

Creating Value

The value of human capital
reporting

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Introduction

Financial capital has traditionally dominated economic models and business thinking. But in the modern world, where innovation and intellectual capital have become vital for organizations' success, increasing attention is being paid to the value of human capital. This latest publication in the <IR> *Creating Value* series therefore turns the spotlight on the human capital within a business, together with integrated thinking, that enables better informed business decisions and the reporting of it.

This is a complex area. Human capital is by its nature a highly variable resource, influenced by geography and culture, industry and organization. The needs that organizations have of human capital also change over time as markets, technology and societies develop. Managing and reporting on human capital is challenging, but vital to help organizations create and maximize value.

This publication is intended to be of interest to both companies and investors. We share the views of both on the importance of human capital in the context of value creation. We highlight the value of reporting on human capital, sharing some of the developments and experimentation taking place in this area. We also identify the benefits of human capital management and reporting, including the particular benefits to be gained from applying Integrated Reporting <IR>. Finally, we encourage the development of an accepted approach to human capital reporting.

The value of human capital reporting

Investment in human capital contributes to economic and business growth for the benefit of employees, employers and the wider economy. This is now widely understood, but measuring the impact of that investment and reporting on it effectively is challenging. Making direct links between human capital and organizational impact can be difficult. Data may be hard to gather or sensitive in its nature.

Nevertheless, if, as is widely stated, people are the greatest assets of organizations, these challenges must be faced. Information about human capital needs to be treated with similar rigour and accountability as is afforded to financial capital. For example, employee capacity and potential, and the quality of leadership need to be understood and communicated.

Leaders in business, government and other organizations increasingly understand that human capital is essential to strategic performance. Bringing human capital into the mainstream of business decision making has knock-on effects, meaning more efficient allocation of human resources, which in turn contributes towards higher skills levels, increased productivity and greater innovation.

Organizations embracing the concepts of Integrated Reporting <IR> understand the need to establish the role that human capital plays in their current and future performance. Understanding the links between human capital and organizational outcomes brings benefits. <IR> can have a double impact on human capital management – encouraging enhanced process and better outcomes. It can also fill an information gap, providing valuable insights to the providers of capital and other stakeholders on an organization's potential to succeed over the short, medium and long term.

This is an area of reporting in the early stages of development and it is important that we encourage companies to experiment. Gathering data on inputs, such as employee numbers by age or gender only tells us so much. Finding data that links those inputs with outputs and outcomes in the form of enhanced productivity, growth or value creation is more difficult.

We believe these are challenges worth taking on and that the International <IR> Framework can help complete the value creation reporting puzzle. Integrated Reporting can demonstrate better than intentions the extent to which people are an organization's greatest asset.

The importance of human capital

Human capital is now seen as a key driver of organizational success, with increasing importance being placed on understanding its role. It is often the most significant asset an organization has as business models become centred on people, intellectual capital and technology.

People's talent, skills, personal attributes and creativity affect current organizational performance and shape its future. Human capital is therefore an essential building block for creating value.

How an organization uses or affects human capital is a key part of its strategy and business model. Human capital plays an essential part in a range of business activities. It is vital for all forms of innovation, whether in process improvement, the design and manufacture of products, or the development of new or improved services. The way that people within an organization think or act differentiates that entity from another.

Human capital and value creation

The stock of human capital is influenced by a range of factors – an organization's recruitment policies and how it attracts new talent, the way it develops people's skills and capabilities (including desired ethical standards), the way it aligns behaviours with strategic goals, motivates its employees and rewards performance.

These are all elements of human capital management which result in a number of important outcomes, such as employee morale, organizational reputation and customer satisfaction. In essence, human capital and its management have a huge impact on an organization's ability to create value and sustain future growth.

Fully understanding the role of human capital in the value creation process requires integrated thinking. This is because human capital is important for increasing the stock of other capitals – through the development of knowledge, systems, procedures, protocols and relationships.

