

DISCUSSION PAPER

# Human Capital Management Reporting

**In 2008 ACCA, in partnership with the CIPD, carried out a piece of research assessing the standard of disclosures on human capital management of UK organisations that had entered the 2008 ACCA UK Awards for Sustainability Reporting. The results of the research were launched at an event in April 2009 and this paper provides an overview of the main discussion points covered. Speakers at the event were Chris Nutt, chairman, FiSSInG, the HR strategy research and benchmarking club; Annette Fergusson, senior corporate responsibility manager, Vodafone Group; and Angela Baron, adviser, organisation and resourcing, CIPD. The original report can be downloaded at [www.accaglobal.com/uk/publicinterest/sustainability/uk\\_08archive/](http://www.accaglobal.com/uk/publicinterest/sustainability/uk_08archive/)**



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# HUMAN CAPITAL MANAGEMENT REPORTING

## Introduction

The concept of human capital is not a particularly new one: the term was first coined in the 1960s by the economist Theodore Schultz and was centred on the division of labour and how one could compartmentalise employees into specific categories of seniority. Employees were primarily seen as being a cost, rather than a form of capital and contributor of value to the organisation's financial and non-financial performance. The 1980s saw a rise in the 'human resources' function within business, which recognised the importance of employee management in improving operational efficiencies via training and development and job satisfaction. Fast forward to the 2000s, and people are officially recognised as adding value to the business from more than just an efficiency perspective – they constitute an intangible asset in terms of reputation, intellectual capital, expertise and knowledge and innovation, as well as contributing to strategy achievement.

An official definition of human capital management from the Investors in People programme is:

*'The term Human Capital points to the benefits of regarding people as capital, ie a source of investment whose value to an enterprise can appreciate with relevant and aligned development, recruitment and management interventions.'*

Although it is now acknowledged that human capital is of real value to business and should be managed accordingly, there is still little credible information communicating this view of HCM in annual reports and sustainability reports along with other quantitative and narrative disclosures. Reporting is still largely voluntary in the UK, aside from the clause in the updated Companies Act (passed November 2006) that asks for narrative disclosures, in the annual business review, on non-financial issues such as environment, community and employees. Nonetheless, it is ultimately left to directors' discretion to decide whether this information is material to the business and therefore should be included in disclosures, and as a result many organisations disclose the bare minimum or simply state that it is not considered sufficiently important.

In response to this lack of transparency on HCM issues, in 2003 the UK government set up the Accounting for People Task Force, whose aims were to look at performance measures used to assess human capital and best practice in subsequent reporting. The Task Force stated that HCM

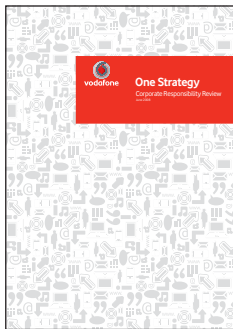
should be treated as a strategic issue and the project sought to analyse, measure and evaluate how employee policies create value. Business strategy should be directly aligned with the management of human capital, and this alignment should be clearly stated within company reporting. The advantages of doing so are numerous.

- It demonstrates externally that the organisation takes HCM seriously, and could therefore help attract new talent to the business.
- It responds to any stakeholder concerns there may be on employee issues.
- The data collection and internal engagement involved in preparing a report can assist in identifying risks that may have otherwise been left unaddressed.
- It can increase the trust of existing employees, who may not be aware of how their organisation perceives human capital and how it is managed.
- It can improve internal management systems through data and information collection, trend analysis and target setting.
- It provides investors, especially sustainable and responsible investment (SRI) analysts, with the information they require to make their decisions. (A piece of CIPD research found that investors currently take little notice of workplace metrics because of low comparability and consistency in the way they are presented.)

Examples of issues that should be managed internally and reported on include the incorporation of HCM into strategy setting, employee engagement (both on strategic issues and regular, everyday management issues), individual employee KPIs on diversity, equal opportunities, training and development, health and safety and wellbeing, and employee absences and turnover. It is important to note that providing quantitative data on these issues is not sufficient as the data are meaningless without an explanation of any observed trends, what they mean for the business and how HCM is being used to exploit opportunities and manage risks within the business – both an account of past performance and forward-looking narrative information.

## HCM reporting – a corporate case study

Vodafone was the highest scoring company in the ACCA UK Awards research, so Annette Fergusson, senior corporate responsibility manager at Vodafone Group, was invited to present the company's approach to HCM reporting at the ACCA event, which is summarised below.



Vodafone is a well-respected member of the UK reporting community and has been disclosing information on sustainability policy and performance since 2001. Non-financial information is primarily reported in the group's corporate responsibility (CR) report, along with a CR and employee section in the annual report and accounts. Vodafone also publishes a series of local CR reports which provide an account of issues and performance specifically relevant for that country/region.

Vodafone's 2007/08 report outlines the ways in which material issues are selected for inclusion in reporting, via a robust materiality process. This process uses a combination of engagement with external stakeholders to gauge what issues are of most concern, which Vodafone should be addressing; and an internal engagement process to assess what issues are of most importance to the business (results from these two processes do not necessarily align 100%).

