SABPP FACT SHEET

BASIC HR REPORTING (2)

1. INTRODUCTION

The first Fact Sheet in this sub-series, August 2014, introduced and positioned HR reporting as an important management function. Good reporting requires a well-designed and maintained IT solution, which may be simple for small organisations and complex for large organisations.

The previous Fact Sheet also emphasised that the competencies involved in HR reporting include accuracy of data capturing, business knowledge to design reports appropriate to the business, business numeracy to recognise when reported figures are accurate and Business English writing to write the narrative that should accompany reports. All of these competencies enable HR practitioners to take their place supporting and partnering line management in fulfilment of organisational objectives.

This Fact Sheet moves on from reporting on employee numbers and costs to look at metrics and reports which show an organisation how it is doing in developing and leveraging its human capital (HC).

> "The term 'human capital' is widely used in HR to describe people at work and their collective knowledge, skills, abilities and capacity to develop and innovate….. However, the evaluation of human capital remains difficult for most companies."
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> *Human Capital Fact Sheet.* 2012. CIPD
>
> "Human capital is hard to measure. Any individual measure can only tell us so much. For a fuller picture we need to combine a number of different indicators, but even then we need to understand the limitations of our understanding."
>
> *Human Capital – How what you know shapes your life*. 2007. Keely, B. OECD Publishing

This Fact Sheet will look at some general ideas around HC reporting and then deal in more detail with reporting on the acquisition and retentions of employees.

2. HUMAN CAPITAL REPORTING AND BENCHMARKING

Human capital is a value-generating asset but HR reporting on human capital within organisations has tended to acknowledge that there is no good single measure of HC and a variety of metrics along the value chain of HC management – acquiring, developing performance, maintaining, and retaining – are used.[1] Each organisation typically decides on the metrics that will be most appropriate for itself. This makes it very difficult to benchmark sensibly with other similar organisations.

The measurement of and reporting on HC externally (benchmarking and Annual Reports) has proven to be controversial in the United States. Work done by the Society for HRM (SHRM) on identifying a few key measures that could paint a useful picture for current and potential investors in a business was withdrawn in 2012 after receiving unfavourable public comment.

In South Africa, a different approach is planned. The SABPP will be developing national metrics for the measurement of HC based on the well-received HRM System Model and Standard. This will enable standardised definitions to be adopted, key to any sustainable measurement and reporting process.

However, it would seem that "HC measurement is context dependent"[2]. One major research study concluded that" the specific set of measures or metrics organisations reported were less important than the process of measuring and the uses for the information gathered. The research also demonstrated a focus on internal rather than external reporting, as the latter is impossible without solid and robust internal information regarding the effectiveness of the workforce and the people management practices within a given organisation"[3].

3. RECRUITMENT AND SELECTION METRICS

As explained in the previous Fact Sheet, executives and managers are usually interested to know:

- What is the current state?
- How does it compare to budget?
- How does it compare to previous periods?

The question here is, what "current state" are we talking about in relation to recruitment and selection? This essentially has to do with whether the organisation is successful in bringing in the right people when they are needed.

There are probably several states that management will be interested in. The main one is: has a particular recruitment exercise increased the value of our human capital? And has the cost of that acquisition generated a return on investment?

- Do the new recruits reach expected performance standards quickly?

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[1] *The ROI of Human Capital – measuring the economic value of employee performance.* 2000. Fitz-Enz, J. New York, AMACOM.
[2] *Human Capital Reporting – An Internal Perspective.* 2005. CIPD
[3] *Evaluating Human Capital*. 2002. Scarbrough, H., and Elias, J. CIPD

- How quickly have we been able to react to a vacancy? (Note that some vacancies may be critical to fill quickly, while for others the organisation can afford to wait a while. The categorisation of vacancies is therefore an important risk management exercise. For critical vacancies, it is important to have a pool of suitable recruits that can be accessed rapidly.)
- How much does it cost us to fill a vacancy?

From a point of view of headcount and cost control, management also often wants to know:

