CIPD
Championing better work and working lives

HIDDEN FIGURES

How workforce data is missing from corporate reports

Executive summary
July 2018

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

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1 Introduction

Human capital (HC) is one of an organisation's most valuable and unique resources, but as research has shown, many organisations fail to articulate this value through their annual reports (CIPD 2016). Given the complexity of modern organisations and the changing nature of the workplace, there are many elements of employment models and working practices that key stakeholders must understand. Investors, regulators, prospective employees and other parties can all benefit from knowing if and how an organisation is generating value through its workforce, and whether workers are also benefitting from value creation. It is for this reason that HC reporting may help to improve the extent to which internal and external stakeholders understand the organisations they're investing in.

This report explores the disclosure of HC information by the FTSE 100 through their annual corporate reports. It maps the trends for key aspects of work and employment models through the indicators that are reported, and introduces a practical framework for illustrating HC risks using workforce data.

Risk and opportunity: too complex a picture?

Given the diverse and multifaceted nature of an organisation's HC, accurately mapping the value, risks and opportunities related to it can be extremely complex. For example, considering senior executive labour turnover, there is the risk that an appropriate replacement or successor capable of undertaking such a vitally important role may not be found (succession risk). There may be an additional risk that a senior-level employee may have possessed firm-specific or novel knowledge that is crucial to achieving strategic objectives, that is, the firm's ability to innovate (talent/innovation risk). Finally, the exit of an influential leader may negatively impact upon the culture, leadership and ability of the

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organisation to operate efficiently (business disruption and continuity risk). Hence we can clearly see how, because of the interdependent nature of organisations, the concept of 'business risk' is systemic in nature and interwoven with the concept of HC management (Becker and Smidt 2016).

To date, however, research relating specifically to HC risk has been largely fragmented, focusing upon individual or isolated aspects of such risk (Russ 2014, Becker and Smidt 2016). There is a lack of robust and dynamic HC reporting frameworks that can help organisations to effectively manage and measure HC risk, and frame the numerous typologies of HC risk in a practical and evidence-based way. Moreover, given the advent of new European Union legislation on environmental and social disclosures, including human rights, which are scheduled to be introduced in 2018, there is greater need for a framework that comprehensively focuses upon HC-related risk.

2 Approach and findings

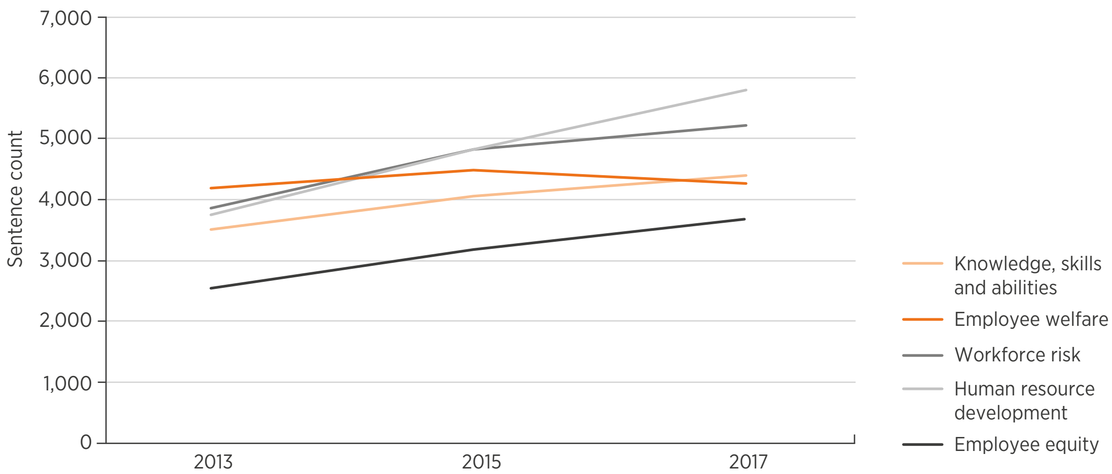
The study was undertaken in two phases: content analysis and a HC reporting assessment.

Content analysis

A content analysis was undertaken of the narrative sections of the latest annual reports of the FTSE 100. The analysis built on previous research undertaken by the authors in which an analytical framework was designed to measured HC disclosure by the FTSE 100 between 2013 and 2015 (CIPD 2016). Data collected in this report allowed for an analysis over the 2013, 2015 and 2017 timeframe for the FTSE 100.

The findings show that overall HC reporting increased by 9% between 2015 and 2017, a smaller increase compared with that between 2013 and 2015 (19%). However, all the categories of data that were measured (that is, knowledge, skills and abilities (KSA), human resource development, employee welfare, employee equity and workforce risk) showed a reduction in the rate of growth. One category, employee welfare, decreased by 5% over the period studied (Figure 1).

