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HIDDEN FIGURES

How workforce data is missing from corporate reports

Report

July 2018

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Report

Hidden figures: how workforce data is missing from corporate reports

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Acknowledgements

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Ulster University Business School

1 Foreword

In May 2016 we published *Reporting Human Capital: Illustrating your company's true value*, our first report exploring the quality of UK FTSE 100 disclosures of workforce information. In our analysis we found pockets of good practice, and evidence that some organisations were starting to take the value of human capital data seriously in their corporate reporting. There were undoubtedly signs of positive change but, alongside other organisations researching this agenda, such as the Pensions and Lifetime Savings Association (then the National Association of Pension Funds), we believed that more progress was needed.

Two years on, much has changed. With global political instability, Brexit and the #MeToo movement, the landscape organisations operate in is shifting. 'Good work' has risen up the agenda following the publication of the Taylor Review, and in the reporting space the first year of gender pay gap reporting regulations has illustrated that it is possible to mandate for the reporting of key workforce indicators. Both developments represent a renewed interest in fairness and inequality in work, and while the effect of gender pay gap reporting has yet to be fully understood, it has kick-started an important debate about the standardisation of workforce data and disclosures.

It is in this context that we revisit the corporate reporting of workforce data. We explore if and how workforce reporting has changed over time and introduce the People Risk Reporting Framework, a new method for reporting workforce risk and opportunity. It is our view that the lens of risk and opportunity offers a useful perspective previously missing on the value and importance of workforce information.

We hope that by providing insights on current practice and a new tool for workforce reporting, both the business and the investment community will take steps towards improving reporting practices and take the lead in making 'good work' a reality.

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2 Introduction

Modern organisations are increasingly competing in an environment where enhancing the knowledge and skills of all employees is vitally important. To successfully achieve their strategic goals, organisations must manage and leverage their stocks of intellectual assets effectively (Grant 1996, Subramanian and Youndt 2005, Dost et al 2016). Given this scenario, it is not surprising that investors, amongst other stakeholders, are increasingly focusing on such assets. Hence, there has been a growing desire to understand how these more intangible organisational aspects are reported upon in an organisation's annual report (Bontis and Fitz-enz 2002, Vafaei et al 2011).

An organisation's intellectual capital base comprises human, social and organisational capital (Subramanian and Youndt 2005, Dost et al 2016). According to Thomas et al (2013), human capital (HC) can be described as the 'foundational level' of an organisation's intellectual capital base as it supports all other forms of capital, that is, social, organisational (including innovation capital) and financial capital. Increasingly, HC is now viewed, by both academics and practitioners alike, as a key pillar that must be leveraged effectively to ensure that the corporate strategy is achieved. This in turn has resulted in a more critical focus and greater pressures for organisations to improve both the transparency and quality of their HC reporting (Abeysekera 2008). However, previous research by the CIPD highlighted that while FTSE 100 organisations have increased the quantity of their HC disclosures, the actual quality of how they report upon HC issues is open to some interpretation (CIPD 2016). For example, this research found that over a third of FTSE organisations did not comprehensively report upon HC issues or events that could be perceived as being negative, or risky, in nature in their annual reports. The findings from the report led to calls for more detailed and comprehensive research designed to investigate how organisations report HC information specifically linked to corporate risk is reported by large UK organisations. A fundamental issue linked to this is to determine whether the existing HC risk frameworks designed to guide organisations are well enough developed and allow for HC risks to be reported effectively.

Human capital: a unique and complex risk

Given the diverse and multifaceted nature of an organisation's HC, understanding the risks associated with elements of it can be extremely complex. For example, considering senior executive labour turnover, there is the risk that an appropriate replacement or successor capable of undertaking such a vitally important role may not be found (succession risk). In addition to this a senior-level employee may have possessed firm-specific or novel knowledge that is crucial to achieving strategic objectives, that is, the firm's ability to innovate (talent/innovation risk). Finally, the exit of an influential leader may negatively impact upon the culture, leadership and ability of the organisation to operate efficiently (business disruption and continuity risk). Hence we can clearly see how, because of the interdependent nature of organisations, the concept of 'business risk' is systemic in nature and interwoven with the concept of HC management (Becker and Smidt 2016).

