. The intent is to convey better how an organization creates value and meets the needs of varied stakeholders.

- A core element of this is integrating human capital and financial information in a single report.
- Organizations are starting to grasp that 'sustainability' is both about long-term performance and contributing to the planet's survival – and that people are a critical ingredient.

Who is behind this?

- The big players pushing for smarter annual reports are the Sustainability Accounting Standards Board (SASB) in the US and, globally, the International Integrated Reporting Council (IIRC).
- A well-established player in sustainability reporting is the Global Reporting Initiative (GRI). Their focus is more corporate responsibility than value creation; nonetheless they play an important role in defining the metrics inserted into smarter annual reports.
- A variety of other bodies are actively supporting improved corporate reporting. For example, The B-Team is a group of socially aware leaders pushing corporate responsibility with "True Accounting" being an explicit part of their mission.

Will anything come of this?

- The IIRC has already had a sizeable number of large, international companies following its guidelines for integrated reporting on a trial basis for three years.
- Michael Bloomberg and Mary Schapiro are serving as the Chair and Vice Chair of SASB. People of this caliber have the power to drive change in the world.
- An Association of Chartered Certified Accountants survey of 200 CFOs indicates that half of the firms surveyed anticipate adopting integrated reports within three years.
- Bottom line? Yes, change is coming.

What could go right?

- Investors could get a more rounded picture of both performance drivers and results. With a better understanding of how the leadership is creating value, investors are more likely to support wise investments in future capability and less likely to press for short-term moves that undermine long-term performance.
- Other stakeholders whose views impact the reputation and well-being of the organization (e.g. the public, employees, customers, governments) could get better insight into the factors that matter to them.
- Smarter corporate reporting should have improved format, content, performance measures and timeliness – adapting to the digital information age.
- A drive to provide better evidence of value creation can spur improved practices and investment in human capital, and also in HR technology, information and analytics.
- Integrated reporting encourages better internal teamwork, replacing siloed behavior and measurement with more coherent management of performance data and narratives.

What could go wrong?

- If badly done, it could become just another expensive compliance exercise, throwing more metrics into a report without providing better insight into value creation.
- Organizations may have poor results on human capital measures, and be conflicted about telling their story and improving their practices.
- Lack of investment in effective HR systems and analytics may limit the ability to generate performance information comparable in quality to financial results.

What are companies reporting now?

- ‘Good practice’ companies already report a lot of human capital data. However there is such a wide range of information reported and in such a wide variety of formats that it is difficult to know what to include and what to leave out.
- Furthermore, the lack of common standards in non-financial information frustrates performance comparisons.
- What is missing in most corporate reports is a coherent framework that enables stakeholders to understand the link between people strategies and investments and how value is created in a company.

HR’s challenge

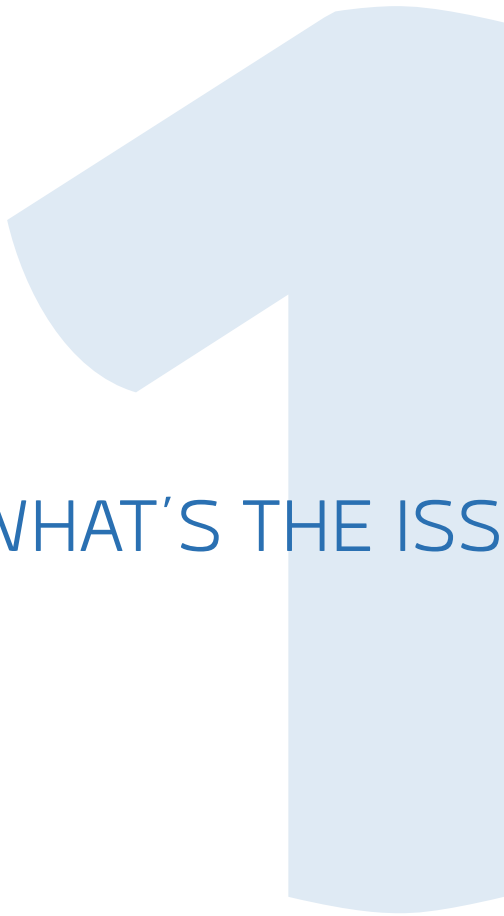
- Human capital reporting offers great opportunities for the HR function to demonstrate its contribution through playing a core role in shaping the organization’s value creation narrative, and in developing better teamwork across functional boundaries.
- There are also threats to HR if it is underprepared – if it is a bit player in the corporate reporting process, with little knowledge of the various emerging standards; and if its HR information systems and analytics are patchy and un-integrated, with limited ability to demonstrate cause and effect between human capital investment and business results.

The decisions you need to make

1. How to ensure full HR involvement
2. What to include and what to exclude
3. How to present the data and narrative
4. How to tell a smarter story
5. What to do with bad news
6. What to do about data your CEO wants but your systems cannot generate
7. How to generate smarter data – enhanced HRIS and analytics

What to do next

- Work to improve your internal human capital reporting in anticipation of increasing pressure to improve your external reporting.
- Build awareness in the organization that the movement to smarter reports is underway.
- Make sure the key stakeholders recognize the opportunities and risks.
- HR leaders should be sure they are part of the team working with the CEO on this, not standing on the sidelines. Indeed, as OD practitioners, they should guide colleagues in other central functions and business units towards better teamwork.
- We have a clear point of view on how human capital should be integrated with financial reporting – use this perspective to guide improvements you make.



WHAT'S THE ISSUE?

WHAT'S THE ISSUE?

This chapter addresses the questions “What is behind the movement to smarter annual reports, and what are the issues and guiding principles?” There are detailed and thorny issues to consider.

The performance of organizations and their leaders is under steadily increasing scrutiny, with demands for more clarity, transparency and accountability. Therefore the way organizations account for themselves is itself an issue – indeed, a number of interrelated issues, as we will explain.

1.1 Annual reports need re-thinking

Over recent decades, annual reports have grown in shape, size and complexity – especially for large, listed companies.

- Originally a simple and legally required statement of accounts, a narrative was then added to help investors assess a company's current and future financial health, and to facilitate decisions about elections of directors.
- Many other elements have been added since, influenced by different countries' legal requirements, by formal guidelines intended to improve standards of governance, and by evolving custom and practice – growing in some cases to single or multiple documents totalling several hundred pages.

The net result is that the conventional annual report has become an unwieldy object. It requires much effort, time and money to produce, but generally has few friends. It tends to fall between several stools.

- The formally required performance data is ostensibly of use to professional investors. Except that most of them are making investment decisions 24/365, or near enough – not once or twice a year when formal reports are issued.
- It also often serves as a flagship 'brochure' articulating the organization's purpose, direction and achievements. However, the tendency to include what are seen as marketing 'puff' and platitudes has long invited cynicism and disbelief.

Stakeholders have become frustrated with Annual Reports and Corporate Responsibility Reports – they want something that concisely tells an integrated story.

It is usually suboptimal to use one tool for multiple purposes. Corporate audiences have quite varied needs and perspectives. In addition, in a digital age everyone expects to get information fast, and when WE want it. Companies in practice find themselves having to make material disclosures outside fixed reporting time points, devaluing the latter.

Thus the form of reporting – beyond regulatory filing requirements – needs to change. Smarter reports will involve

- a change to what is communicated (our review focuses on the human capital side of the 'what')



“For decades, investors’ decisions have been aided principally by financial statements. But such information gives an incomplete picture of a company’s health.”

Michael Bloomberg and Mary Schapiro

Michael Bloomberg photo by Rubenstein [CC-BY-2.0] (<http://creativecommons.org/licenses/by/2.0/>), via Wikimedia Commons from Wikimedia Commons



“Integrated reporting is inevitable – financial and non-financial performance cannot be separated. It’s really helped us with the shareholder activism and stakeholder relations. It supports us in many, many ways. Our economic development teams use it, it is referenced in regulatory filings and helps employees understand the business strategy. Having this information is empowering.”

Sandy Nessing, Managing Director, Sustainability & EHS Strategy & Design – American Electric Power

- a change to how, and how often, information is communicated. Technology now provides a range of ways to target information ever more accurately to specific audiences, matching user preferences, and moving beyond the limitations of print. In some ways that opens up a new performance challenge, about effectiveness as a digital communicator. (A subject for another review!)

1.2 Respecting multiple stakeholders – or not

An underlying issue is where organizational leaders – in commercial organizations – stand in the debate between

- regarding ‘owners’ interests as paramount, or
- identifying that owners/investors are best served by also recognizing the interests of multiple stakeholders – customers, employees, business partners, communities, regulators etc.

The trend is undoubtedly toward the latter, whether out of belief that this is good practice or reacting to widespread disaffection with poor capitalist behavior – with ‘market fundamentalism’ blamed for financial crises, past and potentially in future. In practice many leadership teams and boardrooms still respond most and quickest to investment market pressures, often short-term in nature, rather than the views of, say, customers, employees and communities. However, the reality in an increasingly interconnected world is that different stakeholders are now influencing each other.

Annual report reformers such as SASB and IIRC emphasise the importance of considering multiple stakeholders and identifying what is material to them.

Thus a challenge facing organizations is to demonstrate in their corporate reporting that they are truly taking all important stakeholders seriously. This includes presenting evidence about performance that meets those stakeholders’ criteria.

1.3 Where’s the genuine ‘performance and value’ story?

Beyond the mundane task of recording what has been achieved since the last reporting date, the most valuable question that organizational performance reporting can address is ‘why trust the organization to succeed over time?’

- For listed companies the related question is ‘why invest here?’
- Stakeholders other than investors also have important decisions to make about an organization – why should I buy from them, why should I work there, why should I partner with them, etc.

There are some fairly evident shortcomings with the traditional model of formal report, with its predominance of financial data, recording past performance.

- Answering ‘why invest here’ requires understanding both what creates value in the future and what could constrain value creation.

‘Not good enough’

So say Michael Bloomberg and Mary Schapiro, the former chair of the US Securities and Exchange Commission in an article in the Financial Times on May 19, 2014.

“For decades, investors’ decisions have been aided principally by financial statements. But such information gives an incomplete picture of a company’s health.

Many other factors affect the sustainability of a business, both internal (such as talent recruitment and retention) and external (such as constraints on natural resources). How effectively a company addresses such issues can profoundly affect its prospects.

The trouble is, investors and shareholders often do not have ready access to comparable information about these issues... Such information is not generally disclosed in financial filings... A way of providing standardized information to investors is required.”

Bloomberg and Schapiro are now serving as Chair and Vice-chair respectively of SASB.

“Measurement and reporting standards for non-financial information need to be developed so that analysts and investors have confidence in them and can compare the performance of companies, at least within a sector, and over time. These analysts and investors must then incorporate those measures into their financial models, turning them into *business* models... ultimately effective Integrated Reporting and trust in business by society requires a new view and consensus of the role of the corporation in society.”

Robert Eccles, Professor of Management Practice – Harvard Business School

→ [View the document here](#)

- An account of the previous year's numbers and events is important for the record, but is of limited usefulness in indicating future value.
- Important elements of performance tend to be hidden within voluminous financial statements.
- Much of the information that helps answer that question is not inherently financial, although it will have an important influence on financial health.
- Stakeholders other than investors use many non-financial parameters to assess performance.

The swathes of financial numbers typically tell us little about either how effective an organization is or, importantly, why it will continue to be effective. Financial purists argue that factors like effective customer service, people management and innovative capability are ultimately to be judged through financial results. That's true up to a point, but investors and others stakeholders need leading not lagging factors to make their assessments.

Stakeholders need performance reports that help them take decisions – chiefly to continue or change their relationship with the organization. Does your corporate report genuinely do that? Do you lean towards revelation or obfuscation?

In addition, formal financial statements do little to help anticipate potential trouble. Indeed, it is more likely that – with expensive advisory help – indicators of nasty surprises will be well buried.

Such non-financial information as is provided often suffers from a number of flaws.

- Descriptive narrative with little evidential underpinning.
- Numerical information not presented in a way that allows inter-organizational comparison.
- Insufficient information to explain 'cause and effect'.
- Limited connection between non-financial and financial outcomes, in order to discern materiality.
- Weak articulation, in many cases, of the performance criteria of stakeholders other than investors.
- Description of business risks tends to be somewhat generalized, predictable and hence uninformative.

Thus understandably and increasingly investors and other stakeholders want something better.

Meanwhile, CEOs get deeply frustrated if their hard work in leading organizations through thick and thin is under-appreciated or misunderstood. It is doubly annoying if this is because their story is being filtered by number-crunching analysts and financial journalists with little real understanding of front-line realities. CEOs want stakeholders to see their business the same way they see it.

Institutional investors want better non-financial information

EY's 2014 survey of global investors reveals that:

- the majority use non-financial information to assess investments, in particular to build a better picture of risks
- information is mostly sourced from companies rather than third parties, such as ratings agencies
- it is hard to compare companies' data meaningfully, to understand what is most material to growth prospects, and to make quantifiable links between non-financial and financial performance
- nonetheless, investors feel that those who are timely in disclosing non-financial information have a competitive advantage
- US investors are noticeably less oriented to use non-financial performance than the rest of the world.

From *Tomorrow's Investment Rules, 2014*.

→ [View the document here](#)

1.4 Moving beyond CSR

Reporting non-financial information is hardly new.

Sustainable development was defined by the UN's Bruntland Commission back in 1987. The 'triple bottom line' concept emerged in 1994 when John Elkington coined the phrase 'people, planet and profit'. Shell published the first corporate sustainability report in 1997.

However, arguably what this has led to is the creation of an add-on – the CSR report, an accompaniment to the annual report that seeks to portray the organization as a 'good citizen'.

Most large organizations now produce a CSR report, as KPMG records in the 2103 edition of its annual CSR report survey. In some cases this is done with sincerity, but others appear more like reputational 'greenwash'.

Some inherent tensions, confusions and illogicalities arise.

- The word 'sustainable' is used in different ways – specifically, environmental sustainability is not the same as corporate sustainability, just as ethics are part of but not the same as effectiveness.
- CSR reports are generally not designed with investors and capital markets in mind. Yet most of the topics a CSR report covers are not just about 'doing the right thing', but about risks that can cripple an organization if not addressed.
- At the same time, there are activities and investments some organizations undertake in the name of 'responsibility' that are questionable in terms of generating real organizational value, and are more about promotion than genuine reputational enhancement.
- CSR reports are often used to report on employee issues. Yet an organization without employees does not exist – employees are intrinsic, not an extrinsic add-on. Logically, understanding the people component is central to understanding value creation, not a 'nice-to-have' option.
- CSR reports tend to focus more on risk prevention than conveying what organizations could do to create added value.
- Yes, annual reports are long and indigestible – and it helps if information can be segmented in some way. Yet CSR reports themselves are often also dense and un-engaging.



"Interest in human capital data continues to increase. CALPERS has added human capital as a dimension of their investment philosophy and organizations are disclosing more than ever. The question is, what makes the most sense to disclose for a particular company? That's where time is well spent in HR."

Jeremy Shapiro, HR Executive & HR Analytics practitioner

The concept of CSR reports increasingly suffers from tensions, confusions and illogicalities.

Thus the challenge for organizations is both to

- recognize that much of what they have relegated to their CSR report is actually core to the organization's performance and future, and yet at the same time...
- avoid generating an even more unwieldy corporate report.

1.5 A surge of ‘standards’ – clarity or confusion?

Frustration has led to a multiplicity of initiatives aiming to reform corporate reporting.

- The **Global Reporting Initiative (GRI)** has over many years shaped CSR reporting, and has recently issued new guidelines (G4).
- Other actors include the International Federation of Accountants, the IFRS Foundation and its International Accounting Standards Board, the Climate Disclosure Standards Board, the United Nations Conference on Trade and Development, the World Intellectual Capital Initiative, the World Business Council for Sustainable Development and the Social Accounting Network.
- There is also ‘The B-Team’, spearheaded by Richard Branson, Arianna Huffington and others, whose aim is “to create a future where the purpose of business is to be a driving force for social, environmental and economic benefit” and to this end that “the true cost of all business impacts – environmental, social and economic – are fully accounted for.”
- Other prominent supporters of integrated reporting include the heads of the World Bank and the Bank of England.

However in our view the most significant are these.

- **International Integrated Reporting Council (IIRC)**, whose mission is to promote “integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.”
- **Sustainability Accounting Standards Board (SASB)**, which “envisions a world where all forms of capital are accounted for and managed.” It sees itself as a parallel organization to the FASB and aims to have its standards codified in US law.

Many different bodies have jumped into the game of improved reporting, but the most significant are the IIRC globally and SASB in the US.

Most of these initiatives have listed company involvement – or indeed are ‘business-led’ – and it helps that the aims of these various initiatives are broadly similar.

Not surprisingly, many senior company executives find it challenging to keep up to speed, and more pertinently to avoid being fogged by seemingly competing standards.

Nonetheless, the onus is on senior executives to meet the challenge from stakeholders to explain themselves better – including justifying their pay packets.

IIRC’s six capitals

IIRC’s framework comprises a set of headings that the contents of a corporate report should cover, together with guiding principles for drafting that content.

In terms of value that organizations should aim to generate, it also defines six types of capital.

Financial – debt, equity, grants

Manufactured – buildings, infrastructure, equipment, tools (that help to make/serve)

Intellectual – IP, organizational capital (knowledge, systems, procedures, protocols), intangibles, brand

Human – people’s competences, capabilities, experience, motivation, service orientation, innovation orientation, alignment, collaboration, ability to understand/develop/implement strategy. (Related factors include turnover, industrial relations, occupational health & safety, diversity/equal opportunities, education/training)

Social and relationship – shared norms, values and behaviors; key relationships – trust and willingness to engage among stakeholders; social license to operate; community. (Related factors include ethics, anti-corruption and non-competitive behavior, safety & privacy, customer service, customer safety, human rights observance)

Natural – renewable and non-renewable environment stocks – air, water, land, materials, energy; biodiversity, ecosystems; emissions and waste

Three of the six capitals are mainly about people and behaviour.

1.6 Guiding principles of IIRC and SASB

These are the principles set out by IIRC.

Strategic focus and future orientation – articulating strategy and how it relates to the company’s ability to create value in the short, medium, and long term. Also explaining use of the six capitals in the way strategy is designed and executed. Important estimates, assumptions and risks should be indicated in terms of future aims and expectations.

Connectivity of information – a holistic picture of the combination, interrelatedness, and dependencies between the factors that affect the organization’s ability to create value over time. This includes demonstrating connectivity between the 6 capitals, financial and non-financial information, quantitative and qualitative information, and the past, present and future of the organization.