- How many people were recruited, at what level and in which part of the organisation?
- Were these recruitments into positions that had been vacant or into new positions, and if into new positions, were those budgeted?
- How many vacancies do we have, at what level and in which part of the organisation? ("Vacancy" might need to be defined as in - budgeted and/or approved)? For how many of these is a recruitment process currently active?
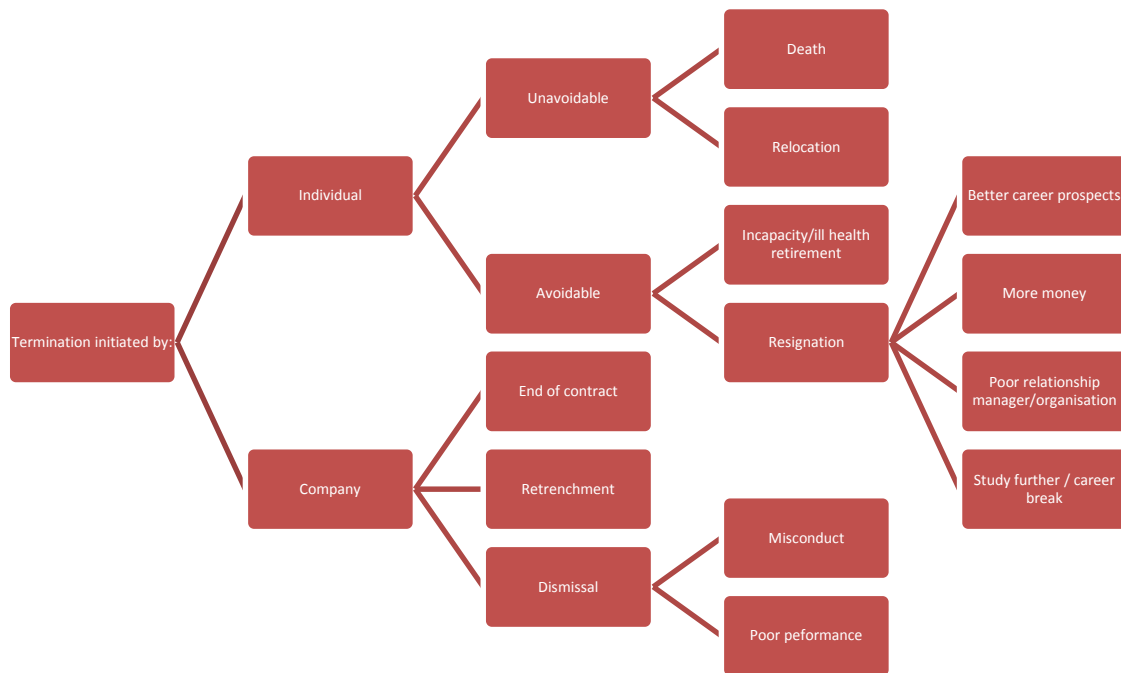
4. TERMINATIONS (LABOUR TURNOVER) METRICS

When an employee leaves, this event may or may not adversely affect the value of the organisation's human capital. The number of employees leaving, who leaves and why they leave are usually important indicators that management needs to monitor.

It is important to categorise the losses:

- Some losses should be able to be anticipated – for example, retirements, end of contract
- Some losses are unavoidable – for example, death or relocation of spouse
- Losses can be described as "regretted" or "non-regretted" – for example, a dismissal for misconduct or poor performance would not be a regretted loss
- Losses from key/critical positions will clearly be of more significance than from non-key/critical positions. It is therefore important from an HC reporting perspective, as well as from a talent management perspective in general, to identify key/critical positons. The identification of these is organisation specific and usually involves a risk categorisation using dimensions of ease to replace and potential losses due to vacant position.

Some organisations categorise turnover as shown in the diagram below:

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Termination initiated by:
- Individual
  - Unavoidable
    - Death
    - Relocation
  - Avoidable
    - Incapacity/ill health retirement
    - Resignation
      - Better career prospects
      - More money
      - Poor relationship manager/organisation
      - Study further / career break
- Company
  - End of contract
  - Retrenchment
  - Dismissal
    - Misconduct
    - Poor peformance

The demographics of people leaving are important in many of these categories. For example, length of service: a high rate of people leaving within a few months of recruitment indicates a problem with recruitment/selection/induction. The section or department can be important: a higher rate in one department compared with another may indicate a management problem. Similarly with organisational level and skill category. The gender and racial grouping may be important: possibly the organisation is not friendly towards one particular gender/race. The performance records of the people leaving can highlight important trends – often it is the better performers who leave as they have better prospects of getting another job, leaving the mediocre/poor performers behind and setting up a downward spiral of performance in the organisation.

The remuneration packages of people leaving can also tell a story – particularly when combined with organisation level and skill category. So, for example, if many senior call centre operators who are earning below the median for their pay category are leaving, that indicates a problem in managing pay progression within their salary band.

Just as recruitments cost money, so terminations can cause the organisation to incur costs and these costs are usually viewed as losses. The costs incurred are usually items such as administration of the termination; costs to provide cover for the vacancy; recruitment, selection and orientation costs for the replacement person. Sometimes additional calculations are made of loss of productivity during a notice period of the person leaving and during the orientation period for the replacement person.

> The typical metric used to measure labour turnover is:
>
> <u>Number of leavers over given period</u>   x 100
> Average number of employees over the same period
>
> This can be broken down by any of the categories and demographics described above

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Employee retention can be measured in a similar way, for example a stability index:

$$\frac{\text{Number of staff with service of one year or more}}{\text{Total number of staff as at one year ago}} \times 100$$

The trends in turnover and stability are very important. The actual turnover rate or stability index figure as at a certain point is interesting, but the comparison with previous periods will give management more information on whether the figures are showing a situation that is getting better or worse.