To date, however, research relating specifically to HC risk has been largely fragmented, focusing upon individual or isolated aspects of such risk (Russ 2014). Furthermore, there is a lack of robust and dynamic HC reporting frameworks, which can help organisations to effectively manage and measure HC risk. Moreover, given the advent of new European Union (EU) legislation on environmental and social disclosures, including human rights, which are scheduled to be introduced in 2018 (European Commission 2018), the need for a framework that comprehensively focuses upon HC-focused risk has never been greater.

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Defining human capital and risk management

Human capital is *'the human factor in the organisation; the combined intelligence, skills and expertise that gives the organisation its distinctive character. The human elements of the organisation are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organisation.'*
(Bontis et al 1999)

While definitions of HC are prevalent in both academia and industry, it is acknowledged in the literature that universally accepted definitions of 'risk' are virtually non-existent (Russ 2014, Becker and Smidt 2016). For instance, as Becker and Smidt (2016) argue, there are definitions of risk that focus on the negative aspects of risk, such as a lack of predictability, and those definitions that acknowledge the idea that risk can have both positive and negative outcomes for the organisation (see Jablonowski 2006, Osipova and Eriksson 2013, for examples). Moreover, different industries and sectors tend to define risk in the context of their own environment. Accordingly, Becker and Smidt (2016) settle on the definition of risk outlined in Aven (2010), which suggests that a risk comprises: *'an event, consequences, and probabilities (and uncertainties)'.* Becker and Smidt (2016) argue that the term 'consequences' is important, as it can relate to both positive and negative outcomes.

While it is important to outline what is meant by the term risk from a business perspective, it is also of critical importance to define what is meant by the term risk management. According to Baker et al (1999), *'Risk management is considered to involve the identification, analysis, evaluation, control and monitoring of risk and uncertainty.'* Given the inherent risks surrounding HC outlined earlier, it is imperative that efforts are made to integrate the fields of HC and risk management (Becker and Smidt 2016).

3 Research overview

The purpose of this research is to develop an HC risk framework that incorporates the concepts of HC reporting and risk management, and that can enable organisations to fully manage, measure and report their HC risk. An overview of the approach taken is below.

Content analysis

Assess the extent to which HC risks are reported in FTSE 100 firms' annual reports
This section illustrates the results from the content analysis of the latest annual reports of FTSE 100 companies, extending the 2016 analysis with more recent data (CIPD 2016). The analytical HC framework developed in the 2016 report grouped key HC elements under four main categories: knowledge, skills and abilities (KSA); human resource development (HRD); employee welfare/stability; and employee equity. The objective was to analyse the change in HC reporting over the time periods of 2013 and 2015.

Risk framework for people risk reporting

Evaluate the quality of HC risk reporting frameworks and identify instances of exemplary HC risk reporting to develop a good practice framework
This section introduces the People Risk Reporting Framework (PRRF) and tests it using data from the FTSE 100 analysis. This is used to draw out examples of high-quality reporting practice and a set of in-depth case studies.

Assess the quality of FTSE 100 reporting an identify exemplar reporting of people risk.
We explore exemplar people risk reporting and test against the PRRF.

4 Content analysis

A document content analysis was undertaken to analyse the qualitative data contained in annual reports by transforming it into quantitative data (numerical data) through textual coding (Abeysekera and Guthrie 2004). It allows researchers to identify and quantify patterns in communication in a replicable and systematic manner, meaning researchers are able to make replicable and valid inferences by interpreting and coding textual material (Carney 1972).

In relation to this study, FTSE 100 firms' annual reports are analysed by counting the number of sentences (that is, the line count) that make reference to predetermined HC keywords (Abeysekera and Guthrie 2004). The purpose of the line count is to overcome the problems of using single isolated keywords in the report, as sentences are more easily identifiable wholes (Carney 1972, Abeysekera and Guthrie 2004). This negates the problems associated with isolated keywords located in contents pages or graphs, which don't really have value or infer meaning (Abeysekera and Guthrie 2004).

