POSITION PAPER

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SA BOARD FOR
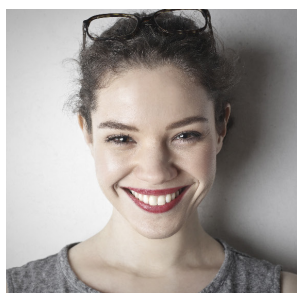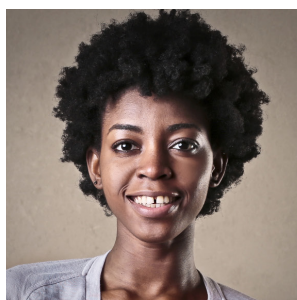PEOPLE PRACTICES

Setting HR standards

SEPTEMBER 2018 · ISSUE 1

ON HR GOVERNANCE

AND GUIDELINES FOR HR DIRECTORS

THE HUMAN FACE OF GOVERNANCE **2018**

GLOSSARY OF TERMS:

Corporate governance: Corporate Governance is about the exercise of ethical and effective leadership by the governing body. (King IV™: IODSA, 2016)

HR governance: HR Governance is about the exercise of ethical and effective HR leadership by the governing body. (Building on King IV™: IODSA, 2016)

HR Risk management: HR Risk Management is a systematic approach of identifying and addressing people risks (uncertainties and opportunities) that can either have a positive or negative effect on the realisation of the objectives of an organisation. (© SABPP, 2013)

Human dignity: 'is the most important human right from which all other rights are derived' (www.duhaime.org › LegalDictionary)

SABPP HR System standards model: A framework of thirteen standards which have been developed to reduce inconsistency in human resource practice and to improve the quality of human capital systems in contributing to the achievement of business sustainability and performance. (© SABPP, 2013)

Strategic Human Resource Management: is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives. (© SABPP, 2013)

Content

INTRODUCTION

There has been a renewed interest world-wide in corporate governance over the last twenty years. This interest was sparked by major corporate scandals during the period 2015 to 2018, which were caused by a lack of governance in certain companies. Likewise, governments and state-owned enterprises are also under the spotlight when many examples of poor governance have been reported in the media. It was therefore not surprising that several countries have improved their national corporate governance systems. In certain areas such as finance, risk management, internal audit and informational technology, significant progress has been made to strengthen these areas of business in pursuit of improved governance. Some of these areas have become so significant, like audit, information technology (IT) and risk management that these areas have now become part of the King III Code of Governance, and further strengthened in King IV™.

According to Jacobs (2017), corporate failures and changing leadership mod-

"Effective board governance is a 'massive challenge' that HR Directors need to step up to and address."

**Andrew Kakabadse,
Professor in Governance and
Leadership: Henley Business
School**

els mean HR Directors need to step up in board governance. She quotes Professor of governance and leadership at Henley Business School, Andrew Kakabadse who says that effective board governance is a "massive challenge" that HR Directors need to step up to and address. Thus, it is evident that while HR Directors need to step up into the field of corporate governance, the new sub-field of HR governance presents HR Directors with an opportunity to elevate their thinking and contribution to the level of corporate governance, while simultaneously mastering HR work at corporate governance level, hence the birth of the term "HR governance." German authors Kaehler and Grundei (2018) provided the first full text on HR Governance.

The purpose of this position paper on HR Governance is to provide a formal position and understanding on the importance of human governance. It is proposed that adopting a clear framework on HR governance within an organisation (and indeed as part of a national governance framework) could play a significant role in improving the overall governance of organisations. Internationally, the development of the ISO standard on human governance sets the tone for improved HR governance in organisations (ISO, 2016). The ISO 30408:2016 standard provides guidelines on tools, processes and practices to be put in place in order to establish, maintain and continually improve effective human governance within organisations. The ISO standard on human resource management provides guidelines on human governance in creating a human governance system that can both respond effectively to organisational and operational needs, but also foster greater collaboration across all stakeholders, anticipate and manage risks in human resources and develop an organisational culture that is aligned with its values (ISO, 2016). This standard is applicable to organisations of all sizes and sectors in both the private and public sectors, including non-profit organisations (ISO, 2016). Furthermore, the Putra Business School in Malaysia has become academic leaders in human governance, not only by means of their pioneering

research and thought leadership in this area, but also by virtue of the launch of the Human Governance Institute.

In the United Kingdom (UK), the new UK Corporate Governance Code published in 2018 by the Financial Reporting Council produced far-reaching changes to the corporate governance of organisations. Whale (2018) provides a summary of the key changes:

- The overarching importance of good governance in delivering long-term sustainable performance;
- The board's responsibility for establishing a healthy organisation culture;
- Improved shareholder and wider stakeholder engagement;
- Diversity in board succession planning;
- Proportionate remuneration which supports long-term success, with clearer reporting requirements.

These changes are far-reaching and in this way the UK sets the tone for a new best practice approach to corporate governance. For instance, UK boards are now responsible for corporate culture of the organisation. The board should assess and monitor culture (EY, 2018). Whale (2018) adds that boards should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. Moreover, in line with the new Philosophy of "human governance" explained later in this paper, the workforce should be able to raise any matters of concern. The new focus on workforce engagement is an innovative corporate governance best practice. The Directors' Report in the UK must detail how directors have engaged with employees, and the effect of their regard for employee interests on principal decisions taken by the company (EY, 2018).

South Africa has been a world leader in corporate governance since the release of the King I Report in 1994. Now that its fourth revision King IV was completed in 2016, the Institute of Directors has been at the forefront of improving this South African gov-

ernance code every eight years. Over time excellent progress has been made in adding newer areas of importance in governance, such as moving ethics and leadership to chapter 1 where it belongs (King III and King IV), the inclusion of Risk and IT Governance, as well as a greater emphasis on stakeholder management. These additional areas emerge when governance specialists keep up to date with new trends, and when they identify gaps and opportunities for improving and strengthening governance systems. For instance, the new move towards sustainability, environmental governance and integrated reporting ushered in a new era of governance world-wide.

The question arises: What needs to be improved upon within King IV, and needs to be considered for inclusion into King V? The SA Board for People Practices (SABPP) the human resource quality assurance and professional body has been involved in research about governance, leadership and people management over the last ten years and we have found that human capital governance is the biggest gap in current national governance systems and codes. Even if organisations have the most sophisticated corporate governance systems in place, at the end governance is about people. People make governance work, and people let governance fail, and it is therefore essential to approach governance not only from a financial perspective, but also considering the key role of humans as the centre point of governance in making overall governance work.

In 2013, South Africa became the first country in the world with national Human Resource (HR) standards. These standards have been developed to reduce inconsistency in human resource practice and to improve the quality of human capital systems in contributing to the achievement of business sustainability and performance. A full audit framework has now been developed to audit organisations against the standards. Figure 1: The 13 human resource standards (as illustrated in Figure 1 on the following page) are as follows:
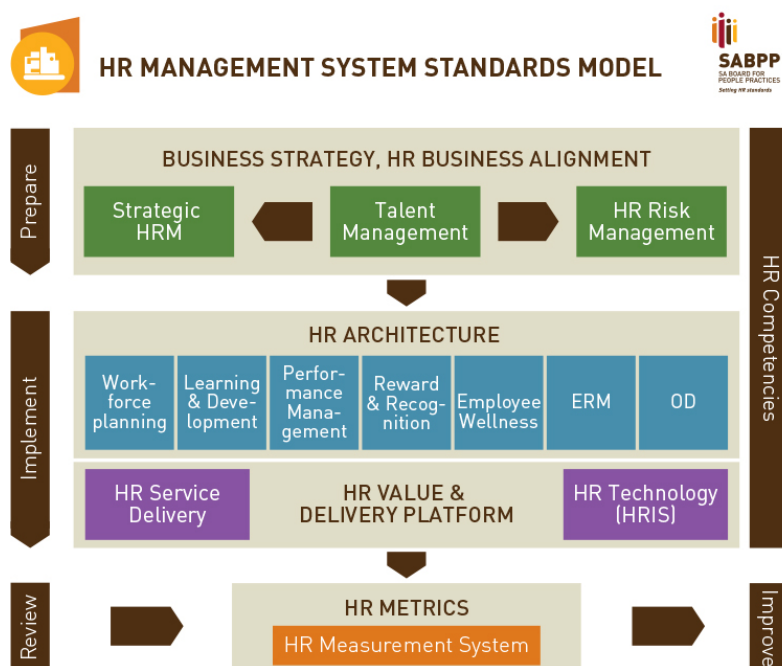
Figure 1: National HR Standards for South Africa

A number of countries are now the pioneering nations in adopting formalised approaches to national human resource standards, these countries are South Africa, the United Kingdom, the United States of America, Zambia, Botswana, Swaziland, Namibia, Zimbabwe and Lesotho. Moreover, and given the importance of human capital in business, the International Standards Organization (ISO) has started the process of developing international standards in human resource management.

The following statistics provide scientific evidence of not only the importance of human capital in organisations, but also the need for a concerted effort in developing a national and international mind-set around human capital governance:

1. The PriceWaterhouseCoopers Global CEO Survey revealed that human capital is the biggest concern for CEOs world-wide. Only 18% of CEOs reported that they have the right people to execute their business strategy.
2. World-wide only 5% of employees understand business strategy which means that the majority of employees do not know why they work at their organisations (Gallup).
3. Only 13% of employees world-wide are actively engaged in their work and this has serious consequences for productivity. Companies with high employee engagement are 202% more profitable.
4. Human Capital is the biggest risk in business in South Africa (Human Capital Institute Africa).
5. The skills crisis is one of the top five reasons for slow economic growth in South Africa.
6. South Africa is losing more than R200 million daily due to strike action.
7. South Africa is losing between R12 billion and R16 billion rand a year due to absenteeism (Finweek).
8. Companies with good human resource management practices are on average 105% more profitable.
9. The average ROI on employee wellness programmes is 300% and the average ROI on executive coaching is 600%.
10. In South Africa 79% of HR Directors are now represented at either Board or Exco level (KR).
11. Most of the Public Protector's Reports addressing governance failures have specifically referred to failure in HR governance, and given the lack of acceptable HR governance frameworks this problem will be perpetuated.

In the light of the above evidence it is clear that organisations can benefit if they can manage to govern the people side of business more effectively. Already in German banks it has become compulsory to implement HR risk management to protect organisations against people risks. Stuart Woollard states: "People management systems create the most serious business risk for all stakeholders and wider society, and for which most organisations remain completely unprepared."

Given the fact that human resources constitute the biggest part of the budget of any organisation, it is prudent on boards of directors to govern human capital more effectively.

The benefits of adding human capital governance to national governance codes are as follows:

- Boards will provide dedicated focus, stewardship and oversight into governing human capital as the biggest part of their budgets.
- If human capital is better governed, typical human capital risks can be mitigated in a more proactive way.
- Leveraging human capital has a direct impact on the bottom-line of the organisation, and is a key aspect of the triple-bottom line.

Thus, it is proposed that human capital governance (like IT governance in King III) be added as a chapter in King V. This will once again affirm the IOD's and South Africa's leadership in the field of governance, and it will further strengthen the position of South Africa as a world leader in human capital governance, thereby strengthening human capital in pursuit of the sound governance of organisations.

HR GOVERNANCE AS A KEY STRATEGIC THRUST OF SABPP

In the light of the above discussion, the importance of HR governance cannot be over-emphasised. Hence, the adoption of HR Governance as the top priority of the SABPP Board (see figure 2). HR Governance is the first strategic priority of SABPP. This means that SABPP will prioritise the role of the HR Director as board member and prescribed officer in accordance with the Companies Act. For entities that do not fall under the Companies Act, the role of HR Director is also essential. Irrespective of the type of organisation, the HR Director is the steward of human capital and therefore fulfils a key role in ensuring that organisations leverage human capital. Also, from a people and human perspective (see later section on human governance), the HR Director is the conscience of the organisation in bringing back humanity into the workplace.

HR VOICE STRATEGY: 2016-2018
SETTING HR STANDARDS – SABPP: THE VOICE OF THE HR PROFESSION

HR PROFESSIONALISM: **4 PILLARS**, **4 PRINCIPLES (VALUES)**, **6 TOP PRODUCTS**, **7 PRIORITIES**
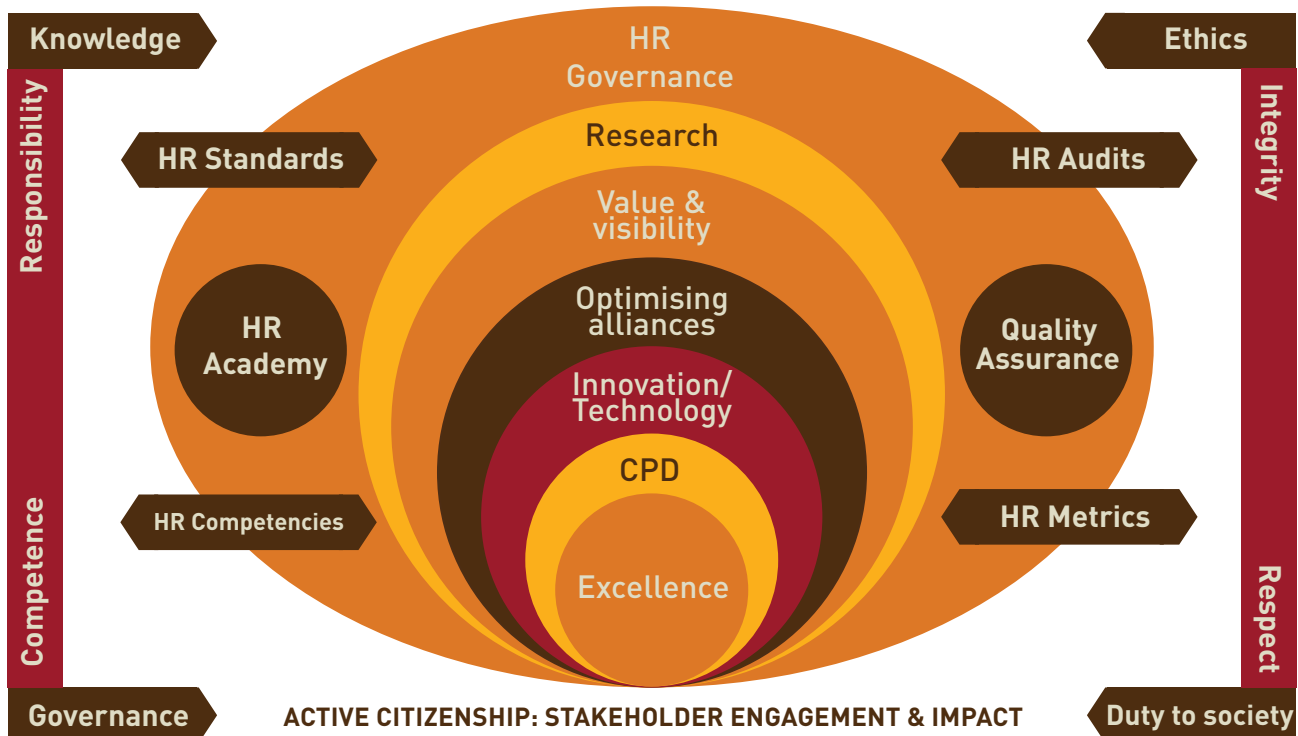

Figure 2: The HR Voice Strategy of SABPP Board

To give effect to the HR governance component of the HR Voice Strategy of SABPP in 2017, the SABPP HR Governance Committee was formed under the leadership of a retired HR Director, Elizabeth Dhlamini-Kumalo, and past chairperson of SABPP. The purpose of this committee is to develop an HR Governance Framework for South African organisations in an attempt to ensure that the human side of governance contribute optimally to corporate governance. SABPP is convinced that most if not all corporate governance scandals have a human origin. Directors, managers and employees make mistakes, and while a certain level of human error is acceptable, once the continuous repetition of these errors result in a culture of poor corporate governance, we ultimately create and sustain a situation in which the increased risk exposure for the organisation poses a threat to sustainability and performance. Recent examples in both the public and private sectors are as follows:

• Regular bus, train, car and taxi accidents caused by human error;
• Corporate governance scandals in the private sector and state-owned enterprises;
• Poor service delivery, fraud and corruption at municipalities and government departments;
• High patient mortality rates at public hospitals caused by poor health human systems;
• State capture;
• Deaths of employees, customers and fire-fighters due to poor food safety standards at factories and government buildings.