The Organization for Economic Co-operation and Development defines human capital as

“ The knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances. ”

“ 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. ”

Source: *The smarter annual report: How companies are integrating financial and human capital reporting*, Creelman Lambert and McBassi & Co 2014

“ Apart from the business case, from a moral perspective it could be argued that employers have a duty of care – another compelling reason to invest in the health of employees. Investors will understand and support both the business case and the moral base, and benefit from both. But in order to do so they need accurate and material information, which can only be provided if companies use tools like the International <IR> Framework to guide their thinking, measurement and reporting practices. ”

Dr Daniel Malan, Director: Centre for Corporate Governance in Africa,
Senior lecturer Business Ethics and Corporate Governance, University of Stellenbosch Business School

The impact of people and their management

Research regularly reveals links between human capital and improved organizational performance.

Research by the Center for Talent Innovation found that organizations with a diverse workforce benefit from a 'diversity dividend'¹. They enjoy greater market share and competitive edge in accessing new markets. Again on the diversity theme, according to PwC's *18th Annual Global CEO Survey*, 85% of CEOs surveyed whose companies have a formal diversity and inclusiveness strategy said it had enhanced performance.

Research in 2014 by the Commission on the Future of Management and Leadership in the UK, and produced by the Chartered Management Institute, which involved interviewing over 2,000 managers, highlighted the impact that aspects of people management can have on business success². The study looked at the extent to which staff were trained in management and leadership.

It found that among organizations experiencing a decline in business, almost 60% did not train their staff or did so poorly, compared to only around a quarter of growing organizations. Growing organizations were also more likely than struggling organizations to provide good or very good training of staff immediately after a promotion, and were also more likely to run mentoring and coaching programmes.

Based on these findings, the Commission made a number of recommendations for improving the quality of management, including a call for employers to expand their annual reports to include broader people metrics, covering employee engagement, diversity measures at all job levels, job creation, and educational activities. It also suggested that the International <IR> Framework is a good starting point to help companies improve their reporting.

60% **85%**

of organizations experiencing a decline in business, did not train their staff or did so poorly

of CEOs surveyed whose companies have a formal diversity and inclusiveness strategy said it had enhanced performance

“ People are our most precious resource and the effective investment and management of them is critical to the continued success of Unilever. ”

Doug Baillie, Chief HR Officer for Unilever

“ Human capital clearly matters given that it is directly linked to the creation of value, and there is increased scrutiny on the way organizations are managed and operated: toxic organizational culture, poor people management and inadequate training are all now widely recognized as having played significant roles in numerous corporate failures over the last ten years. ”

Source: *Human Capital Reporting: Investing for sustainable growth*, CIMA

Macro perspectives

The World Economic Forum sees talent management as being vital for the growth of economies around the world and believes businesses have important roles to play in its development.

Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, writes in his preface to *The Human Capital Report 2015*, "Talent, not [financial] capital, will be the key factor linking innovation, competitiveness and growth in the 21st century. ...Governments, business leaders, educational institutions and individuals must each understand better the global talent value chain. Business, in particular, must re-think its role as a consumer of 'ready-made' human capital to proactively seek out, engage and develop people's potential. Better data and metrics are critical to this undertaking."

“ There are various trends that drive the importance of human capital to business. As our economy is becoming increasingly more knowledge-intensive, research shows that a more significant share of economic growth is attributable to intangible capital rather than fixed assets. For this reason, the UK Government and organizations like the OECD and World Economic Forum have already developed methodologies to assess the ‘stock’ and quality of human capital countries have access to. ”

Alan McGill, Partner, PwC, forward to Pensions and Lifetime Savings Association (formerly National Association of Pension Funds Ltd) report, *Where is the workforce in corporate reporting?* PLSA (formerly NAPF), June 2015

Value to investors

Mainstream investors have traditionally made only limited demands on organizations to report on human capital matters, but there are signs that this is changing.

Major investor CalPERS now takes account of human capital. As Jeremy Shapiro, HR Executive & HR Analytics practitioner, has said³, “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.”