Analytical framework

In order to undertake the content analysis, the HC analytical framework employed in this study was taken directly from the 2016 research, *Human Capital: Illustrating your company's true value* (CIPD 2016). The framework comprises four different HC categories, which are as follows:

- **knowledge, skills and abilities (KSA)** – relates to HC items that are intrinsic in nature and refer to the knowledge, skills and motivations of the employee
- **human resource development (HRD)** – relates to employee development practices
- **employee welfare** – relates to the health, safety and overall well-being of the workforce
- **employee equity** – relates to equality items such as workplace diversity and human rights.

A fifth category was developed for the purposes of this study:

- **workplace risk** – comprises HC risk items taken from the previous four categories, and includes items such as employee turnover, leadership succession and health and safety.

The FTSE 100 firms were chosen as the basis for analysis as they are major public limited companies, and comprised organisations from a wide array of different sectors.

Findings

The findings for the five key HC categories are illustrated in Table 1. Across all categories, HRD items saw the biggest change (21%), followed by employee equity (16%), over the years analysed for the purposes of this report. Two of the other categories (KSA and workforce risk) showed more modest changes, while employee welfare showed a negative change. This means that in 2017, the leading UK companies decreased their reporting of employee welfare items.

Table 1: Analysis across the five key HC categories

	Sentence count			% change		
	2013	2015	2017	2013–15	2015–17	2013–17
Knowledge, skills and abilities (KSA)	3,523	4,080	4,385	16	7	24
Human resource development (HRD)	3,833	4,827	5,823	26	21	52
Employee welfare	4,203	4,485	4,258	7	–5	1
Employee equity	2,562	3,200	3,696	25	16	44
Workforce risk	3,885	4,832	5,221	24	8	34
Total	**18,006**	**21,424**	**23,383**	**19**	**9**	**30**

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In the discussion below we review each of the five key HC categories in turn.

Knowledge, skills and abilities

Overall, KSA disclosures increased by 7% between 2015 and 2017, which included both large positive and negative changes (Table 2). Entrepreneurship increased the most (28%), followed by motivation (20%) and leadership (16%). Perhaps surprisingly given some of the positive changes, commitment had a large negative change of 31%, while flexibility decreased by 30%. Likewise innovation saw a more modest decrease (3%), but is still an important area as seen by the large change between 2013 and 2015 (41%). It should be noted that although expertise only changed by 8%, its sentence count remained high in 2017.

Table 2: Analysis across KSA items

	Sentence count			% change		
	2013	**2015**	**2017**	**2013–15**	**2015–17**	**2013–17**
Commitment	312	351	243	13	–31	–22
Entrepreneurship	70	88	113	26	28	61
Expertise	1,912	2,166	2,339	13	8	22
Flexibility	25	30	21	20	–30	–16
Leadership	1,073	1,298	1,510	21	16	41
Motivation	77	71	85	–8	20	10
Innovation	54	76	74	41	–3	37
Total	**3,523**	**4,080**	**4,385**	**16**	**7**	**24**

Human resource development

Given the UK Government's recent emphasis on apprenticeships, it is perhaps no surprise that this item increased by the most between 2015 and 2017 (64%) (Table 3). Other large changes occurred in talent management (26%) and succession planning (22%), following the earlier trend from 2013 and 2015. However, internships and career development both had decreases in reporting by 32% and 20% respectively. This is perhaps surprising given their importance, and with regard to internships, their prominence in the job market. Training had the largest sentence count, which is again expected, although its increase (16%) was less than other areas.