To address these problems at the human-organisation interface, the HR Governance Committee of SABPP started the process of developing an HR Governance Framework for South African organisations in 2018.

The link between corporate governance and HR governance is essential in ensuring alignment and integration. If corporate governance is about the effective and ethical leadership of the organisation by the governing body in accordance with King IV™, then HR governance is about the effective and ethical leadership of the HR function by the relevant HR governance structure delegated by the governing body of the organisation.

Thus, two short-term outputs of the HR Governance committee of SABPP are as follows:

1. To develop an approach to consider different levels of HR Governance;
2. To compile a position paper on HR Governance including the HR Governance Framework.The levels of HR Governance are important to align various approaches to HR Governance. These levels will assist with different options for HR Governance based on a clear view of the level of complexity when dealing with different stakeholders as part of an integrated approach to HR governance. Figure 3 below depicts the six levels of HR governance:
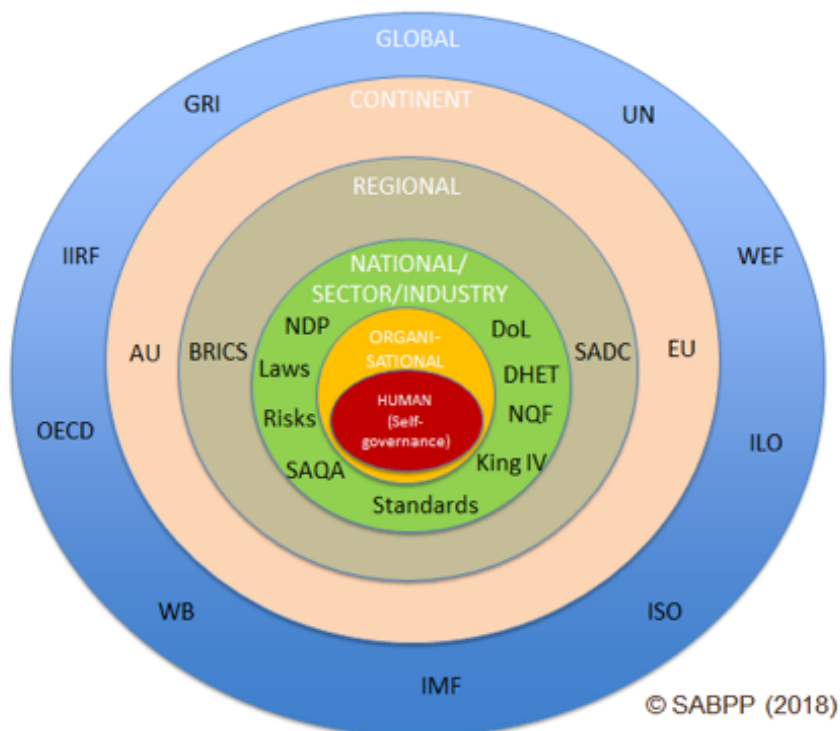

Figure 3: The levels of HR Governance

As you can see above, the 6 levels of HR governance are as follows:

1. Human governance: The best form of governance is self-governance, a system in which individuals / teams regulate their own affairs. However, this can only be achieved if a high level of individual / team maturity as embedded in the principles of responsibility and accountability can be embedded. Ultimately, we also need to ensure that humanity is at the centre of all forms of governance, given the central role of people in governance systems. There are a number of key prerequisites that need to be in place to make human governance work, such as a high human rights culture, high levels of education and skills, employee empowerment, active citizenship, high levels of freedom and democracy, and low levels of fraud, corruption and other types of unethical practices.

2. Organisational HR governance: The second level of HR governance deals with how we govern organisations from a corporate governance perspective. All governance policies, processes, procedures and controls form part of organisational HR governance.

3. National/Sectoral HR Governance: At a national level, there are several national organisations responsible for various aspects of HR governance. For instance, government departments such as the Department of Labour and the Department of Higher Education and Training provide oversight over labour laws and the post-school skills development laws respectively. Likewise, government agencies such as the South African Qualifications Authority, Sector Education and Training Authorities (SETAs) and the Quality Council for Trades and Occupations (QCTO) have a key role to play in governing the post-school education system pertaining to quality assurance and the accreditation of learning providers in ensuring the credibility and relevance of formal qualifications as part of the National Qualifications Framework (NQF). In addition, HR professional bodies such as SABPP are responsible for set-ting HR standards and competencies, thereby overseeing the continuous professional development (CPD) of HR practitioners in accordance with the NQF Act. Furthermore, various industry and sector governance and/or compliance regimes are in place such as BBBEE Charters and the social and labour plans in the mining industry. Overall, HR Directors should ensure that their HR governance approaches make a contribution to the National Development Plan (NDP) so that the socio-economic problems of the country can be addressed. Additionally, the King IV™ Code and Report on Corporate Governance for South Africa offers some unique opportunities for governing bodies and HR Directors to build a solid foundation of knowledge around HR governance issues such as the work of remuneration committees, ethics, organisation culture, transformation and leadership development.

4. Economic (collaboration amongst countries) HR Governance: Cross-border regional governance structures are in place such as the HR structures of the Southern African Development Community (SADC). Similarly, organisations operating in several countries may have regional HR Managers or committees responsible for HR in SADC or West Africa. The growth in regional and emerging market geo-political blocks such as the BRICS countries may also present new opportunities of building and strengthening regional HR governance structures.

5. Continental HR Governance: Despite the existence of HR forums of African Union (AU) structures connecting different African countries, it is evident that more work is needed in providing effective HR governance thought leadership across all 54 African countries. The different HR systems in these countries may exacerbate current inconsistencies in national HR governance dispensations. Collaboration between different national HR professional bodies is therefore of utmost importance in improving HR governance in Africa.

6. Global HR Governance: At a global level, there are several organisations providing guidance and/or leadership on human capital issues from an international competitiveness perspective such as the International Monetary Fund, World Bank, United Nations and the World Economic Forum. These efforts build on the human and labour rights work of the Global Reporting Initiative (GRI) and International Labor Organization (ILO). Also, the work of the International Integrated Reporting Framework (IIRF) in positioning human capital as part of the six capitals of business will provide further impetus for elevating the value of human capital in organisations. Lastly, but most importantly the international HR standards work of the International Standards Organization (ISO) is expected to further elevate HR standards and HR governance at a global level.

The six levels of HR governance are the beginning of a process to establish an HR governance body of knowledge in South Africa. It is important to have a clear understanding of the unique governance issues at each one of the different levels and then to decide on the best options to pursue across the levels where relevant. Ultimately, an organisation must decide on the most appropriate HR governance approach according to its needs. However, organisations do not operate in isolation and eventually when national and international HR governance models become available, all organisations will be expected to adapt to new and emerging frameworks of HR governance. It is therefore essential to start developing an HR governance framework for your organisation, while taking cognisance of national and global approaches to HR governance as proposed in this document. The end-result is sound corporate governance underpinned by a strong system of HR governance in leveraging the human capital of the organisation.

THE NEW WORLD OF WORK

The workplace of today and the future world of work will be totally different to previous ways of work. The speed of globalisation, digitisation, technological advancement and the power of artificial intelligence, augmented reality, the Internet of Things and robotics have created a total new paradigm of work. Yet, most traditional governance structures and mechanisms have not yet adapted to the new world of work. The only thing we can absolutely certain is that there will be a new focus on people and humanity in general. Putting the human being at the centre of the Fourth Industrial Revolution will be key. Hence, the need for human governance as indicated earlier. Making people part of the solution in creating new systems of corporate governance within a more flexible work environment will require the erosion of traditional rules such as working hours and different places of work. Moreover, viewing the "whole person" from a human dignity perspective will be a major paradigm shift for most organisations. In addition, while the previous century was dominated by the quest for decent work, the new focus will be on dynamic work delivered in different work spaces. Creating new human architecture as part of a new system of HR governance will be key in this regard.

Furthermore, the socio-economic landscape cannot be ignored. The neglected areas of health, housing, employee social benefits, medical aid etc. will be prioritised as key areas for both the private and public sectors to address. Increasing the retirement age to above seventy years will be essential to ensure the economic sustainability of nations, while simultaneously accelerate all efforts of youth empowerment. New forms of saving for retirement, including the creating of a national savings culture will be key, in addition to more proactive approaches to education and healthcare. Relooking the human-work value chain and the employee life cycle will be at the centre of devising modern organisation architecture. The increase in cyber-crime and the explosion of social media platforms will further require seamless integration and alignment of IT and HR governance and control systems.

LINK BETWEEN HR GOVERNANCE AND CORPORATE GOVERNANCE

HR functions in organisations are affected by the way companies are governed. Likewise, there are significant HR issues that corporate boards deal with that requires HR expertise and information (Lawler III and Boudreau, 2009). Several key building blocks of HR, such as HR strategy, philosophy, policies, standards and practices that form the HR value chain, as well as the measurement of HR effectiveness are

explored in the literature (Rothwell, Prescott & Taylor, 2008; Ulrich et al., 2009). Thus, in this section, the link between HR governance and corporate governance is explored in this section.

Table 1 below depicts the relevance of corporate governance principles to typical HR building blocks in an organisation.

From Table 1 it is clear that there appears to be many areas of alignment between corporate governance principles and the typical HR building blocks. The principles of discipline, transparency, accountability, responsibility, fairness and social responsibility can be applied to all the HR building blocks (Evans et al., 2006; Sparrow et al., 2004). All the major HR Value Chain activities such as recruitment and se-

Corporate governance principles

HR building blocks	Discipline	Trans-parency	Indepe-dence	Accoun-tability	Respon-sibility	Fairness	Social responsi-bility
HR strategy	✓	✓		✓	✓	✓	✓
HR philosophy	✓	✓		✓	✓	✓	✓
HR policies/standards	✓	✓	✓	✓	✓	✓	✓
HR risk management	✓	✓	✓	✓	✓	✓	✓
HR operating model	✓	✓		✓	✓	✓	✓
HR value chain	✓	✓		✓	✓	✓	✓
HR measurement	✓	✓	✓	✓	✓	✓	✓

Table 1: Alignment between corporate governance principles and HR building blocks

lection, induction, performance management, training and employment relations, for example, are covered in corporate governance codes and reports (Cowan, 2004; IODSA, 2016; King, 2007; SABPP, 2009).

For example, HR strategy, philosophy, policies, the particular operating model, value chain, as well as HR measurement need to be transparent in a global organisation. All stakeholders, from employees to investors need to have access to a transparent approach to HR. The only principle where there will probably be less emphasis on from an HR perspective, is independence. The HR function cannot function independently, it has to be aligned with the rest of the organisation and is therefore rather interdependent, and not independent. However, as people custodian, HR champions people issues and therefore provides an independent people perspective by challenging assumptions as a credible activist, as well as a culture and change steward (Ulrich et al., 2008). As people steward, HR ensures that fair employment practices using the correct procedures are implemented, as well as complying to laws and creating a positive work environment (Deloitte, 2008). Thus, HR can certainly play the role of an independent watchdog to ensure compliance to labour legislation and corporate governance codes. As such, HR executives should have direct access to the board, especially independent directors, to give HR risks board attention (Beatty et al., 2003; Deloitte, 2008; Mercer, 2007). Jacobs (2017) goes on to quote Professor Kakabadse, when he asserts: "Until HR has the business language and the reality of governance and translated that into capabilities we will have HR on the back foot."

Sound governance requires a need to clearly justify the decision and costs involved in global HR management as a critical element of cross-border governance. As a good corporate citizen with a social responsibility towards the community in which the organisation operates, surely due consideration should also have been given to rather

"Until HR has the business language and the reality of governance and translated that into capabilities we will have HR on the back foot."

Andrew Kakabadse, Professor in Governance and Leadership: Henley Business School

employ and develop local talent, providing the availability of the required skills. Good corporate governance includes keeping costs carefully under control and to guard against what Perkins (1999, p. 103) called "inappropriate managerial action."

DEFINING HR GOVERNANCE

For decades the International Labour Organisation (ILO) has been the custodian for labour standards world-wide (Gravel & Delpech, 2008). Although the ILO fulfilled a global labour governance role, it has only been over the last decade that the term "HR governance" has been conceptualised to apply to the people governance of individual companies (Mercer, 2007).

When you consider the foundational definition of Human dignity, which 'is the most important human right from which all other rights are derived' (www.duhaime.org), and the comments of Mervin King, "Good human resources management is imperative for good governance' it becomes clear that a broader definition and understanding of HR governance is required.

Heslop, Hilborn, Koob and Szumyk (2005, p. 2) define HR Governance as "the act of leading the HR Function and managing related investments to:

- optimise performance of the organisation's human capital assets;
- define stakeholders and their expectations;
- fulfil fiduciary and financial responsibilities;
- mitigate enterprise HR risk;
- align the HR Function's priorities with those of the business; and
- assist HR executive decision-making"

From the above definition it appears as if formalised HR governance could assist to deal with many of the global HR problems and challenges encountered by South African companies, such as HR risk management, which appears to arise out of ineffective corporate governance. Furthermore, HR governance refers to "the process of broadly engaging all key stakeholders in the actual management and operation of the HR function on an ongoing basis" (Mercer, 2007).