Stakeholder relationships – the nature and quality of the organization’s relationships with its key stakeholders, including how and to what extent the organization understands, takes into account, and responds to stakeholders’ legitimate needs and interests. The organization needs to be guided by an understanding of how its stakeholders perceive value.

Materiality and conciseness – information that substantively affects the organization’s ability to create value over the short, medium, and long term; conveying full meaning but doing so briefly and simply. Information is material if it could substantively influence the assessment and decisions of the governing board as well as the intended users of the information. If material information is not disclosed, the reasons should be explained.

Reliability and completeness – all positive and negative matters, in a balanced way, without bias or error.

Consistency and comparability – presenting information on a consistent basis over time, and in a way that it can be compared with other organizations in the relevant industry/industries, including consistent use of internal KPIs or externally-recognized standards and benchmarks.

Avoiding the obvious and vacuous

Overly generic wording such as ‘talent drives value’ or ‘customer satisfaction is our goal’ – stating things everyone already knows – should be avoided, for example when articulating strategy, business models and value chains.

Rather, the goal should be to identify what is unique, or at least distinctive, about the organization, and what will convince stakeholders to invest their trust in it.



“We started doing integrated reporting before the term existed. Our board decided to make it very clear in the bylaws that we do business by the triple bottom line principle of seeking to always be financially, environmentally and socially responsible – as a signal, externally and internally. That was our opportunity to work with integrated reporting, and we have now done our 10th integrated report. We’re not there yet, but we are comfortably on our way.”

Susanne Stormer, Vice President, Corporate Sustainability, Corporate Stakeholder Engagement – Novo Nordisk

IIRC and SASB have similar guiding principles which, while patently admirable (e.g. conciseness), will take great skill to execute well.

Meanwhile, the SASB principles set out quality parameters for data and metrics.

Relevant – adequately describes performance related to the material issue, or is a proxy for performance.

Useful information to companies and investors.

Applicable to most companies in the industry.

Cost-effective – data are already collected by most companies or can be collected in a timely manner and at a reasonable cost.

Comparable – allows for peer-to-peer benchmarking within an industry.

Complete – individually, or as a set, the metric provides enough information to understand and interpret performance associated with the material issue.

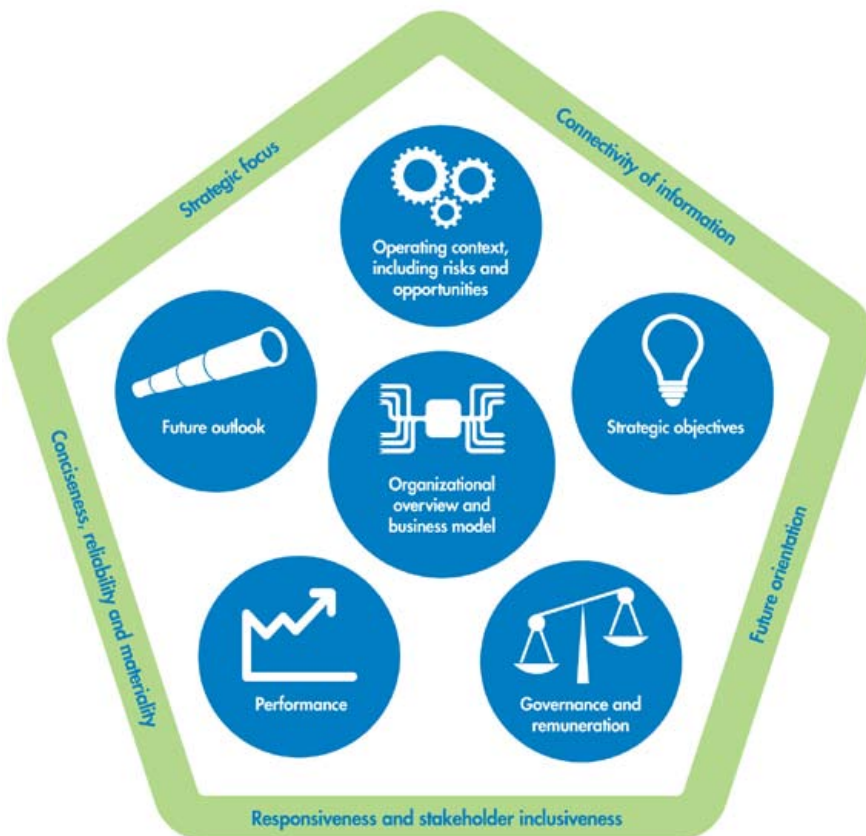
Directional – provides clarity about whether an increase/decrease in the numerical value signals changed performance.

Auditable – data underlying any metric can be verified.

Other reporting should tie into value maps – data that does not relate to the value creation map is arguably not ‘material’ or should be placed in an ancillary document.

1.7 Content

The IIRC guidelines propose seven headings for corporate report contents – as shown in the diagram. Consistent use of these headings in itself aids comparability.



Growth rate of integrated reporting

According to a recent Association of Chartered Certified Accountants (ACCA) report, based on a survey of 200 CFOs

- nearly half the companies surveyed said they were either taking active steps to move towards an IR model, or had already implemented one
- the rest are adopting a ‘wait and see’ approach, including 10 per cent who do not intend to make the move unless it is compulsory
- yet 93 per cent of investors expressed support for the concept of integrated reporting.

This indicates a distinct shortfall in corporate attentiveness to investors, let alone other stakeholders.

Understanding Investors – the Changing Corporate Perspective, 2014

→ [View the document here](#)

At the center of IIRC’s proposition is a business model that shows how the organization creates value.

- **Organizational overview & external environment** – what the organization does and its operating context, including commercial, legal, social, environmental and political factors.
- **Business model** – what, and how resilient, is it? How does the value chain work? Diagrams are helpful, provided they convey real meaning, and are not just window-dressing.
- **Opportunities and risks** – and how these impact value, and relate to the continued availability of the six capitals. The source, probability and potential magnitude of effect should be explained.
- **Strategy and resource allocation** – where is the organization aiming to go and how will it get there? How does this interrelate with the previous two headings?
- **Governance structure** – how does this support value creation in the short, medium and long term? What are the linkages between strategy, business model, executive KPIs and reward, and capital creation or destruction?
- **Performance** – how well have strategic objectives been met, and what are the outcomes in terms of the effect on the six capitals? How has financial performance been affected by performance of other capitals? How does performance compare with past performance, with competitors and comparators, and how is the setting of future targets influenced?
- **Future outlook** – a transparent analysis of the leadership's expectations, including the basis for assumptions.

1.8 Integration – the key to better reporting?

SASB and IIRC are performing two different, if largely complementary, functions.

- IIRC has designed a framework for corporate reporting, across the board, setting out what should be covered and how.
- SASB, while articulating some similar principles about overall quality standards, is engaged in drilling down into individual business sectors – using a consultative process – in order systematically to define types of measures relevant to those sectors.

It is the 'integrated' concept that has the potential to change the overall shape of corporate reporting, with SASB helping organizations with the detail. However, SASB's impact is limited by focusing on the US market and regulatory environment, whereas IIRC's perspective is global.

Adding value through risk declaration

The risk statement should provide investors with material information to guide their decision-making information.

- Where factors drive value this should be highlighted – too often 'risk' is articulated one-dimensionally as just preventing bad things, as opposed to making effective judgments about opportunities.
- However, it is also valuable to communicate – if true – that 'there are no big problems here'. There is nothing wrong with identifying results as being 'good enough' and 'not a cause for worry'.

Risk statements are not particularly helpful if they appear to be a list of the obvious and generic, either in what risks are declared and what mitigation is proposed. Other traps to avoid include

- appearing overly defensive about discussing risk
- making excuses in advance, including the declaration of a long list of possible problems.

What an organization should convey is that it is both alert to and capable of dealing with potential opportunities and threats.

Unlike IIRC, SASB's guidelines are customized for individual industry sectors. Unlike SASB, the IIRC guidelines are intended to be global.

In addressing shortfalls in corporate reporting, IIRC guidelines pose some strong challenges to current practice.

- Strategic focus and future orientation – in an increasingly VUCA (volatile, uncertain, complex and ambiguous) world, organizational leaders often struggle to determine long-range strategic goals that are meaningful to stakeholders.
- Stakeholder responsiveness – how much are organizations prepared to reflect performance criteria that stakeholders choose?
- Materiality and conciseness – how will corporate reports be more concise yet include more and better information?
- Consistency and comparability – how well will organizations resolve the current lack of structured and comparable non-financial metrics?
- Reliability and completeness – how honest will reports be about failings and dangers, as well as recording successes?
- Connectivity of information – how joined-up are the various types of performance metric?

In addition, there is the challenge of expressing value added in terms of six types of capital, rather than just the financial capital that has predominated hitherto. And doing so concisely!

Organizations and executives that have hitherto concentrated largely on financial reporting face the challenge of articulating their story in terms of five other types of ‘capital’.

However challenging, there is a head of steam building behind integrated reporting.

- The IIRC guidelines, developed in concert with many of the world’s leading corporations, went ‘live’ in December 2013.
- For the past three years many corporations have been trying out the IIRC principle and guidance in composing their reports.
- One country – South Africa – has already declared integrated reporting to be mandatory.
- Increasingly regulators – such as the UK’s Financial Reporting Council and Bank of England Governor, Mark Carney – are taking steps to encourage more integrated and long term value-oriented reporting.

Whether a tipping point will be reached, and a new norm established, depends on how well the early adopters succeed in articulating performance better in the eyes of stakeholders.



Dave Ulrich’s comment on the Creelman Lambert & McBassi project.

“In my work, investors are aware of intangibles as a unique source of value for a company. These intangibles often include financial discipline, strategic clarity, core competencies (e.g., in R&D, marketing, branding, operations), and organizational capabilities. But, underneath these intangibles, investors increasingly interested in defining leadership within a firm.

Effective leadership has two domains: one domain is the quality and traits of the collective leaders throughout the company. The other domain is the human capital investments these leaders make in the company. The integrated reporting work shares exceptional information on that second domain: the human capital investments.”

Dr. David Ulrich, Rensis Likert Professor, Ross School of Business – University of Michigan

1.9 The criticality of human capital

The various standards proposals share a recognition that the human factor is central to creating value.

- Human behavior drives most aspects of performance, from the front line to leadership.
- In most organizations, much of the value is intangible – largely due to their ‘people difference’.
- Three out of IIRC’s six capitals are about people and behavior – human, social and intellectual.

An important message is that the traditional approach of regarding people as an expense – a cost of business – is erroneous.

The traditional approach of regarding people as an expense – a cost of business – is erroneous.

At the heart of value creation lie factors such as quality and stability of leadership, depth of talent, employee engagement, learning culture and other drivers of productivity, innovation and the employer brand.

For HR leaders and their functions, ostensibly this should be good news. It has not always been easy to get full and sophisticated discussion of people and behavior onto board and top team agendas.

Much of what has hitherto been included about human capital in corporate reports has been

- bland and uninformative about value creation
- evidence and data poor.

In and of themselves, high level figures about employee numbers, turnover and spend, convey little of the real story inside an organization. The website Glassdoor and its equivalents can be more insightful than many annual reports.

At the same time, there has been a history of unsuccessful attempts to create quasi-accounting metrics and arrive at definitive summation of people value. In recent times both SHRM and CIPD – the largest of the HR professional associations – have had to beat a retreat from efforts to define very specific human capital reporting standards.

There are also further challenging questions for organizations.

- How knowledgeable is your HR function about corporate reporting, and about the standards that have been developed?
- How keen and well-equipped is HR to join Finance and others in playing a central role in corporate reporting?
- How effective are HR’s information systems and analytics capabilities in providing meaningful data to the organization’s value creation story?

The latter point is made in the context of a wide scale and current debate within HR circles about improving HR systems and metrics.



“Our human capital metrics – human capital ROI, organization demographics, talent management and succession – are the catalyst for an important and powerful discussion with our Board. We very much look forward to the day when we can get these kinds of measures to help us manage our investment choices.”

Warren Bells, Chief Operating Officer & Pension Services COO – OMERS

Everyone agrees human capital matters, but most reporting hitherto has been of varied standard and limited value.

1.10 Our study

In sum, improvements in corporate reporting should enhance how these needs are met.

- Investors want meaningful and reliable insight on all value creation factors.
- Other stakeholders want similarly robust information to guide their choices about the organization.
- CEOs and boards should want investors and stakeholders to understand and appreciate the work they are doing.

We have therefore undertaken a review of how some 62 organizations from around the world have fared in using the IIRC guidelines to

- develop more integrated reports,
- address human capital information, and thence
- meet these needs.

How keen and well-equipped is HR to join Finance and others in playing a central role in corporate reporting?

The purpose of this study to provide guidance to

- the significant number of corporations that will go down this route
- those that have 'had a go' prior at smarter annual reports and are thinking about what to do next time
- those who are still just thinking about it, and wondering whether complying with this voluntary code actually adds value, or is just another headache to cope with.

Some takeaways

At a high level the push to smarter annual reports is easy to understand – stakeholders are dissatisfied with the usefulness of the information they are currently getting. Similarly it is easy to understand why human capital is a critical part of smarter annual reports and why it should be integrated into a value creation story rather than stand alone as just another bunch of metrics.

However, if you have read through this chapter you will see there are a number of contentious issues (such as the relative importance of investors versus other stakeholders) and difficult concepts (such as the six capitals of IIRC).

Leaders do not need to have all the answers, but they should understand that there are substantive issues around smarter annual reports; it is not a straightforward compliance exercise whose execution can be delegated three levels down the organization.

The good news is that one does not need a comprehensive grasp of the ideas proposed by IIRC and SASB to make substantial progress on producing reports that better serve stakeholders. Ponder the big issues at your leisure while taking immediate action on the best ways to improve reporting to stakeholders.



HUMAN CAPITAL –
WHAT GETS REPORTED

2 Human capital – what gets reported

This chapter answers the question “What human capital information is being included in ‘integrated’ annual reports?”, summarized from our analysis of 62 companies that have used the IIRC guidelines.

Nearly 80% of the integrated reports we studied have a separate ‘people section’, under a variety of names, such as ‘our people’, ‘investing in employees’, ‘winning with people’ or, more prosaically, ‘human capital report’ or ‘labor practices’.

The length and depth varies greatly. At one extreme, Enel provided 13 pages of employee data, but many others had just a few pages, often light on data.

What is actually covered also varies considerably. Different companies cover different topics. We see everything from absenteeism to leadership to training and talent development.

80% of the reports we studied had a standalone people section, but length and depth varied hugely, from one to over a dozen page, often data-light.

We have selected a range of examples to stimulate readers’ thoughts about what THEY should do to convey their organization’s human capital and value creation story to stakeholders.

Some graphics are hard to read in the original and harder to read in this reproduction. However, the fine print is not so important. The point of this section is to give a sense of what organizations are reporting; and we hope that sense is clear even where an image is fuzzy.

2.1 Absenteeism

Absenteeism is an easy-to-understand metric and can potentially forewarn of labor relations problems. Yet just a few organizations, such as Barclays Africa Group, report on absenteeism as a line item in their list of key indicators.

Absenteeism is an obvious indicator of both cultural and physical health. Surprisingly few organizations report on it.

2.2 Culture and Values

Many organizations include statements about culture and values. Marks & Spencer, for example, states that its values are core to its success, and that the board has three top priorities – strategy and execution, people and succession – and values. This kind of narrative highlights what the company thinks is important and how it sees itself.

Realistically such statements can suffer from ‘sameness’ as well as inviting skepticism. It is one thing to make the statement – it is another to provide



“CEOs at companies like Costco and Starbucks that are renowned for investments in their employees often remark that investment analysts questioned, or even opposed, such investments. CEO courage is often necessary to sustain such investments even if analysts cannot yet see their impact.”

John Boudreau, Professor of Management and Organization, Marshall School of Business, University of Southern California



“Since its first experiences in CSR reporting, Atlantia considered the engagement of human resources a key factor for the process. The adoption of IIRC guidelines with respect to people/culture capital didn’t require a great change in the contents of the report. The essential elements and information required by the guidelines were already included in CSR reports. In the integrated report these contents were presented in a different way, starting from a strategic view and objectives about this issue.”

Andrea Ragni, Public Affairs and Sustainability, Atlantia

evidence of how the values are making a difference, especially if the company – or indeed a whole sector e.g. banking – is trying to re-build trust after reputational damage. Thus it is important to think through and include some specific examples – backed up by data – that support your narrative.

Some companies included comments such as: “While formal feedback is a scheduled occurrence, the **performance-centric culture** of [our company] encourages and facilitates constant and regular employee feedback at all levels” (emphasis added). Such claims are more convincing if backed up by employee survey evidence and instances of how this affected business results.

For example, **Marks & Spencer** shows its values have taken hold by picking out their survey’s score on employees’ customer orientation, but arguably this is just one step in the right direction.

Without convincing company information, stakeholders concerned about how closely the reality of the organization matches the rhetoric will necessarily look outside: data from sources such as Glassdoor indicate whether the organization has a realistic self-image.

Finding good examples of reporting on culture, i.e., giving practical examples and data, proved to be challenging!

2.3 Demographics and Diversity

It is common to report on demographics because it is easy to do, and to report on diversity because it is an important social issue.

- Demographics – investors will be looking for potential problems such as an impending surge of retirements or too few experienced employees. Demographics may also provide some basic context setting, for example showing how the workforce is distributed around the globe.
- Diversity – investors will be looking to see that the company is not particularly poor either in terms of absolute numbers or trends. Other stakeholders – e.g. female talent – may be more inquiring.

Each firm handles reporting their own way; here are some of the demographic categories reported.

- Total number of employees
- Proportion of part-time employees
- Proportion of fixed-term contracts
- Number of interns
- % of staff holding a university degree or above
- Breakdown by age
- Breakdown by region

Nearly 80% of firms report on the percentage of their Board of Directors that is female, with 72% reporting on the gender composition of their workforce. Over half (52%) of firms include some other measure of diversity (beyond gender), such as age or race.

Organizations that are proud of the range of nationalities in senior management tend to say so – but they are small in number, despite the long-standing issues about developing a globally-capable leadership.

What to avoid

In Chapter 1 we outlined principles of effective reporting. When reporting about people, here are a few practices to avoid.

- **Empty clichés.** At the poor end of the spectrum are statements like ‘our people are vital to our success’, but accompanied neither by substantive evidence of that, nor of the difference that management is making to enhance people effectiveness. Although this practice has been much pilloried over the years, examples of it are still plentiful.
- **Human interest window dressing.** Adding a few human interest stories that are not related to a clear narrative and set of metrics is also likely to have little positive impact on stakeholders, and appears like mere window-dressing.
- **Data with no context.** Numbers and statements mostly require some context to make them meaningful. Stating “We hired 276 new employees” means nothing unless we know the total employed – that number should be close by. Similarly reporting “The new hires were a mix of new graduates and experienced talent” might hint at some talent strategy, however without an explanation it is a waste of the reader’s time.