Figure 1: Overall change in HC reporting between 2013 and 2017



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The most reported workforce risk items were talent management, succession planning and employee turnover. In the 2017 annual reports, the amount of reporting was generally lower than in previous years. Indeed, this was the case for entrepreneurship, motivation and employee turnover; while flexibility, innovation, career development, internships, employee relations and equality had both a decrease in the rate of reporting and a relatively low proportion of reporting space. An outlier, however, was apprenticeships, which saw a substantial increase (64%).

Navigating the modern world of work: how are organisations reporting against key issues

The gig economy: We found that no organisations used the language of the 'gig economy' in relation to their employment models, 4% of FTSE 100 firms reported on their contingent workforce and 2% reported on their freelance workforce. The term 'temporary workforce' was used in the reports of 14% of firms. The term 'contractors' was significantly more prevalent in corporate reports (67%) given the prevalence of this employment model in industries such as construction, mining and energy. When considering all terminology together (for example policies relating to full-time, part-time and off-site working arrangements, and the contract workforce), the factor 'flexibility', represented less than 1% of the total disclosures relating to KSA. Given that atypical work is a topical issue both politically and socially, the lack of reporting by organisations points to a significant risk and misunderstanding of the current discourse on working practices, and the interests of investors and other consumers with regards to corporate reporting.

Employee voice: Employee engagement and employee relations both fell between 2015 and 2017, falling by 21% and 14% respectively, demonstrating a sharp decline in the amount of space organisations are using to illustrate employee voice activity. The significant growth in well-being reporting over the same period (76%), however, potentially highlights how reporting is following a societal trend towards a more open discussion on mental health and well-being issues.

Skills and apprenticeships: Only 12% of FTSE 100 firms reported on their perspective on skills shortages and 21% reported on skills gaps, which is surprising given the Brexit context. Many, however, reported on skills opportunities, choosing to report on skills investment and development (69%). In relation to this we found that reporting on apprenticeships grew considerably over the period between 2013 and 2017, increasing over 116%. Such reporting is likely attributed to the introduction of the apprenticeship levy from 6 April 2017. As such, many organisations now appear to be illustrating how they are applying the apprenticeship levy in their company reports.

Our analysis shows that virtually all organisations view talent management risk, health and safety risk, employee ethics risk, diversity and equality risk, employee relations risk, business continuity risk and reputational risk as important and, as such, report on them. However, the data shows that in the categories of health and safety, diversity and equality,

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business continuity and reputational risk there was little sophistication in the data or KPIs being reported, either at all or as part of broader risk reporting, despite such metrics appearing in other sections of the annual report (for example the number of accidents at work in employee sections). There are, however, a number of key measures that have changed significantly over the periods studied, as shown in Figure 2.

Figure 2: Biggest changes in reporting for FTSE 100 between 2015 and 2017

Increased reporting		Decreased reporting	
Employee well-being	+76%	Internships	–32%
Apprenticeships	+64%	Commitment	–31%
Entrepreneurship	+28%	Flexibility	–30%
Talent management	+26%	Employee engagement	–21%

HC risk reporting assessment

We developed a People Risk Reporting Framework (PRRF) (see Figure 4) that provided more detail on which HC risks companies should be reporting upon, which was then used to undertake further analysis of the FTSE 100 annual reports. From this we highlight exemplar case studies of good practice with regard to HC risk reporting.

To build the PRRF we explored the risk and risk management literature and drew out seven dimensions of HC risk against which organisations should look to report. These are illustrated in Figure 3.

Figure 3: Seven dimensions of HC risk

- Talent management
- Health and safety
- Employee ethics
- Diversity and equality
- Employee relations
- Business continuity
- Reputational risk

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Figure 4: The People Risk Reporting Framework (PRRF)

Type	Impact	Management	Performance	Opportunities
May include:				
Description Industry-specific or general; day-to-day or isolated; internal or external	**Implications and interconnectivity** Impact on strategy, operations, KPIs	**Risk preference scale** Minimise or turn to opportunity?	**Workforce KPIs** Time-bound measures of impact	**Description of opportunity** Using risk profile to address broader business risks
Level Strategic, operational, or managerial	**Likelihood of occurrence** For example, 5 per month, or 1 in 5 years	**Risk monitoring** Emerging risks, present risks, changing risk profiles	**Performance outputs** For example, frauds prevented	
Risk drivers Employee regulatory risk; compliance and competition	**Risk appetite** Critical, uncomfortable, tolerable/ acceptable	**Mitigation** Addressing gaps, consulting experts, building relationships	**Evaluation** Lessons learned, impact assessment	**Emerging risk opportunity** New technology; new skills profiles required; changing cybersecurity threat
Integration Link to other capitals, for example, social and intellectual	**Stakeholders** Employees, contractors, investors, regulators, suppliers	**Futures/scenario planning** Future impacts and their influence on HC according to different variables	**Incentives for risk improvement** For example, executive reward	
			Forward planning of risk management	

Changing risk profile
Increasing or decreasing rationale for change in risk profile, for example, talent risk increase because of Brexit

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When the risk framework was applied to 2017 FTSE 100 annual reports, some interesting results emerged surrounding what might be termed good practice HC risk reporting (see Table 1).