Table 3: Analysis across human resource development (HRD) items

	Sentence count			% change		
	2013	**2015**	**2017**	**2013–15**	**2015–17**	**2013–17**
Apprenticeships	171	225	369	32	64	116
Career development	89	123	99	38	–20	11
Graduates	204	232	259	14	12	27
Internships	38	53	36	39	–32	–5
Succession planning	880	1,160	1,418	32	22	61
Talent management	880	1,249	1,577	42	26	79
Training	1,571	1,785	2,065	14	16	31
Total	**3,833**	**4,827**	**5,823**	**26**	**21**	**52**

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Employee welfare

Employee welfare was the only factor of the seven categories to reduce over the time period. Four out of the seven items were reported less in 2017 than in 2015: employee engagement fell by 21%, employee relations by 14%, ethics by 11%, and health and safety by 6%. This reduction was countered by a substantial increase in the reporting of employee well-being (76%).

Table 4: Analysis across employee welfare items

	Sentence count			% change		
	2013	2015	2017	2013–15	2015–17	2013–17
Corporate social responsibility	969	815	887	–16	9	–8
Employee engagement	974	1,083	857	11	–21	–12
Ethics	908	1,105	982	22	–11	8
Health and safety	963	1,033	969	7	–6	1
Employee relations	151	173	149	15	–14	–1
Employee turnover	103	112	126	9	13	22
Employee well-being	135	164	288	21	76	113
Total	**4,203**	**4,485**	**4,258**	**7**	**–5**	**1**

Employee equity

Employee equity describes issues of diversity, equality and human rights. Most factors increased substantively; however, reporting on equality remained low, reducing slightly. After its large increase between 2013 and 2015 (174%), human rights saw a more modest change of 20%. Employee rewards increased by 21%, having not changed between 2013 and 2015, and diversity increased by 12%.

Table 5: Analysis across employee equity items

	Sentence count			% change		
	2013	2015	2017	2013–15	2015–17	2013–17
Diversity	1,165	1,508	1,694	29	12	45
Equality	132	177	175	34	–1	33
Human rights	194	441	531	127	20	174
Employee rewards	1,071	1,074	1,296	0	21	21
Total	**2,562**	**3,200**	**3,696**	**25**	**16**	**44**

Workforce risk

Workforce risk was conceptualised by bringing together key items from across the other factors. The majority of companies include the risks of retention and workforce skill as part of their overall risk reporting; therefore it is no surprise to see the increases in the associated items of talent management, succession planning and employee turnover. However, the latter had the lowest sentence count out of all the workforce risk items. There were, however, declines in reporting of ethics and employee relations reporting, with both dropping over 10 percentage points each (11% and 14% respectively).

Table 6: Analysis across workforce risk items

	Sentence count			% change		
	2013	2015	2017	2013–15	2015–17	2013–17
Succession planning	880	1,160	1,418	32	22	61
Talent management	880	1,249	1,577	42	26	79
Ethics	908	1,105	982	22	–11	8
Health and safety	963	1,033	969	7	–6	1
Employee relations	151	173	149	15	–14	–1
Employee turnover	103	112	126	9	13	22
Total	**3,885**	**4,832**	**5,221**	**24**	**8**	**34**

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

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

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

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

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Discussion: what are the current trends in human capital reporting?

The analysis highlights several important trends.

Growth in well-being disclosure is occurring as other welfare disclosures reduce in number.
The increase in employee well-being disclosure is substantial and seems to have steered the focus away from other welfare items, including health and safety reporting, which saw a decline by 6% in the financial year 2016–17. According to research by Deloitte in 2017, the profile for employee well-being was raised in the 2016–17 financial year because of a number of key events such as: the introduction of Business in the Community's National Employee Mental Well-being Survey and the Mental Health Toolkit for employers in late 2016; the Prime Minister's January 2017 announcement of an independent report on companies' actions to support mental health; and mental health charity Mind's first Workplace Wellbeing Index (Deloitte 2017). In particular, the Prime Minister's call for an independent report on the issue in January 2017 may have influenced FTSE 100 firms to increase reporting in this area (GOV.UK 2017).

