

# Human Capital management practices outside the UK

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## Introduction

At the request of the Accounting for People task force, PricewaterhouseCoopers has undertaken a review of Human Capital measurement and reporting practice in 13 countries: Australia, Brazil, Canada, France, Germany, Japan, The Netherlands, South Africa, Spain, Sweden, Switzerland, Thailand and the US.

Data for this study was gathered from two sources: firstly a series of structured interviews was conducted, interviewing a PricewaterhouseCoopers expert from each of the countries (except in the case of Sweden where an external source was used). Secondly, since these interviews only represent the opinion of individual experts, this evidence was validated and contrasted against the quantitative findings of the Global Human Capital Survey 2002/03 (GHCS). This survey had already been conducted by PricewaterhouseCoopers and has responses from over 1000 companies based in 47 countries.

The purpose of our investigation for the task force is to answer the following questions:

- Which Human Capital metrics do organisations generally measure and to what extent are they reported?
- To what extent is reporting practice shaped at a country level compared to multinational organisations rolling out a common global methodology?
- What are the external factors that are encouraging organisations to measure and report on Human Capital?
- What are the new themes that are gaining currency in different countries and how are these being measured and reported on?

These questions are answered below and the report then summarises the practice in each country considered. Supporting data tables are also attached.

# Human Capital management practices outside the UK

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## Key findings

*Which Human Capital metrics do organisations generally measure and to what extent are they reported?*

We find that there is hardly any difference between the metrics measured and those reported on. However, it is interesting to consider whether the metrics are reported internally (as management information) or externally (with the aim of managing the relationship with one or more groups of stakeholders).

There is a set of common metrics which organisations generally report externally in order to comply with local legislation, namely: workforce demographics; remuneration by gender (equal pay); and basic measures such as absenteeism rates. Workforce demographics generally include the number of employees split by age, gender, whether they have a disability, and in some cases ethnic origin. The aim of the legislation requiring this disclosure is to discourage discrimination by age, gender, disability or ethnic origin. Countries take very different approaches to the last of these – in some countries (eg Switzerland) companies are forbidden from reporting by race or ethnic origin, whereas in South Africa it is compulsory.

Companies also report both internally and externally a number of metrics with the strategic intent of recruiting, developing and retaining key talent and skills. This retention issue is particularly pertinent in the countries investigated due to concerns of aging populations and scarcity of the right people either to lead business through challenging market conditions or to satisfy the increasingly tough demands of their customers. Talent management metrics measured include investment in training, investment in career development, and work/life balance policies.

*To what extent is reporting practice shaped at a country level compared to multinational organisations rolling out a common global methodology?*

Our investigation finds that whilst legal reporting requirements are generally met by a broad cross-section of organisations, the *measurement* of strategic factors is mainly led by multinational organisations. The multinationals are also far more proactive in publicising their results, especially in areas where they believe it will help them recruit talented individuals and build their ‘brand’ as an employer. There is a degree of ‘levelling up’ to global good practice by multinationals even in territories where the practice of Human Capital measurement and reporting is relatively basic. Larger locally based companies are seeking to follow the lead set by the multinationals.

## Human Capital management practices outside the UK

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*What are the external factors that are encouraging organisations to measure and report on Human Capital?*

National governments encourage reporting in two ways. The first of these is legislation which, as discussed above, tends to be very specific and focused in the area of anti-discrimination. However, there is evidence of simple ‘tick box’ compliance to such legislation (for example, South Africa). Secondly, governments through their own example, and by requirements to companies who provide services to the government, can set much higher standards in terms of depth and breadth of reporting. This route appears particularly effective, as there is evidence of wider adoption of standards across the economy beyond the companies directly employed by the government. We see clear examples of this happening in Australia and Canada.

External endorsement (such as ‘Employer of Choice’ awards) also encourages more thorough and more strategic reporting as companies battle to recruit and retain the best talent.

Finally, reporting is starting to be shaped by local cultural issues and in some cases the social pressures relevant in that society (for example, public demands for greater transparency in reporting in the US or empowerment of minority groups as in Canada).