In line with general definitions of corporate governance and the definition of HR governance of Heslop et al. (2005) above, HR governance can be viewed as leading, directing and controlling the HR Function to promote sound corporate governance in pursuit of the overall business goal of economic, social and environmental sustainability.

Drawing on the above definitions and conserving the King IV definition of corporate governance, HR Governance will be defined for the purpose of this position paper.

In King IV, Corporate Governance has been defined as the "ethical and effective leadership of the organisation by the governing body" (IODSA, 2016). Thus, if we build on this definition of corporate governance, then HR Governance can be defined as follows:

DEFINITION OF HR GOVERNANCE

HR Governance is the ethical and effective HR leadership of the governing body.

In essence, this definition implies that the Board is responsible for HR Governance. The Board will delegate the operationalisation of HR Governance to the HR Director or relevant prescribed officer. Hence, HR Governance is the act of leading, controlling and guiding people management in ethical, legitimate, fair and credible manner in an organisation to ensure its sustainability as expressed in the:

- Human dignity of the organisation's people
- Alignment of the strategic people priorities of the organisation with business strategy
- Establishment and maintenance of sustainable relationships with the people employed by the organisation, and people related stakeholders
- Enablement of consistent people related decision-making across the organisation
- Optimisation of the people performance of the organisation relative to its objectives, now and in the future
- Mitigation of the organisation's people risk
- Positioning HR as a key role-player in driving ethics in the organisation
- Reporting on the contribution of human capital to the performance and sustainability of the organisation.

Within the context of this position paper, this definition will be related to the business operations of an organisation and will thus focus on good governance of HR.

HR GOVERNANCE PRINCIPLES AND THE NATIONAL HR STANDARDS

Several universal principles of corporate governance have emerged from international corporate governance codes over the last two decades (Garratt, 2003a; IOD, 2005; MacAvoy & Millstein, 2003; Nadler et al., 2006; IODSA, 2016). These principles will briefly be discussed and contextualised from an HR governance perspective. These principles are: discipline, transparency, independence, responsibility, accountability, fairness and social responsibility.

A brief overview of the related national HR standard and its relevance / integration to the governance principle is provided.

1. Discipline (integrates with the Performance management and Employment Relations Management HR standards)

Discipline is a commitment by an organisation's senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper (King, 2006). In fact, research by Collins (2009) has shown that a lack of discipline contributes to corporate failure. A disciplined approach to corporate governance encompasses an organisation's commitment to the principles of corporate governance (King, 2006; Mammatt, du Plessis & Everingham, 2002; Wagner & Dittmar, 2006).

As far as discipline in the HR context is concerned, the Group HR Executive should monitor his/her own performance and that of the HR Executive Committee, and insist on proper organising, goal-setting and reporting at both group and country level (Mammatt et al., 2002). From a governance perspective, HR Directors should display a high level of personal and management effectiveness by having a broad knowledge of the organisation, its global operations, its business systems as well as its internal financial control. The HR director must have thorough knowledge of the overall business strategy, governance of suppliers, all business policies, as well as the terms of reference of any Board committees. Thus, the HR executive needs to balance and integrate business imperatives with governance requirements. Providing the Board with relevant HR data and reports such as employment equity figures, or expatriate performance on time and in sufficient detail is critical. This will not only help Directors to prepare adequately for meetings, but also assist the Board to make effective people decisions at Board level.

A disciplined approach to HR governance also entails exercising control over HR Managers to prevent vast volumes of uninterpreted country specific detail being presented for comment and discussion at Board meetings. Conversely, the HR Executive should guide against hiding or distorting key facts such as high expatriate failures or labour problems in certain markets. Accurate and reliable reporting systems reflecting the work done by HR Committees should thus be used in a disciplined and transparent manner. Discipline entails that no excuses can be made for non-compliance to legislation and regulations in different countries, even if compliance is not cost-effective for the organisation.

The ultimate test for proper discipline is the extent to which the HR Function is properly managed and controlled. Horwitz (2006, p.132) warns against "insufficient procedural discipline" in global HR practices. Promoting sound HR governance, planning, budgeting, as well as the good control of the HR budget are key features of a disciplined approach to HR governance. The achievement of stated goals and action plans to execute key deliverables such as the mitigation of HR risks can be used as a yardstick to measure a disciplined approach to HR governance.

National HR Standard	Relevance	Practical application
Performance management	Performance management is a planned process of directing, developing, supporting, aligning and improving individual and team performance in enabling the sustained achievement of organisational objectives	There is a general lack of consistency in performance management approaches within both the private and public sectors. This seriously undermines the valuable contribution that good performance management can make to organisational success and employee development.
Employment relations management	Employment relations is the management of individual and collective relationships in an organisation through the implementation of good practices that enable the achievement of organisational objectives compliant with the legislative framework and appropriate to socio-economic conditions	The employer-employee relationship forms the fundamental success of any organisation

2. Transparency [integrates with Reward & Recognition, HR Service delivery and HR Measurement HR Standards]

The notion of transparency is clearly embedded in all corporate governance codes (Cowan, 2004; Lenaghan & Seirup, 2007; Nadler et al., 2006; Savitz & Weber, 2006; Wallace & Zinkin, 2005). Transparent means to be "open, frank or candid" (Bennis, 2008). Transparency refers to the ease with which an outsider is able to analyse meaningfully an organisation's actions, its economic fundamentals and the non-financial aspects pertinent to that business (King, 2006). In other words, transparency is a measure of how good management is at making necessary information available in an open, accurate and timely manner. A transparent approach to corporate governance will thus make it easy for investors to obtain a true picture of what is happening inside the organisation.

The Internet revolution, and social networking in particular have created an unprecedented level of global transparency (Bennis, Goleman & O'Toole, 2008). Global firms also have to confront the reality of greater transparency of HR information (Evans et al., 2006). For example, the remuneration of directors needs to be disclosed in annual reports in some countries (Point &

Tyson, 2006). Transparency is not only important to management and employees members, but also interest groups outside the organisation, e.g. job applicants, investors, suppliers as well as customers. However, initially Group HR may find it difficult to obtain information at country level, because transparency and accessibility of information vary from country to country (Evans et al., 2006). Notwithstanding this obstacle, the HR Executive should ensure an open and transparent approach to HR work, without compromising confidentiality regarding sensitive or confidential issues.

National HR Standard	Relevance	Practical application
Reward and recognition	Reward is a strategy and system that enables organisations to offer fair and appropriate levels of pay and benefits in recognition for their contribution to the achievement of agreed deliverables in line with organisational objectives and values. Recognition is a related strategy and system that seeks to reward employees for other achievements through mechanisms outside the pay and benefits structure	To guide HR generalists in bringing their reward practices to a fully professional level in support of sound governance
HR Service delivery	HR Service Delivery is the influencing and partnering approach in the provision of HR services meeting the needs of the organisation and its employees which enables delivery of organisational goals and targets	The HR service at both strategic and operational levels must be delivered efficiently and effectively
HR Measurement	HR measurement is a continuous process of gathering, analysing, interpreting, evaluating and presenting quantitative and qualitative data to measure, align and benchmark the impact of HR practices on organisational objectives, including facilitating internal and external auditing of HR	Poor business decisions can be attributed to inconsistent measurement, flawed data or irrelevant measures

3. Independence [integrates to the role of Strategic HRM and the need for HR Audits / Monitoring & Evaluation]

The corporate governance principle of independence is strongly articulated in most corporate governance codes around the world (Becker-Blease & Irani, 2008; Charan, 2005; MacAvoy & Millstein, 2003; Wallace & Zinkin, 2005). Independence is the extent to which mechanisms have been put in place to minimise or avoid potential conflicts of interest that may exist. For instance, the independent composition of the Board and the appointment of neutral Chairpersons of Board Committees avoid domination by a strong CEO or undue influence by a large shareholder. Objective processes and mechanisms should therefore be put in place to enshrine the corporate governance principle of independence in decision-making. Individual Directors are also expected to provide critical and independent perspectives (Charan, 2005; Colley et al., 2003; Engelbrecht, 2009; MacAvoy & Millstein, 2003; Nadler et al., 2006; Temkin, 2009; Styan, 2018).

The HR Executive should provide an independent professional perspective to corporate governance (Beatty, Ewing & Tharp, 2003). For example, while the board may be satisfied that an expatriate policy is in place, an independent perspective from the HR leader may be that the policy is not yet implemented effectively in all countries. Such an independent HR role will also mitigate against potential CEO dominance in aspects affecting HR, such as being influenced to appoint employees members preferred by the CEO or another board member. Independent critical thought is a cornerstone of good corporate governance (Garratt, 2003). HR could thus play an independent role to prevent HR risks from jeopardising global business strategy.

According to Grunewald (2007) and Hendrikse and Hendrikse (2004) a director is in a fiduciary relationship to his organisation. Relating this to HR directorship, the HR director is therefore both an agent of the organisation, in the execution of HR work, and acting as a guardian of the human capital assets of the organisation. The fiduciary duty also encompasses avoiding any conflict of interest. The HR executive should act in the best interest of the organisation. When making HR decisions, the HR director should make decisions based on what would best serve the interests of the organisation

(Mammatt et al., 2004). Also, HR has a fiduciary duty to ensure laws are followed (Beatty et al., 2003). Failure to do so poses legal risks. It is therefore essential to clarify the fiduciary roles of HR by ensuring explicit, consistent decision-making processes as a mechanism for establishing accountability in

HR governance (Heslop et al., 2005). Furthermore, the HR Director has to fulfil the role of an independent people custodian in an organisation by ensuring that people issues receive the attention it deserves (Mercer, 2007). For instance, if the board of directors act against established good people practices or collective agreements, the HR

Director must be able to voice his or her independent professional perspective on these matters. In fact, independent thought also includes exposing any immoral conduct from a people perspective such as managing by fear, coercion, manipulation, exploitation or greed, hence the need for human governance as the centre of governance as demonstrated in figure 3.

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.
Monitoring and evaluation	Reviewing the activities, processes and outputs are a basic line management function, which needs to be performed on a daily basis	The role of supervision in reviewing the work performed is fundamental Internal audit functions can help facilitate independent checks and balances External audit can help provide an objective view of the current strategic HR health of the organisation

4. Responsibility [integrates with Strategic HRM and HR Service delivery HR standards]

Responsibility means "acting in a responsible manner and being seen to be acting responsibly towards and responsively to its identified stakeholders (King, 2006, p. 123)." According to the OECD (1999) responsibility implies "that directors and managers meet legal standards and serve as responsible citizens" (in McGregor, 2000). Corporate responsibility entails the "responsibility of the corporation to act in the interests of legitimate organisational stakeholders (Greenwood, 2007, p. 315). Consistent with the above definitions, it appears as if responsibility denotes being in charge of or look after something, so that managers make decisions and can be blamed if something goes wrong (Collins, 2009). From a

governance perspective, responsibility refers to the duty that managers have and that they can be trusted to do the right thing.

The board must act responsively to and with responsibility towards all stakeholders of the organisation (King & Lessidrenska, 2009). Responsible management would encourage behaviour to take corrective action, and failure to do so, mechanisms for penalising mismanagement (Collins, 2009; Mammatt et al., 2004).

Drawing from the work of Dailey and Brookmire (2006), Deloitte (2008), Heslop et al. (2005), Mercer (2007) and Mammatt et al. (2004), the HR director is responsible for the following:

- Ensuring that the HR function's priorities and strategies are

aligned to that of the business.
- Optimising the performance of the organisation's human capital assets.
- Complying with legislation and regulations in all countries in which the organisation operates.
- Bringing executive remuneration practices into compliance with corporate governance codes.
- Fulfilling fiduciary and financial responsibilities relating to the HR function.
- Identifying and mitigating HR risks.
- Adopt robust supplier management processes.
- Creating an ethical culture with mechanisms to enforce the ethical code of the organisation.
- Making effective decisions to ensure sound governance of the HR function.

- Monitoring and measuring the impact of HR strategy.

While some of these responsibilities may already be integrated into the strategic HR management plans of some global companies, most of them constitute new HR governance roles. Very little research literature is available on the HR governance roles of HR executives, especially the fiduciary and financial management role, risk management and ethical management. It is therefore essential for HR executives to clearly outline these responsibilities and to develop integrated solutions for the effective governance thereof.

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.
HR Service delivery	HR Service Delivery is the influencing and partnering approach in the provision of HR services meeting the needs of the organisation and its employees which enables delivery of organisational goals and targets	The HR service at both strategic and operational levels must be delivered efficiently and effectively

5. Accountability [integrates with Strategic HRM and HR Measurement standards]

Accountability to stakeholders is a recognised principle of corporate governance (Garratt, 2003b; IOD, 2016; Mammatt et al. 2004; Moynach & Worseley, 2008; Werbach, 2009). Accountability entails that individuals and groups who make decisions and take actions need to be accountable for their decisions and actions (King, 2006). According to Hendrikse and Hendrikse (2004, p.168) accountability means "to account for and communicate on performance and results". Relating this definition to the field of HR governance, accountability would mean that the HR executive has to account for the performance and results of the HR function. Accountability comes when strategies translate into measurable standards of performance (Ulrich, Allen, Brockbank, Younger & Nymna, 2009). Mechanisms must exist and be effective to allow for accountability. These mechanisms provide investors with the means to query and assess the actions of the board and its committees (Mammatt et al., 2004).

From a central governance perspective, the group HR executive should formulate clear targets and deliverables for HR. If there is no accountability for meeting these targets, they are unlikely to be taken seriously (Evans et al. 2006). For example, HR leaders are accountable for building an ethical culture, as well partnering with management to ensure compliance with corporate governance codes in different countries (Dailey & Brookmire, 2006).

Because of the large number of role-players (i.e. head office employees and regional or country employees in line and HR), it may be necessary for corporate HR to delegate accountability for certain HR functions to country individuals. This form of delegation could be done under a central HR governance structure (Evans et al., 2006). Given the need for the decentralisation of accountability to country units, the global organisation needs to emphasise global objective setting and the measurement thereof. Global objective setting should be done with the buy-in of senior management in the subsidiaries as to how it should be executed in practice.

The HR executive should also balance accountability at both HR and business level. For instance, the HR executive could develop a global talent retention strategy with clear measures of talent retention to monitor progress. These measures can then be used to hold managers accountable for success in talent retention (Evans et al., 2006; Sparrow et al., 2004). A clear differentiation of accountability based on different roles is thus entrenched at both HR and line levels.