Information on culture and values tends to be bland, too little connected to value creation, and not supported by data.

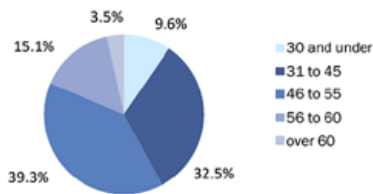
There are many different ways to segment demographic and diversity data, but what works best in conveying YOUR value story?

Some report on the contingent workforce, which is becoming a major component of a human capital in many companies. For example, in **Enel** the number of contractors far exceeds the number of employees.

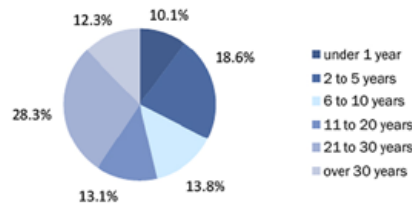
The following tables illustrate varied styles of reporting on demographics and diversity.

Atlantia uses a few key pie charts to illustrate the composition of their staff; here are two of them.

Distribution of permanent staff by age range

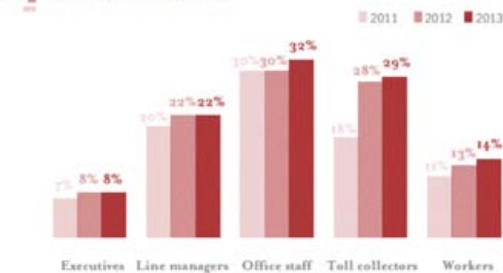


Distribution of permanent staff by length of service

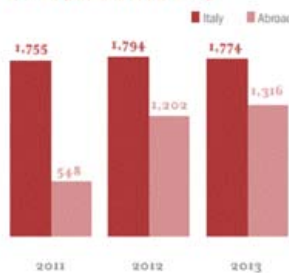


Atlantia also includes solid information on gender diversity such as the two charts below. (They also provide more details in an 'Analytical Data' section).

Women presence by level



Women presence in the Group



Reflecting the importance of diversity issues in Africa (particularly South Africa), **Barclays Africa Group** comments on 'employment equity'.

Employment equity

Indicators	2013	2012	2011
Overall disability (% of total employees)	0,96	1,09	1,13
Black senior management representation (%)	32,15	31,53	38,23
Black women senior management representation (%)	12,00	11,17	12,92
Black middle management representation (%)	49,73	47,09	49,12
Black women middle management representation (%)	26,06	25,05	25,94
Black junior management representation (%)	71,92	69,08	67,69
Black women junior management representation (%)	50,92	48,89	47,41
Total black turnover (%)	12,5	14,6	13,0
Total turnover (%)	11,7	15,3	11,9
New appointments – black (%)	80	81	86
Promotions – black (%)	77	74	76
Resignations – black (%)	71	69	70

Data that tells a story

Compelling attributes in presenting graphs and tables include:

- segmentation that relates to well-defined business and performance issues
- historical trends
- presenting information in easy-to-read graphics
- including benchmarks or targets to allow comparison of results
- providing commentary to aid interpretation of the data
- in particular focusing on cause-and-effect in improving performance and creating value
- clarity about what is and is not material to stakeholders interests.

The examples we cite in this report show some of these attributes, but by no means all.

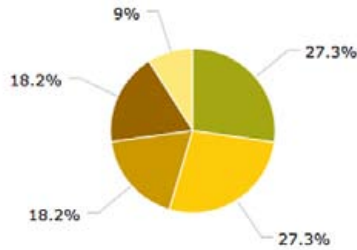
How integrated is your reporting on 'contingent' employees?



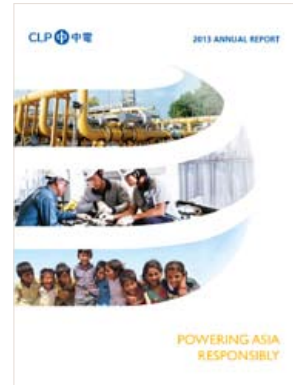
Barclays Africa Group Annual Report 2013

CLP enumerates the nationality of senior executives to draw attention to a truly global team.

Diversity of our Management Team



- ▼ Chinese
- ▼ European
- ▼ American / Canadian
- ▼ Australian / New Zealander
- ▼ Indian and Others



CLP Annual Report 2013

Danone dives into the small print of demographics with a detailed table.

Average workforce	2012 ^(*)			2013		
	Long-term contracts employees ^(**)	Fixed-term contracts employees ^(**)	Interim workers	Long-term contracts employees ^(**)	Fixed-term contracts employees ^(**)	Interim workers
Total	85%	4%	11%	91%	4%	5%
Europe	88%	6%	6%	89%	7%	4%
Asia	84%	4%	12%	93%	5%	2%
Rest of the world	84%	2%	14%	91%	1%	8%
By geographic region						
Africa and Middle East	77%	5%	18%	91%	5%	4%
Asia Pacific	84%	4%	12%	93%	5%	2%
Eastern Europe	86%	6%	8%	90%	8%	2%
Western Europe	88%	6%	5%	88%	7%	5%
Latin America	84%	1%	15%	91%	1%	8%
North America	96%	3%	1%	96%	3%	1%
By business division						
Fresh dairy products	81%	3%	16%	88%	5%	7%
Waters	90%	4%	6%	95%	3%	2%
Early life nutrition	77%	5%	18%	89%	6%	5%
Medical nutrition	92%	4%	4%	93%	5%	2%
Central functions	93%	6%	1%	91%	8%	1%

(*) Social Indicators Scope
 (**) Under contract with a Danone subsidiary

Danone also shows admirable transparency by comparing compensation differences between men and women (see right). Furthermore they can be applauded for not only referring to internal grades (which mean nothing to outsiders) but additionally to an external benchmark – the Hay System – as shown right. They also interpret the data, pointing out whether or not the differences are significant.

Directors excluding Managing Directors: Danone internal grades 6a, 6a and 5 (equivalent to hay system 20 to 22)

	Women	Men	Total
5	1,09	1,12	1,11
6A	1,04	1,09	1,07
6B	0,95	0,95	0,95
Total	1,00	1,03	1,02

Out of a total of 979 Directors.

The biggest gap is in level 6a, with an average 3% difference, it is explained by the fact that women generally have less seniority in their positions.

Note that **Enel** highlights the number of contractors with a graphic, not just data in a table. A quick glance shows why this matters: for every employee there are almost 1.5 contractors. It is impossible to understand human capital at **Enel** without understanding the contract workforce.

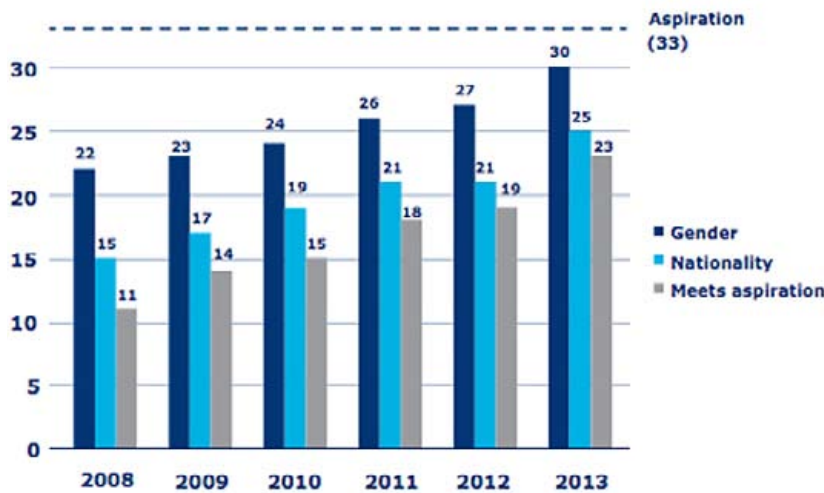


Number of employees
73,702



Workforce of contractors
104,590 FTE

This **Novo Nordisk** trends graph is nicely presented; it is always helpful to include a benchmark or target in this case 'aspiration'. It also provides useful commentary.



Since the inception of the five-year diversity aspiration, Novo Nordisk has seen steady progress and expects that the vast majority of senior management teams will live up to the diversity aspiration by the end of 2014. Consistent progress has been made over the past five years, as shown in the graph. In 2013, 70% of the senior management teams lived up to the diversity aspiration (23 out of 33 teams), with 91% meeting the diversity aspiration for gender (30 out of 33) and 73% the aspiration for nationality (24 out of 33). Progress on the diversity aspiration is monitored and reported internally on a quarterly basis. In 2014, Novo Nordisk plans to enhance its efforts to achieve the diversity aspiration, and diversity will remain a key priority beyond 2014.



"Integrated reporting creates an opportunity to educate the board and investors on the link between human capital and the group's business strategy. The response by the board has been fantastic – they are very interested and engaged."

Jo Avenell, Group General Manager
People & Capability, New Zealand Post



Novo Nordisk Annual Report 2013

2.4 Employee and Engagement Surveys

Just as the microscope made the modern science of biology possible, employee surveys are the single most flexible and powerful tool for understanding how a company is managed. However, here are two (of many) questions that arise.

- Is the leadership asking the right questions and doing beneficial things with the results?
- How much is the leadership willing to share with stakeholders?

Bringing these points together, a leadership committed to transparent reporting will reveal salient scores and explain their significance. Using the familiar red/yellow/green rating can help to illustrate what's important, whether good or bad.

Employee surveys provide a microscope for the quality of people management. Yet few companies report more than headline figures, usually just about engagement.

Just over half of firms report data from their annual employee engagement survey. Most report only a high level 'summative' engagement score. What would be helpful is to include further detail about results or drivers of engagement, or indication of answers to specific survey questions.

The examples below, of companies reporting some interesting and relevant points, demonstrate how the lack of a consistent framework for explaining how people create value reduces the usefulness of the data, and vice versa.

One of **ACCA's** goals is to be an aligned organization and the most practical way to measure that is through an employee survey. To measure alignment, it looks at the percentage of employees who understand their contribution to ACCA's strategy. In its 2011 report ACCA illustrated the value of explaining survey results that fall short of their target.

"Percentage of our employees who understand their contribution to ACCA's strategy: while 81% is a good result, especially as we continue to go through significant change across the organization, we fell short of the target we set. We believe that our new performance management process, which enables employees better to link their personal contributions to our strategy, will drive better understanding, as will our plans to align our internal communications more closely to our strategy. We have therefore kept our target for 2012-13 at the same high level."

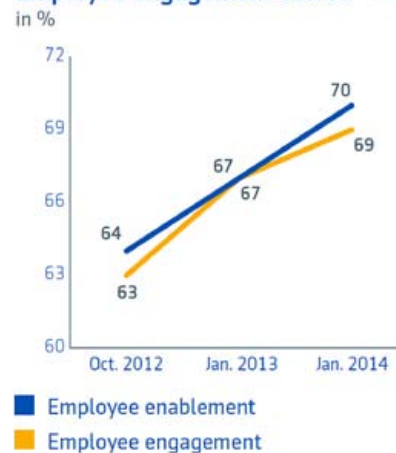
Their 2013-2014 report shows this indicator has now reached 90%.

Aegon reports on both engagement and enablement (see right). We know what these mean because Aegon helpfully identifies its survey provider – the Hay Group. (Hay uses questions around issues such as direction, confidence in leadership and recognition to measure engagement; and questions around performance management, resources, collaboration and so on to measure enablement.)

Presenting meaningful survey outcomes

- Is it clear what the factor is? For example **Diageo** reports on the favorable responses to the factor 'Drivers', and while it probably is something important, there is no explanation of what that factor is. **Kingfisher** takes an additional, important step by identifying their metric as the well-known Gallup Q12.
- Is there historical data? **Potash Corporation** includes five years of data.
- Are there external benchmarks? None of the reports in our sample show benchmarks, although sometimes companies do report industry benchmarks on indices like engagement.
- Is there a target? **CIMA** shows not just the result, but the result they were aiming for.
- Is there interpretation of the results? **ACCA** is a rare example of an organization that not only shares its survey findings but goes on to help explain them.

Employee engagement scores



(Source: Hay index, based on last three Aegon global employee surveys).

CIMA shows something approximating the questions asked and the targets the organisation has set. Inquiring stakeholders will, however, want more detail. For example 'job satisfaction' is shown as 70%. Including information on what exactly was asked in the survey would make it easier to compare this metric to other organizations.

Also this table is several years old and in the more recent 2013 report they only include the employee satisfaction rate.

Measure	Target %	Actual %	
I feel proud to work for CIMA	68	77	✓
Job satisfaction	72	70	✗
I understand the results expected of me	86	90	✓
I am kept informed about matters that affect me	55	58	✓
CIMA provides training so I can handle my job well	70	71	✓
Rate CIMA on having a clear sense of direction	60	71	✓
I have a good understanding of strategy and goals	75	93	✓

Diageo provides some interesting survey findings, including reference to a 'leadership index': leadership is certainly a factor of high importance to investors, and indeed most stakeholders.

Values Survey results (2013)		
	Favourable responses (%) ¹	Movement from last year (%)
Values		
Passionate about customers and consumers	85	-
Freedom to succeed	79	-1
Proud of what we do	83	-
Be the best	73	-
Valuing each other	73	-
Engagement indicators		
Engagement	85	-1
Leadership index ²	74	-
Super-engagement	41	+1

1. The percentage of respondents who selected the two most favourable responses (typically 'strongly agree' and 'agree').
2. As a significant driver of engagement, we measure leadership as part of the Values Survey. The Leadership Index pulls together all of the key survey items that relate to 'My manager'.

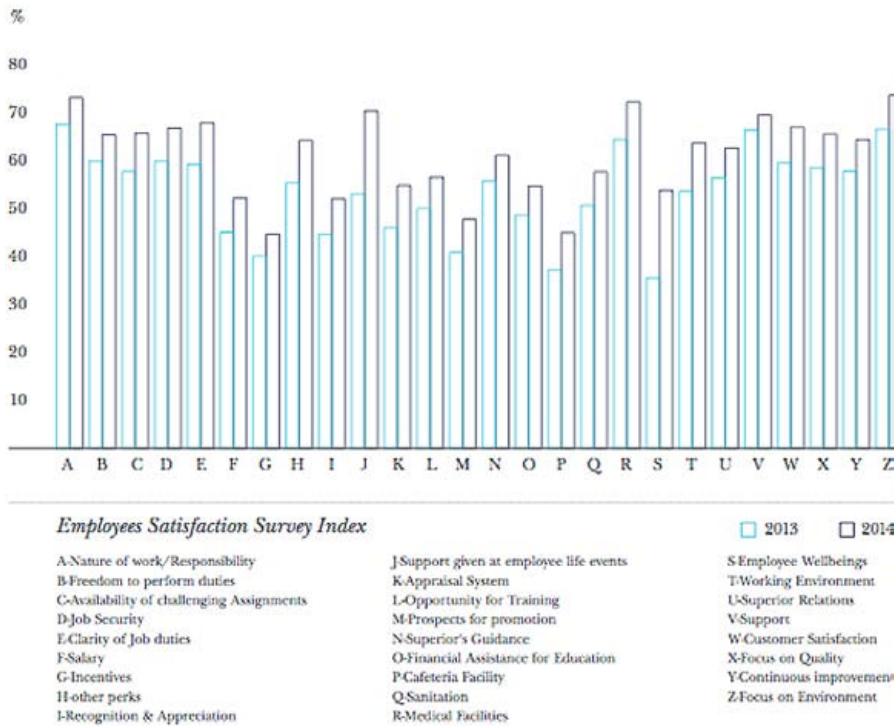


CIMA Annual Report 2013



Diageo Annual Report 2013

The most detailed (and correspondingly hardest to read) report we found was from **DIMO**, where they give results literally from A to Z covering 26 survey questions. The intent is admirable and demonstrates they are not cherry-picking a few positive results.



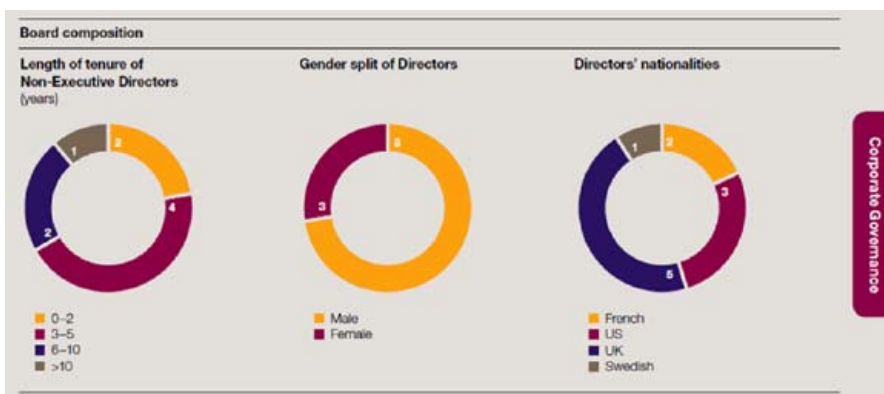
2.5 Governance (human capital factors)

There are many issues of governance that go beyond strictly human capital factors; here we focus on a few of the people issues reported that provide insights into the quality of governance.

Here are some examples of what is reported.

- Demographic information on board composition including diversity, tenure, age and nationality.
- Process for selecting board members.
- Overview of governance processes.

In earlier reports **ARM** included information on tenure, gender, and nationality of directors; more recently they limit reporting to gender.



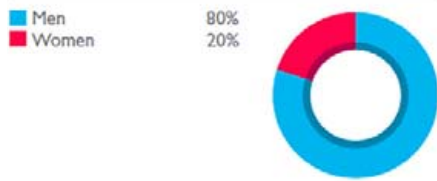
An independent people audit?

Nothing comparable to the requirements for independently audited financial information yet exists for human capital information. Much of what this report discusses is, strictly speaking, optional information that organizations can choose to reveal. Could that change? Could human capital information become subject to formal audit? There are many obstacles.

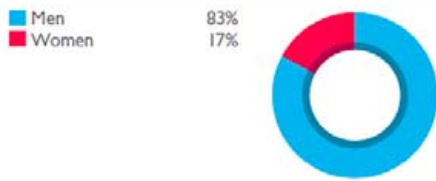
- Any change would have to be demand-led. Many leaders/managers would resist being forced into more detail about how they run their organization. Investors would need to become very insistent and specific about the better information they want.
- The employee survey is arguably the method that can reveal most about how well people issues are managed. However, there are as yet no common standards on a par with those for accounting, and reaching agreement on these would not be easy.
- SASB is attempting to develop – at least for the US market – standards for people metrics that are relevant to particular business sectors. Any experienced HR professional looking at what has been articulated so far would, if being polite, observe that this work is still in its infancy, and in need of some quality input.