Table 1: Elements of the People Risk Reporting Framework

PRRF element	Description
Type of risk	Several organisations showed higher levels of sophistication in how they defined the type of risks that they faced. For example, telecommunications firm BT linked corporate risk to both corporate strategy and the business model, that is, human, social and financial capital.
Impact/ implications of the risk	A key issue here was to identify if companies truly illustrated the impact of HC risk for stakeholders as well as the degree of risk interconnectivity, as certain risks can inflate to impact other areas of the organisation. For example, energy firm SSE considers the degree of risk interconnectivity when analysing the impact of risk and explicitly discusses the potential for a risk to expand and create new risks and impact other areas of the business.
Management or mitigating activities linked to the risk	It was clear that several organisations considered which risks they felt that they could manage and those which were to some extent outside their control. For example, the case of insurance firm Aviva provided an interesting example, where they reported on their risk preference scale, which allowed them to continually monitor risk, as the risk profile may change quickly and this may impact the risk mitigation strategy.
Performance or outcome of initiatives linked to risks	As noted overall there appeared to be little real use of HC indicators in general. For example, only two organisations, Fresnillo and the Berkeley group, linked HC risk to HC metrics and KPIs. Berkeley linked sustainability and climate change risk to greenhouse gas emission intensity metrics (that is, greenhouse emissions/no. of employees) and talent risk to apprentice and graduate metrics.
Opportunities arising from risks	With regard to reporting quality, it was found that HC risk opportunities were infrequently integrated into firms' risk frameworks. One example that did illustrate how companies could think more about opportunities was illustrated by mining firm Rio Tinto, which operated a risk opportunity assessment where it considered risk opportunities in its general risk management framework.

3 Implications of the research

Implications of the research

The research illustrates the need for more integrated thinking on the type of HC issues measured and reported, and the language used to describe organisation-level HC to both internal and external stakeholders. The analysis highlights some clear issues with reporting in its current format, namely that while the quantity of information being disclosed is increasing, there is a lack of consistency in the reporting of people risk, which is further exacerbated by low levels of quality in the data which is being reported. This indicates uncertainty regarding the objective of HC reporting, and the desired outcomes of disclosure: is disclosure designed to inform key stakeholders of material risks and opportunities and address information asymmetries, or to steer stakeholder impressions, to paint an overly positive narrative alongside more objective financial information?

We draw out key implications below.

Adopting voluntary approaches for strategic/key measures. Organisations appear to focus on complying with legislation and governance codes and little else. There is little innovation with regards to voluntary disclosure of strategically important key indicators that are known to be pertinent for key stakeholders such as investors. Organisations should look to improve practice beyond measures that are legislated for (for example gender pay gap reporting).

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Reporting is subject to trend effects: consistent thematic reporting is absent. Organisations tend to focus on particular areas year by year in line with external trends, as opposed to adopting thematic reporting on key indicators. The results for human rights reporting highlight this, having now plateaued after an initial flurry of reporting. Trend effects can be particularly damaging as strategically important information is not reported on a frequent basis; therefore it is not possible to make more accurate assessments of performance against key indicators.

Decline in engagement reporting points to reduced interest in employee voice. The decline in employee engagement, which had reduced by 21% between 2015 and 2017, is particularly noteworthy. This is because it is one of the clearest manifestations that organisations are taking employee voice seriously, as it is through mediums such as staff surveys that employees can communicate their views to their employer. This coupled with other indicators of employee voice declining or having low count rates highlights a potentially growing risk of employee perspectives not factoring in to key decision-making, an obvious risk to business performance.

Risk management frameworks miss key HC risks and opportunities. While there are some good HC-related risk reporting practices being conducted by FTSE 100 companies, it is clear that the current risk management frameworks illustrated in annual reports are not adequate and need improvement. Organisations also need to consider emerging opportunities, such as improved workforce data and analytics. The adoption of the PRRF may alleviate the issue of non-standard approaches missing key pieces of information.

Key recommendations

Our recommendations for the reporters and users of HC data are outlined in Table 2.

Table 2: Recommendations to improve HC reporting

	Recommendations
HR professionals	HR professionals should understand their pivotal role in the annual reporting process and think in a systemic way about the issue of HC and HC risk. By adopting the principles conveyed in the PRRF, they could begin to ensure that they comprehensively gather the relevant data regarding HC risk issues.
	HR professionals should ensure that they put a clear process in place that allows them to hear the employee voice. They need to understand how to implement staff engagement mechanisms that afford all employees the opportunity to comment on organisational issues. Such information should be fed to those who are charged with compiling annual reports in a way that is clear and compelling.
Senior managers	Senior managers should work with key stakeholders to ensure that they understand that they are fully supportive of efforts to report HC risk issues in a transparent and honest way.
Other stakeholders	Shareholders (both private and institutional) need to ensure that they communicate their desire for the organisations in which they invest to report upon HC and HC risk items in as full and transparent a way as possible.

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