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.
HR Measurement	HR measurement is a continuous process of gathering, analysing, interpreting, evaluating and presenting quantitative and qualitative data to measure, align and benchmark the impact of HR practices on organisational objectives, including facilitating internal and external auditing of HR policies, processes, practices and outcomes	Poor business decisions can be attributed to inconsistent measurement, flawed data or irrelevant measures

6. Fairness [this is at the core of human dignity][integrates to Performance management, Reward & Recognition, Employment Relations Management HR Standards]

The corporate governance system that exists within the organisation must be balanced in taking in account all stakeholders who have an interest in the organisation (Savitz & Weber, 2006). Fairness thus refers to the protection of the rights of various groups affected by the business of the organisation, i.e. employees, shareholders, government and the community. For example, minority shareholders' needs should receive fair consideration similar to that of dominant shareholders (Bhattacharya et al., 2009; IFAC 2009; Konzel-

mann et al., 2006; Pendleton & Deakin, 2007; Renders & Gaeremynck, 2007). Fairness in remuneration could also be a sensitive HR governance issue, especially globally (Welch et al., 2008). Garratt (2003a) implies that it is unfair that South African executives are often paid at the global rate, while the workforce is paid at the local market rate.

At a global HR level there is huge potential for conflict relating to labour practices that are seen as unfair. The need for consistency in policies and practices is critical to prevent employees from feeling unfairly treated in comparing themselves to others (Evans et al., 2006). Dealing with the principle of fairness will be a big challenge for the HR executive, especially in the

light of seemingly irreconcilable country specific variables such as cost of living, inflation, exchange rates, culture and many other factors that the HR executive has no control over.

In line with global corporate governance and labour standards, the HR executive has a key role to prevent human rights violation and the employment of child labour (Savitz & Weber, 2006). The HR executive should fulfil the role of being a custodian of fair labour practices, no matter in which part of the world. Failure to do so, could result in resentment on the parts of employees and governments. This could eventually have a detrimental impact on the sustainability of the particular country operations.

National HR Standard	Relevance	Practical application
Reward and recognition	Reward is a strategy and system that enables organisations to offer fair and appropriate levels of pay and benefits in recognition for their contribution to the achievement of agreed deliverables in line with organisational objectives and values. Recognition is a related strategy and system that seeks to reward employees for other achievements through mechanisms outside the pay and benefits structure	To guide HR generalists in bringing their reward practices to a fully professional level in support of sound governance.
Employment relations management	Employment relations is the management of individual and collective relationships in an organisation through the implementation of good practices that enable the achievement of organisational objectives compliant with the legislative framework and appropriate to socio-economic conditions	The employer-employee relationship forms the fundamental success of any organisation

7. Social responsibility [this at the core of human dignity – both individual and community level][integrates with HR Service delivery HR standard]

Social responsibility entails a well-governed organisation being aware of, and responding to social issues with a particular emphasis on ethical standards. A good corporate citizen is seen as one who is non-discriminatory, non-exploitative and responsible with regard to human rights and community issues. The modern global organisation is therefore a moral entity or "citizen" of the global world (Bhattacharya et al., 2008). Traditionally social responsibility encompassed community relations and contributing to the community in which we operate (Ulrich et al., 2009), but the current triple-bottom line focus meant that it expanded to include labour matters and worker rights (Garratt, 2003b; King & Lessidrenska, 2009; Savitz & Weber, 2006; Wallace & Zinkin, 2005).

While social responsibility was in the past the sole responsibility of the corporate social responsibility function, an increasing overlap between the social and HR roles of global companies is emerging. In the global business world, adherence to corporate governance principles extent beyond the country in which the organisation is based or listed. HR governance also entails not exploiting people in other countries where such codes or governance regulations are not well established. Nike is a good example, where child labour was being used in the Far East to manufacture clothing. Employing children may not have been a problem in those economies, and are legal in most of them, but the public uproar in the United States seriously damaged Nike's reputation (Mammatt et al., 2004).

The seven corporate governance principles of discipline, transparency, independence, responsibility, accountability, fairness and social responsibility pose several challenges for HR executives in the quest to devise an HR governance framework for a organisation.

In summary, these HR Governance principles (as illustrated in Figure 4, on the following page) entail:
- Discipline: Adhering to correct, proper and acceptable behaviour in a consistent manner;
- Transparency: Having information openly available for access to all relevant stakeholders;
- Independence: Using mechanisms to avoid conflict of interest and promote independent thinking and perspectives;
- Responsibility: Acting in a responsible manner in dealing with all stakeholders and executing tasks correctly;
- Accountability: Being accountable to all stakeholders;
- Fairness: Balancing the needs of all stakeholders and treating them fairly; and
- Social responsibility: Responding appropriately to all social issues affecting the business.
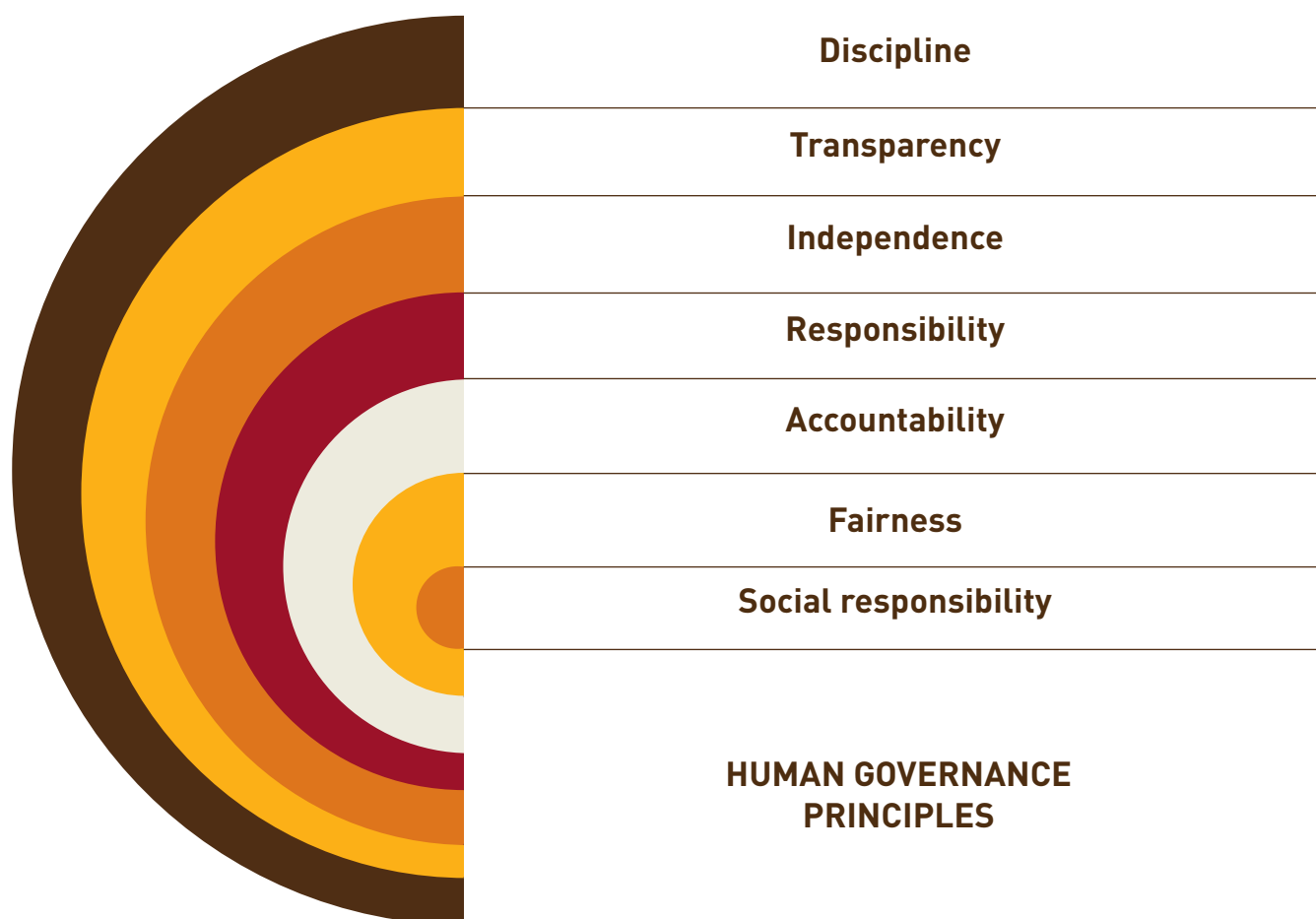
Discipline

Transparency

Independence

Responsibility

Accountability

Fairness

Social responsibility

**HUMAN GOVERNANCE
PRINCIPLES**

Figure 4: Human Governance principles

National HR Standard	Relevance	Practical application
HR Service delivery	HR Service Delivery is the influencing and partnering approach in the provision of HR services meeting the needs of the organisation and its employees which enables delivery of organisational goals and targets	The HR service at both strategic and operational levels must be delivered efficiently and effectively

HR GOVERNANCE AS A COMPETENCY
[AND TO BUILD ORGANISATIONAL CAPABILITY]

The third HR capability of the South African HR Competency Model (as illustrated in Figure 5 on p. 24), is HR Governance, Risk and Compliance (GRC). This is an exciting new integrated area for HR professionals and therefore very important to focus on to build HR competence. What makes the South African HR Competency Model unique from other global HR models, is that we are the only country in the world to have include HR GRC as an HR competency.

Globally, the field of governance, risk and compliance (GRC) has evolved to such an extent that it is now regarding as an integrated directorship and management paradigm. Now that SABPP has analysed the current gaps in the HR market from both a strategic and operational perspective, it became clear that HR leaders need a GRC mind-set in order to leverage HR at the highest level of the organisation, while simultaneously addressing HR gaps and issues on the ground. In this way HR GRC offers the solution to eliminating the gap between HR strategy and execution.

What makes this area so interesting and stimulating is that HR leaders can draw from the lessons and professional expertise of the multiple disciplines that have been combined to create a GRC framework, mainly directorship, risk management, compliance and auditing. It is fascinating that these four disciplines are the newest of all professions, and yet over the short periods of its existence managed to raise the standard of governance and management world-wide.

South Africa is a major contributor to GRC leadership at a global level, given the fact that South Africa is rated number two in auditing and number three in the world in terms of board efficiency and governance. Moreover, South Africa is also a global leader in integrated reporting. Now with HR GRC included in the new HR Competency Model, South Africa is also leading the world on HR Competency Models with the conceptualisation and application of HR GRC, in addition to being the first country with a National HR Management System Standard. With the world moving towards sustainability, triple bottom line, and integrated reporting, the role of HR in these areas is likely to intensify in the development of HR Governance towards 2020 and beyond.

Interestingly, officially organisation directors only became professionals in 2013 when the Chartered Director designation was bestowed for the first time by the Institute of Directors of Southern Africa, that is 36 years after HR received professional status in South Africa with the establishment of SABPP in 1982. However, given the strategic significance of governance, compliance, auditing and risk management, it is essential that HR leaders grasp the essence of GRC and develop a clear HR framework for supporting GRC. Thus, competence in GRC is of paramount importance, especially in view of the fact that most HR leaders in South Africa occupy seats on Excos and Boards. Admittedly, we do realise that HR Directors in some instances fulfil a different governance role than other directors, and SABPP therefore customised an HR GRC approach for HR to implement. Having said that, when an HR Director sits at board level, s/he fulfils the same director functions as other directors by contributing jointly to overall board decision-making.

This position paper will cover the HR GRC competence outputs by outlining the key areas for HR to address. We will first provide some background information about HR GRC to set the scene for internalising the essence of HR GRC competence.

The HR competency "HR Governance, Risk and Compliance" appears third from the top of the HR Competency Model. Once HR strategy is in place, and you have implemented a talent management framework for the organisation, it is time to address the third HR capability, and that is HR Governance, Risk and Compliance.
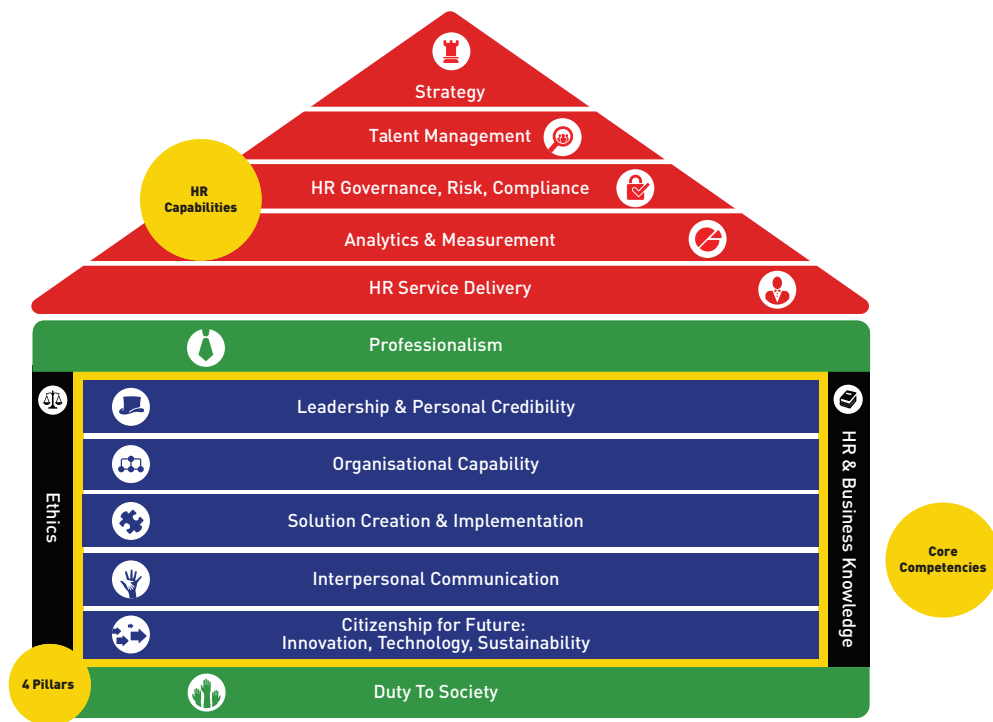
Figure 5: South African HR Competency Model

In challenging HR Directors in this important area, we are posing a few questions for you to consider when assessing HR Governance in your organisation:

- Do you have a framework for governing and managing HR from an HR GRC perspective in your organisation?
- Does your top HR leader represent the HR function at Board or Exco level?
- How sound is HR governed at your organisation?
- Is your Board informed about HR governance issues?
- Do you have appropriate governance mechanisms or structures for HR decision-making?
- Do you apply the King IV Code on governance in the way you do HR work at your organisation?
- Do you comply with all HR and labour legislation in South Africa?
- Are your HR professionals registered as professionals in accor-

dance with the NQF Act?
- Does your organisation meet the requirements of the National HR Management System standard?
- Have you HR function been audited internally and/or externally?
- Have you identified all the HR risks in your organisation?
- Have you developed risk mitigation strategies to address your HR risks?
- Do you have adequate controls in place to ensure that all HR is properly governed?