However, the reality is that some independent sources of information – such as Glassdoor – are already considerably more insightful than anything a company yet declares. Savvy organizations will need to face up to this challenge, and take greater steps to provide people information that is both credible and useful to multiple stakeholders.

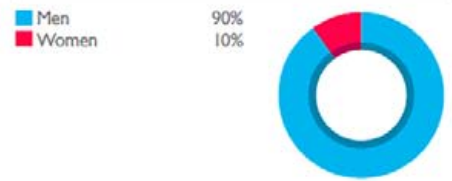
Diversity of the Board



Diversity of the Company



Diversity of Senior Managers*



*Staff with job grades 7–12 consisting of 136 of 2,833 employees.

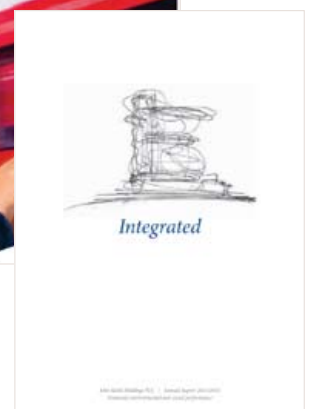
Go-Ahead signals they understand the importance of getting the right talent on the board by sharing the process for selecting non-executive directors. It lists the steps starting with "Assess balance of skills and diversity to establish criteria for a new appointment", onto "Engage external recruitment consultant to undertake search for suitable candidates" and all the way through to the committee's recommendation for the final candidate to be presented to the wider board for approval.

It is not that Go-Ahead has some special process, just that they do have a thought-out approach and take it seriously enough to share it in communication to investors.

John Keells shares that it has integrated governance systems, signaling that they have invested effort in improving governance.

A few organizations are starting to open up about why and how directors are selected... but most don't.

Integrated governance systems and procedures



Marks & Spencer (p.43, 2014 report) provides notably good information about its board members. This includes not just biographical information but also a table analysing board composition, with dimensions such as core competence/ experience, gender, tenure and range of nationalities. The data may not be profound, but at least communicates a rounded perspective of diversity.

Go-Ahead and John Keells Annual Reports 2013

2.6 Health and safety

Occupational health and safety tends to be the most comprehensively reported people issue, influenced by regulatory pressures. Companies use a number of standard measures, provide historical trends and sometimes offer benchmarks. In certain sectors, e.g. mining and construction, it is treated as an important topic on its own and may be separated from human capital information.

Health and safety reporting tends to be higher quality than other 'people' dimensions, eg when using standard measures, showing trends, and comparing against benchmarks.

The most common health and safety metrics are injuries, fatalities, instances of occupational disease, and days lost due to illness. Some companies report inspections, notices of violations and penalties. Here are some examples.

Anglo American provides graphs showing trends in injuries and fatalities (see example right).

Implats adds to this by honoring individual fatalities by name.

Stockland provides quite detailed information on safety, as shown in the table.

Health and safety performance

	FY13	FY12	FY11	FY10	FY09	FY08
Total average workforce ¹	1,736	1,384	1,330	1,243	1,320	1,372
Total hours worked	3.03 million	2.42 million	2.32 million	2.17 million	2.31 million	2.40 million
Number of lost time injuries	17	18	5	13	6	7
Lost time injury (LTI) frequency rate ²	5.6	7.4	2.2	8	2.6	2.9
Number of injuries requiring medical treatment ^{2*}	11	13	8	12	12	10
Medical treatment injury (MTI) frequency rate ^{2**}	3.6	5.4	3.7	5.5	5.2	4.2
Frequency rate (LTI and MTI) ^{2***}	9.2	12.8	5.9	11.5	7.8	7.1
Fatalities	0	0	0	0	0	0
Lost days (total for the recorded lost time injuries)	417	257 ⁴	70	87	31	14
Average lost days per lost time injury (Severity rate)	24.5	14.3 ⁴	14	6.6	5.2	2.3

¹ the number of injuries per million person hours worked²

² not including lost time injuries

^{2**} not including injuries requiring first aid treatment only

¹ Total average workforce uses monthly employee totals rather than end of financial year figure used in Our People metrics. The total average workforce was updated in FY13 to include Avum Payroll employees.

² Includes injuries incurred as a result of a work related incident. Does not include commuting/recess injuries.

² FY12 metric has been updated to include additional lost days incurred in FY13 for lost time injuries reported in FY12.

⁴ Severity rate for FY12 has been updated to include additional lost days incurred in FY13 for lost time injuries reported in FY12.

In the white collar world, the regional bank **Vancity** has in past reports included lost time due to employee illness.

Number of days lost due to employee illness

The increase in days lost due to employee illness was primarily due to an increase in pregnancy-related and stress-related short-term disability leave claims.

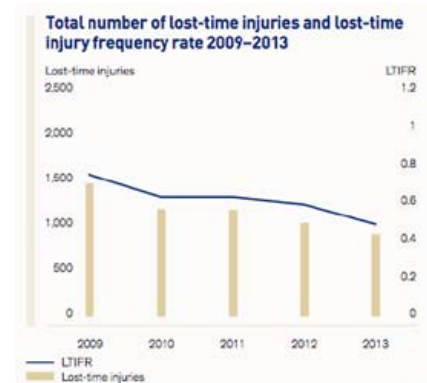
	BM	2011	2010	2009	2008	2007
Total days lost due to illness	#	16,529 [*]	15,049	18,793	18,683	15,400
Absenteeism rate	%	6	8	7	9	10
						n/a

Data includes permanent full-time and part-time employees.

Days lost due to illness includes time taken by employees to care for a sick family member.

Benchmark (BM) source: BC HRMA, Canadian Credit Unions.

^{*}Due to improved tracking systems, data now includes Citizens Bank. This inclusion does not affect comparability to previous years.



Anglo American – trends in lost-time injuries



Stockland Annual Report 2013

Wellness is liable to be an area of increasing focus – measuring and reporting on how healthy populations are. Some nation states are beginning to report more incisively and transparently, and companies are coming under pressure to do the same, even if few do so as yet. The underlying issue is who is willing to take responsibility for wellness as a performance area, whether a government minister, chief executive, CHRO or Chief Medical Officer.

2.7 HR/people strategy and goals

While it might seem obvious to point out, organizations should specify their main HR goals, and match metrics to these – with an evident linkage to valuable business outcomes. Core questions are ‘how did we do against previous goals’ and ‘how does this inform what we aim to do next’. This information is, however, not yet systematically present in annual reports.

In an earlier report **Indra** provided a good example of how to report on goals, and hence give more color to human capital strategies than one gets from metrics alone.

04 Performance and Future	The Year's Achievements	Our Businesses	Our Stakeholders
Shareholders	Employees	Clients	Suppliers Partners Environment Knowledge Institutions Society
Commitments made in the Annual Report 2010	Progress made in 2011	Objectives for 2012	
Continuing to promote actions that will improve the exchange of knowledge and innovation with employees.	International rollout of the Knowledge Sharing platform 'Think Innovation'. Launch of the 'Open Dialogues' consultations.	Continuing to promote actions that will improve the exchange of knowledge and innovation with employees.	
Continue to encourage the creativity and innovation of our professionals.		Continue to encourage the creativity and innovation of our professionals.	
Improving internal communications and the flow of information as one way to strengthen company culture.	Launch of the Internal Communication Master Plan.	Improving internal communications and the flow of information as one way to strengthen company culture.	
Continuing to promote Talent Development	Additional assessments for the Direction Team. 2nd edition of the Management Team Development Program in Spain. Management Team Development Program in Latin America. Junior Training Plan. Launch of the Next Program for high potential individuals.	Changing the technological platform that supports Sharing Knowledge and formal training. Launch of the functional and specific schedules for corporate functions. Launch of a new English Certification Program. Launch of a new Certification Program for the Management Team with an external institution. Launch of Management Team development actions.	
Continuing to foster diversity	An agreement with the Intelligence and Society Foundation for the integration of highly-gifted individuals. Launch of the 'Building Capacities' program in Mexico for the integration of people with disabilities. Participation in 'Girls Day' in Spain. Launch of the Diversity Committee. Launch of the 'Women and Leadership' initiative. Compliance with Women's Empowerment Principles.	Continuing the local implementation of corporate policies and adapting them to the local legislation, social and business needs in each country. Definition and launch of the Reassignment Process for people who are completely and permanently disabled. Implementation of equality measures and sexual and gender harassment prevention protocol in Spain.	
Development of an Employee Relations Management System	Launch of the 'Open Dialogues' consultations.	Continuing to develop the Open Dialogues program with the launch of new consultations.	

Few organisations yet specify their people objectives in terms of desired business results, and systematically report how they meet these goals.



Indra Annual Report 2013

Liberty Holdings provides some information on their people strategy without going into a lot of detail.

Liberty aims to be the employer of choice in the financial services industry. In order to achieve this, a talent and transformation strategy (depicted in the diagram below) is in place to direct management of its people.



A consistent theme has been improving levels of retention and morale across the business. Good progress has been made, with voluntary staff turnover below Liberty's internal target of 11% for the past three years. Dedicated executive attention and a focus on building a human resources model that enables the business to attract and retain the best talent has resulted in progress in these areas.

With the execution of the group's strategy being highly dependent on the depth and strength of effective leadership, a process aimed at assessing current skills capabilities and identifying areas for improvement was completed in 2011. The assessment provided an indication of skills gaps if Liberty were to achieve its growth targets, as well as where its skills are sufficient to achieve the group's objectives. Specific focus has been given to recruiting skills where gaps were identified and further strengthening leadership capability within the group.



Liberty Annual Report 2013

2.8 Labor relations

There is relatively little information on labor relations. The kind of information reported includes

- % of workforce that is unionized
- upcoming negotiations
- grievances as a percentage of total employee base.

This paucity might seem remarkable given the potential disruption of the business in the event of disputes. Obviously this risk is greater in some organizations than others. If an organization achieves high engagement scores, the probability of disputes is logically lower (although this doesn't always follow in a variegated workforce). Investors should certainly wish to have confidence in the quality of internal relationships.

Labor relations is rarely reported on, despite the obvious significance for performance. Likewise, there seems little linkage with reporting on employee engagement.

Vancity includes information on grievances as shown in the graphic below. In a previous report, when there had been a jump in grievances, it included an explanation for why they had increased.

Of the six grievances closed in 2012, two were substantiated for harassment. Two grievances remain pending with one closed from the three pending grievances in 2011.

		2012	2011	2010	2009
Total number of filed grievances related to human rights and harassment	#	7	12	4	6
Total number of grievances reviewed or addressed (file pending)	#	1	3	0	0
Filed by men	#	0	0	0	0
Filed by women	#	1	3	0	0
Total number of grievances no longer subject to action or resolved	#	6	9	4	6
Filed by men	#	1	1	0	2
Filed by women	#	5	8	4	4

Grievances refer to legal actions, complaints registered with the organization or competent authorities through a formal process, or instances of non-compliance reported by union and non-unionized employees. Some grievances are filed on behalf of a collective group.

2.9 Leadership

Leadership naturally matters to investors, but can be difficult to report on. Top executives have historically been reluctant to open themselves up to close examination, although they are increasingly more willing to talk about attracting and developing a leadership cadre. The most insightful information about leadership quality potentially comes from employee surveys (depending on what's asked and what results are actually revealed).

The kind of information that gets reported, if anything, includes

- brief biographies of leaders
- information on who has joined and who has left
- succession planning
- development processes.

Taking a more structured approach to succession planning (Aegon)

"It's important that, as an organization, we have the right people in the right jobs. As part of our talent review, we have defined "leadership qualities." We are now identifying potential future leaders and are putting in place a detailed succession plan for senior positions within the company. Over the past two years, there have already been changes. We have named new business unit CEOs and CFOs in Europe and the Americas, and for the first time, we have appointed a CEO for all our businesses in Asia."

Initiating a company-wide talent review (Aegon)

"We have launched a talent review aimed at identifying strengths and weaknesses within our workforce. A first stage has already been completed – for managers at the two levels immediately under our Management Board. In 2012, we'll extend the review to other positions. The review will allow us to map existing skills and capabilities, as well as address areas where further training and development are needed."



Aegon Integrated Review 2013

Aegon describes its succession plan and talent review, indicating, if nothing else, how important the company views this. See the sidebar on p32.

In 2013 Aegon stated: "In choosing new managers, we work to a pre-set list of "leadership qualities", tied to our corporate values of bringing clarity, exceeding expectations and working together. Over the past year, we've also deepened our talent review; we've mapped employees' existing skills against our requirements in key areas of growth for our business – like online distribution, and customer research and intelligence. Where there are gaps, we are recruiting new people and new skills."

Leadership is the human capital topic of most interest to investors. Some organizations are beginning to include insightful information, but few much of worth.

Workforce planning is a topic that few organisations address sufficiently openly in performance reporting. This encompasses recruitment and talent management, but involves more besides. Quite simply, what stakeholders should want to know is how good an organization is at anticipating and addressing skills needs – in general and in comparison with competitors for talent – and thus underpinning future value.

2.10 Organization structure

Organization design is arguably the most overlooked area in human capital management. While organizations are continually reorganizing, it is rarely an evidence-based or even theory-based practice. (Too frequently changes are driven by reacting tactically to pressures, and by internal politics.)

The kind of information reported on includes basic information on organization structure, and perhaps some commentary on why the organization is structured as it is.

Here is a rare example of reporting on organization structure, once again from **Aegon**.

Improving coordination and management at corporate headquarters

We have appointed a new Management Committee, bringing together members of AEGON's Management Board, and other senior managers from local businesses, and AEGON headquarters. The objective is to improve coordination and speed up decision making.

Taking a more global approach to key business areas

In 2011, we created AEGON Global Technology, bringing together all IT operations. We are also putting management of other key areas on a more global footing, including Human Resources, Brand and Sustainability.

The design of a company is one of the most overlooked areas in human capital. Few companies share anything genuinely insightful that informs about future value creation.

2.11 Recruitment & Talent Acquisition

Given that recruitment is such a key issue in human capital it is surprising how rarely firms report on it. Investors should be enquiring about quality of hiring and retention, especially for pivotal jobs. The ability to report meaningfully on that is crucial – see the sidebar for some pointers. Some information would be so sensitive that reporting should stop at the board level. However many companies do not measure quality of hire at all—a serious oversight that should concern investors.

An important human capital metric is talent acquisition. Little or no data tends to be reported about this.

Here are two of the rare examples where recruitment is mentioned at all.

DIMO reported the number of people hired (567, a 31% increase in staff size) and noted that 9.3% of the new hires were female.

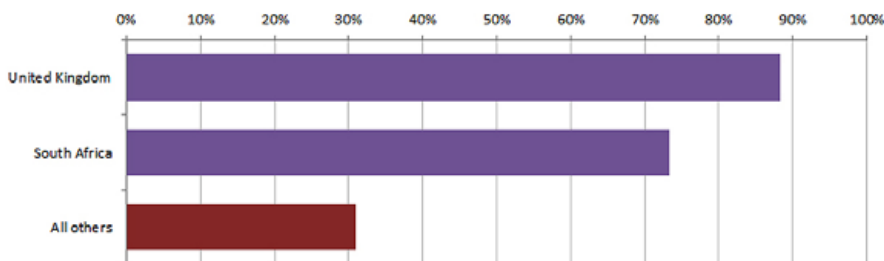
DSM listed the number of new professionals hired, the percentage that were non-Dutch, the percentage of women and which regions they were hired into.



2.12 Rewards

Since a good deal of a company’s budget is invested in employee compensation it is reasonable to expect good information on how that money is spent. In the UK and South Africa most of the detail about reward is focused on senior executives; considerably less detail is reported by companies based elsewhere in the world.

Percentage of IR Companies Reporting on Remuneration of Executives, by Country



Business value – impact of recruitment

What factors about recruitment save costs, enhance productivity and improve the talent gene pool? Here are some important ones.

- An appealing employer brand that attracts and retains desired talent.
- An effective process to match the ambitions, orientation and capabilities of recruits with company needs and culture – i.e., ‘fit’. This is much more than just judicious use of assessment and selection tools.
- Thorough analysis of key roles and workforce planning needs more generally.
- Onboarding processes that minimize the time to achieve full productivity.
- Ongoing development and retention processes that minimize unwanted churn and maximize the effective deployment of talent.

All of these can be evaluated and rated through conventional and emerging measurement tools. Organizations doing this well will create important competitive advantage for themselves.



Royal DSM Integrated Annual Report 2013

In the UK and South Africa most of the detail about reward is focused on senior executives – elsewhere considerably less detail is provided.

There is of course a lengthy and continuing debate about 'pay for performance'. The heart of the issue is not the total amount of remuneration – for the individuals or the company – but whether the way it is applied genuinely increases organizational effectiveness and long-term value. While we cannot do justice here to what is a complex and convoluted subject, we can make these simple observations.

- As yet there is little in corporate reports that explains how remuneration policies generate long-term value and meet stakeholder objectives.
- Some regulatory regimes – more in Europe than elsewhere – have been taking steps to address concerns about allegedly excessive senior management pay and bonuses.
- This applies particularly in the UK, where the Financial Reporting Council has in recent times twice stepped up its requirements for listed companies to explain themselves and take a longer-term perspective. It remains to be seen what difference this will make.

What about the rest of the organization and its pay bill? 38% of firms' reports include a substantive discussion of their approach to employee compensation while slightly fewer (34%) include a substantive discussion of talent pipeline issues.

See the sidebar for some examples of what is reported by some (but not many) companies.

However, it is still rare for any one company to report in any comprehensive way about its pay philosophy and practices, still less to indicate how this helps it competitively from the short to long-term. Ironically that intelligence certainly exists – recruits and recruiters will typically be focused on finding out as much as they can, and in practice there is no shortage of data sources.

Natura provides more detail than most.

2013	Average number (of employees)	Total salary (in millions) ¹	Total variable component (in millions) ²	2013 Stock Option Plan (number of options) ³
Board	9	4.51	1.83	-
Executive committee	8	8.78	10.03	588,431
Senior management and directors	107	39.81	25.66	1,281,153
Middle management	482	78.15	31.45	-
Sales force	1,601	109.69	12.56	-
Sales force	832	55.66	49.15	-
Operational	2,370	64.07	12.64	-
Total 2013	5,409	360.67	143.32	-

¹ Total salary: takes into account average annual base salary in 12 months (without charges), and overtime. ² Total variable: Profit share and sales bonus (with paid weekly rest) paid in year. ³ 2013 Stock Options: number of options granted in 2013.