A survey of the literature on human capital by the Investor Responsibility Research Center Institute found that

“ there is sufficient evidence of human capital materiality to financial performance to warrant inclusion in standard investment analysis. ”

Source: *The Materiality of Human Capital to Corporate Financial Performance*, IRRIC Institute, April 2015

A 2014 survey of large pension funds asked what factors they thought most important for investment managers to consider when making investment decisions⁴. Participants ranked these factors on scale from 1 to 5. High importance rankings (a 4 or 5) were given, not surprisingly:

80%

To the long-term sustainability of company strategy

73%

To recent financial performance

But human capital issues then came through strongly:

65%

A record of Health and Safety

63%

Composition (including diversity) of the board

58%

Pay and condition of employees

55%

Record on human rights

The reporting challenge

The importance of human capital is increasingly recognized, so is the need for organizations to report on how they are using this resource to maximum effect.

Obtaining relevant and reliable data on human capital can be difficult. Regulatory requirements are limited, while demand for this information from investors (at least mainstream ones) has traditionally been muted.

There is also a lack of consensus as to how to measure human capital. This has resulted in limited qualitative and quantitative reporting and difficulty in comparing how organizations are maximising the productivity, creativity and general value of their workforce.

“Beyond the core quantitative metrics, which themselves are not consistently defined, a lot of human capital data is qualitative and subjective. It is the combination of hard and soft data that together can provide useful insights into what drives value, organizational culture and people risk. It is the art of the executive to consider and use that data to improve how investments in people are made to support sustainable performance.”

Managing the value of your talent: A new framework for human capital measurement: Key findings and conclusions, CIPD, 2014

Nevertheless, given the importance placed on human capital, the need for better management data is increasingly widely accepted. Charles Tilley, Chief Executive of the Chartered Institute of Management Accountants (CIMA), wants human capital to be “fully and effectively valued in business decision making”. He says, “We must change mindsets through a recognition that data on people, performance and behaviours are key to business success. The competence of finance, HR and other professionals needs to be developed to recognize and act on this insight.”

In the Harvard Business Review on 10 February 2015, David Creelman and John Boudreau argue that “human capital deserves to be treated with the same rigor as financial [and other capitals]...” and managers should apply “frameworks developed in more quantitative disciplines like finance, supply chain and marketing”. The article adds, “Managers may soon be held much more accountable for demonstrating that they make rigorous decisions about human capital and organizational capability”.

Workforce health metrics will be an integral indicator of overall organizational performance within the broader corporate accountability framework. They will be core to existing corporate social responsibility, sustainability, and integrated reporting, and critical for consideration by all shareholders and potential investors.

The Vitality Institute (www.thevitalityinstitute.org/projects/health-metrics-reporting) is an example of an organization that is focused on identifying which evidence-based, high-level metrics should be reported on by companies. Derek Yach, Chief Health Officer (CHO) of Vitality has focused his career on advancing global health.

Lack of reported information

At present there is “very limited quantitative or qualitative reporting by companies on their approach to managing their workforce”⁴. This means “it is impossible to see a full picture of a company’s operations and therefore to make comparisons and form a view as to how companies are maximizing the productivity of their workforce.”

Lack of reporting is a global problem. The 2014 report, *Measuring Sustainability Disclosure: Ranking the World’s Stock Exchanges*, found that only 12% of the world’s large listed companies disclosed the rate of employee turnover and 11% reported on their injury rate⁵. Payroll expense was disclosed by 59%.

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Deutsche Bank is one organization that has recognized that the long-term success of a company is closely linked to its human capital. To help stakeholders understand its approach to HR management, the bank has begun issuing stand-alone reports focused on its human resources, the first accompanying its reporting on its 2013 financial year. Its third in the series, *Human Resources Report 2015*, states that:

“ This Human Resources Report provides transparency on the Bank’s employee metrics and how we are translating our strategic priorities into action. It gives examples of what we achieved in 2015 in organizational culture; diversity and inclusion; talent and development; talent acquisition; compensation and benefits; managing change; and collaboration with our social partners. ”

The report sets out the bank’s strategic HR agenda, talks about its approach to recruitment and retention and gives a range of data, including the diversity of employees (e.g. by age and gender), staff turnover and workforce costs and revenues.

Current reporting requirements

Financial costs and issues associated with human capital are addressed by regulations and standards.

For example, International Financial Reporting Standards (IFRS) and the accounting standards issued by the US Financial Accounting Standards Board (FASB) both require transaction-oriented information, including employee benefits, retirement benefit plans and compensation.