Employee voice disclosure has steeply declined.
Employee voice describes the means by which employees communicate their views to their employer. Our analysis highlights substantial declines in reporting in the areas of employee relations, employee engagement and employee commitment. The decline in reporting on these issues is surprising as these items, particularly employee engagement, are commonly linked to the culture of the organisation and may reference important extra-role behaviours such as creativity and knowledge-sharing (Eldor and Harpez 2016). Reporting on employee innovation also appeared to decline.

Apprenticeship reporting increased, while internships and career development continued a declining trend.
There was a substantial increase in apprenticeship reporting, while reporting on internships and career development declined. As suggested previously the increase in apprenticeship reporting may be strongly linked to the UK Government's apprenticeship funding initiative announced in the 2016–17 financial year (GOV.UK 2016).

Human rights disclosure has plateaued.
The slowdown on human rights reporting in the 2016–17 period may be linked to changes in the Companies Act introduced in 2013, in which new reporting requirements were introduced regarding employee equity, that is, human rights and diversity issues. This may have initially spurred increases in human rights reporting, which have now levelled off. However, forthcoming changes to the EU Disclosures Directive being introduced in 2018, calling for a greater disclosure on environmental and social issues, may increase human rights reporting moving forward (European Commission 2018).

Key HC risk items are repeatedly neglected in FTSE 100 annual reports.
There are a number of key HC risk items that are repeatedly overlooked or poorly reported, in particular employee innovation (1.7% of KSA reporting), and employee flexibility and employee relations (3.3% of the total workplace risk reporting). In addition, reporting on approaches to contingent labour is also very low: employee turnover and employee flexibility remained low across all three time periods. However, some of the highest ranked HC items in terms of sentence count relate to workplace risk, namely, health and safety, succession planning, ethics and diversity, and talent management.

It appears that while organisations are taking HC risk seriously, there are deficiencies in terms of employee innovation, employee relations, employee turnover, and the contingent workforce. Interestingly, succession planning for senior roles is widely reported; however, HC reporting in the area of employee turnover and employee flexibility is limited. This may be indicative that organisations have a strategy for the loss of executives, but do not take into consideration regular employees and the contingent workforce.

5 A new framework for reporting human capital risk

As the findings from the content analysis demonstrate, HC risk reporting has decreased overall in the 2016–17 financial year compared with previous years. Previous research highlighted issues regarding the transparency of the reporting of HC information (CIPD 2016). As such, it appears that disclosures do not recognise the diversity of HC risks that could have an impact.

To improve HC disclosure and develop a risk perspective on HC information, we propose an integrated HC risk measurement framework that aims to improve the identification and management of HC risks.

Understanding the research: how does academic literature describe HC risk?
A literature review was undertaken to examine the quantity and quality of research that has been conducted in the area of HC management and risk. The literature review was developed to answer two key questions:

1 How does published academic literature describe HC risks?
2 To what extent does academic literature confirm the need for an HC risk framework?

Our review showed that academic literature is limited in terms of combining the fields of HC and risk management (Russ 2014, Becker and Smidt 2016). Consequently, there has been very little research directed to developing an integrated HC risk framework that encompasses a wide variety of HC risks (Meyer et al 2011). Instead, Becker and Smidt (2016) highlight that HC risk research is conducted in isolated silos that focus on individual HC risks such as health and safety. Moreover, it was also found that the diversity of HC risks being researched in the literature is quite poor. Beyond the 'big four' risks of talent management, health and safety, employee ethics, and diversity and equality, research is sparse. While concepts such as employee well-being are seeing an increased focus in the literature (Bakker 2015, Chughtai et al 2015), HC risks related to business continuity and the contingent workforce are quite rare (Tahira Probst et al 2016). One exception is a study by Tahira Probst et al (2016) that examined the impact of contingent work and job insecurity on health and safety outcomes. Interestingly, the study found that contingent work coupled with job insecurity significantly increases employee risk for poor safety-related outcomes.