Reward – what some reveal

- Pay philosophy – e.g. 'pay at the median of similar companies', 'we pay for performance'
- Rate of increase in pay
 - Average rate of increase for employees below the managerial level
 - Average rate of increase for managers
 - Average rate of increase for top management
- Minimum wage ratio (i.e., entry level wage / local minimum wage) or entry level wage compared to a 'living wage' (as estimated by a third party)
- The number of employees who hold shares (and the number who hold more than 1000 shares)
- Salary by level of employee (see Natura example on this page)
- CEO compensation as a multiple of entry level wage

Annual reports do not yet provide convincing evidence about how companies' approach to rewards enhances performance and value – indeed, so far few attempt to do so.

2.13 Spending

Any estimation of value creation must include understanding of what is being spent in the first place. Analysts will be interested in ratios, to aid comparison. However, interpretation of cost data is very context-dependent, and so the quality of the accompanying narrative is important – otherwise ratios become misleading.

Less than half of our sample reporting their spending level on employees and only a quarter broke down spending on employees into its component parts. Only one firm in our review stated its spending level on contractors. Here are some examples of what some companies did report.

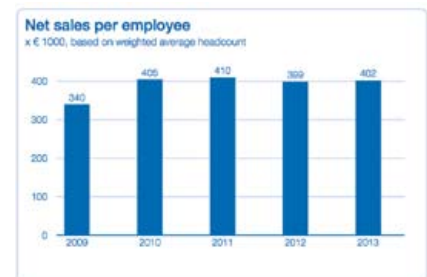
- Total employment costs
- Total spending on salaries
- Spending on employees as a percent of revenue
- Revenue/employee
- Operating Profit/employee

Once again, practice is often patchy – little data, but not a lot of meaning.

An example of how **DSM** reports on net sales / employee is shown right.



Natura Annual Report 2013



DSM – Net sales / employee

Investors can calculate ratios like 'net sales per employee' on their own, but some companies think this important enough to merit its own graphic.

2.14 Talent retention

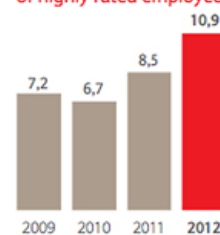
Problems with talent management can undermine the best strategy, so investors will want to be reassured that there are no red flags. Here are some examples of what is reported.

- Turnover by gender
- Regrettable turnover
- Internal transfers and promotions
- Reasons for turnover (retirement, resignation, deaths outside work, layoffs)

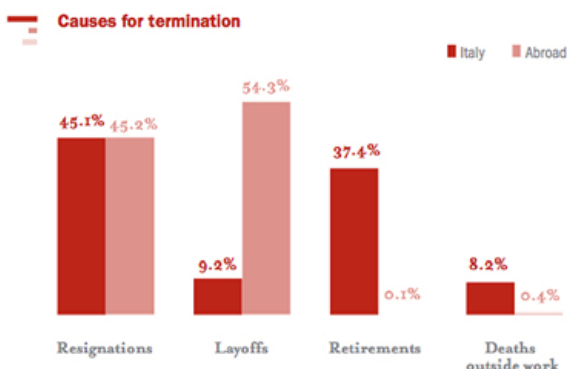
Barclays Africa Group reports on regretted losses, with an example shown right.

Atlantia makes the effort to show why turnover is occurring and breaks it down geographically, below, and also highlights internal mobility, shown right.

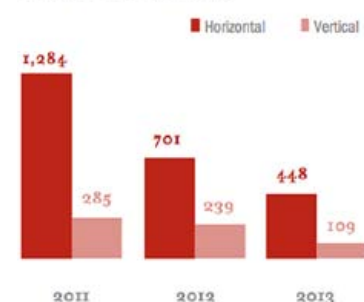
Regretted losses as percentage of highly rated employees (%)



Barclays Africa Group – regretted losses



Horizontal and vertical mobility



Danone provides a potentially useful breakdown, by showing the turnover by gender and job category.

% of departures(*)	2012	2013
By gender		
Women	15%	15%
Men	17%	16%
By category		
Staff, Supervisors & Workers		
- of which women	15%	16%
- of which men	17%	16%
Managers		
- of which women	14%	15%
- of which men	15%	16%

(*) This indicator is calculated as per Danone-IUF convention, by taking into account external recruitments and departures

(**) Social Indicators Scope

In an earlier report **BNDES** provides a detailed breakdown of turnover by age, gender and region. (Note SP = San Paulo, RJ = Rio de Janeiro etc); this has not been updated.



Danone Annual Report 2013

Barclays report not just on turnover but on the more meaningful metric of regretted losses.

2011 TURNOVER											
GENDER – AGE BRACKET/REGION											
GENDER	AGE BRACKET	SP		DF		PE		RJ		GENERAL TOTAL	
		#	%	#	%	#	%	#	%	#	%
Female	Up to 30					1	0.04	4	0.15	5	0.18
	Between 31 and 40							2	0.07	2	0.07
	Between 41 and 50							1	0.04	1	0.04
	Between 51 and 60					1	0.04	26	0.95	27	0.99
	Over 60							1	0.04	1	0.04
Total – Female		0	0.00	0	0.00	2	0.07	34	1.24	36	1.31
Male	Up to 30							8	0.29	8	0.29
	Between 31 and 40							3	0.11	3	0.11
	Between 41 and 50							2	0.07	2	0.07
	Between 51 and 60							42	1.53	42	1.53
	Over 60							11	0.40	11	0.40
Total – Male		0	0.00	0	0.00	0	0.00	66	2.41	66	2.41
General total		0	0.00	0	0.00	2	0.07	100	3.65	102	3.73

DIMO provides even more detail. However percentages rather than just raw numbers would be more helpful in making sense of the data.

Employee turnover in year under review by gender, age group and position is illustrated below: /

Age Group	Executive Directors		Senior Management		Middle Management		Executives		Clerical/Supervisory		Manual		Non-Executive/Contract		Total	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
	<20	-	-	-	-	-	-	-	-	3	-	-	-	1	-	4
21-30	-	-	-	-	10	3	29	8	47	7	34	-	11	-	131	18
31-40	-	-	1	2	15	1	24	-	14	-	4	-	3	-	61	3
41-50	-	-	-	-	6	-	2	-	2	2	1	-	2	1	13	3
51<	-	-	2	-	4	-	2	-	1	-	4	-	2	1	15	1
Total	-	-	3	2	35	4	57	8	67	9	43	-	19	2	224	25

Employee turnover in year under review by reason for separation is illustrated below: /

Reason	Gender	No.	Total	Percentage Category	Percentage of Total Turnover
Voluntary	Male	217	242	96.88%	97.19%
	Female	25	-	100.00%	-
Dismissal	Male	3	3	1.34%	1.20%
	Female	-	-	0.00%	-
Retirement	Male	2	2	0.89%	0.80%
	Female	-	-	0.00%	-
Death	Male	2	2	0.89%	0.80%
	Female	-	-	0.00%	-
Total		249	249		100.00%

Training spend is one indicator of investment in talent and skills – necessary for value creation – but should be accompanied by evidence of efficacy.

Employer brand

This encompasses all aspects of performance, and thence reputation, as an employer. There is considerable potential for reporting more and better about how an organization compares.

- Employee surveys can provide a wealth of internal data
- External surveys and data sources also offer important insights about the ability to attract and retain good people.

Reputation as a place to develop skills is one facet of this, although data on this should be coupled with insights into talent retention.

2.15 Training & Talent Development

Effective investment in training, and in talent development, is a central issue in value creation. Most companies give *some* information, although often that is descriptive. Just a third of our sample reported what they spent on training – gross and/or as a percentage of staff costs – and/or the number of training hours per employee.

Here are some examples of what is reported.

- Amount spend on training
- Hours of training / employee
- Training as a % of staff costs
- Quantity of employees trained

Typically the reader is left to guess at the efficacy of any investment in development. Of course there has long been debate about the quality of measurement of development activities. Basic tools include the Kirkpatrick and CIRO models, and employee survey data can be telling. New technology tools promise more precise assessment of cause and effect of both formal and informal learning. However at present few companies provide stakeholders with evidence of effectiveness.

Mostly what is provided is descriptive. For example, **CLP** describes how its training supports recruitment of technical talent.

Introducing New Talent

A number of initiatives have taken place to ensure the ongoing supply of technical talent. For example, in 2011:

- in Hong Kong we continued with our Recruit Trainees / Apprentices programmes and recruited more than 50 students;
- we enhanced the co-opt programme with the Vocational Training Council of Hong Kong and offered placements to their students, which also facilitated the recruitment of Technician Trainees;
- we extended our graduate trainee recruitment to the Mainland for the first time to strengthen the awareness of CLP in the Mainland and to expand the pool of candidates; and
- in Australia, TRUenergy launched a Graduate Program across a range of tertiary institutions to ensure a quality pipeline of graduates for critical business units in 2012.

In recent years, as the CLP Group's activities have expanded beyond our original Hong Kong base, we have faced the challenge of developing and managing an increasingly diverse workforce across a growing range of assets in widely differing markets. We believe that we are meeting this challenge to the point where the diversity of our workforce, the breadth of opportunities open to them and the varying demands of different markets is now helping to enrich the capability of our staff and to raise their capacity to respond to new developments in our industry and in our business.

Standard Bank provides more data on training than most, with an honest commentary on the numbers.

Key SBG indicators		2013	2012	2011
Employee headcount per business segment		48 808	49 017	51 656
Personal & Business Banking		21 254	20 713	20 781
Corporate & Investment Banking		2 384	3 141	3 203
Enabling Functions		18 583	18 882	18 501
Liberty		6 587	6 281	5 752
Discontinued operations		0	0	3 419
Women				
Women employees	%	57 ¹	57	57
Women managers	%	47	47	46
Women executives	%	24	23	21
Leadership and graduate development programmes				
Leadership development programme participants		2 858	2 498	1 101
Graduate development programme participants		184	181 ¹	145 ¹
Training spend				
SBG	Rm	638	605 ²	484
• Training spend as a % of staff costs	%	2,4	2,6 ²	2,2

Truworth includes a substantial amount of data on their training initiatives.

Skills development summary		2013	2012
Skills development expenditure	(R million)	83	81
Skills development expenditure as a % of payroll	(%)	8.6	9.6
Number of employees trained		9 408	9 829
Black employees as a % of employees trained	(%)	93	93
Number of employees trained in scarce skills		8 006	5 686
Black employees as a % of employees trained on scarce skills	(%)	95	90
Number of learnerships completed		168	209
Number of employees on internships		194	109

Technology and performance reporting

Technology is providing new tools that can provide far greater depth to performance reporting.

- Big data techniques – generating analyses from comparison of disparate sources and/or large, complex data sets, and using correlations to pinpoint cause and effect as never before.
- Sensing technology – new means of collecting data, including wearable sensors.
- Sentiment analysis – analyzing and correlating social media from within and outside organizations.

To take advantage of this capability, organizations – and their HR functions – need to have adopted well integrated information systems, and to have resolved issues about privacy and data security.



Standard Bank Integrated Annual Report 2012 and Truworths Integrated Annual Report 2013

2.16 Conclusions

It would be convenient if organizations could simply flip through this chapter and imitate 'standard practice'. However, as you have seen, there is too much variety to do that. Furthermore while one can make an argument why each of the examples in this section is potentially useful to stakeholders, reporting on everything is simply too much.

In reviewing this section and deciding what human capital information your organization should report, consider four things.

- What is the essence of our value creation narrative? Focus on the people factors that are most important to that narrative. That focus will make it easier to cut down on the wide range of potentially good things you see in this chapter.
- What do stakeholders expect? There is some data that stakeholders expect to data see, such as statistics on diversity. You should include those even if they are not central to the value creation narrative.
- What is practical? Improved reporting on human capital is a marathon not a sprint. Do not take on more that is practical; plan to improve each year.
- Should some data – financial and non-financial – be presented in additional 'drill-down' ancillary reports, because they are not central to explaining the value story but are useful for particular stakeholders or for regulatory purposes? → See 3.5 on 'Materiality'

Our recommendations in Chapter 4 provide further advice on how to integrate human capital into smarter annual reports.

Effective information management, an area where HR has historically struggled, is now widely recognised as a critical test of the function's usefulness, particularly in facilitating performance and value creation.

New Zealand Post 

"We treat human capital as part of the strategic story, not just some metrics."

**Peter Taylor, Head of Performance & Reward,
Group People & Culture, New Zealand Post**

How involved is HR?

It has not been easy to assess authoritatively the extent to which HR has become more involved in corporate performance reporting in companies that are adopting the IR principles.

We do know of a number of instances where HR leaders have very clearly become a central player in the process of articulating their organization's value story.

Equally, in regular dialogues we have with HR leaders in large organizations, it is evident that many – especially in companies that have not yet adopted IR – do not yet see this as a critical responsibility for them. They experience many pressures, and some are not necessarily keen to add to their burdens. In addition, many are frankly struggling to overhaul inadequate HR information systems.

That is likely to have to change, as the pressure builds for better explanation of human capital's contribution to organizational performance and prospects.



GOOD INTEGRATION PRACTICES

3 Good integration practices

This chapter answers the question “How have firms tackled the idea that corporate performance reporting should be integrated in order to tell their value creation story?”

3.1 Who is attempting to tell an integrated story?

To get a sense of the state of play we systematically analyzed the content of the 62 ‘trial’ integrated reports included on the IIRC website. This sample provides a solid foundation in assessing how firms have begun to use integrated reporting.

While it is not known how many organizations around the globe have developed integrated reports, we have identified some 140 companies – which we list in Appendix 2 – that have sought to follow the IIRC guidelines. Figure 3.1 shows the geographic distribution of these, revealing that

- the UK and South Africa are in the lead, followed by Brazil and the Netherlands
- USA comes next with 10 but, given its large number of listed companies, in reality this represents limited take-up
- much of the rest of the world is somewhat in arrears, with China being a notable laggard in reporting integrated and non-financial information.



“One unanticipated outcome was the positive impact the report had on our team. Preparing the report brought people from many different parts of the company together. You end up working with people you normally wouldn’t have a lot of interaction with. So we worked together and, when you get an award, it is for the team—that all builds a great camaraderie.”

Azola Lowan, Head of Strategy and Investor Relations – PPC Ltd.

Many companies featured by IIRC do not follow the framework closely, and don’t all call their publication an IR. Nonetheless, one can still draw useful lessons from these examples.

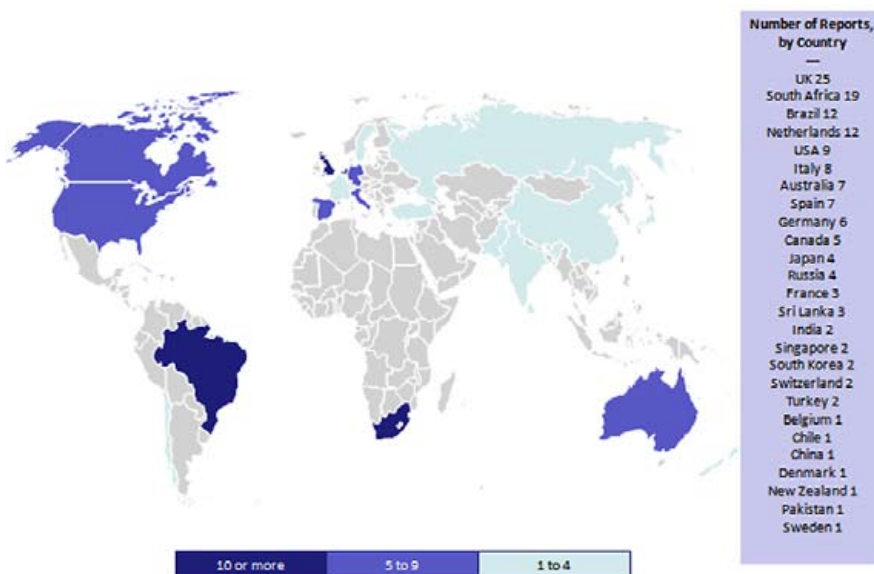


FIGURE 3.1: Geographic Distribution of IR Firms

The relatively large number of South African firms using integrated reporting is the result of The King Code of Corporate Governance Principles for South Africa 2009 (King III), which requires a 'holistic' and integrated representation of the organization's performance in terms of both its finance and sustainability.

In the UK the Financial Reporting Council has encouraged its 900 plus listed firms to make progress on integrated reporting and focus on long-term value, without the requirement of a legislative imperative but with increasingly demanding guidelines. However, unlike in South Africa, public sector and charity organizations are not included in the UK's formal corporate governance framework.

Figure 3.2 shows the industry distribution of integrated reports, with firms in consumer goods/service being the most predominant, and utilities being the least common.

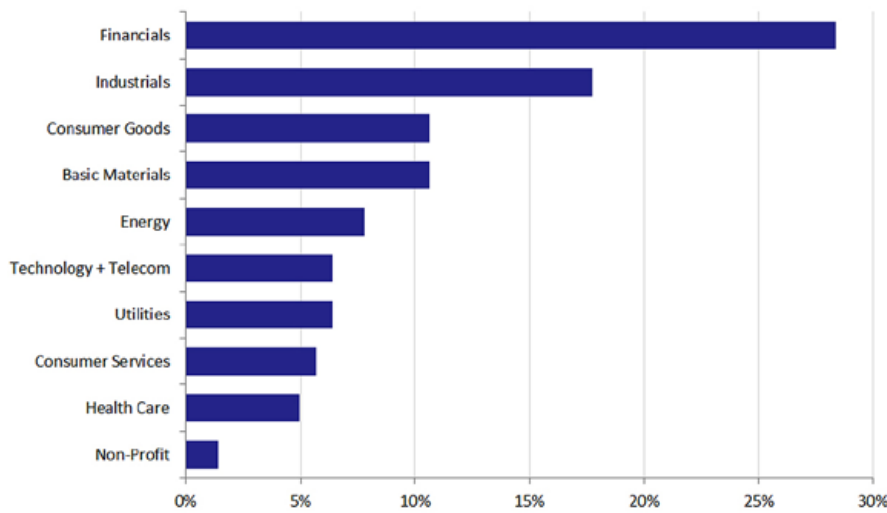


FIGURE 3.2: Industry Distribution of IR Firms

As can be seen in Figure 3.3, firms using integrated reporting tend to be quite large – with a median employee base of around 27,000 employees (the mean was over 53,000 employees). The largest firm in the sample had 839,000 employees, while the smallest had 456.