Reporting of broader human capital issues remains generally a voluntary activity. Though there have been some regulatory developments, these are relatively limited. For example, European banks are now required (under the Capital Requirements Directive IV) to report employee numbers for all countries of operation. Again in Europe, the Directive on “disclosure of non-financial and diversity information by certain large undertakings and groups” came into force in December 2014, with implementation across EU member states required within two years.

The Corporate Reporting Landscape Map (corporatereportingdialogue.com) provides a snapshot of corporate reporting initiatives and is intended to be a simple navigational tool. Users of the map should consult source documents for complete framework or standard details and implementation requirements. It enables a greater understanding of the purpose, scope and content of standard or framework through the lens of <IR>.

The power of <IR>

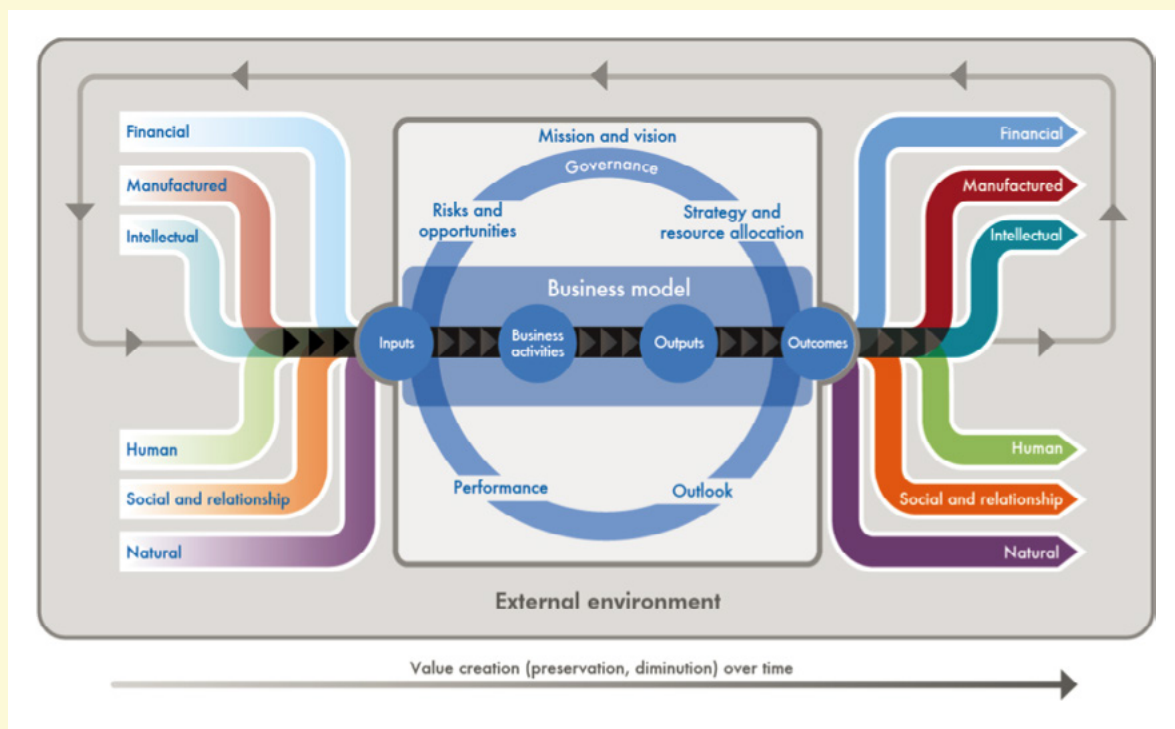
Additional momentum for improved human capital reporting comes from the International <IR> Framework.

This includes human capital as one of the six capitals on which organizations could report. The Framework defines human capital as:

“People’s competencies, capabilities and experiences, and their motivations to innovate, including their:

- alignment with and support for an organization’s governance framework, risk management approach, and ethical values
- ability to understand, develop and implement an organization’s strategy
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.”