Although not widely acknowledged in the literature or in FTSE 100 annual reports, some peripheral HC risks could become key issues for management, for example, gender pay equality (O'Reilly et al 2015), employee disability (Mukta et al 2018) and human rights (Carter and Rogers 2008).

The diversity of HC risks has been expanded in recent years and it is apparent that there is a need to develop a holistic framework for measuring and managing these risks as they are applicable to organisations across all industries. In order to develop the foundation for a risk HC framework, a number of research articles on different aspects of HC risk were reviewed and compiled to illustrate the diversity of HC risks now facing organisations. Table 7 presents a summary of the literature review and illustrates seven dimensions of HC risk (that is, from the internal or external labour market).

Table 7: Seven dimensions of human capital risk

Risk type	Source of risk	Description of risk
Talent management	Internal and external (labour market)	• difficulties retaining and recruiting the right calibre of employee (Tarique and Schuler 2010, Israelson and Yonker 2017) • skill shortages as a result of poor talent management policies or failing to meet employee development needs (Glen 2006, Stahl et al 2012, Wali and Zekeriya 2013) • failure to plan for the exit of a high-ranking employee or leader (Charan 2005) • failure to properly reward employees or offer competitive wage packages (Beeson 1998, Bloom and Michel 2002)
Health and safety	Internal and external	• health and safety breaches that put employees, customers or the wider public in danger (Kaptein 2008, Bahn 2013) • the failure to acknowledge risks associated with employee health and well-being, for example stress/burnout (Bakker et al 2005)
Employee ethics	Internal	• the risk of inappropriate employee behaviours that may lead to litigation (for example racist remarks) and ethical breaches by employees including employee fraud (Francis and Armstrong 2003, Kaptein 2008, KPMG 2016)
Diversity and equality	Internal	• a lack of workplace diversity and equality preventing employees from reaching their true potential and value (Greer and Virick 2008, Seifert et al 2016) • a lack of workplace equality systems/policies, which may lead to a toxic culture of discrimination (Armstrong et al 2010, Chou and Choi 2011)
Employee relations	Internal and external (for example unions)	• industrial action due to poor people management practices and working conditions or uncompetitive performance management and remuneration strategies (Bloom and Michel 2002, CIPD 2017a, Schyns and Schilling 2013) • poor employee relations/communication in times of change, for example mergers and acquisitions (Schuler et al 2004) • poor employee morale linked to low employee engagement and productivity (Pfeffer and Langton 1993, Nazimoğlu and Özsen 2010, Rafferty and Restubog 2011)
Business continuity	Internal and external	• failure to account for, manage, and respond to events or scenarios that may disrupt the business or the workforce (a lack of resilience) (Stanton 2005) • the exit of key leadership talent from the organisation with no back-up/auxiliary staff in place (Charan 2005, Rothwell 2005) • changes in the firm's external environment (including political risk, a key external risk) that may impact the firm's workforce and/or disrupt normal operations, for example Brexit, the Trump Administration and a potential second Scottish referendum
Reputational risk	Internal and external	• major lawsuits or employee regulatory breaches that result in a poor public perception, corporate fines and reduced revenues (Francis and Armstrong 2003) • poor environmental or social performance, for example human rights breaches, which lead to lawsuits and/or boycotts (Bartlett et al 2006)

Understanding organisation risk reporting frameworks: analysis and findings
A qualitative risk framework assessment was undertaken alongside the content analysis, which briefly reviewed each FTSE 100 firm's risk framework and outlined the strengths and weaknesses of each model.

The key findings were:

- Contemporary risk frameworks are general in nature and require greater focus on HC risk.
- Although employee well-being and employee diversity are widely reported (as highlighted in the content analysis) in the annual reports, these items need to be linked to the risk framework as they are reported in isolated sections of the annual reports.
- Current risk frameworks do not consider risk opportunities; although HC opportunities are recorded in the wider report, they aren't referenced as relating to risk.
- The qualitative assessment highlighted that while some firms do utilise HC key performance indicators (KPIs), these are rarely linked to the overall risk framework. Hence organisations do not have adequate risk metrics and actionable risk data.
- While business innovation was considered, there was very little reference to employee innovation, employee flexibility and the voice of the employee. These findings reflect that of the content analysis.