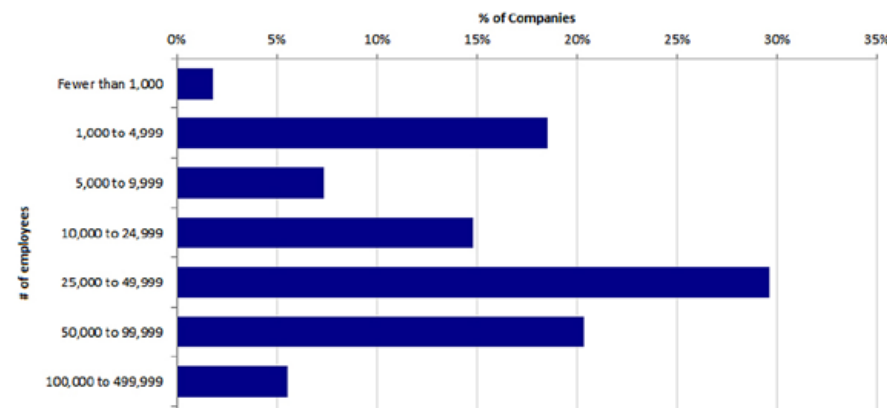


FIGURE 3.3: Distribution of IR Firms by Number of Employees



"Senior executives provide strategic vision for and management of companies, but companies' most important assets, and often highest expense, are their employees, as they ensure the execution of strategic visions are completed successfully. Based on this, and as long-term investors, we believe increased disclosure and transparency related to human capital measures, particularly types of and spending on training and development, compensation for key employee positions – especially those interacting most with external customers, turnover, employee views on company leadership, and employee engagement – will help us better identify companies that are more likely to generate returns on invested capital above their weighted average cost of capital and realize outsized returns in our investment strategies."

Keith Mills, Partner, Director of Research, and Research Analyst – Trillium Asset Management

3.2 Strategy maps

One way organizations attempt to show the integration of various factors (e.g. financial, human capital, environmental) is through a strategy map. In the two examples below, we show progression in order to improve understanding.

In its 2011-12 report **ACCA** (an accounting association, not a listed company) asks four good questions which could be adapted to almost any firm.

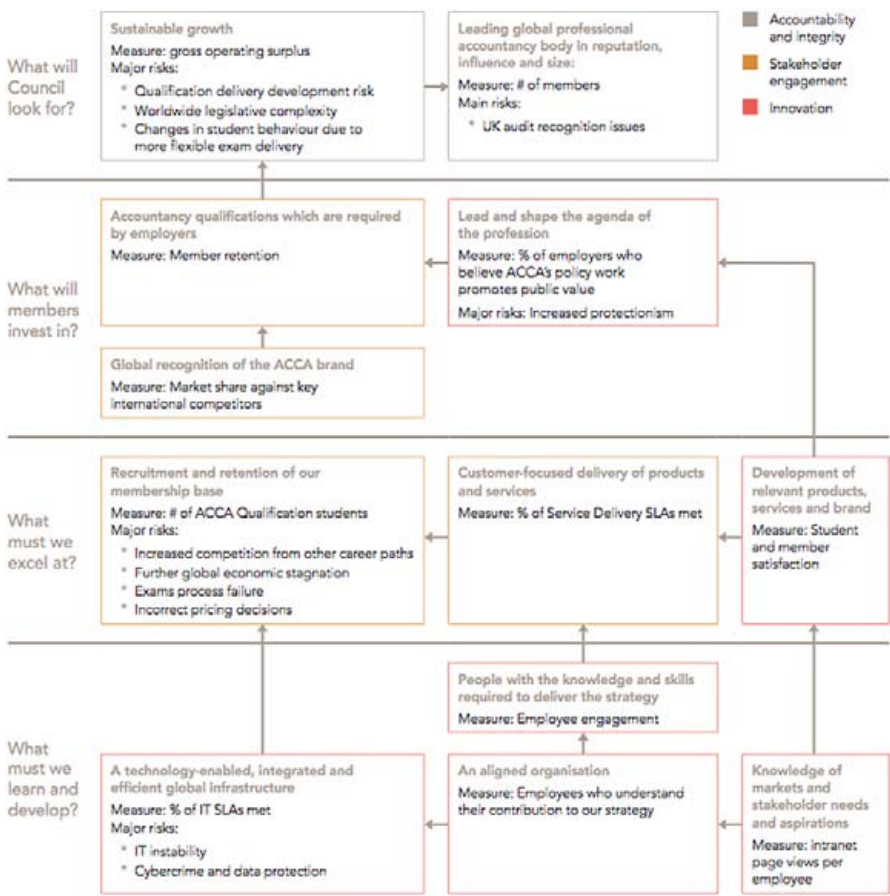
- What will the council look for? (i.e., what does the board look for?)
- What will members invest in? (i.e., what will customers pay for?)
- Where must we excel?
- What must we learn and develop? (i.e., what are the key drivers for the areas in which we must excel?)

It would be relatively easy to take this map and drive down to what needs to happen with human capital (image shown below).



ACCA Annual Integrated Report 2013-14

A strategy map is a natural way to show how the pieces fit together, but it can get complicated.

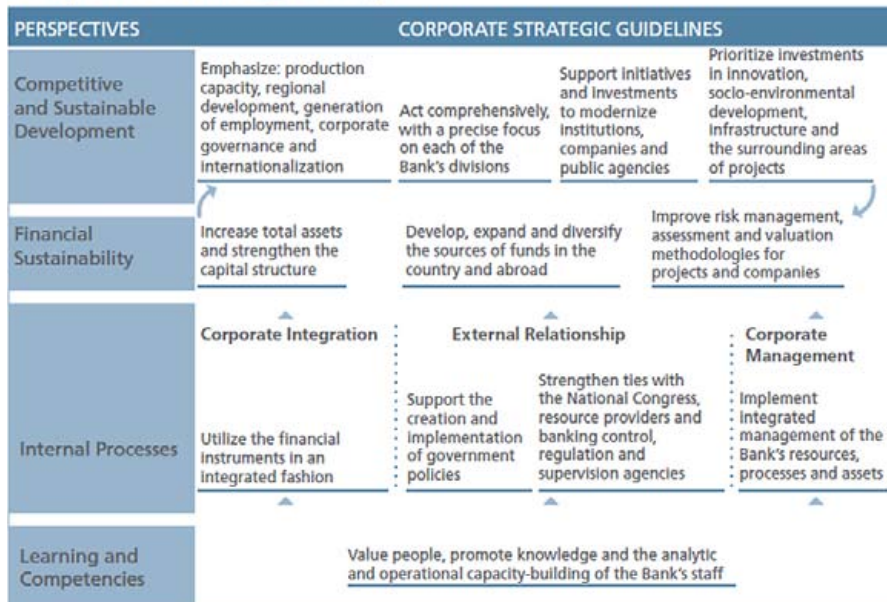


ACCA then consulted stakeholders on the way it sought to present an integrated picture, and consequently made revisions for its 2012-13 report. A much more comprehensive business model was presented as a result.



Here is a strategy map in the 2011 report from **BNDES**, the Brazilian Development Bank.

Corporate strategic map



This shows some critical issues on the minds of leadership. However it takes more work to read through than ideal. In the subsequent report (2012), the map is considerably simplified (see overleaf).



Linking strategy objectives, KPIs, risks and outcomes

Deloitte's *Annual Report Insights 2014* – a survey of 100 listed UK companies – highlights a lack of cohesiveness and linkage between the narrative about strategy and performance, and the numbers at the back of reports. Deloitte assesses that only 29% showed up front how their report linked together – exactly the issue that integrated reporting aims to address. (Only 5% of companies in the survey mentioned integrated reporting.) **Segro** is cited as one of the few that articulate such linkages effectively (p.6. 2013 report).

However, we would observe of both **BNDES** tables that.

- as strategic statements, there is not much that is distinctive – where are the real issues here?
- well-chosen measures that are indicative of integration and speak to how well these priorities will be met, or have been met, would greatly strengthen their approach, and
- although piece-meal data is provided that supports these tables, many pages have to be scanned – and the evidence is incomplete.

Although a handy table or index is provided of text that relates to GRI criteria, this falls short of actually presenting hard evidence of accomplishment.

This is just one example of disconnects that are quite common (from a report that is better than many others in terms of meeting IIRC guidelines).



BNDES Annual Report 2012

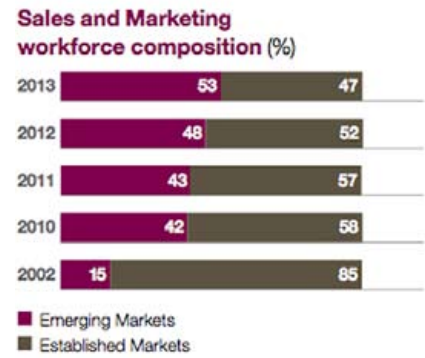
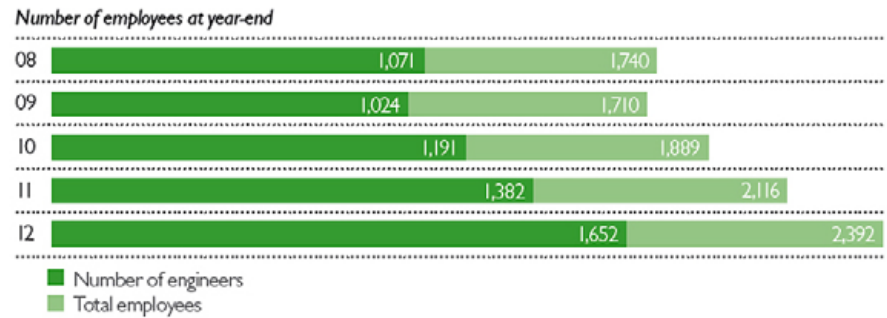
Organizations need to resolve the tension between convincing stakeholders that their strategy is genuinely distinctive, and the innate fear of revealing 'too much' to competitors. Confidence helps, but not if it is bravado.

3.3 Strategic insight

As well as, or instead of, a comprehensive strategy map, organizations can share specific strategic insights. Simple insights can be easier to make sense of than strategy maps, and more interesting than tables of metrics. In essence, an organization might decide that a strategy map does not usefully convey how it is creating value and so instead says “We’re focused on a few big things, here is one of them.” This focus on a few big things facilitates integration between different parts of the business.

Beware over-elaboration. Simply focusing on a few critical strategic issues helps pull a story together.

Astra Zeneca’s charts are a good example of human capital facts that link to a strategy. In the first chart, and associated ‘call out’, Astra Zeneca is implying that their sales and marketing workforce in growth areas is an important strategic issue. In the second graph the company draws attention to the percentage of employees who are engineers. These are good examples of metrics that make sense for their business (although they would not necessarily be crucial in a different company).



Around **32,300**

Sales and Marketing employees: numbers in Established Markets, such as the US, have fallen, whereas the numbers in Emerging Markets are increasing and now represent 47% of the total.

Indra, a Spanish information technology and defense systems company, provides a rare example of articulating how its business strategy links to human capital priorities. In this case it discusses the importance of globalization.

“The development of our talent capturing retention and development capabilities in the different areas in which Indra operates, has been, without doubt, one of the keys to the internationalization of IT service activities. As mentioned above, IT service activities are founded to a great degree on a local service component that demands a human resource team in various locations. Today Indra boasts a team of over 14,500 professionals outside of Spain, which has grown by over 75% over the last year. As a result a significant part of the work in the field of talent management is focused on the globalization of the main Human Resource policies.”

3.4 Risk

Risk declarations are potentially one of the most valuable ways to obtain a coherent overview of an organization’s issues. Although they are not descriptive of value creation, risk declarations can show how the organization seeks to ensure that value-creating operations are not disrupted, and that value is not being destroyed. Like strategic insights, the identification of critical risks provides a common point to integrate the actions of various functions.

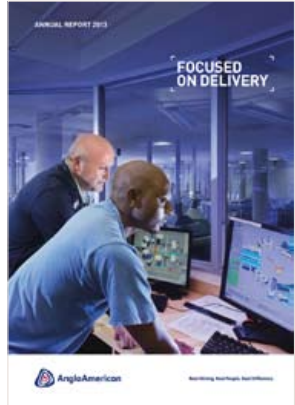
Here are three contrasting examples from the mining sector, viewed from a human capital perspective.

In international mining companies the ability to recruit, develop and retain talent is recognised as a significant factor in long-term competitive performance. Thus merely declaring this to be a risk in itself tells us little.

AngloAmerican highlights particular issues such as remote locations and countries where it is difficult to attract talent. This indicates how human capital management may affect the bottom line, and suggests investors look at how they attract and retain talent in pivotal roles. However while the note on “Mitigation” is a good start in that it demonstrates the company is addressing the issue, there is room for improvement in explaining the company’s distinct approach to getting the best out of people.

Many companies report on human capital risk, and it is a straightforward way to present key issues in one table.

EMPLOYEES	
<p>The ability to recruit, develop and retain appropriate skills for the Group. Strikes or other industrial relations disputes may occur.</p> <p>Impact: Failure to retain skilled employees or to recruit new staff may lead to increased costs, interruptions to existing operations and delay in new projects. Industrial disputes have an adverse effect on production levels, costs and the results of operations.</p>	<p>Pillars of value: </p> <p>Root cause: We are subject to global competition for skilled labour. Our assets and development projects are often in remote places or in countries where it is a challenge to recruit suitably skilled employees. In the key countries where the Group operates, the majority of employees are members of trade unions. Negotiations over wage levels or working conditions can sometimes fail to result in agreement.</p> <p>Mitigation: One of Anglo American's objectives is to be the employer of choice in the mining sector. A comprehensive human resources strategy has been devised to support that objective, focused on the attraction, retention and development of talented employees and the effective deployment of talent across the Group. The Group seeks constructive relationships and dialogue with trade unions and employees in all its businesses.</p> <p>No change in risk</p> <p>Commentary: During 2013, we began a review of our organisational model and structures. The aim of the redesign is to increase the effectiveness and efficiency of work performed by placing the right employees in the right roles. This is expected to reduce pressure on recruitment and retention of skills in the short term. Further details of the changes is provided on pages 28–30.</p>



Anglo American Annual Report 2013

BHP Billiton’s approach is somewhat more enlightening, enabling information on recruiting capability, employment brand, on-boarding and retention to be understood in a strategic light.

“Our human resource talent pool may not be adequate to support our growth.

Our existing operation and especially our pipeline of development projects in regions of numerous large projects, such as Western Australia and Queensland, when activated, require many high skilled staff with relevant industry and technical experience. In the competitive labor markets that exist in these regions, the inability of the Group and industry to attract and retain such people may adversely impact our ability to adequately meet demand in projects.”



BHP Billiton Annual Report 2013

BHP Billiton goes on to talk about their talent pipeline and what they are doing to enhance it. Does this matter to investors? For those interested in long-term success, it might give some confidence that the company understands a strategic risk and is taking action to address it.

“Investing in graduate development

Our two-year Foundations for Graduates Program has been recognized as a leader in the field and been designed specifically for graduates from tertiary institutions. Our aim is for our graduates to build a long and successful career with BHP Billiton. Each year we recruit approximately 400 graduates in meaningful business roles, who each have the opportunity to work across teams, businesses and geographic regions.

The program is facilitated by business schools in Australia, Chile and South Africa. It is designed to move graduates seamlessly from study to work by complementing site-based technical development with a combination of classroom-based and virtual learning experiences, providing a unique insight into our business. Graduates develop their decision-making and communication skills, access executive coaching, take part in intensive residential programs and gain on-the-job experience analyzing and solving real business issues.”

This declaration, in and of itself, does not prove that the people investment is well-designed, well-run or sufficient in scale. But board members and investors can ask themselves, “Based on what I know, do I trust the management has this issue covered?” If not, they have at least been alerted to probe for better information.

Implats, a South African mining company, lists 10 strategic risks, including price fluctuations for platinum and volatility of exchange rates. Interestingly, 3 of the 10 are directly related to human capital management (potential labor unrest, risk of poor safety performance, and staff turnover and demotivated employees). We have excerpted what Implats says about these three factors.

Group strategic risk	Our response measure
Potential labor unrest – wage negotiations and employee relations climate	Striving to provide an enabling work environment that fosters open, honest and effective relations between management, employees and elected union representatives. Working with Chamber of Mines, government and labor representatives to find sustainable solutions to industrial relations challenges in the country.
Poor safety performance and an increase in safety stoppages	Aiming to achieve continuous improvement in safety performance towards the vision of ‘zero harm’. Adoption of the cultural transformation framework.
Staff turnover and demotivated employees	Advancing an employee value proposition that prioritizes safe production, offers attractive career advancement and development opportunities as well as competitive remuneration. Mobilizing all production teams to enhance employee engagement and to promote safe production.



Implats Integrated Annual Report 2013

To share one last example, here is how **SASOL** – which describes itself as an integrated energy and chemical company – discusses human capital risk. In the table that follows there is a sense of reality being communicated, not just going through the motions of corporate reporting.

Top risk	Context	Mitigation	Link to strategy
Non-availability of sufficient management and technical skills	<p>Sasol is reliant on sufficient management and technical skills, including qualified scientists, engineers, artisans and operators as well as seasoned managers, to pursue our growth strategy and sustain productivity in our current business.</p> <p>Key challenges are access to required skills, ageing population in the developed world, shortage of skills in some areas, competition from developed countries for scarce skills in the targeted areas of growth and changes to labour regulations.</p>	<p>The development of management and technical skills within Sasol is an integral part of our human resources strategy.</p> <p>Sasol's learning strategy balances standardised curriculum-based learning with on-the-job application to achieve a culture of life-long learning. To develop future talent, Sasol runs one of the largest bursary schemes in South Africa. Our total investment for the year was R54,7 million. Our primary focus is on developing talent in science, technology and engineering through various learnership programmes.</p>	<p>Two key foundation elements of Sasol's strategy are to develop and empower high-performing, values-driven people; and to deliver on the South African transformation agenda.</p>
Failure to address transformation, localisation, diversity and cultural requirements in South Africa and other countries in which Sasol operates	<p>Transformation is one of Sasol's strategic objectives. To sustain Sasol's business, the group understands the importance of creating a high-performance, ethical, inclusive culture for all our employees. In this way, we will be able to attract, develop and retain the skills we need. South Africa has various laws in place to meet the country's transformation objectives. Failure to meet these could have material consequences for Sasol's reputation, access to resources, licence to operate and ability to attract and retain skills. More onerous legislation, potential penalties and slow progress in achieving employment equity plans could impact negatively on Sasol's transformation objectives.</p> <p>Cultural awareness and responsiveness is important in the global environment, as Sasol aims to become a key global player. There are localisation and diversity requirements in many countries in which we operate.</p>	<p>Our success in meeting and exceeding transformation requirements is underpinned by talent management and succession planning, employment equity, diversity management and compliance with the broad-based black economic empowerment (BBBEE) scorecard.</p> <p>Where gaps exist, a diversity plan (a suite of qualitative measures to address recruitment, development and retention of under-represented groups) is being implemented.</p> <p>We participate in the broad-based Socio-economic Empowerment Charter for the South African Mining and Minerals Industry, and the South African Liquid Fuels Charter. The group's enterprise development arm, Sasol ChemCity, now houses the BBBEE office, delivering a more integrated approach to the five pillars of BBBEE.</p> <p>Sasol remains committed to being culturally sensitive and globally aware to succeed in doing business in different cultural environments.</p>	

National Australia Bank consults its stakeholders every year on their preferences.