The International <IR> Framework does not itself specify what information organizations should report in relation to their human capital. However, a number of bodies are looking into this area of reporting, making suggestions for content that could be relevant to investors and other stakeholders. These include, for example, investor bodies such as the Pensions and Lifetime Savings Association (formerly NAPF), the Valuing your Talent initiative⁶ (involving the Chartered Institute of Personnel and Development, UK Commission for Employment and Skills, Investors in People, Chartered Management Institute, Chartered Institute of Management Accountants and the RSA) and individual specialist consultancies such as Organizational Maturity Services (OMS) LLP.



Source: The International <IR> Framework

Under the International <IR> Framework, organizations are encouraged to articulate their business model and the role of human capital by reference to inputs, business activities, outputs and outcomes.

Inputs and activities relevant to an understanding of human capital could include:

- employee numbers
- the composition of the workforce (e.g. analysis by gender, age, full-time or part-time, contingent labour)
- staff compensation
- employee benefits entitlement
- recruitment costs
- training and development spend (including on health and safety)
- average hours training per employee category
- numbers of courses taken
- reward schemes to align employee behaviours with strategic goals.

Outputs and outcomes associated with human capital could include:

- employee motivation and engagement (e.g. by reference to surveys)
- the stability of the workforce (e.g. voluntary and regrettable turnover rates)
- retention rates after parental leave
- internal hire rate
- absence rates
- accident rates
- days lost to injury
- work-related fatalities
- industrial relations issues
- revenue per headcount
- any productivity gains made.

Much human capital reporting currently focuses on inputs and activities, rather than on the outputs and outcomes. It is rare for companies to explicitly demonstrate how their human capital is contributing to value creation. However, some experimentation with reporting on outputs and outcomes is taking place. For example, the OMS Human Capital Reporting Template © identifies “the critical questions that need answering” to reveal “underlying value and risk”⁷. The template “follows the principles of *whole system thinking*; recognizing that all organizational systems are inextricably bound up with human systems, which directly and indirectly influence performance, total value creation and operational risk”. The methodology encompasses talent attraction, acquisition, development, performance management and retention and how that integrates with the other financial and management systems. OMS stresses that all human capital data and information must be ‘material’ in showing “a direct, causal connection to value creation (or loss) and decreased (or increased) organizational risk.”

What should be reported?

The PwC investor survey shares views from over 400 investment professionals in 18 countries on their perspectives on threats and opportunities facing the companies they follow and where they see areas for improvement in strategy and communications.

In the survey

72% of CEOs see availability of key skills as a threat to business growth compared to 48% of investment professionals.*

31% of CEOs see a lack of the right capabilities as a barrier to change when responding to wider stakeholder expectations.*

* Source: Global Investor Survey PwC 2016

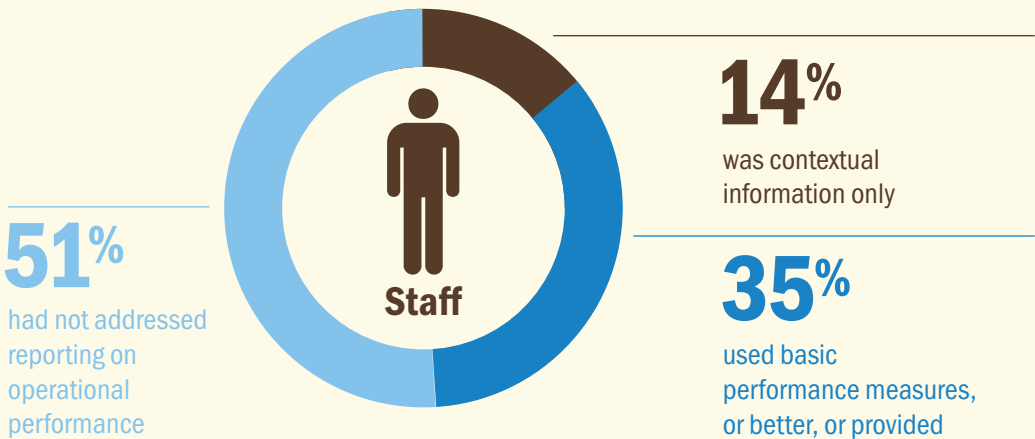
A survey of business reporting by KPMG identified only 11% of the reports addressed five or more of their six areas of performance, leaving readers with only a partial view of the operational health of the business.