*What are the new themes that are gaining currency in different countries and how are these being measured and reported on?*

The research shows that whilst reports on policies such as work/life balance initiatives, and in particular corporate social responsibility are not yet commonplace, these themes are gaining importance amongst larger organisations. There is an increasing awareness of the needs of different stakeholders (employees, prospective employees, shareholders, governments and even society as a whole) and companies are starting to use Human Capital reporting as a means of managing these interests. As such, reporting takes many different forms. Common examples include an internal annual report to employees, employee newsletters, web-site bulletins and specific corporate social responsibility reports published externally, and carefully planned media releases to enhance the companies’ reputation. However, there is no consensus at this stage as to how these key themes should be formally reported on nor any uniformity in the content of the reports.

# Human Capital management practices outside the UK

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## Country summaries

### Australia

Although there are relatively few legal requirements in force relating to Human Capital reporting in Australia, the Australian government is taking the lead as an employer in this regard. It publishes details on a wide range of Human Capital metrics, with the main focus of this reporting relating to equal opportunities and diversity. The government also provides awards for good practice in these areas, and public procurement policy also requires that companies follow this practice if they wish to be appointed.

A number of private bodies also provide awards such as ‘employer of choice’ and ‘best employer’. Companies, fighting to recruit and retain key talent, report on their Human Capital investment (e.g. training) with a desire to be recognised in this way.

### Brazil

Brazil has established Human Capital reporting practices, even though there are no government initiatives and only light legislative requirements. By law, companies must report externally on workforce demographics and the percentage of employees who have a disability. Apart from these legally required metrics, it is common practice to report the spend on training, remuneration policies, absenteeism and staff turnover rates, and increasingly metrics relating to corporate social responsibility.

Multinational companies tend to report their data externally to target both the recruitment market and the investor community. This is less common with locally based businesses although the use of HR scorecards is common practice across all types of organisations.

### Canada

Canada has a developed practice of Human Capital reporting. Some of this is driven indirectly by anti-discrimination legislation, and companies that work for the government are legally required to report externally on workforce demographics and metrics relating to disability and equal pay. Interestingly, this approach has been adopted by companies even where they are not contracting to the government.

Private organisations also play an active role in encouraging organisations to measure and report on Human Capital. For example, the not-for-profit ‘Conference Board of Canada’ provides a forum for the exchange of ideas and best practices in Human Capital measurement.

Additionally, the views of Canadian society have raised the importance of a company’s ethical policies, leading many companies to report externally on corporate social responsibility.

# Human Capital management practices outside the UK

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## France

French companies operate under a strong legal framework of Human Capital reporting. Companies with more than 300 employees are required to publish extensive lists of metrics in an annual social report. This includes 100 Human Capital and social indicators such as: workforce demographics; recruitment and training measures; absenteeism and staff turnover rates; and working time flexibility. This report has to be presented and discussed with their works councils<sup>1</sup>, and is often distributed to the employees.

In the Global Human Capital Survey, all French respondents were able to provide data on these measures, confirming that the legislation is having an effect on Human Capital measurement.

Following a new law being passed – the ‘New Economic Regulations’ – all French corporations are mandated to report on the sustainability of their social and environmental performance.

## Germany

German companies are also required to report on specific Human Capital metrics to their works councils<sup>1</sup>. They have to report on workforce demographics, investment measures such as training spend, absenteeism and staff turnover. Forthcoming EU legislation which Germany is already preparing for will also require higher transparency in the area of ‘personnel controlling’ (i.e. reporting of Human Capital metrics).

Large locally based organisations and multinational companies have adopted a strategic approach to Human Capital management and are focusing on improving worker productivity. To justify their investment, companies are developing sophisticated HR scorecards, and are working to underpin these with research demonstrating cause-and-effect relationships. However, these internal scorecards are not yet on the main board agenda, perhaps reflecting the need for more evidence of causality.

## Japan

Employment practice in Japan has historically reflected a culture of employees entering a company after completing their studies and then staying until retirement. An implicit agreement existed where Japanese companies invest in their staff in return for 100% dedication and loyalty to the company. Companies have not in general measured nor reported workforce demographics or had work/life balance policies – they have not felt any need to.

However, the Japanese government has recognised that society is changing and is raising the agenda of part-time working, female professionals and increasing job mobility. Companies are responding to these challenges, for example one third of Japanese Global Human Capital Survey respondents have four or more programmes to support work/life balance and most

## Human Capital management practices outside the UK

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companies now monitor workforce demographics internally. Multinational companies have adopted global standards and are starting to report externally on issues such as corporate social responsibility.