National Australia Bank Financial Report and People Report 2013

3.5 Materiality maps

Another way to avoid a long list of interesting but un-integrated metrics is through a materiality map.

Materiality should be seen as a way to focus attention on priorities, and thus the metrics that matter most, rather than just reporting on non-material factors. Good diagrams are useful here too.

Engaging with stakeholders to establish what is material is potentially hugely beneficial in managing relationships and building favorability, and also addresses another key IIRC standard.

The fine print in Sri Lanka-based **DIMO's** report is hard to read but the model is clear enough: it maps issues on a simple plot of 'level of stakeholder priority' vs. 'current or potential impact'. Of 19 issues listed by DIMO, 6 were human capital issues (~30%). This emphasizes what should be self-evident: a report that does not include insightful human capital information is shortchanging investors of critical information.

The human capital issues that make it to the top right (high priority/high impact) are

- Employee Training and Education (#5 top right), and
- Occupational Health and Safety (#6 top right).

Other issues listed that have a strong human capital dimension are

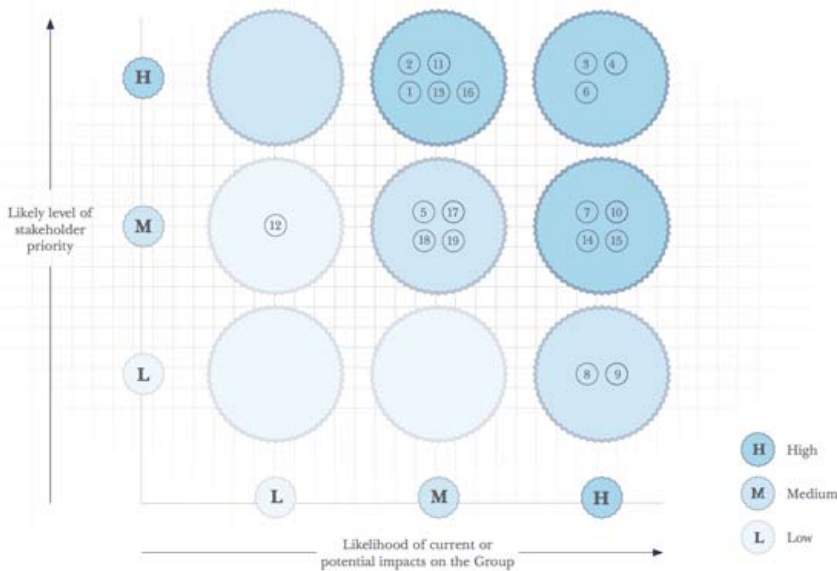
- Technical Education for Youth (#2 top middle);
- Anti-Corruption (#9 bottom right);
- Employee remunerations and benefits (#16 top middle) and
- Employee Relations (#19 middle of the chart).



DIMO Annual Report 2013

Materiality of stakeholder issues

Arising from the stakeholder engagement process, the expectations were rated, assigned and prioritised.



- | | | |
|----------------------------------|--|--|
| 1. Emissions, effluents & waste | 9. Anti-corruption | 15. Energy consumption |
| 2. Technical education for youth | 10. Procurement practices for local suppliers | 16. Employee remuneration and benefits |
| 3. Customer health & safety | 11. Customer privacy | 17. Product & service labelling |
| 4. Economic performance | 12. Ethical marketing communications | 18. Water |
| 5. Employee training & education | 13. Community development | 19. Employee relations |
| 6. Occupational health & safety | 14. Mutually beneficial relationships with suppliers | |
| 7. Compliance | | |
| 8. Materials consumption | | |
- Aspect Boundary within the organisation
● Aspect Boundary outside the organisation

A healthy innovation in reporting is the use of materiality maps.

American Electric Power describes in detail the consultative exercise and methodology involved in producing its materiality matrix. Note that it distinguishes between external and internal stakeholder input. In comparison with DIMO, in 2012 AEP only had two 'human capital' issues adjudged to be material – health & safety and employee engagement – and in 2013 dropped employee engagement from the map.



AEP Annual Report 2013



BAE Annual Report 2012

Note that at **National Australia Bank**, now in its fourth year of integrated reporting, design is guided by an annual consultation process across all major stakeholders, identifying what they see as material.

There are a few welcome examples of transparency, such as revealing how many people have been dismissed for unethical behavior. However, this is uncommon.

3.6 Transparency

The IIRC guidelines expect companies to report the bad along with the good. "Integrated reporting is about communication and transparency, not just reporting numbers", explains Paul Druckmann, CEO of IIRC.

Aegon provides an exemplary example of transparency – "In 2011, we received more than 82,000 verbal and written customer complaints" and "There were 11 incidents of fraud involving Aegon employees in 2011, down from 17 in 2010".

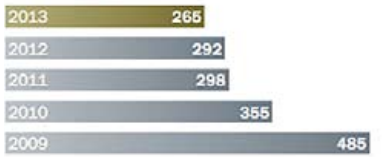
While revealing this may have felt uncomfortable, in principle it is no different from the discomfort of reporting disappointing revenues or profits. Companies that face up to challenges openly are likely to be better investments than those who seek to conceal or look the other way.

Here are two further examples of transparency, from BAE and Smithfield.

BAE Showing numbers of dismissals relating to unethical behaviour, above right.

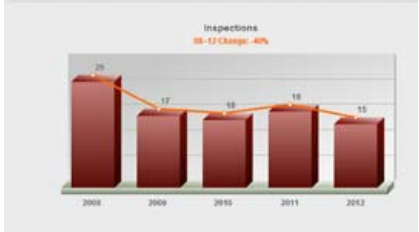
Smithfield Showing the number of inspections accommodated, below right.

Dismissals for reasons relating to unethical behaviour*



If an employee is found to be in breach of the Group's Code of Conduct or any other relevant policies, appropriate disciplinary action, which may include dismissal, is taken.

OSHA Inspections, NOV's, and Penalties



In the UK, the 2012 FRC Code required listed companies to affirm that their report and accounts are “fair, balanced and understandable”, sufficient for “shareholders to assess the company’s performance, business model and strategy”. According to Deloitte, only some 23% provide further details of the process undertaken to support this statement. Anglo-American provides a better example than most, declaring that “appropriate weight has been given to both positive and negative developments in the year” (p.109, 2013 report).

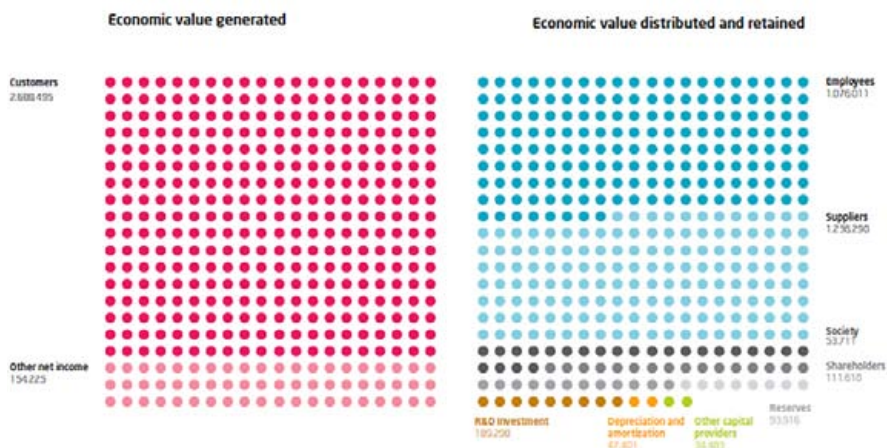
3.7 Other interesting elements

Here are some other features found in integrated reports that we feel are worth sharing.

Retail group **Kingfisher’s** table “Creating the Leader” reflects a degree of integrated thinking, and attaching clear success measures to the themes is helpful.

Creating the Leader: self-help initiatives		
Four themes	Eight steps	Success measures
EASIER	1. Making it easier for customers to improve their home 2. Giving our customers more ways to shop For more information see page 09.	<ul style="list-style-type: none"> Like-for-like sales growth (LFL) Unique web users
COMMON	3. Building innovative common brands 4. Driving efficiency and effectiveness everywhere For more information see page 11.	<ul style="list-style-type: none"> 35% of Group sales direct sourced 50% of all product sales to be common Retail profit margin
EXPAND	5. Growing our presence in existing markets 6. Expanding in new and developing markets For more information see page 13.	<ul style="list-style-type: none"> Kingfisher Economic Profit (KEP)*
ONE TEAM	7. Developing leaders and connecting people 8. Sustainability: becoming Net Positive For more information see page 15.	<ul style="list-style-type: none"> Group employee engagement scores Net Positive dashboard

Indra, the Spanish IT services group, included an imaginative illustration of value flows.



Leading Indicators

Here is an explicit example of a company – **Anglo American** – recognizing the importance of presenting leading indicators, in this instance in order to *anticipate and pre-empt incidents*.

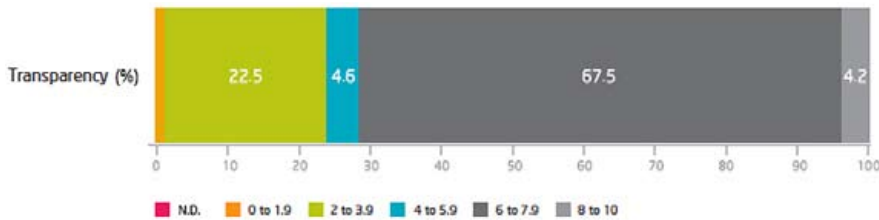
Developing leading safety performance indicators

To date, Anglo American has been measuring safety performance almost exclusively on the basis of lagging indicators, such as the numbers of people hurt and injury frequency rates. While useful, these are not always effective as a predictor of future performance. We therefore introduced a programme aimed at developing a new set of metrics that more accurately describe the efforts sites are making to improve safety, and that improve our ability to anticipate and pre-empt potential incidents.

Seven key measures relating to leadership, risk management training, safety competence, the delivery of maintenance programmes, improvements to risk management, learning from high potential incidents, and the closing review of safety actions were agreed.

These measures, which make use of data that is already regularly collected by each site, provide a clearer view as to what our safety priorities should be, and will assist us in identifying those operations that need priority attention.

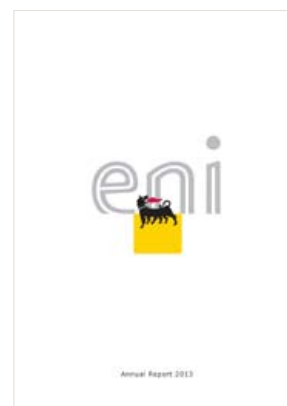
Another distinctive graphic from **Indra** provides ratings of transparency across the different countries it works in, part of a discussion of how to limit exposure to corruption.



Graph: Distribution of Indra's sales by degree of transparency of the purchasing countries.
Source: International Transparency, Corruption Perception Index 2011, <http://cpi.transparency.org/cpi2011/results/>

Finally, very few companies refer specifically to the complete set of 'six capitals'. Our conclusion is that they are still struggling with the concept, despite the importance ascribed to it by IIRC. Here is the best articulation we found, from **ENI**.

stock of capital	Eni's main actions	value creation for Eni	value creation for Eni's stakeholders
<ul style="list-style-type: none"> Financial structure Liquidity reserves 	<ul style="list-style-type: none"> Cash flow from operations Bank loans Bonds Maintaining strategic liquidity Hedging Dividends Buyback Working capital optimization 	<ul style="list-style-type: none"> Going concern Lower cost of capital Reduction of working capital Leverage optimization MSA opportunities Mitigation of market volatility Credit worthiness 	<ul style="list-style-type: none"> Yields Share price appreciation Social and economical growth Satellite activities <p>financial capital</p>
<ul style="list-style-type: none"> Onshore and offshore plants Pipelines and storage plants Liquefaction plants Refineries Distribution networks Power plants Chemical plants Buildings and other equipment 	<ul style="list-style-type: none"> Technological upgrade Process upgrade Investment in new businesses (bio-refinery, Green chemistry, car sharing) Maintenance and development activities Increase environment Certifications (ISO 14001, ISO 50001, EMAS, etc.) 	<ul style="list-style-type: none"> Returns Enlarging asset portfolio Increase assets value Reduction of operational risk Energy and operational efficiency Reputation 	<ul style="list-style-type: none"> Availability of energy sources and green products Employment Satellite activities Reduction of direct GHG emissions and responsible use of resources <p>manufacture capital</p>
<ul style="list-style-type: none"> Technologies and intellectual property Corporate internal procedures Corporate governance system Integrated risk management Management and control systems Knowledge management ICT (Green Data Center) 	<ul style="list-style-type: none"> Research and development expenditures Partnership with centres of excellence Development of proprietary technologies and patents Application of procedures and systems Audit 	<ul style="list-style-type: none"> Competitive advantage Risk mitigation Transparency Performance Licence to operate Stakeholders' acceptability 	<ul style="list-style-type: none"> Reduction of environmental and social impacts Transfer of best available technologies and know-how to host Countries Contributing to the fight against corruption Green products <p>intellectual capital</p>
<ul style="list-style-type: none"> Health and safety of people Know-how and skills Experience Engagement Diversity (gender, seniority, geographical) Eni's thinking 	<ul style="list-style-type: none"> Safety at work Recruiting, education and training on the job Promotion of human rights Eni's people engagement Knowledge management Welfare Leveraging on diversity Enhancing individual talents and remuneration in accordance to a merit system 	<ul style="list-style-type: none"> Performance Efficiency Competitiveness Innovation Risk mitigation Reputation Talent attraction 	<ul style="list-style-type: none"> Create employment and preserve jobs Wellness of Eni's people and local communities Increase and transfer know-how <p>human capital</p>
<ul style="list-style-type: none"> Relationship with stakeholders (institutions, governments, communities, associations, customers, suppliers, industrial partners, NGO, universities, trade unions) Eni's brand 	<ul style="list-style-type: none"> Stakeholders' Engagement MoU with Governments and local authorities Projects for local development and Local content Strategic partnerships Involvement in international panel discussion Development of programmes on research and training Partnerships with trade unions Quality of services rendered Brand management 	<ul style="list-style-type: none"> Operational & social licence Reduction of Time to market Country risk reduction Market share Alignment to international best practices Reputation Competitive advantage Suppliers reliability Customers retention 	<ul style="list-style-type: none"> Local socio-economical development Customers and suppliers satisfaction Share of expertise with territories and communities Satisfaction and incentive of people Promoting respect for workers' rights <p>social and relationship capital</p>
<ul style="list-style-type: none"> Oil and gas reserves Water Biodiversity and ecosystems Air Soil 	<ul style="list-style-type: none"> Exploration, production, transporting, refining and distributing hydrocarbons Investment in new businesses (bio-refinery, Green Chemistry, car sharing) Investment in technological and process upgrade Remediation activities 	<ul style="list-style-type: none"> Hydrocarbon reserves growth Diox reduction Mitigation of operational risk (asset integrity) Reputation Licence to operate Stakeholders' recognition 	<ul style="list-style-type: none"> Reduction of gas flared and blowout Reduction of oil spills Preservation of biodiversity Green products Containment of water consumption (re-injection and water reuse) Energy efficiency <p>natural capital</p>



ENI Annual Report 2013

3.8 Conclusions

It is easy to add some metrics on human capital and sustainability to your corporate reporting. It is more difficult to tell a story of how they all fit together to enhance or protect value.

Most companies with which we spoke indicated that they have not got this right yet. Even among those who are listed as working to the IIRC guidelines, it is common to observe changes in reports from year to year. There is a lot of experimentation going on, which is not surprising given the newness of integrated reporting. That will settle down, but it shows there is still work to do.

As regards the six objectives specified by IIRC, we concluded that 'strategic focus and future orientation' was adequately described in most reports. However, just over a third were reasonably concise, and consistency/comparability and reliability/completeness also tended to be weak.

It would have been convenient for readers if we could have found examples where we could advise 'copy this' and 'don't copy that'. However, if you examine the examples in detail you will have seen how the vast majority fall in the 'pretty good but could be better' category.

These are the 'integration' areas that so far corporate reports tend to struggle with.

- Transparency, in terms of honest self-appraisal.
- Cause and effect explanations of how value is created.
- Discussion of the six capitals (Financial, Manufactured, Intellectual, Human, Social and Relationship, and Natural) – so few refer to this that it poses a question about the practicality of using this concept for reporting.
- Stakeholder orientation – some have taken clear steps to be guided by varied stakeholders perspectives, others have not.

The majority of attempts so far at integrated reports fall in the 'pretty good but could be better category'.



"By improving reporting requirements for organizations, Integrated Reporting can bring additional information, in particular about the longer-term costs of climate change, to feed into markets and inform decision-making and policy-formulation by institutions. If achieved, it will lead to better-informed and more sustainable long-term investment, for the benefit of society."

Mark Carney, Governor, Bank of England



4

RECOMMENDATIONS

4 Recommendations

This section outlines how to address human capital in integrated reports.

The previous chapters have shown how much can potentially be reported on human capital, and various ways that this links to organizational performance.

However, companies should avoid presenting a long, disjointed list of human capital metrics that do not tell a coherent story.

We propose a simple model that gives structure to the explanation of human capital’s contribution to value creation (Figure 4.1).



Figure 4.1: Framework for Human Capital Reporting

4.1 The standard model

The Integrated Business Outcome of Profitability

The ultimate goal for a commercial organization is sustained profitability. The story of how people resources are used needs to be integrated with the story about profitability; human capital is not an end in itself. (For a public sector body, over-arching goals can also be identified, which should primarily be about sustained value and effectiveness in the interests of the paying public.)

The Big Three HC Imperatives

There are three major ways that human capital impacts sustainable profitability.

- Risk
- Capability
- Innovation

Risk is the easiest to understand. For example generic risk includes shortfalls in productivity or in the talent and leadership succession pipeline.

Capability is a positive mirror to risk. For example, being effective at learning (from good and bad experience); developing and deploying skills; and having an engaged and aligned workforce, will all increase the likelihood of sustained profitability.