Only

11% of the reports addressed five or more of their six areas of performance

In the view of KMPG, operational performance should be an important part of most businesses' performance stories. It was felt that there are opportunities for reports to improve not only the scope but also the relevance of performance information provided.

When companies were reporting an operational performance measure for staff it was found that:



Source: Room for improvement The KPMG Survey of Business Reporting, second edition KPMG 2016

Smarter reporting

Research into the current state of human capital reporting within integrated reports has found huge variety.

Having reviewed the integrated reports of 62 organizations with a particular focus on their approach to human capital information, researchers found that ‘good practice’ companies already report a lot of human capital data, in a wide range of formats. They found that “the lack of common standards in non-financial information frustrates performance comparisons”³. They also noted that, “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”. In effect, this is about better reporting of outputs and outcomes rather than basic inputs.

The report authors believe that effective human capital reporting requires organizations to do their “‘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...”

“Human capital is increasingly central to value creation and competitive advantage in many organizations’ business models. Investors need to ensure they place a higher emphasis on human capital in investment appraisal and decisions. It is therefore essential that organizations provide more information on people, including strategy and performance metrics, in their reporting. We welcome initiatives that help to facilitate more consistent data and information on this important capital.”

Helena Morrissey, Chair of The Investment Association

Thesaurus-Bercy VI: French national reference for measuring the value of human capital of organizations

In France, an assessment method (Thesaurus-Bercy VI) has been developed for measuring the ‘extra-financial’ or non-financial value of intangible assets, including human capital. The model divides human capital into ‘leadership capital’ and ‘employee capital’. Leadership capital is then considered in the context of the CEO and the directors, with assessments made of strategy, skills, leadership, responsibility and stability. Employee capital is considered in terms of efficiency, hidden costs (based on factors such as absenteeism and employee turnover), loyalty and effectiveness (itself broken down into elements such as skills and engagement).

The valuation methodology involves giving these elements scores from 0 to 20, calculating average scores and applying weighted coefficients to produce an overall score for human capital (the maximum being 20). Creating such a non-financial value is seen as an initial step towards the ultimate objective of allowing for a financial valuation of intangible assets and, by extension, valuation of companies.

Barclays Africa Group reports on ‘regrettable turnover’ – by which it means its loss of employees whom it would rather have retained. This is useful information, potentially a leading indicator of future problems: where any company reports a consistently low level of regrettable turnover, this conveys (potentially) good news. Unplanned and undesired staff losses could, for example, potentially result in delayed projects, increased costs or lower sales.

Benefits of understanding how human capital creates value

Organizations and their investors can both benefit from a clearer understanding of the role of human capital in creating value, particularly when the links between human capital, other capitals and strategy are clearly identified.

Human capital, as we established in Part 2, is a vital element of organizational success.

When organizations understand how their human capital creates value and report this understanding to investors, they see specific benefits.

Benefits to the organization itself could include:

- better internal understanding of how human capital helps the organization create value over the long term
- enhanced ability to develop and implement the organization's stated strategy through more integrated human capital management
- increased productivity through improved workforce loyalty, motivation and innovation
- stronger leadership and improved management skills
- closer alignment between strategy, risk management, governance framework and ethical values
- better decision making through integrated thinking
- lower costs of capital due to better investor understanding of the role of human capital management in the value creation process.

Energy, phone and broadband supplier SSE has been exploring the benefits for its organization of HR management, commissioning a report valuing its human capital. Commenting on the report's publication, HR Director John Stewart stated: "What does the report tell me? It tells me investing in people, training them for sustainable jobs, retaining them in the business and giving them the opportunity to be promoted all makes good economic sense, and creates value for SSE, the employee and wider society."

Better internal understanding

Research conducted by Black Sun for the IIRC among organizations adopting <IR> found that, "The most significant, and unexpected, benefit for any new integrated reporters was a dramatic increase in internal understanding of strategy and value creation."⁸

This increased understanding was particularly noticeable in relation to human capital. Black Sun's research found that "some of the strongest links between value created for the organization and value created for others" related to employees (and to customers). As a result, many organizations had increased efforts to understand and measure the impact of investments in training. For example, one financial services company found that <IR> had helped improve understanding of how human capital was linked to long-term financial performance.