Achieving competence in the area of strategy has multiple benefits for HR professionals and their organisations alike:

- Sound HR GRC provides confidence to the Board that HR is well governed and that HR risks are properly addressed.
- Better governance of HR ensures that HR strategy is positioned to provide optimum value for all stake-

holders.
- A strategic focus on HR GRC will enable the HR Director to play a role in assisting the rest of the Board in meeting the governance requirements of the King IV Code on Governance for South Africa.
- A more proactive approach to compliance ensures that all risks pertaining to non-compliance are proactively managed and mitigated.
- The HR Director is earning the respect of other directors given the fact that he or she has now been elevated from an HR Manager or Director to a fully-fledged Board Member fulfilling the role of an HR Governor.
- Achieving competence in HR GRC puts HR professionals in a better position in ensuring that they meet the National HR Management System Standard, in particular the standard elements of Strategic HR Management and HR Risk Management.

The SABPP Research Department identified the following competence gaps in the area of HR governance, risk and compliance among HR Professionals:

- Many HR leaders see their role as managing the HR department only, as they have not yet elevated their thinking and practice to become "HR Governors" by taking on the stewardship role for HR governance. The result is that HR stays a functional department and HR governance issues are not elevated to board level.
- The dominance of "HR business partner" thinking has positioned performance as more important than compliance, and HR professionals have been manipulated by line managers to put less emphasis on compliance, so much so that non-compliance has become a problem in many organisations and sectors.
- The "HR business partner" approach has also caused HR professionals to have an unbalanced perspective regarding stakeholder engagement by seeing management as the only stakeholder to engage with. From a governance perspective, multiple stakeholder engagement is critical, and balancing the needs of these stakeholders is what is required to effectively govern HR.
- Many HR professionals are unable to challenge and influence management and their organisations on HR governance issues, and poor decisions about people in the organisation.
- An inability to identify and manage HR risks, the result is that the biggest business risk in South Africa (human capital) does not feature on the risk registers of most organisations. This oversight puts the organisation at risk.
- Many HR professionals are still trapped in the traditional view of only looking at the employee life cycle as a forty year period of full employment and employees engagement. National issues and changing demographics such as business involvement in education systems, the ageing population, the depletion of pension schemes and many other factors force organisations to adopt a much longer term view of the "employee" life cycle.
- Despite the importance of HR GRC, most HR professionals have not yet managed to build relationships with their GRC colleagues such as organisation secretaries, risk managers, internal audit managers, compliance managers and sustainability managers.

Given the fact that this is a new domain of HR competence, the following definition of HR Governance, risk and compliance competence in the HR Competency Model provides some clarity:

DEFINITION OF HR GOVERNANCE, RISK AND COMPLIANCE COMPETENCE

The ability to take a proactive approach to HR governance, risk and compliance, understanding this to be a strategic capability in growing the business and its people as legitimate role-players in their industry.

Let us unpack this definition of HR Governance, risk and compliance competence – it consists of a number of key features:

The following outputs should be achieved by HR professionals to demonstrate their competence in talent management:

- Adherence to governance principles
- Adherence to legislation
- Management of HR risks

We will now position these three outputs of HR competence in figure 6 below:
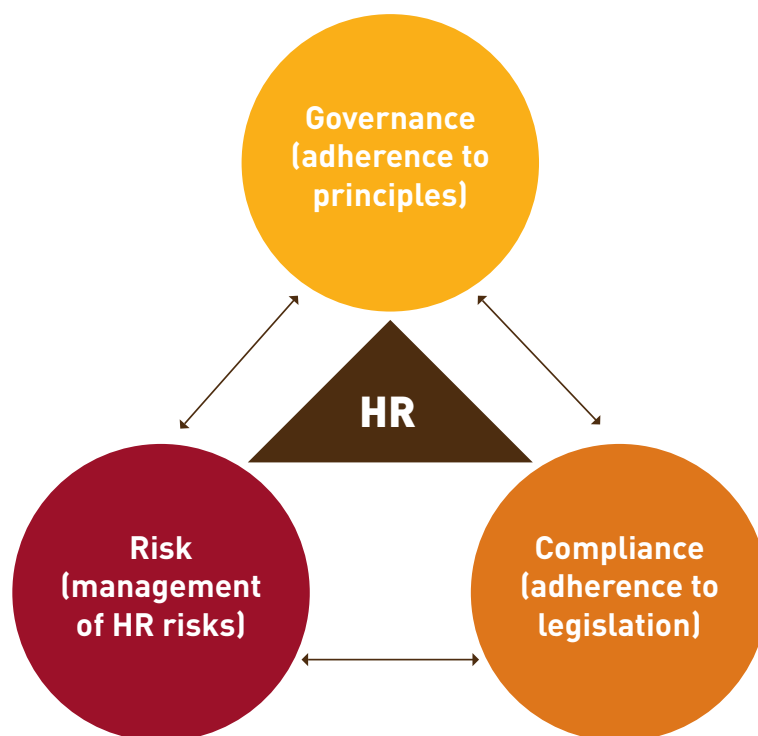
Figure 6: Competence outputs of HR Governance Rick and Compliance

The three competence outputs illustrated in figure 6 are as follows:

1. Governance: HR has to ensure sound governance around HR policies, procedures and practices by applying governance principles to HR work. Good governance is applicable to the whole organisation, and therefore HR has a role to play in adhering to sound governance principles and practices when making decisions and doing HR work. Also, as signatories of the SABPP Code of Conduct for HR professionals, and our duty around ethics, we also need to act as the conscience of the organisation by pointing out lapses in governance that could affect the reputation of the organisation, e.g. conflicts of interest or inappropriate appointments.

2. Risk: HR Risk Management as a new competence output for HR professionals empowers the HR professional with the mandate of identifying and managing HR risks in an organisation.

3. Compliance: The third competence output deals with compliance, i.e. adherence to legislation, codes, rules and standards. HR professionals have to ensure that their organisations comply with all labour legislation, and related codes relevant to HR. If any form of non-compliance is detected, it is the duty and responsibility of the HR professional to address this with management and to recommend appropriate action to be taken. This should not imply a mere 'tick-box' or checklist approach, but rather the creation of a framework as Mercer (2003:9) highlights, 'Without a clear set of expectations for the consistency of global workforce practices, there was no mechanism by which HR could properly align itself with the business as it evolved.'

This competence output also implies that HR professionals should have good contact and relationships with relevant government departments or statutory agencies where necessary.

The prescribed officer is a concept created by the new Companies Act, with the aim of introducing in the scope of the Act anyone who fulfils the role of a director but who is operating – whether intentionally or otherwise – under a different designation such as Head of HR.

ELEMENTS OF HR GOVERNANCE AND THE NATIONAL HR STANDARDS

Regrettably, the literature offers little insight on HR governance and research results are almost non-existent. The absence of empirical research on HR governance amplifies the need for an HR governance framework that will be presented near the end of this chapter. Despite this current shortcoming, key elements of HR governance that have been identified relate to corporate governance link, HR-business alignment, stakeholder engagement, HR risk management, HR leadership, HR role clarification, and HR measurement. These elements are indirectly covered in table 1 and will now be discussed from the perspective of the imperatives relevant to a typical South African organisation, despite the scant literature on HR governance and the link to corporate governance in particular.

1. Corporate governance link [integrates with Strategic HRM standard]

This element provides the overarching foundation of HR governance, and that is that HR should apply the seven principles of governance as discussed earlier (i.e. discipline, transparency, independence, accountability, responsibility, fairness and social responsibility). These principles of sound corporate governance should be cascaded beyond the boardroom to the HR function in an organisation. The benefits of applying governance principles to HR not only ensure better risk management, but also provide better stewardship of people resources and more effective design and implementation of HR interventions (Deloitte, 2008).

Ultimately, by applying corporate governance principles to the HR field, the HR function accepts full responsibility and accountability for the effective execution of HR policy and strategy, albeit within the framework of sound co-operation with line management and other stakeholders.

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.

2. HR-Business alignment [integrates with Strategic HRM standard]

This element pertains to the people management building blocks on HR strategy and philosophy (table 1). It is essential for HR to align its HR strategy to the overall strategy of the business (Ulrich et al., 2009). On this basis, HR governance will promote the visibility of the HR function and can thus play a significant role as a global business partner (Sparrow et al., 2004). A strong and informed partnership with finance and other corporate leaders is essential for sound HR governance (Dailey & Brookmire, 2006). The essence of HR-business alignment is to clearly outline how the HR function can add value to the achievement of overall business objectives.

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.

3. Stakeholder engagement [integrates with Strategic HRM standard and HR Service delivery]

This element relates to the HR philosophy people management building block, given the need for the global HR function to develop an inclusive approach in addressing stakeholder needs when formulating an HR philosophy. Stakeholder engagement is an essential component of sound corporate governance (Hendrikse & Hendrikse, 2004). Stakeholder engagement can be defined as "interaction with stakeholders that influences the decisions and behaviour of the organisation, from vision to measurement and reporting" (Savitz & Weber, p. 254). Failure to recognise the importance of a stakeholder group can lead to disaster (Charan, 2005; Wixley & Everingham, 2005).

However, there may be conflict in the way in which companies are governed and the requirements of sound HR governance. For instance, there may be unresolved tension between the shareholder interests focusing on short term returns, and efforts to build labour-management partnerships which will be sustainable over time. Moreover, South African companies are also beginning to feel the pressures that arise from globalisation with the media coverage of Human Rights Watch accusations of payments to militia in the Democratic Republic of the Congo by Anglogold Ashanti (Lewis, 2006). Not addressing these problems and satisfying the needs of different stakeholders within the boundaries of ethics could damage the image of a organisation and may jeopardise the sustainability of the business.

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.
HR Service delivery	HR Service Delivery is the influencing and partnering approach in the provision of HR services meeting the needs of the organisation and its employees which enables delivery of organisational goals and targets	The HR service at both strategic and operational levels must be delivered efficiently and effectively

4. Risk management [integrates with HR Risk Management standard]

This element relates to the HR building block of HR risk management. The word "risk" entered the English language from the old Italian word "riscare", meaning to dare (Garratt, 2003a). The very nature of business is about the undertaking of risk for reward. Money is invested with the purpose of yielding a return on the risk taken. Risks are "uncertain future events which, left unchecked, could adversely influence the achievement of an organisation's business objectives (Naidoo, 2002, p. 117)." At the same time, risk is a normal and unavoidable element in any business. Yet, not dealing with risks can lead to business failure and even the collapse of the organisation.

A study by Beatty et al. (2003) showed that HR risk was associated with higher organisational risk. In the EY Global HR Risk Report, HR issues ranked among the top five business issues impacting an organisation's results, yet only 41 percent of executives surveyed admit to reviewing these risks on an ad hoc basis or never (Steffee, 2008). HR risks are the challenges that stem from managing people, programmes and processes, both inside and outside the walls of your business (Leisy in Steffee, 2008). If not managed properly, these HR issues may cause significant damage (Deloitte, 2008; Steffee, 2008).

The very nature of global HR poses several risks, such as political instability, fraud, terrorism, regulations, health and safety, human rights abuses and intellectual property issues

(Garratt, 2003a). According to King III, risk management is "the identification and evaluation of actual and potential risk areas as they pertain to the organisation as a total entity, followed by a process of either avoidance, termination, transfer, tolerance, exploitation, or mitigation of each risk." (IOD, 2009, p. 123) On this basis, an HR risk is thus any people, culture or governance factor in the host country environment that could adversely impact on the organisation's operations.

A risk management framework is thus needed to provide assurance as to the effectiveness of business operations and the validity of the findings of risk management reporting. The purpose of risk management is to ensure effectiveness and efficiency of operations, enforce compliance with regulations, to support business sustainability and to ensure reliable reporting and responsible behaviour to stakeholders (Mammatt et al., 2004). Significantly, HR is specifically mentioned in the King Report as an important area for the identification and mitigation of risks. Boards should report annually on risks and sustainability issues such as social development, transformation, ethics, safety and AIDS (IOD, 2016). People or HR risks should therefore be assessed as part of the overall risk management of the organisation (Deloitte, 2008; King, 2006; SABPP, 2010).

Furthermore, a clear HR due diligence process is needed to highlight all the HR risk factors that should be managed by the global organisation. According to Perkins (1999) the HR executive can make a valuable contribution by collaborating with commercial and financial managers in the due diligence process. In this way, the HR executive can add value to the process of interpreting and developing business opportunities, as well as ensuring an effective approach to negotiation and project close. In line with the corporate governance principles of accountability and responsibility, Perkins (1999, p. 131) proposed a "vigorous and systematic" approach to HR due diligence. He stated that the project development team should examine all the HR risk factors and seek answers to the questions that arise. The challenge is then to explore in the context of legal or statutory requirements how these risk factors can be mitigated.

HR risk management forms a key element of HR governance for South African companies. Proper HR risk management provides the HR executive with an opportunity to fulfil his or her fiduciary duty of care and sound financial management.

National HR Standard	Relevance	Practical application
HR Risk management	HR Risk Management is a systematic approach of identifying and addressing people factors (uncertainties and opportunities) that can either have a positive or negative effect on the realisation of the objectives of the organisation.	HR Leaders should identify all people and HR risks and develop the necessary action plans to mitigate negative risks and to leverage opportunities.

5. HR leadership, governance structures and decision-making [integrates with Strategic HRM and Talent Management standard]

This element of HR governance refers to the building blocks of HR policies and standards, as well as HR operating model in table 1. HR leadership is critical for the success of HR transformation (Ulrich et al., 2009). Decision-making and sound judgement are two essential elements of corporate governance (Charan, 2005; Garratt, 2003a). The role of HR decision-making and the ability of HR to influence senior management decision-making are of utmost importance. If HR is able to contribute to global business strategy, sound decision-making that takes all relevant factors into account can be promoted. Perkins (1999, p. 175) expressed the view that "better integrity of the judgmental process is required in delivering a strategic plan rather than simply working to an annual budget."

Complexity is one of the major realities of global HR management that affects decision-making (Dowling & Welch, 2004; Evans et al., 2006). Heslop et al. (2005) thus proposed the establishment of an HR Council consisting of different role-players including line management. The HR Council could assist the HR executive with decision-making around complex global issues such as the level of centralisation versus decentralisation, expatriation, cultural dynamics and other difficult matters at both the strategic and operating levels.