### **The Netherlands**

Human Capital reporting has been primarily driven by the legal requirements to produce an annual social report for employees. It covers measures of diversity, workforce demographics, absenteeism and staff turnover rates. These reports focus on metrics relevant to the works council<sup>1</sup>.

Locally based companies tend to limit their report to that required by their works council but larger firms and multinationals also report externally on measures of Human Capital investment, sustainability and corporate social responsibility, employee brand and measures of productivity.

It is interesting to note that companies are shifting the content of their reporting away from metrics of equal pay (as these are now so embedded that they are taken as given) to focus current strategic issues such as investment in training and employee productivity.

### **South Africa**

Legislation designed to stamp out racial discrimination (the 'Employment Equity Act', the 'Black Economic Empowerment Act') strongly influences reporting and measurement of South Africa's Human Capital. Although the government is pushing the equity agenda, companies are struggling with the volume of requirements and many do not yet comply. Moreover, there has been a tendency towards 'tick box' compliance rather than genuine adoption in response to regulation, although this is now changing.

These requirements are challenging as shown by the following example - companies have to report externally on workforce demographics to show that they comply with the requirement to have at least 40% of their workforce comprised of black workers. They have to demonstrate equal measures of training investment, and they even have to give measures of the effectiveness of the training in relation to their black staff. For companies who wish to work for the government there is a further requirement that at least 70% of their share capital is held by black investors.

The burden of regulatory compliance has hampered some companies in using the data in more strategic ways as management has become bogged down in the actual process of compliance.

## Human Capital management practices outside the UK

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### Spain

There is relatively little Human Capital measurement and reporting either internally or externally within Spanish companies. Apart from the legal requirement to report the number of disabled employees, there are no other major government initiatives in this area.

Good reporting practice is mostly lead by multinationals who comply with global norms.

### Sweden

Although Sweden is viewed as being forward thinking in Human Capital measurement, the practice does not live up to this reputation. Swedish companies tend only to report externally those people metrics that are legally required of them; only 5% of the content in Swedish annual reports is related to Human Capital. Academics argue that this could be because companies do not have robust evidence of the link between good people management practices and business performance and so do not see the external reporting as relevant.

Equally, the Swedish government has not been a strong promoter of Human Capital measurement and reporting, only legislating reporting requirements in cases of strong social or economic need. For example, in response to the very high rates of absenteeism suffered in Sweden, the government enacted legislation requiring companies to report externally on their absenteeism rates. Legislation relating to equal pay is forthcoming and will again require companies to publicly report.

In the 1990s, Swedish academics attempted to launch the concept of a standardised format for companies to report their Human Capital performance. However, this initiative lacked government support and was not widely adopted.

### Switzerland

Swiss companies report externally on a range of legally required metrics such as proportion of the workforce with a disability and equal pay and conditions between genders.

In recent years, significant investment has been made in HR technology and in populating these systems with data to enable detailed Human Capital reporting. However many HR departments are overwhelmed by the quantity of output and do not make effective use of it. Thus much information is available internally but not used for effective people management.

Worsening market conditions have shifted companies' attention to cost cutting and survival rather than a longer-term strategic view on Human Capital.

## Human Capital management practices outside the UK

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### Thailand

There are no legal requirements or public pressure to measure and report on Human Capital. Consequently, measuring and reporting practice is very limited often just covering workforce demographics, with the exception of multinational companies, which adopt global practice.

### United States

US companies provide a high level of Human Capital reporting considering there are limited legal requirements and historically little social pressure to do so. What legislation there is has the purpose of prohibiting job discrimination – the government monitors compliance by requiring federal contractors and subcontractors to complete the Equal Opportunity Survey.

That said, difficult market conditions and loss of trust in corporate governance (and consequent increased interest in transparent reporting) are pushing companies to adopt similar standards for Human Capital reporting as for financial metrics. There are, for example, private bodies which try to formulate standard definitions for Human Capital metrics. These in turn are starting to drive global practice from multinationals. US companies are helped by the growing use of data warehouses which consolidate the information needed for Human Capital metrics and make it possible to use HR scorecards for different groups of employees within an organisation.

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<sup>1</sup> The works council is a legally required body of employees for enterprises with above a minimum number of staff (e.g. 50 in the Netherlands) and represents the interests of the workforce and monitors the compliance with the working conditions. The employer must obtain the council's consent for any decision introducing, amending or withdrawing the rules on labour related matters.