Reporting on human capital risk: the People Risk Reporting Framework

In this section we introduce the People Risk Reporting Framework (PRRF), a tool designed from the best practice elements of FTSE 100 firms' risk management frameworks. Ultimately, each organisation should report on each of the main headings in the PRRF to improve the quality of reporting (for example risk typology and risk impact). Organisations do not have to report all of the subheadings, but can choose those that best describe or exemplify the HC risk within the organisational context. The aim is to highlight how various HC risks may be categorised to improve the quality of disclosures. To summarise, the headings in Figure 1 (page 14) are divided into two aspects:

- **the risk headings** (for example risk typology and risk impact) – these headings were developed from the analysis in the previous sections
- **the risk frame** – that is, selecting the best approach for framing the risk based on the organisation's environment and strategic objectives, for example risk drivers, stakeholders affected. The risk frame was compiled from the analysis in the previous sections and the case studies.

The PRRF consists of five sections, which are described below.

Type

Firms could benefit not only from a greater acknowledgement of the diversity of risks impacting the organisation, but also provide a more in-depth description of the risk. For example, talent risk can be both an internal and external risk; however, external threats often tend to be ignored in relation to talent risk. Given the implications of Brexit on the labour market, a detailed commentary based on the internal and external implications of

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the EU referendum would be beneficial. Moreover, as certain industries require access to certain talent pools, such as engineering graduates, the extent that the risk is largely an industry-specific risk could be highlighted.

Lloyds: Risk drivers
In the emerging risk section of the risk framework, Lloyds considers the impact of Brexit and the risk from regulatory changes on the firm's workforce. In this section, the firm also considers risk drivers; for example, the contextual factors that surround or lead to the principal HC risk. Lloyds highlights that primary risk drivers such as regulatory risk are driven by secondary risk drivers such as compliance and legal risks.

Source: Lloyds annual report 2016, p123

Figure 1: The People Risk Reporting Framework (PRRF)

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

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

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To gain a better understanding of HC risk, an organisation may consider the risk drivers, that is, the contextual factors behind the risk, and how HC risk relates to other forms of organisational capital. The framework outlined in Figure 1 takes this a step further and advocates integrating HC risk with other forms of intellectual capital. For example, a new merger or takeover could disrupt HC/employees and thus impact the organisational culture in terms of social capital or innovation capital. Hence, this approach presents a better understanding of the HC risk alongside the risk drivers.

BT: Linking people risk to organisational capital

BT has a comprehensive risk management and assessment framework outlined in the firm's annual report that links each corporate risk to corporate strategy. Each risk is linked, in terms of relevance, to human, social, intellectual, financial and/or manufacturing capital. For example, talent risk is linked to HC, while pension risk is linked to human, social and financial capital.

Source: BT annual report 2017, p45

Impact

While firms generally have a good understanding of the areas of policy and strategy affected by HC risks, it is recommended that firms go a step further and consider the stakeholders affected by the HC risk and degree of risk interconnectivity. Risk interconnectivity is important to consider as certain risks can inflate to impact other areas of the organisation. An example of this phenomenon may be a high rate of turnover that could impact firm innovation as the firm is losing key talent and is unable to develop firm-specific knowledge.

SSE: Risk interconnectivity

SSE has a risk management and assessment framework illustration that plots each risk and considers 'risk interconnectivity' on the Y axis and the potential impact on group viability on the X axis. According to the SSE annual report, a highly interconnected risk has more ways to manifest than a less interconnected risk.

Source: SSE annual report 2017, pp26–27

It is also important to acknowledge the stakeholders affected by the HC risk. For example, reputational risk may be linked to employees and contractors (for example misconduct), suppliers in developing countries (for example human rights breaches), and trade unions (for example industrial action) as well as other regulatory bodies. It is also important to acknowledge the stakeholders affected to capitalise on risk opportunities further in the future. For example, an organisation may choose to develop strong supplier relationships to avoid human rights breaches or choose to work with unions to prevent strikes.