In its reporting on HCM, Vodafone's report focuses on two key areas:

- policies, management systems, and data about specific performance areas such as diversity, training and development, and health and safety
- strategy and employee engagement – the company's overall 'People Strategy' and ways in which Vodafone engages with its employees on strategic issues; and performance data on overall levels of employee engagement.

### POLICIES, MANAGEMENT SYSTEMS AND DATA

Vodafone's report provides a detailed overview of performance in various areas related to human capital management, including health and safety, training, diversity and equal opportunities, and general employee statistics such as turnover and geographical spread. Quantitative data are provided on these performance areas as well as narrative commentary on any trends. Vodafone has also become well known for its approach to monitoring and driving improvements in performance, through its 'We Said, We Have, We Will' approach to communicating targets in its CR report. The company's policy and management approach for each issue is also provided.

### STRATEGY AND EMPLOYEE ENGAGEMENT

Vodafone aligns a lot of its 'people' reporting in the 2007/08 report with the company's 'People Strategy'. The online CR report explains how the strategy applies across the Group and that it forms the basis of employee engagement. It also clearly demonstrates that the 'people' issues addressed in the report are an integral part of this strategy and each issue is managed accordingly.



Vodafone's report outlines in detail how employee engagement and communications are undertaken, including the provision of an overview of the 'total communications' strategy. One key way of engaging is via the annual engagement survey, which is applied across the Group. Vodafone transparently provides results and feedback from this people survey and explains how they are used to drive improvements.

## Key discussion points

The key questions and discussion points of the event are summarised below.

### **How does the credit crunch fit into the issue of HCM reporting or reporting in general?**

Those organisations that manage human capital and disclose approaches and performance to interested stakeholders are more likely than those that do not to be able to deal with and adapt to current market changes due to the economic downturn. Key employee issues such as turnover, retention, redundancies and maintaining a dedicated, hardworking workforce are all the more challenging in the face of financial difficulties, and the better prepared an organisation is, the more likely it is to emerge 'in one piece' when the economy starts to recover.

Another point organisations should be considering on a continuing basis is the selection of material HCM issues for inclusion in a sustainability/annual report. The economic downturn will see the refocusing of issues that are of most concern to organisations (for example, there may be a change from attracting to retaining talent if redundancies are taking place). Disclosures and internal management will have to balance 'now' with 'future' in terms of approach and the identification of focus areas.

### **What is the key audience for HCM disclosures, such as those assessed in the ACCA research? Is there more than one way of communicating these issues?**

There are two levels of disclosure on human capital management: the first is internal communication to managers in order to drive performance improvements. The second is external disclosures (such as the reports assessed in this research); internal reporting must underpin external. The largest audience for these types of disclosures tends to be employees (unsurprisingly) and organisations need to be mindful of circulating information relating to the 'mechanical' aspects of HCM, which may be met with a negative, unproductive response. Disclosures should be a mixture of data and narrative commentary and combined with everyday 'on the job' experience of how an organisation operates and manages its people.

### **How can an organisation communicate how it is adding value to the business by investing in human capital?**

SRI analysts are particularly interested in the real value added by human capital investment (rather than the individual statistics for different KPIs) – and therefore in the results of this performance and forward-looking analysis of how it will bring business benefits. For example, if an organisation has focused much of its disclosure efforts on diversity and equal opportunities, analysts are not interested in the raw data but want an explanation of how any performance improvements or strategic developments are being used to leverage opportunities in new markets or keep up with competitors. Too many organisations provide the raw data and a small amount of commentary without giving any explanation as to why this has been collected and what value it brings.

### **How can organisations ensure that their disclosures on HCM are balanced and credible?**

This is often an issue when reporting across different sustainability areas, not just HCM. Organisations tend to focus on the positive elements of performance in their reporting and steer away from describing any poorer areas or dilemmas faced during the course of the reporting period. Reporting professionals often identify this as a problem area that needs to be addressed if HCM disclosures are to be taken seriously by analysts and other stakeholder groups. Independent assurance of reporting on specific areas is one way of ensuring that a balanced account is given, as the assurance provider can give readers some confidence that any negative performance areas or dilemmas would be picked up and indicated clearly in the resulting statement.

#### **REFERENCE LIST**

CIPD and ACCA (2009), *Human Capital Management – An Analysis of Disclosure in UK Reports* [online PDF report], [http://www.accaglobal.com/uk/publicinterest/sustainability/uk\\_08archive/](http://www.accaglobal.com/uk/publicinterest/sustainability/uk_08archive/)

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FiSSInG (HR Strategy and Benchmarking Club), <http://www.fissing.co.uk>

Investors in People programme, <http://www.investorsinpeople.co.uk/Pages/Home.aspx>

Accounting for People programme, <http://www.berr.gov.uk/whatwedo/businesslaw/financial-reporting/business-reporting/Accounting%20for%20people/page38836.html>

## **ABOUT ACCA**

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 82 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

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