Source: *Realizing the benefits: The impact of Integrated Reporting*, Black Sun, September 2014

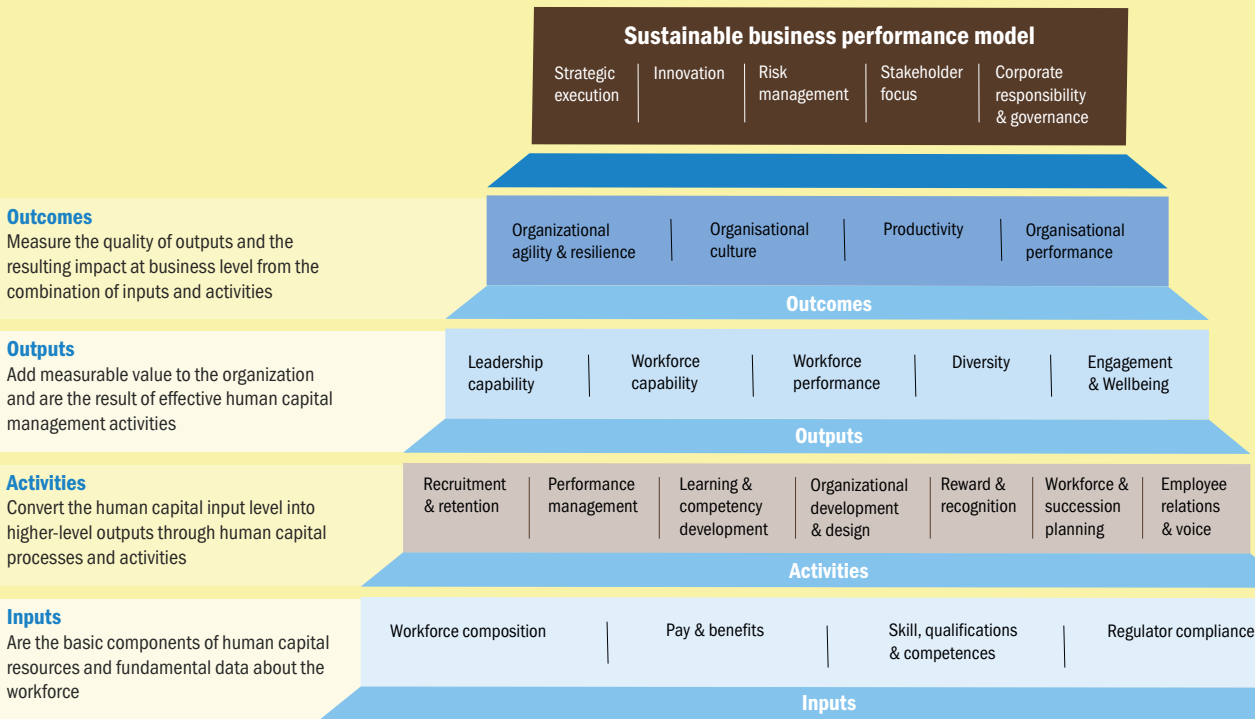
Benefits to investors, finance providers and other stakeholders

Clear reporting helps investors and other stakeholders gain a better understanding of the role played by human capital in developing and implementing the organization's strategy.

Effective reporting can also give a better understanding of the contribution made by human capital to the creation of value, and how that human capital is being managed.

A January 2015 report⁹ from the Valuing your Talent initiative explores the views and perspectives of members of the investment community and those who work with it on the issue of human capital management (HCM) reporting. The report states that, "A clear majority of respondents believe that company reporting on HCM should be promoted and improved, and that the materiality of HCM should be discussed in annual reports. The majority also believe that the quality of HCM reporting is not as good as it should be and that current standards of HCM reporting are generally not fit for purpose."

Sustainable business performance model



Source: cipd.co.uk/research/valuing-your-talent/framework.aspx

The Valuing your Talent Framework is a diagnostic tool for business professionals to use to assess how they measure human capital in their organization. The Framework has been developed by combining latest thinking in HR and Finance, with real world practical experience from leaders of some of the most influential businesses and organizations.