HR directors may delegate some or all of their powers to their HR management team members such as the HR manager, or training manager. In delegating powers in this way, the HR director may impose such restrictions, conditions and time limits as they believe to be appropriate for the effective exercise of such delegated powers (Mammatt et al., 2004). The HR director then has a duty to monitor the performance of HR managers. By the same token, the HR director should exercise reasonable care and thus not accept advice blindly, but should give due consideration to all pertinent issues and exercise his or her own personal judgement accordingly (Mammatt et al., 2004). In doing so, and addressing the HR building block of HR standards and practices in table 1, the HR director should ensure that the highest professional standard of HR practice is followed (Beatty et al., 2003; Lawler III & Boudreau, 2009; Ulrich et al., 2009).

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.
Talent management	Talent Management is the proactive design and implementation of an integrated talent-driven organisational strategy directed to attracting, deploying, developing, retaining and optimising the appropriate talent requirements as identified in the workforce plan to ensure a sustainable organisation	To foster a common language in a rapidly evolving field, and in the context of increasing competition in skills

6. HR role clarification [integrates with Strategic HRM and Leadership standard]

Flowing from HR leadership and decision-making, this element of HR governance relates to the HR building block of HR operating model (table1.) Role clarification is an essential element of HR governance (Sparrow et al., 2004). Roles define what we do and who we are (Ulrich & Brockbank, 2005). HR role clarification is needed to support the process of HR decision-making regarding the location, allocation, transfer and control of resources.

To support sound governance, HR needs to clarify its role and indicate to management how it intends to support the overall global business strategy of the organisation. Applying effective HR governance ensures that the HR executive not only contributes to the success of global business strategy, but also requires that HR aligns its own practices to that of an overall corporate governance framework. By doing so, the HR executive applies the corporate governance principles of accountability and responsibility. Clear roles and responsibilities are needed to clarify the contribution of HR governance to corporate governance and the achievement of global business strategy.

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.
Leadership	The development of the SABPP Leadership standard highlights the following key points: • Anyone with influence' should be considered to be a leader • A leader has structural authority over a team of people and sometimes a leader is a subject matter expert or internal consultant who influences people across the organisation and possibly represents the organisation externally.	HR leadership needs to understand the importance and impact of their roles within the organisation

7. HR compliance [integrates with Strategic HRM standards]

According to King IV, organisations must comply with laws, rules, codes and standards. Likewise, the HR function should not only ensure that they comply with laws, rules, codes and standards, but they should also be a steward in protecting the organisation from any risks pertaining to non-compliance. In essence, these four areas of compliance are of utmost importance for HR leaders. Typical areas of compliance relating to these four areas are as follows:

- Laws – complying with all labour and non-HR laws such as the Companies Act and other relevant laws affecting the organisation;
- Rules – complying with rules and regulations outside and inside the organisation affecting HR;
- Codes – complying with all codes relevant to the business and HR, such as King IV Code, JSE Social Responsibility Index;
- Standards – complying with labour standards of the International Labour Organisation, as well as the SABPP National HR Standards.

In liaising with HR and other leaders in organisations over the last three years, SABPP has noticed a disturbing trend that there is a general perception that organisations should only comply with standards and regulations that emanate from laws, in other words, only if there is a law that is enforceable and monitored by government, organisations should comply. King IV is also non-statutory, but surely applying the principles and guidelines of good corporate governance is beneficial to or-ganisations. Therefore, not complying is generally accepted as "bad for business," unless in accordance with the "comply and explain" principle of King IV, you have a valid explanation for non-compliance. In addition, companies have the right to make their own rules, and if employees break these rules, they can be dismissed in accordance with the Labour Relations Act, and this example shows the convergence of rules and laws. Furthermore, it is also possible that over a period of time, rules may evolve into laws when government realises that it becomes essential to strengthen a compliance and enforcement regime. For instance, based on experience from practice and gaps identified in the workplace, some of the principles and practices of the King Codes have entered the Companies Act as legal clauses.

National HR Standard	Relevance	Practical application
Strategic HRM	Strategic HR Management is a systematic approach to developing and implementing long-term HRM strategies, policies and plans that enable the organisation to achieve its objectives	Strategic HR is the foundation of all HR work. HR work is often not aligned to strategy of organisation. Many organisations' HR functions are unbalanced in terms of transactional vs strategic, there is a lack of strategic HR focus.

8. HR measurement [integrates with HR Measurement standard]

The last element of HR governance gleaned from the literature is HR measurement; it refers to the last HR building block in table 1. Measurement means to refine and adjust the blueprint, tracking progress, and learning from the transformation. In addition, HR measurement encompasses putting metrics in place to monitor how well you are doing and how you can improve (Ulrich et al., 2009, p. 154-155). However, HR measures must create a truly strategic difference in the organisation. Thus, HR measurement is needed to determine how effectively the HR function is governed, and whether there is sufficient alignment to the overall strategy of the organisation. The HR Function should therefore monitor progress towards goal achievement, infuse controls, and report back to management and the board.

As can be seen from the above discussion on the available HR Governance literature and coverage of building blocks, the literature on HR governance is indeed scant. Hence, there is a clear need to identify elements and building blocks of HR Governance to arrive at a comprehensive HR Governance Framework.

HR Audits against HR Standards can play a key role in ensuring that HR Directors meet the requirement of combined assurance as proposed in King IV.

National HR Standard	Relevance	Practical application
HR Measurement	HR measurement is a continuous process of gathering, analysing, interpreting, evaluating and presenting quantitative and qualitative data to measure, align and benchmark the impact of HR practices on organisational objectives, including facilitating internal and external auditing of HR policies, processes, practices and outcomes	Poor business decisions can be attributed to inconsistent measurement, flawed data or irrelevant measures

In summary when the link between corporate and HR governance, governance elements and principles and the national HR standards are brought into an holistic perspective; the scope of HR Governance becomes clearer as illustrated in Figure 7 below:

Figure 7: The scope of HR Governance

ROLE OF HR DIRECTOR IN HR GOVERNANCE, RISK AND COMPLIANCE

When one tracks the career progression of the HR profession, it becomes clear that the HR profession has gone through different development stages. These development stages to a certain extent define the core competencies of the HR profession – the 'things' that HR is doing or should be doing. The HR profession in general is currently moving beyond the strategic business partner role towards being a driver of business success and sustainability. Some companies' HR functions are not performing well in this transformation process, whilst others are still struggling to become strategic partners. As discussed in Kaufman (2014) and Meyer & Abbott (2017), figure 8 illustrates the evolving nature of HR over the last thirty years in South Africa based on the emphasis being placed on compliance versus business performance. Compliance refers to a focus on meeting legal and other regulatory standards, while a performance focus addresses the needs of business in striving for profitability.
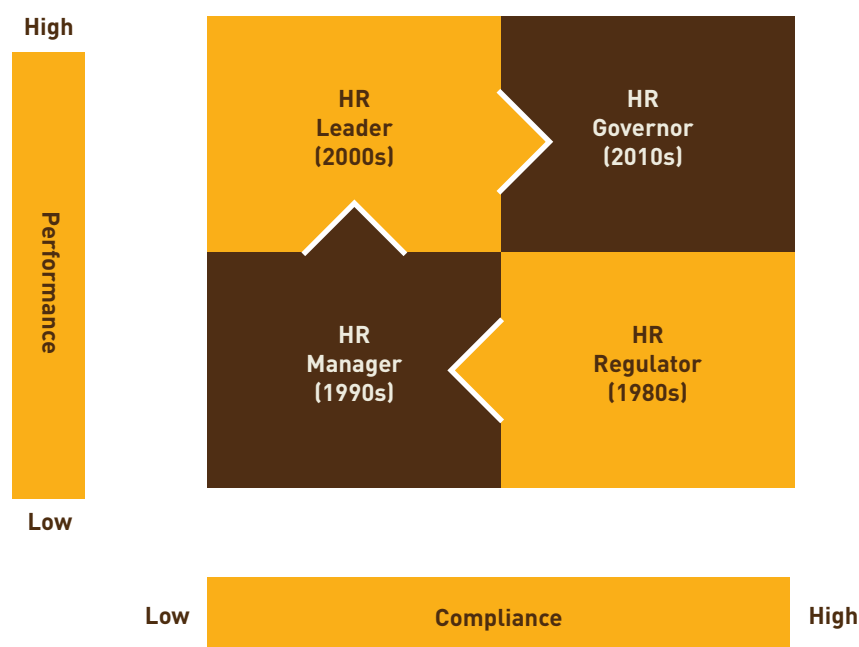
High

Performance

| HR Leader (2000s) | HR Governor (2010s) |
| HR Manager (1990s) | HR Regulator (1980s) |

Low

Low — **Compliance** — **High**

Figure 8: Developing roles of HR managers in South Africa

Source: Kaufman (2014). The Development of HRM across nations. London: Edward Elgar

1.   HR regulators or administrators were the people operating in the late 1970s and 1980s responsible for ensuring that companies complied with labour laws. In many cases, while doing a great job to ensure adherence to labour legislation, the focus on compliance was so rigid that there was little emphasis on business performance.

2.   HR managers realised in the 1990s that compliance alone is not enough, and they therefore attempted to pursue a greater focus on performance, but in many cases they lacked credibility and could not convince line management of the value they could add. The government was the main champion of compliance-driven HR, and in many cases HR was a mediator between management and employees at best, and at worst an extension of management.

3.   HR leaders in a number of companies emerged in the 2000s as highly skilled strategic business leaders who understand the dynamics of business and the role of people to optimise performance. Given the fact that most companies already had good compliance frameworks in place, compliance received less attention. In line with Ulrich's thinking, HR leaders became business partners (Ulrich et al., 2009).

4.   HR governors are high-level "people custodians" who lead, direct and control the HR function in an active pursuit of achieving the corporate governance outcome of sustainability focusing on the triple bottom line, i.e. integrating financial, people and environmental performance. Supporting the King IV governance codes and the recent development of integrated reporting, they are strong in both compliance and performance issues, taking the HR function to the 2020s. Moving beyond Ulrich's business partner focus, HR governors are stakeholder partners, balancing the needs of multiple stakeholders, i.e. management, unions, employees, government, society, regulators, sector education and training authorities, industry boards and a host of other key stakeholders.

Furthermore, research evidence suggests that the recipients of HR services, that is line management, are not ad idem with HR on the importance and the effectiveness of HR's services (Magau & Roodt, 2010). For instance, sometimes management regards training as a waste of time. This perception is a main source of HR's credibility crisis – What is HR's contribution to business success? In order to meet this challenge HR needs amongst other things to effectively identify and manage its risks.

HR should gather information regarding people-related governance, risk and compliance issues. The HR director should present organisation directors with a complete report of HR compliance and operational risks, and recommended actions, and accept responsibility for mitigation thereof. Furthermore, HR can assist the board in related areas such as managing executive succession, to providing board development and administrative services, and supporting the remuneration committee (Deloitte, 2008).

As the Deloitte (2008) report asserted: "People and behaviour are often the biggest sources of business risk." Hence, it is critical to ensure that people risks are included in a organisation's risk management plan. A comprehensive HR risk analysis is needed, one that significantly transcends the current narrow focus on safety in high-risk environments such as factories and mines.

> *"People and behaviour are often the biggest sources of business risk."*
>
> **Deloitte (2008)**

HR risks include organisation culture, talent shortages and retention, incompetence, employee performance, unethical behaviour, low morale, grievances and disputes, excessive absenteeism, employee wellness, sabotage, workplace violence, and non-compliance to industry and other regulations and laws. In the public sector, and even in certain private companies, productivity may be affected if political appointments are made without a proper focus on the right qualifications and skills needed for a job. This leads to poor turnaround times in dealing with suspensions of senior managers in certain cases, and on the other hand, hasty decisions to dismiss managers without proper investigations. Also, incompetent senior managers often get away with gross violations of governance and ethics principles and policies. Several reports by the Public Protector in parastatals and government agencies over the last two decades years highlighted the extent of these problems.

With regard to the South African environment, a significant risk attaches to failure to transform and, in particular, failure to achieve employment equity targets. A more integrated approach to HR risk management is required by South African organisations. HR risks should be factored into every major business decision, e.g. opening a new branch in a different province or country. Research has clearly indicated that so-called "soft" issues such as cultural incompatibility has led to major business failures during mergers, acquisitions, and international joint ventures, in fact, more so than hard factors such as cash flow or debt structure. Essentially, any strategic level risk management exercise conducted without conducting an HR due diligence exercise and considering crucial inputs from senior HR executives is bound to encounter some form of HR-related constraint.

While King III is indeed correct to emphasise the importance of IT governance, negating HR is a serious omission in both King III and IV. Deloitte (2008: 11) states that "governance, risk and compliance challenge affect every

part of the business – and every one of those challenges has a significant human component." The HR function must use their unique knowledge, skills and experience to help business leaders tackle governance, risk and compliance issues across the entire organisation.

Like its predecessor, King III, the fourth King Code adequately highlights the importance of ethics at board, management and employees levels and, in particular, the need for an ethical culture. However, to think that an ethical code in itself will instil a culture of ethics is short-sighted. Deloitte (2008) argues that every business scandal or regulatory violation ultimately has its roots in the workforce. That's why HR must expand its role from "steward" (which centres on workforce compliance and administration) – to "strategist" and "governor" (which affects every governance, risk and compliance issue with a human element). Regular articles in the press about governance problems pertaining to the board of parastatal organisations serves as a good example of the need for a strong focus on ethics, not only at board level, but also throughout the organisation. Carnel Botha, director of BDO Spencer Steward in Cape Town, says that "companies need to proactively look for red flags when it comes to their employees" (Botha, 2008). During audits, certain ethical risks are identified that should be managed.

HR should also play a more proactive role in ensuring the appointment of the right employees with the right competence, values and ethical culture. Too much emphasis is placed on the technical knowledge and skills of employees, and not enough on the ethical character and behavioural fit. The psychological contract needs to be considered upfront. Every employee's values and needs must fit the values and culture of the organisation, and HR can coach line management on how to fairly and legally probe for character when conducting interviews. In addition, proper HR due diligence is needed to prevent damage caused by incompetence (Deloitte, 2008).

"Companies need to proactively look for red flags when it comes to their employees."

**Carnel Botha
(BDO Spencer Steward)**

In working with business development teams at a global level, the HR executive has to add value to the process of interpreting business opportunities. A new global business opportunity may not only offer opportunities to grow the profits of the business, but may also present risks that could have an adverse effect on sustainability and growth if these risks are not managed well. Finkelstein (1999) states that the majority of cross-border mergers and acquisitions are not successful, and Ryan (2006) reports that only 13 percent of executives said that these deals went smoothly. Differences in corporate governance, regulatory environments and national culture create additional layers of complexity that needs to be managed.