An example of a simple supervisor's report is shown below:

Unit:	Packing	
Monthly Report as at:	Aug-14	

	Actual this month	Monthly average over last 12 months
# of employees	148	153
Permanent	140	
Contract	6	
Casual	2	
Total turnover	13	8
Total turnover rate	8,50%	5,33%
Company initiated	2,61%	0,65%
Employee initiated	5,88%	4,58%
Resignations	4,58%	3,16%

Turnover data can be analysed over a 12 month period, as shown below, choosing only certain indicators:
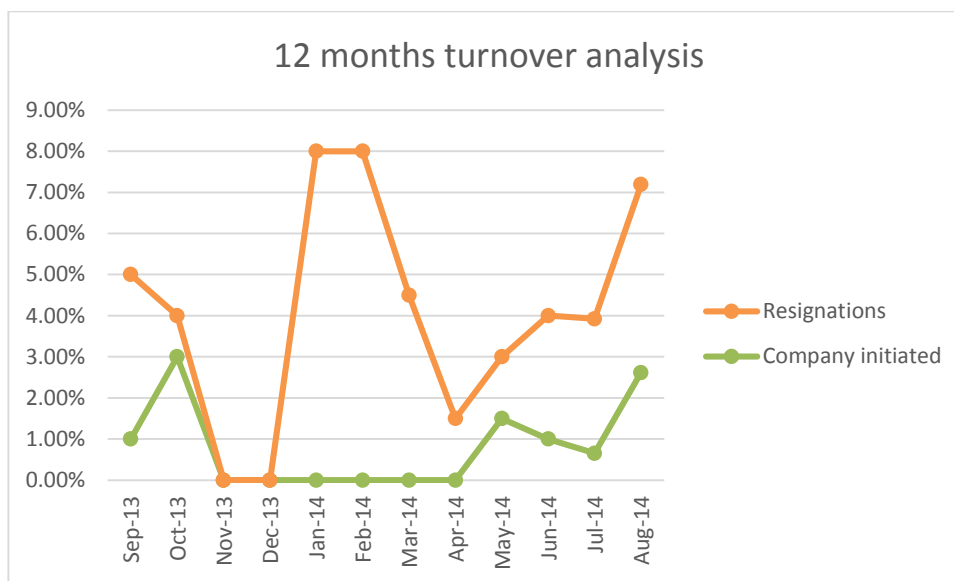
5. REPORTING AND ANALYTICS

The examples in the previous section show an important difference between reporting and analytics. As explained further below, the metrics that are reported on should be key but few. The data that is maintained in the information system is, by contrast, extensive and can be extracted for analysis when a problem or opportunity in the organisation needs to be analysed. Expert analysis can also identify relationships which can lead to the ability to predict likely future events – for example, certain factors may, in combination, lead to loss of key employees; while other factors may, in combination, lead to stress and burnout at certain levels of the organisation.

6. DECIDING ON THE METRICS

Before designing management reports and setting up the systems to collect the necessary data, HR practitioners should:

For recruitment and selection:

- Review the organisation's strategy and the related HR strategy
- Identify what questions relating to recruitment and selection are very important to these strategies
- Formulate a proposal on a few key indicators (metrics) relating to recruitment and selection, showing the links to the strategy
- Consult with line management and any relevant employee consultation committees (for example, the Employment Equity Forum) to agree on those key indicators
- Draw up a detailed definition for each agreed indicator

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- Work out the simplest way to collect the data, using existing data from existing processes wherever possible
- Draft a sample report for various levels of management and employee consultation committees – test the design and amend if necessary
- Pilot the report in part of the organisation
- Amend the report and/or data collection process if required and launch to the whole organisation
- Review regularly and update/improve the design of the report.

For terminations:

- Repeat the above steps, thinking this time about the significance of terminations to the organisation's strategy.

7. CONCLUSION

"Generally any human capital data reported internally should be:

- reliable and open to scrutiny

- accompanied by adequate explanation

- presented in a manner that is easily understandable for the audience

- related to business needs

- enable managers to identify appropriate actions that will improve business performance."

Human Capital Fact Sheet. 2012. CIPD.

Whilst human capital reporting, as has been shown, is not straight-forward, HR practitioners who can interpret the business strategy into key drivers, identify which human capital metrics most affect each of those key drivers, and produce regular, accurate reports on those metrics will add significant value to their organisations.

A sound approach to HR metrics not only promotes a more professional approach to HR reporting, it also enables HR managers and line managers with more informed decision-making about people.

Achieving a good understanding of HR reporting is a step in the right direction to developing in the Analytics and Measurement competency in the National HR Competency Model. Moreover, doing proper HR reporting work makes a contribution to working towards meeting the HR Measurement Standard element of the National HRM System Standard.

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SUGGESTIONS AND REQUESTS FOR SPECIFIC FACT SHEET TOPICS CAN BE SENT TO penny@sabpp.co.za.

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