The framework is designed to:

- help business practitioners, practising at any capability level, who work in finance and HR better
- understand the metrics that can be used to drive the performance of people
- allow business leaders to diagnose gaps in their human capital capability
- highlight areas of focus for HR research and development.

Source: *Valuing your Talent Framework*, CIPD

Investors interviewed for the report did not express a desire to put the value of a company's stock of human capital on company balance sheets. "Emphasis instead was placed on companies understanding and communicating the value of HCM to the operating performance of a business. It's evident that investors want to use HCM data in combination with other perspectives on company performance to develop a more holistic view of their investments." Participants also indicated that the value of HCM data was 'materially enhanced' by an understanding of the wider contexts of the data. The report recommends that investors interested in HCM should ensure such interest "extends all the way down to the investment processes that determine how company performance is appraised and valued, and that fund managers are held to account in respect of providing evidence that HCM analysis factors in their processes". Turning to companies, the report recommends, "Companies need to ensure they present better information on HCM to external stakeholders such as investors by providing a clear narrative underpinned by key metrics."

“By adopting human capital reporting we are increasing our accountability and presenting a more transparent and coherent picture to our stakeholders on the health of our business. Having an accurate picture can also lead to competitive advantage by unlocking the full potential of our people, making the case for its adoption a resounding one.”

Doug Baillie, Chief HR Officer, Unilever

Benefits of better human capital reporting

- 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 behaviour and measurement with more coherent management of performance data and narratives.

Source: *The smarter annual report: How companies are integrating financial and human capital reporting*, 2014

“ Employee engagement is not a magic bullet indicator of future share price performance but it is very relevant. Discontented employees do not make for good customer care, and poor morale also impacts innovation – so it’s important at both ends of the performance spectrum. ”

Dr Raj Thamotheram, CEO, Preventable Surprises

“ We pick up the industry standard churn over time. In the recruitment industry if you get above a churn of 30%, it’s either telling you something about culture or it’s telling you something about training and re-training [costs]. ”

Adam McConkey, Director,
Henderson Volantis Capital

“ In this area there is always going to be a role for more narrative reporting. It is useful to know the staff turnover figure, but you want to know why it is at that level, what the baseline for that industry is. If there has been a move up or down, why that has occurred, has there been a business restructuring or has it been that the staff have become more dissatisfied over the past year? ”

Kate Elliott, Ethical Researcher,
Rathbone Greenbank Investments

Better investor dialogue

“ Ultimately, we wish to see the articulation of a company’s long-term sustainability including a description of the sustainability of its employment model and through this an insight provided into the culture of the organization.

With investors increasingly being encouraged to act as engaged stewards of the companies in which they are invested, this additional reporting will enable them to have broader and more informed dialogues with company management. ... For genuinely long-term investors such as pension funds, conversations about the people that constitute company management and the wider workforce are crucial to understanding a company’s culture, how well a company is functioning and whether warning lights are beginning to flash. ”

Where is the workforce in corporate reporting? PLSA (formally NAPF), June 2015

Conclusion: Developing a globally accepted approach to human capital reporting

Human capital management is vital for organizations that want to fulfil their strategies and create value in the short, medium and long term. They see the importance of understanding how they create value through their people, and of reporting on this value creation process to investors and other stakeholders.

Increasing numbers of organizations are using <IR> to provide investors with information about how all the resources that the organization uses and affects work together to create value over time.

They are working hard to ensure investors are informed about how their human capital is connected to the other capitals – to intellectual, manufactured, social and relationship, natural and financial capital.

Improving performance fundamentally relies on a better understanding of all the capitals an organization uses and affects. The combined application of integrated thinking and <IR> can help entities succeed over the longer term. Those who have already begun this journey are encouraged to continue experimenting with their human capital data, the analysis they apply and to deliver better reporting.

We encourage greater alignment across the many initiatives outlined above. This can accelerate the pace of development of an accepted approach to human capital reporting, including metrics for reporting performance and creating value over the short, medium and long term.

INTEGRATED REPORTING <IR>

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The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

The International <IR> Framework has been developed to meet this need and provide a foundation for the future.

Further information about the IIRC can be found on its website www.integratedreporting.org

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