Furthermore, a clear HR due diligence process is needed to highlight all the HR risk factors that should be managed by South African companies operating in other countries. This should be done in time to avoid rushed and poor decisions. The HR executive can make a valuable contribution by collaborating with commercial and financial managers in the due diligence process. In this way, the HR executive can add value to the process of interpreting and developing business opportunities, as well as ensuring an effective approach to negotiation and project close. In line with the governance principles of accountability and responsibility, a rigorous and systematic approach to HR due diligence is needed. The project development team should examine all the HR risk factors and seek answers to the questions that arise. The challenge is then to explore in the context of legal or statutory requirements how these risk factors can be mitigated.

HR risk management forms a key element of HR governance. Proper HR risk management provides the HR executive with an opportunity to fulfil his or her fiduciary duty of care and sound financial management. Thus, HR risk management flows directly from external and internal stakeholder engagement. HR risk management addresses key HR risk issues such as risk mitigation, HR due diligence, the role of HR committees, the implementation of a code of ethics and fair labour practices. HR risks in different sites or countries should be identified and proactive risk mitigation plans developed to effectively deal with these risks.

Liaising with and consulting different stakeholders is an important element of sound HR governance. The purpose of the seamless interfaces between the different stakeholders is to mitigate different risks and uncertainties arising due to the interaction among them. Inevitably, HR needs to work closely with the risk manager and risk committee to ensure that HR risks are included in the overall risk management plan of the organisation.

BOARD COMMITTEES

Board committees are established by boards as a means of delegating certain authorities and powers on behalf of the Board and constitute a vital role in respect of the governance processes of organisations. They would have agreed reporting procedures and clear terms of references which would enable them to exercise governance in terms of the scope agreed to between them and the Board. This therefore means that the scope of these committees may vary depending on the nature and size of the organisation.

What is certain, however, is that these committees cannot function effectively without the direct support and without having a relationship of trust with the HR Director as information from HR is critical to the governance role played by these committees. Transparency, accountability, responsibility are key to building the relationship between the HR Director and these committees.

Recent global organisational crisis – more recently Steinhoff and parastatals like Eskom and the SABC have raised increasing awareness about the need for remuneration committees to exercise independent oversight of executive remuneration in particular in support of good governance in organisations.

In addition to the Remuneration Committee, other committees which play a crucial role in enabling the Board to discharge its duties effectively and act in the interest of corporate governance, are the Nominations Committee, Audit and Risk Committee and Social and Ethics Committee..

Paul Camara in a paper on "The Governance Role of the Remuneration Committee" cites the following: "The formation of remuneration committees is a manifestation of a process of recognition regarding the value of specialized committee in the corporate context. These committees promote a division of tasks and responsibilities between corporate players and, in this matter specifically, they allow a more professional and informed treatment regarding complex subjects".

The role of the remuneration committee is critical as referenced in the IOD Remuneration Committee Forum Position Paper 1 – May 2013, and plays the role of "overseeing the quality of the remuneration information, disclosures and decisions of an organisation". It is a body mandated by the board, to ensure that the remuneration policies and practices of an organisation are sound and that remuneration practices are effective and adhere to good governance processes.

Majority independence in terms of the composition of these committees is a pre-requisite to good governance to ensure the decisions around relevant committee matters are removed from the influence and decision making of executives. However, the committees rely to a large degree on input and recommendations from the HR Director among others, to ensure that they have appropriate, accurate and reliable information around the organisation's policies and procedures, systems and structures.

Committee members are required to familiarise themselves with policies but also be familiar with remuneration design, incentive schemes, knowledge of the business and industry sector it operates in, culture of the entity, regulatory frameworks and reporting requirements for approval and disclosure of remuneration, managing stakeholder and shareholder relations with investors, understanding and knowledge of legislation e.g. the King IV Code, Companies Act, the JSE Listing Requirements, Public Finance Management Act, SARB Regulations and any other country specific regulations and laws.

The respective committees rely on the following from the HR Director in exercising governance in their respective roles:

- The HR Director to provide accurate and reliable information to the Remuneration Committee on:
- The implementation of the remuneration policy and recommendations which have been tested through effective internal consultative processes with the CEO and Exco members
- HR risks identified which are of significance to the organisation, e.g. turnover risks, retention risks, capacity and skills risks, employment equity risks, employee dissatisfaction, performance risks,

behavioural risks etc.

- Information on pension/retirement benefits to employees and any other benefit structures

- The nominations Committee is largely responsible for reviewing and making recommendations to the Board in respect of size, composition, skills base, efficiency etc of the Board, and reviewing and making recommendations to the Board on the succession plans for the CEO and Executives. This committee would rely on the HR Director for information and facilitating discussions on the talent pipeline, talent management, workforce plans, succession plans, leadership pipeline and the identification of risks in respect of talent retention and turnover, as well as remuneration practices and policies,

- The risk committee, audit committee, and social and ethics committee would rely on the HR Director for information on remuneration matters within the context of risk, disclosure and social responsibility matters as well as risks in employee behaviour which potentially could lead to fraud or corruption as they exercise the role of being the conscience of the organisation.

- The Social and Ethics Committee is required to monitor activities relating to social and economic development in terms of the goals of among others, the Employment Equity Act, No 55 of 1998, Broad Based Economic Empowerment Act, No 53 of 2003, good corporate citizenship including the organisation's promotion of equality, prevention of unfair discrimination and measures to address corruption, the environment, health and public safety and the organisation's activities and of its products or services, consumer relationships, labour law and employment matters etc. The HR Director therefore provides information on a range of its employment practices and policies to this committee and particularly the measures the organisation takes to mitigate

risks in respect of people matters which the committee is required to oversee,

In summary, there is a definite direct link between HR governance and governance in respect of the various board committees to ensure their effective functioning in achievement of an organisation's goals and objectives. It is incumbent on HR Directors to instil confidence and credibility in its role through the provision and facilitation of accurate and reliable information and guidance to the Board. The impact of HR governance should be evident in the policies, practices and processes that are put in place as the pillars required for an effective HR governance framework which contributes to the sustainability of the organisation

LEADERSHIP AND ORGANISATIONAL CULTURE

Bates (2014) defines culture as the collective behaviour of everyone within the organisation. The said behaviour includes the following variables: members' language and tone; their beliefs; organisational brand; organisational habits including the unwritten law of "how we do things here".

At the level of board of directors (BoD), it is imperative to create what Bates (2014) calls a "planning culture". He argues that the frequency of board meetings is significant for effective governance. He therefore advises that a newly appointed board of directors to focus on "foundational governance implementation". It is a plan that spells out activities that must be carried throughout the year. Adherence to this practice has potential to prevent shareholders and management falling back into old and undesirable habits whilst "deeply-held governance culture" is not fully realised. The problem with infrequent board meetings is that non-executive directors are prevented from fully comprehending organisational business while on the other hand executive directors are impeded from fulfilling their duties. On the other hand, frequently held meetings promote good working relationships between directors and the management team. It is therefore, impressed that board meetings are planned well ahead of the calendar year to promote a synchronous relationship between business and processes of governance.

The UK Corporate Governance Code was first published in 1992 by the Cadbury Committee. In particular, it helped to define corporate governance as 'the system by which companies are directed and controlled'.

The UK Corporate Governance Code was subsequently reviewed and republished in July 2018, and of particular significance is the recognition and understanding of the role that a company's culture should play in promoting integrity and openness, value diversity and the pro-active responsiveness to the views of shareholders and wider stakeholders within the business community and world at work.

The following key extracts were taken from the revised UK Corporate Governance Code of July 2018; wherein the role of organisational culture and leadership are clearly articulated:

"Board leadership and company purpose - Principles:

The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

Provision: The board should assess and monitor culture. Where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action. The annual report should explain the board's activities and any action taken. In addi-tion, it should include an explanation of the company's approach to investing in and rewarding its workforce.

Division of responsibilities - Principles:

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information."

During September 2017, the SABPP successfully launched the first Leadership standard, which provided a framework for all leaders to gain insight and a deeper understanding into the complex world of work; and the influence or impact that leaders have on driving sustainability and performance within their organisations.

A clear framework was developed, which highlights the following:

- Tone at the Top
- Leadership philosophy
- Leadership outcomes
- Organisational culture

Within the Leadership framework (as illustrated in Figure 9 on the following page), the following five elements are unpacked:

1. Instilling a vision

2. Delivering results which create value
3. Living the values
4. Influencing people
5. Reflecting for improvement

The Leadership standard framework helps to construct much needed understanding and insight into the role and impact of Leaders on Human Governance within organisations. The five elements highlighted above provide a solid overview on how Leaders need to instill / craft a future picture / vision of where the organisation is moving, whilst still harnessing the value of organisational performance and sustainability through carefully aligned business and people strategies. The powers of organisational and human values to drive and influence behaviour are very prevalent in our modern work environments where connectedness and the power of social media as well as the mobility of talent need to be harnessed in an ethical and effective manner.

Leaders play a crucial role in influencing people within organisations to achieve the broader organisational and societal objectives; and it is for this reason that the role of continuous improvement and innovation need to be embedded within the organisational culture / DNA. However, the organisational culture, which is created needs to be more than just a system of shared values, beliefs and norms. The culture needs to drive the right organisational behaviours that will support a climate where human dignity is core – at the heart of every process and activity performed.

Figure 9: ©SABPP Leadership Standard Framework

CONCLUSION

In the light of the above discussion, it is evident that this position paper poses a distinct corporate governance role for the HR Director. The paper also challenges HR Directors to embark on the journey of HR Governance in ensuring that the people side of business becomes part and parcel of the corporate governance approach in an organisation. In addition, the HR Director as a member of the Board, or executive member of several board committees or management structures need to ensure that HR strategy and HR governance are aligned to the overall corporate governance system and business strategy of the organisation.

> "If HR Governance is not done well, optimal strategy and business results will not be achieved."
>
> **Ian Cullwick,
> Deloitte**

Ian Cullwick from Deloitte asserts: "If HR Governance is not done well, optimal strategy and business results will not be achieved." Therefore, all board members and senior managers should be custodians for ensuring the sound governance of human capital as the key factor driving the success of any organisation. This will not only ensure that human capital is leveraged, but also contribute to a more human approach to corporate governance in optimising the societal value of the organisation. As entrepreneur Musa Kalenga says:

"Being human is good for business." Thus, HR Governance presents the human face of governance and therefore invites and every individual in society to contribute to the sound governance of their organisations.

> *"Being human is good for business."*
>
> **Musa Kalenga,**
> **Author and Entrepreneur**

HR DIRECTOR VOICES ON HUMAN RESOURCES GOVERNANCE:

> *"HR management does not function in isolation but as part of other organisational standards aimed at establishing good governance and ethical accountability. Meaning HR standards must be integrated with other relevant business standards to provide a common framework of HR governance comprising of the value proposition, code of conduct, training, OD, decision making authority etc. Such a framework promotes consistency, guidance, compliance and good governance. To assist the process a relevant inter-departmental subcommittee may be established to oversee the activities of HR governance. The integration of standards and an increased focus on HR governance will help to unleash the individual and organisational potential currently receiving less focus"*
>
> **Ms Dudu Nyamane former HR Director / Executive of IBM, Old Mutual, SARS and currently serve as NED and on Social and Ethics Board Committees**

> *"On HR Governance, I believe that HR as the custodian of all people related strategies in any organization should lead by example and ensure that Governance is high on the organisation agenda. Education and training of all stakeholders is vital in order for a culture of voluntary compliance and governance to be fostered in an organization. In other words governance and compliance should ideally be a "way of life"*
>
> **Mr Abbey Mothokoa is the HR Executive, South African National Blood Service**

GUIDELINES FOR
HR DIRECTORS ON
HUMAN RESOURCES
GOVERNANCE IN
ORGANISATIONS

GUIDELINES FOR HR GOVERNANCE

Now that we exposed you to an explanation and outline of the importance of HR governance, the challenge is to develop a clear organisational framework for HR governance in the workplace. Here as some guidelines that could be useful in embarking on the HR governance journey:

- Read the King IV Report and Code on Governance for South Africa and ensure that you have a proper understanding of what corporate governance is all about.
- Identify the HR governance implications of the King IV Report and Code.
- Study and apply the National Standard Element on HR Risk Management as part of the National HR Management System Standard. However, meeting the whole HR Standard will be the ultimate achievement of every HR leader and the certification process as an outcome of an external SABPP audit will verify the quality of your HR system.
- Decide which of the six levels of HR Governance is relevant to your organisation and develop appropriate action plans to cover these levels.
- Prepare yourself on how you can provide HR leadership as an HR Governor by making a contribution to ensure that the HR function is well governed at your organisation.
- Ensure good governance of employee benefit funds and other HR related schemes.
- Act as conscience of your organisation by highlighting lapses in governance and risks regarding employee benefits, as well as HR schemes and systems.
- Develop a clear HR strategy on ethics and interventions to support the overall ethics of the organisation and all its managers and employees. Monitor declarations of conflicts of interest and act on it in an appropriate manner.
- Ensure that you have detailed knowledge of labour legislation, related codes and agreements applicable to your organisation.
- Ensure that you achieve a good balance between compliance and performance.
- Advise management correctly on the implications of labour legislation on organisational processes.
- Report and monitor on systems to audit and ensure compliance to legislation and codes.
- Build good relationships with labour legislation agencies and statutory structures.
- Implement the principles and practices of risk management.
- Apply risk management methodology to identify and mitigate HR risks.
- Monitor the external environment for macro HR risks and advise management with mitigation strategies.

The BUILDING BLOCKS FOR HUMAN GOVERNANCE

As we reflect on the building blocks for human governance as illustrated in Figure 10 on the next page, which have been discussed throughout this position paper, it becomes apparent that a clear framework for Human Resource governance is desperately needed to provide guidance and understanding to HR Directors and prescribed officers in organisations.

Figure 10: Building blocks for Human Governance

For this purpose the following HR Governance framework for South Africa is proposed below in Figure 11. It is hoped that through engaging all of our relevant stakeholders that the proposed framework may be discussed and debated further with the eventual publication of a final product, which best reflects the most appropriate requirements for HR Directors and prescribed officers to effectively and ethically lead the human governance functions within their respective organisations.