Innovation – ranging from incremental improvement to radical step-change – is crucial to both revenue growth and long-term survivability; organizations should explain how human capital practices facilitate innovation.



“Public sector entities are one of the largest, if not the largest, reporting entities in the world, so the transparency of their financial information is of importance to us all. Integrated Reporting would enable governments and their stakeholders to gain a better understanding of resources available and help them to manage these more effectively.”

Bertrand Badré, Managing Director and World Bank Group Chief Financial Officer

Productivity

Productivity is also a critical human capital contributor to organizational effectiveness and thus profitability. Why is this not included in our model, you might well ask?

The answer is that we see productivity as an outcome of the other drivers of profitability we have cited – it is a measure of success, and thus in effect an indicator of whether an organisation is likely to be, or not be, ‘sustainably profitable’.

The reporting challenge for organizations is to explain honestly and clearly how productive their people are (capability, innovation), and within their risk statement how they are addressing any shortfall.

Therefore, savvy investors want to know how human capital strategy and investments manage people risk, build capability and foster innovation. The report's narrative should describe how your organization is acting to support/improve these core human foundations for sustainable profitability.

Tell that story, in the light of the overall business strategy, and you have taken a significant stride towards effective performance reporting.

Human capital impacts sustainable profitability through risk, capability and innovation

The six human capital categories

The broad HC outcomes of risk, capability and innovation are achieved by managing six familiar dimensions of people management.

- Health & Safety
- Skills
- Leadership
- Alignment
- Engagement
- Talent Pipeline

The bulk of the People section of an integrated report should address these six HR dimensions, with relevant metrics and a narrative about how they address the three broad HC imperatives.

The key to doing this well – both from a management and reporting perspective – is to have done your 'analytics homework' to identify clearly the human drivers (and impediments to) creating value within your organization. That process should define the specific metrics to track and report within these six HR categories.

4.2 From standard to specific

Our standard model provides a robust framework for getting started. However, part of the rationale for an integrated report is that it explains how a particular organization creates value. These are the principal ingredients.

- Overall integrated story of how the business creates value
 - Strategy map
 - Materiality map
- Key Human Capital issues
 - Identify the main HC risks, capability and innovation issues the organization is concerned about – the ones that are most material, most central to executing the strategy and creating value.
- HC performance story
 - Work through the six HR categories, telling the story of what has been achieved, mainly in the terms of what affects the three Human Capital Issues; while also covering enough other aspects of people performance and contribution so that stakeholders can be confident that nothing important has been overlooked.

Ensure stakeholders can see clear links between objectives, KPIs and risks, so that they can assess outcomes accurately.

4.3 What remains standard

While each report is individual, there should be some standard elements so that it is easy for investors to make sense of the dozens of reports they will be studying. We propose the following.

- There should be a standalone People Section.
- The People Section should be part of the value creation story – neither disconnected metrics nor a ‘social responsibility’ story.
- Within the People section, there will be metrics (often presented as graphics) to support the narrative. However there should also be a table within the report, either at the end of the People section or together with other performance tables for example at the end of the report.
- There are a number of standard metrics that should be reported, although what these are is still a matter of debate. Look to GRI as a starting point, and keep an eye on what SASB is proposing.

Standard reporting elements will help investors to make sense of the dozens of reports they will be studying.

4.4 A checklist

We have explained why organizations should develop smarter corporate performance reports: summarized what other firms have done; and shared our model for reporting on human capital. Here is a checklist to guide action – divided into the relatively simple production process and the somewhat deeper preparatory steps. The latter may require time and effort to achieve, but are important in developing a healthy organization able to perform well now and into the future.

Following a checklist to guide action can help develop a healthy organization, able to perform well, now and into the future

The process

- Assemble the right team to work on the report, reflecting the different types of non-financial as well as financial performance; the CHRO should certainly be involved.
- Create a rough narrative about how the organization creates value. This can include a strategy map, a list of key strategic issues, a list of key risks, a materiality map, or some combination thereof. The point is to develop a clear story before diving into the (supportive) numbers.
- Have a candid discussion on how you present exceptional results, good and poor, highlighting genuine achievements but also facing up to bad news such as falling scores on an important metric.
- Let the value creation narrative guide the selection of human capital and other factors to focus on. Be sure to always combine evidence (such as metrics) with insight – “this is what the evidence indicates”.
- Include the standard metrics that are expected (e.g. by GRI) even if they are not part of your particular story. For these it is not essential to interpret the data.
- As you move forward be realistic about whether the metrics you want are available.
- Work to improve your internal human capital reporting in anticipation of increasing pressure to improve your external reporting.

Preparation

- Engage meaningfully with varied stakeholders about their expectations – e.g. what effective performance looks like – as part of a regular and consistent consultation process.
- Develop a shared and consistent approach to performance management, standards and measurement across the organization. Avoid silo approaches. A single high caliber analytics center of expertise is advisable, with excellent line of sight from front-end to the top.
- Invest in high quality and integrated analytics – systems and people – and eliminate unhelpful complexity.
- Invest in the software and skills that enable corporate reporting to remain 'smart' as digital and social communication develops and evolves.
- Make good performance measurement a core competence across all functions. Remember that human capital reporting is ultimately a shared responsibility for HR and line managers – the latter having direct responsibility for managing people and performance.
- Address any cultural issues that inhibit transparency and honesty in managing and measuring performance; ensure good role-modeling from the top in support of that.
- Foster the use of plain speaking and clear language, avoiding extensive use of jargon and acronyms. Organizations that indulge in the latter internally are liable to struggle in their communication with other stakeholders. (HR is often cited as a culprit in this respect, interpreted as a sign of defensiveness and separation from 'the business'.)

For further guidance. → see [Appendix 1](#).

4.5 HR's contribution

In most modern workplaces, especially those comprised heavily of knowledge workers, the quality of the people contribution drives much of the value of the organization. Ensure therefore that

- the HR function is staffed with people who genuinely enhance organizational performance and value
- similarly that people systems are designed and implemented that drive organizational effectiveness
- leadership of the HR function plays a full role in articulating the organizational story of performance and value creation, both in facilitating teamwork and in providing real insights about the people contribution.

How 'mature' is HR?

Investors and stakeholders should be asking the question 'how mature is HR in this organization?' when assessing its performance.

(The Institute of HR Maturity provides a useful scale ranging from 'no conscious people management' and mere 'personnel administration' through to people management being part of a 'whole system'.)

Some obvious questions include

- does the board fully understand what excellence in people management looks like, and hold the executive to account accordingly?
- how highly rated are the CEO and managers at all levels in their ability to inspire and facilitate great people performance?
- is the HR function highly rated for its catalytic effect in enhancing the three human capital imperatives and six people dimensions we have listed?
- how well rated is the organization's employer brand?

How well people are managed impacts every area of the organization's activities – its ability to take good decisions, manage operations, deploy technology effectively, achieve effective customer relationships, act ethically and be profitable.

Thus answers to questions like these will tell investors and other stakeholders a great deal about the organization's ability to create long-term value.

HR leaders and functions should fully embrace a core role in corporate performance reporting. If not, someone else has to fill the vacuum – and HR's usefulness will be questioned.

Appendix 1

MORE TIPS FOR SMARTER REPORTING

Here are some additional points of guidance on corporate reporting.

Segmenting for audiences

Re-thinking how different stakeholders' needs are best met opens up a number of possibilities, in particular by taking advantage of smarter digital publishing options. In doing this, organizations should regard performance reporting as relationship management as much as regulatory compliance.

- A single document is not mandatory, although obviously much of a corporate report's content has to satisfy regulatory requirements and is thus 'core'.
- Supporting documents only need to be published on-line, and can allow different audiences to drill down.
- This in turn helps to meet the objective of being more concise – and thence communicating more effectively.
- It is advisable to present one over-arching performance statement that meets the needs of investors as well as taking other stakeholders fully into account. Core and holistic messages may otherwise be lost if users are able to focus narrowly, and miss the big picture. Integration is the best defense – i.e., they cannot understand the part without reference to other factors.

Global reporting

International organizations need to consider how they manage their value creation story and stakeholder relations in all important operating markets, not just where they have their stock exchange listing. The recent failed bid by Pfizer for Astra Zeneca offers many lessons about managing reputation over time.

Continuous reporting

Conventional yearly and half-yearly reporting has its uses, but does not necessarily fit with the timeline realities of important stakeholders.

Organizations that are willing serve their stakeholders in a timely way need to plan and deploy their communication channels accordingly. This particularly applies in fast-moving sectors, where market-sensitive developments can occur relatively frequently.

To be ready and willing to report on performance at any time requires a mentality of openness, plus continuous alertness to internal and external events and how they will be interpreted.

There is increasing momentum towards adopting rolling or real-time reporting, although there are also important concerns among investors as well as finance heads about whether or not this will exacerbate short-termist behavior. See the sidebar.

Quicker and real-time reporting

Recent surveys by ACCA among investors and finance heads reveal that

- a majority of CFOs are working to close accounts quicker to meet stakeholders wishes; this also has the benefit of encouraging greater internal reporting efficiency
- two-thirds of CFOs are 'warm' to real-time reporting, although there are concerns about the potential for mis-statements and leakage of competition-sensitive information
- investors see benefits from real-time reporting for returns and confidence in reporting, but two-thirds are also wary that short-termism and volatility may increase
- internal reporting would however benefit, enhancing the potential for agility, provided of course that systems and processes – for financial and non-financial metrics – are upgraded effectively
- making data more consistent, standardized and accurate remains a key goal.

.....

“ Integrated reporting is about communication and transparency, not just reporting numbers.”

Paul Druckmann, CEO, IIRC

Transparency

There are many organizations and leaders whose first instincts are to hide anything approximating bad news. As that invites mistrust, it is not smart.

There can however be an understandable debate about commercial secrecy to preserve competitive advantage. The argument can be made that, although certain information is material, it is in shareholders' interests to stay quiet, especially while still testing new products or processes. There are counter-arguments too – for example the 'open innovation' approach, and also the respect to be gained from admitting any mistakes early and honestly.

In a world where rumor and leaks travel rapidly and far, transparency is arguably the wisest course. Company directors and their support functions need to ensure customers, employees, contractors and business partners trust their motives and understand their actions. Whistle-blowing is not the most advantageous form of corporate reporting.

Information governance

Particularly in large and complex organizations, there are real tensions about how information is managed.

In federated structures, strategy formulation and decision-making can be quite decentralized. How much can 'head office' be expected to know? How much do people internally wish to share?

However, the reality of corporate reporting is that the CEO and board are answerable. Effective risk management requires them to understand all significant opportunities and threats. Organizations that are smart at corporate reporting will imbue the organization with consciousness about, and collective responsibility for

- honest use of performance data
- internal openness, minimizing silos and greater internal connectivity
- creation of value, and how employees can make a difference
- responsiveness and answerability to stakeholders.

This should be in the context of developing the collective capability for managing and deploying data generally, throughout the workforce, given the data-rich environment that now surrounds and permeates organizations.

Note finally that a good visual map indicating allocation of governance responsibilities helps to convey commitment to good practice.

Data presentation

The way information typically presented in corporate reports would benefit from following some simple guidelines, in order to provide real meaning and comparability.

- Gather information relating to a topic in a single place, or at least provide cross-references and hyperlinks.
- Ensure numerical data is accompanied by clear explanation.
- Show trends and comparisons, and benchmarks where available.
- Use leading indicators, not just lagging data.
- Reduce clutter by distinguishing between numbers that have changed from previous years and those that haven't, where this is significant – as encouraged by the UK's Financial Reporting Council.
- Use graphics judiciously and clearly – cluttered diagrams and tables can be counter-productive.

There are two areas of tension.

- Being concise vs. giving as much information as possible
- Reporting on the same data as everyone else vs. reporting what is most relevant

We lean towards reporting more and reporting consistently with other companies.

Poor practices to avoid include numbers and statements that mean little without providing the context, or which are more about self-flattery than reporting on performance and value creation.

Are you the kind of organization that reports the bare minimum; or, just does what everyone else does; or, makes a real effort to improve, innovate and – above all – to satisfy your stakeholders' needs? It's your choice.

Data management

The world is experiencing a continuing explosion of information. Big data is offering ways of monitoring, analyzing and managing performance in ways unimaginable a few years ago. In particular it can help find correlations and causalities between non-financial and financial information – just what is needed to illuminate how value is generated across the 6 capitals.

And yet many organizations are struggling with a multiple, polyglot and legacy systems, and this certainly applies to HR information. More economical, flexible and integrated technology is available – but it takes much time, effort and cost to install.

Smart corporate reporting requires not just investment in common technology platforms but adopting a shared approach to information management – spanning functional and geographic boundaries as never before. It requires management teams and functional heads such as HR leaders to be technology-savvy and to focus on developing their organizations' analytics capabilities. It also suggests that a single center of expertise in analytics should be the aim, with cross-functional perspective and knowledge, rather than building up capacity within silos.

Teamwork

Building on what we recommend under 'Information governance', the process of developing smarter reporting practices and culture both

- provides an opportunity for better cross-functional collaboration, and
- depends on good teamwork to achieve a better product.

HR in particular should be doubly conscious of this – first with its organization design/development hat on, and concerned to ensure effective head office processes; and second, to address the obvious need to work closely with Finance, Communications and Legal in providing better human capital input. The HR leader's personal relationship with the other functional heads is obviously critical for success, as is using the different skill sets for their strengths.

For example, at **Interserve**, a support services multinational with 50,000 employees, finance and sustainability director Tim Haywood works alongside HR director Catherine Ward to develop an integrated report. And collaboration right across the organization has been crucial. "It will only work if everyone buys into it and delivers," says Haywood, interviewed by Katie Jacobs of the UK's HR Magazine. "Bringing this plan to life has been a huge collaborative project. It's brought about cross-silo working to address common issues... It's really helped cross-organizational understanding and insight."

Poor practices to avoid include numbers and statements that mean little without providing the context, and which are more about self-flattery than reporting on performance and value creation.

“HR should help people think beyond their traditional silos, think about the value they create and understand the risks across the value chain.”

Martin Baxter, Institute of Environmental Management and Assessment.

Appendix 2

Companies that Have Piloted the IR Framework

BASIC MATERIALS

AkzoNobel, Netherlands
 AngloAmerican, UK
 AngloAmerican Platinum, South Africa
 AngloGold Ashanti, South Africa
 BASF SE, Germany
 Cliffs Natural Resources, USA
 Gold Fields, South Africa
 Implats Platinum, South Africa
 Masisa, Chile
 PotashCorp, Canada
 Rio Tinto, UK
 Solvay, Belgium
 Teck Resources, Canada

CONSUMER GOODS

BRF, Brazil
 Clorox, USA
 Coca-Cola, US
 Danone, France
 Diageo, UK
 Inditex, Spain
 Marks & Spencer, UK
 Natura, Brazil
 Natura, South Africa
 PepsiCo, USA
 Sainsbury's, UK
 Showa Denki Co., Japan
 Smithfield, USA
 Truworths, South Africa
 Unilever, UK

CONSUMER SERVICES

Edelman, USA
 John Keels Holdings, Sri Lanka
 Kingfisher, UK
 Meliá Hotels International, Spain
 New Zealand Post, New Zealand
 Schiphol, Netherlands
 Slater & Gordon Lawyers, Australia
 Wilderness Holding, South Africa

DEFENSE

BAE, UK

FINANCIALS

Absa Group, South Africa
 Achmea, Netherlands
 Aegon, Netherlands
 Association of Chartered Certified Accountants, UK
 bankmecu Limited, Australia
 BB Mapfre, Brazil
 BBVA, Spain
 BNDES, Brazil
 CNDCEC, Italy
 CPA Australia, Australia
 CREIT, Canada
 DBS Bank, Singapore
 Deloitte, UK
 Deloitte Netherlands, Netherlands
 Deutsche Bank, Germany
 Deutsche Börse Group, Germany
 Ernst & Young Nederland, Netherlands
 Ernst & Young ShinNihon, Japan
 FMO, Netherlands
 Garanti Bank, Turkey
 Generali Group, Italy
 Grant Thornton UK, UK
 HSBC Holdings, UK
 Itaú Unibanco, Brazil
 Jones Lang LaSalle, UK
 KPMG International, Switzerland
 Liberty Holdings, South Africa
 National Australia Bank, Australia
 Nedbank, South Africa
 PriceWaterhouseCoopers, Netherlands
 PricewaterhouseCoopers Advisory, Italy
 Prudential Financial, USA
 Singapore Accountancy Commission, Singapore
 Standard Bank, South Africa
 Stockland, Australia
 Strate, South Africa
 The Chartered Institute of Management Accountants, UK

The Crown Estate, UK

Uralsib, Russia

Vancity, Canada

HEALTH CARE

AstraZeneca, UK

NHS London, UK

Novo Nordisk, Denmark

Royal DSM, Netherlands

Sanofi, France

Syngenta, Switzerland

Takeda, Japan

INDUSTRIALS

Atlantia, Italy

BAM Group, Netherlands

Bulleh Shah, Pakistan

CCR SA, Brazil

Cimsa, Turkey

Coega Development Corporation, South Africa

Diesel & Motor Engineering, Sri Lanka

Dimo, Sri Lanka

Fibria Celulose, Brazil

Flughafen München, Germany

Freund Corporation, Japan

Hyundai Engineering & Constructions, S Korea

Interserve, UK

Kirloskar Brothers Limited, India

NV Luchthaven Schiphol, Netherlands

Port Metro Vancouver, Canada

Pretoria Portland Cement, South Africa

Randstad Holding, Netherlands

Tata Steel, India

Transnet, South Africa

Via Gutenberg, Brazil

Volvo, Sweden

Votorantim, Brazil

MINING

BHP Billiton, Australia

Exxaro, South Africa

NON-PROFIT

ACCA, UK

CIMA, UK

OIL & GAS

Eni, Italy

NIAEP, Russia

Petrobras, Brazil

Repsol, Spain

ROSATOM, Russia

Rosneft, Russia

Sasol, South Africa

SNAM, Italy

Tullow Oil, UK

Woodside Petroleum, Australia

TECHNOLOGY

ARM Holdings, UK

Indra, Spain

Microsoft, USA

SAP, Germany

SK Telecom, South Korea

Telefónica, Spain

Vivendi, France

Vodacom, South Africa

Vodafone, UK

TRANSPORT – BUS/RAIL

Go-Ahead, UK

UTILITIES

AES Brazil, Brazil

American Electric Power, US

CLP, China

CPFL Energia, Brazil

ENAGAS, Spain

EnBW, Germany

Enel, Italy

Eskom, South Africa

National Grid, UK

Terna, Italy

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