Figure 11: Building blocks for Human Governance

HR GOVERNANCE FRAMEWORK FOR SOUTH AFRICA
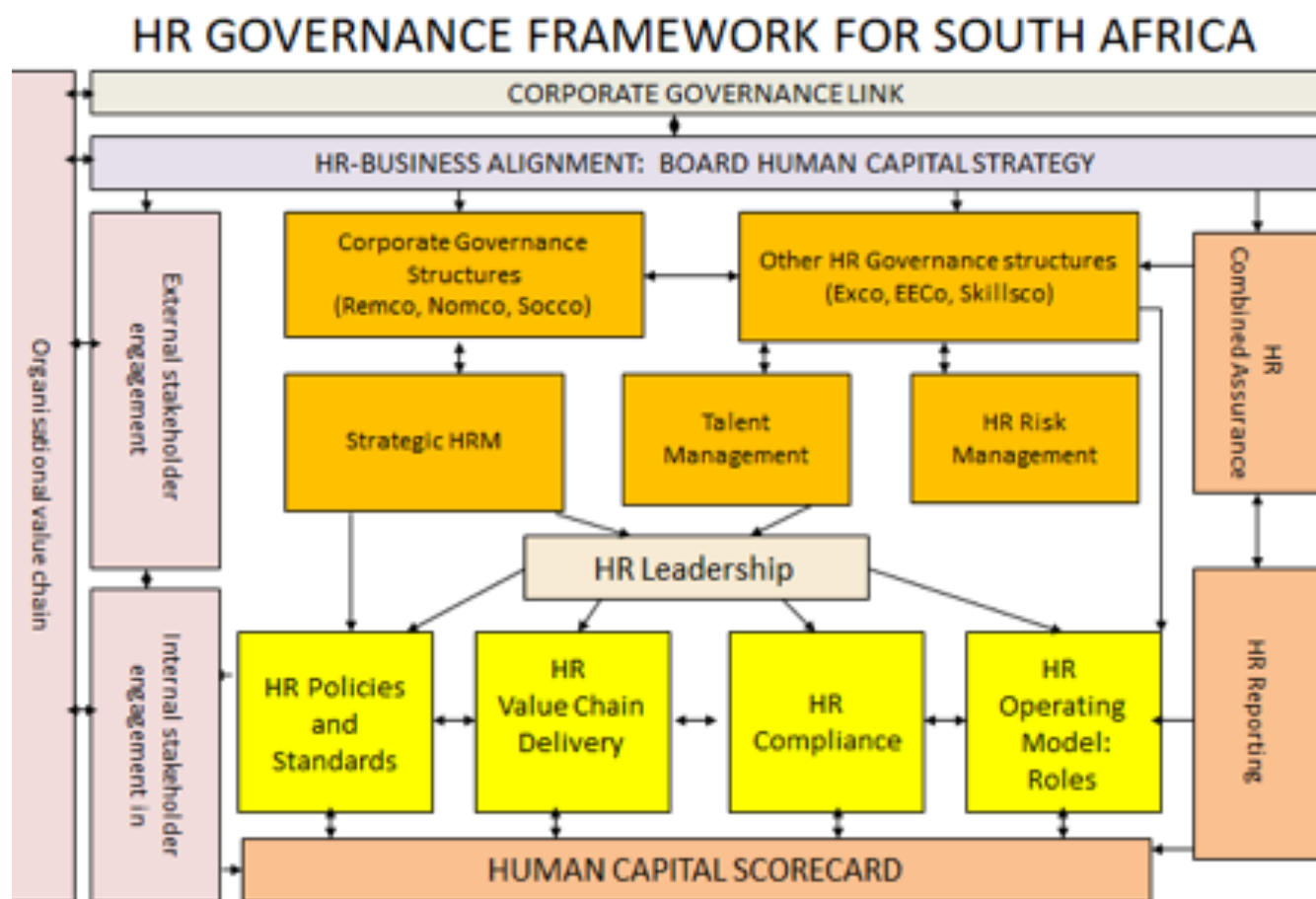
SABPP (2018), Prof. T Veldsman and Prof. A Grobler

The HR Governance Framework for South Africa as illustrated in figure 11 provides a blue-print for HR Directors in ensuring the sound governance of human capital in an organisation. The following guidelines (matched to the 18 building blocks in figure 11) provide a framework for a high-level action plan for HR Directors:

1. Ensure that you have a clear picture of where HR fits into the overall corporate governance framework of the organisation.
2. A fully integrated approach to HR-business alignment is required culminating in a Board human capital strategy (it is owned and approved by the Board at a strategic and corporate governance level in the organisation).
3. Map the organisational value chain (high level production or service process) and articulate the role of HR in adding value along the value-chain.
4. Identify and engage with all relevant HR stakeholders external to the organisation and document the process and outcome (e.g. Department of Labour, SETAs, medical aids, pension funds etc).
5. Identify and engage with all internal HR stakeholders of the organisation and document the process and outcome (e.g. management, unions, employees, internal audit, risk management, legal department).
6. Make all the corporate governance structures of the organisation visible and identify the role and value of HR where relevant (e.g. nominations committee, remuneration committee etc.).

7. Identify and assess all the other HR governance structures (e.g. skills development committee, employment equity committee, etc.).

8. Develop (or assess and improve) an HR strategy for the organisation.

9. Develop (or assess and improve) a talent management strategy for the organisation.

10. Identify all HR and other people-related risks and generate risk mitigation plans and actions.

11. Formulate an explicit HR leadership philosophy and model for the organisation.

12. Develop (or update and improve) a full set of HR policies aligned to the HR standards for the organisation.

13. Map a clear HR value-chain focusing on the delivery of HR products and services.

14. Develop a system to ensure HR compliance to all laws, rules, codes and standards.

15. Develop an HR operating model specifying all the roles and rules of engagement.

16. Ensure that HR combined assurance takes place, by first doing an HR self-assessment, followed by internal audit and external audit.

17. Adopt a clear and consistent approach to HR reporting to relevant internal and stakeholders where necessary.

18. Develop a human capital scorecard for the organisation and work towards improving on all the different dimensions or metrics and institute actions or interventions to continuously improve performance.

THE STEINHOFF CASE:
THE BIGGEST CORPORATE COLLAPSE IN SOUTH AFRICA

On the morning of 5 December 2017, Steinhoff was worth R93 billion. A day later, more than R117 billion of its market value had been wiped out after the news broke of a possible corporate scandal involving the misstatement of financial results. The Steinhoff empire, one of the top global South African companies has crumbled overnight (Styan, 2018). The Steinhoff Group had 130 000 employee globally, of which 50 000 are in South Africa. The CEO of Steinhoff, Markus Jooste resigned and disappeared from public life for nine months, before eventually appearing in Parliament in September 2018 denying any wrongdoing and not accepting any responsibility for the collapse. He rather blamed a European business partner, Andreas Seifert, and the audit firm Deloitte for the demise of Steinhoff. This denial created the unique and unbelievable situation of the Chairperson, the CEO and CFO all claiming that they were not aware of any financial irregularities at the company. Interestingly, his first announcement makes it clear that the Financial Director and Corporate Services/HR Director were not responsible for the governance failure. The unanswered question is then: Who is responsible?

While investigations are underway to get to the bottom of this spectacular collapse, various financial commentators have asked uncomfortable questions about the company for several years. These questions were either dismissed or avoided, but once the news of the scandal became public, avoidance was replaced by closer scrutiny and it became evident that the warning signs that something was wrong at the company, were in fact prevalent for many years prior to 2017.

As quoted by Styan (2018) when being questioned by Parliament on whether he could foresee anything going wrong at Steinhoff, the previous Chairperson Christo Wiese said: "The caliber of the people on the board was some of the very best" and "there must be full trust in the management." The question arises whether the board could not see any warning signs before the end of 2017. However, it appears as if the board and Jooste had differences of opinion over the auditors and that this agreement contributed to the resignation of Jooste. He was not happy that the auditors refused to sign off on the financial statements when they asked for a forensic probe and he then requested the auditors to be fired (Rose, 2018a).

Similar to the comments made in the media and by analysts, Jooste has been described by Ungerer (in Smith, 2018) as a "brilliant and charismatic leader." As a charismatic leader, Jooste achieved results and he was surrounded by the best advisers (Ungerer, in Smith, 2018). He managed to grow Steinhoff from a small furniture company to a global retail giant operating in many different countries (Naude, Hamilton, Ungerer, Malan & De Klerk, 2018a). The main brands in South Africa are Pep, Ackermans, Russells, Incredible Connection, Tekkie Town, Timber City and HiFi Corporation, Shoe City and Unitrans.

Not only did the Steinhoff collapse contribute to major reputational damage, but it was a severe knock for the pension funds that invested significantly in its shares. Most of the asset managers held Steinhoff as an investment in their portfolios (Styan, 2018). The largest investor was the Government Employees Pension Fund (GEPF) and they lost R14 billion because of the scandal. The reality is that practically every South African with investment in some retirement fund, provident fund or pension fund is poorer due to the collapse of Steinhoff (Styan, 2018). The unions were very upset about this situation and demanded that all responsible for the corruption should be prosecuted. A member of the Federation of Unions of SA (Fedusa) walked up to Jooste in Parliament and shouted in his ear: "How do you feel? We lost billions because of you, how do you feel? And you come here and act as if nothing is wrong. You must be ashamed of yourself." (Rose, 2018b). Tony Ehrenreich, Cosatu regional secretary in the Western Cape also expressed his dissatisfaction and responded as follows: "The fact that Jooste's corrupt action led to workers losing millions of rands in their pension funds will see Cosatu target Jooste to recover the workers' money, in all of his related activities" (Styan, 2018).

The role of the board is another key aspect of corporate governance at Steinhoff. Various factors play a role such as the independence of board members, and the transition to the new board. The new chairperson of the Board, Heather Sonn said that after the scandal it was difficult to find good people to serve on the board and in management. As quoted by Styan (2018) she said: "It was difficult to convince people to join us. They either didn't want to, or they wanted assurances that we could not provide." Be that as it may, it does not appear as if any board members will take responsibility for the collapse of Steinhoff.

While the previous chairperson, board members, CEO, CFO and other executives don't want to take any responsibility for the collapse of Steinhoff, it is clear from the analysis by Styan (2018), Ungerer (in Smith, 2018), Rose (2018b) and many other commentators that there were indeed several red flags alluding to serious gaps in corporate governance at the company. Some of the most obvious shortcomings were as follows:

- Excessive executive remuneration;
- A culture of greed fueled by short-term profit optimisation;
- Payments to senior board members or executive management without proper authorisation;
- A lack of board member independence;
- Several audit risks;
- Incidents where conflict of interest was not properly mitigated or managed;
- A lack of controls;
- Complexity caused by rapid international expansion through mergers and acquisitions;
- Clear efforts to dodge tax compliance;
- A lack of accountability;
- A culture of accepting all management decisions, even if these decisions are questionable;
- Bullying and aggressive management practice;
- Efforts to hide or distort the truth;

- A lack of external auditor rotation, or efforts to seek new auditors when management disagree with audit findings;
- An aggressive pursuit of profits at the expense of ethics and sound governance;
- Lip service to ethics and a lack of ethical auditing;
- Inadequate and inaccurate financial reporting;
- A lack of diversity and transformation.

The analysis by Prof Marius Ungerer (in Smith, 2018) showed that despite the often reported phenomenal financial results, "huge governance inefficiencies existed." Ungerer asserts: "The Steinhoff case shows the human failure of the scrutiny of directors and the diligence in their roles. Much more can be done around, not financial auditing, but ethical auditing in firms as opposed to thinking the answer lies in taking the regulatory route." It therefore appears as if Steinhoff is a classic case of incredible financial results not being sustainable, especially now that we have learned that these results may not have been accurate if it was inflated to keep the shareholders satisfied.

While a lot of work still needs to be done to get to the bottom of the Steinhoff collapse, already academics, the media and analysts are trying to glean some lessons from the case, Naude et al (2018b) identified five lessons from the Steinhoff saga:

1. Be true to your strategic vision and "stick to the knitting."
2. Growth does not equate to profit or success.
3. Strong governance is not just about financial and regulatory compliance; it's a mindset.
4. A charismatic leader can either be very good or very bad for a company.
5. Even ethical business people are
6. From these five lessons it is evident that success and failure of an organisation are not mutually exclusive. A company can grow and be highly successful, before it becomes a business failure. Stein-

hoff was successful for several decades until the news of the collapse emerged. In fact, it could be argued that "it was too good to be true." Cotty (2018) also suggests that all companies who are reluctant to rotate auditors should be scrutinised to prevent a reoccurrence of the Steinhoff collapse.

It is also important to assess the culture of the organisation. If a company becomes obsessed with short-term results to satisfy shareholders at the expense of other stakeholders (regulators, employees, society), then the business may be at risk. Also, building an open and transparent culture to ethics and performance is of utmost importance.

As Naude et al (2018b) state: "At Steinhoff, weak accountability and a culture of highly creative accounting meant that many dubious investment deals, excessive debt levels and the poor financial performance of several of the businesses went undetected for a long time. Either the truth was hidden, or responsible parties (including the board) were not paying enough attention, or both. Strong governance in an organisation is heavily dependent on an accountable and capable board to exercise rigorous oversight while also motivating the executive team to follow their vision."

What is sad about the Steinhoff case is that one of South Africa's rising giants in the corporate sector has fallen. It is a case of a success story being rewritten into one of the biggest corporate failures experienced in South Africa. Furthermore, this has happened in a country with one of the best corporate governance codes in the world, i.e. the King IV Code. It is hoped that full investigations will reveal the truth and lead to those responsible being held accountable, and in the event of fraud and corruption, being prosecuted for this unethical behaviour. Given the national and international impact of the Steinhoff collapse, it is hoped that lessons can be learned from Steinhoff in efforts to tighten corporate governance and

ethics in order to prevent a reoccurrence of a scandal of this magnitude. Moreover, Naude et al (2018b) highlight the importance of the human factor in corporate governance at Steinhoff when they state: "While efficient infrastructure and various management and operational tools are naturally important, the human factor stands out as being the most critical of all ... and the most difficult to get right. It is largely the human element that has toppled the once-mighty company." If the current narrative of no board or management responsibility for the Steinhoff disaster continues much longer, it is clear that Steinhoff experienced a significant corporate governance failure. This may be a call for a new system of corporate governance driven by human governance at the centre of a more inclusive, robust and proactive approach to corporate governance. It may also be necessary for South Africa to follow the example of the United Kingdom by including organisation culture and employee engagement as key aspects of our corporate governance code.

How the Steinhoff process will unfold and when the true facts become available, remains to be seen. It is acknowledged that some of the information in this case study is based on media reports, allegations and speculation. It is used for the purpose of learning lessons only and to start working towards improving corporate governance and preventing similar collapses.

NOTE: Readers are encouraged to keep abreast of the investigation and then to update themselves with official reports being released by auditors and other investigative authorities.

REFLECTIONS:

1. What important human resource governance lessons can we learn from the Steinhoff case?
2. How should the human resources governance framework facilitate key leadership conversations within Steinhoff?
3. What human resources governance recommendations would you recommend to the Steinhoff Leadership team?

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