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Management

Given the concept of risk opportunities, it is important that firms are able to manage risks by deciding which HC risk to minimise and which to pursue, for example, an organisation may seek to minimise health and safety risk but pursue trade union relations to avoid industrial action. A risk preference scale was implemented by the insurance firm Aviva (see below), which is perhaps not surprising given the nature of the business.

It is also important that firms are able to continually monitor risk as the risk profile may change quickly and this may impact the risk mitigation strategy. Finally, organisations should detail a strategy for risk mitigation to avoid future risks from occurring, which may include undertaking collective workforce mitigating events such as developing futures or scenario planning.

Aviva: Risk preference scale

Insurance firm Aviva PLC has a robust risk management framework that contains a risk preference scale; that is, those risks that the firm seeks to minimise, for example operating risks, and those that the firm wishes to pursue.

Source: Aviva annual report 2016, p69

Performance

The availability of quantitative actionable risk data is important for managing current risks and setting performance targets for future mitigation strategies to expand risk performance targets. This HC risk quantification concept is generally not included in the current risk frameworks of FTSE 100 firms. KPIs can take the form of standard health and safety metrics, such as the lost time incident frequency rate, or the introduction of new metrics surrounding employee well-being, for example training and development, a working conditions index or the average employee working hours.

Opportunities

Risk opportunities refer to the possibility of achieving a positive outcome from an otherwise stated risk. It was highlighted in the qualitative analysis on reporting quality that HC risk opportunities were infrequently integrated into firms' risk frameworks. In addition, 2016 research by the CIPD highlighted that firms do in fact tend to report transparently on positive HC risk events (CIPD 2016). Therefore, it is logical to integrate the concept of risk opportunities into the overall risk framework as this completes the picture in terms of risk management (that is, those risks the firm seeks to minimise and those risks the firm may wish to pursue).

Rio Tinto: Connecting risk to business growth opportunities

Rio Tinto has an exemplary risk management framework that provides a brief description of the particular risk, the risk exposure trend (that is, change in risk), the potential impact on viability, health and safety and reputation considerations, the potential upside impact (opportunities), the downside (threats) and finally, risk-mitigating activities. In terms of risk opportunities, in the area of talent management, the firm highlights that the development and retention of talent enhances productivity, financial, and health and safety outcomes. Moreover, the firm highlights that leveraging the evolving company and market to attract a diverse and engaged workforce will deliver a competitive advantage to the group.

Source: Rio Tinto annual report 2016, pp17, 18, 19

Changing risk profile

The changing risk profile covers all the aforementioned factors and underlines the observation that risk impact and mitigating strategies can change over time. In addition to this, new risks may emerge and new risk opportunities may arise. While our assessment highlighted that many firms do consider the change in risk profile using directional arrows, not all organisations outline strategies to respond to these changes, or provide a robust rationale for why the risk is seen as increasing or decreasing.

Experian: Managing Brexit risk

The company has a robust risk management framework that discloses information on talent identification and development, career management, and succession planning programmes. The report states that voluntary staff attrition/exits are monitored and the firm is monitoring the tightening US labour market. The firm is also considering the impact of Brexit and the free movement of people on the labour market in the UK. As a result, the firm has deployed a Brexit response programme and steering committee. Moreover, the report states that as more information on the impact of Brexit for both Experian and its employees becomes available, the firm will consider what actions the firm will take to address these impacts.

Source: Experian annual report 2017, p17

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6 Operationalising the People Risk Reporting Framework

The findings of the quality assessment and HC risk case studies are integrated and presented to establish the validity and reliability of the risk framework. This is done with two objectives in mind:

1 to illustrate instances of exemplary HC risk reporting and measurement by FTSE 100 firms
2 to provide evidence and support for the risk management framework.

Populating the framework

The PRRF was applied to FTSE firms' annual reports in order to highlight exemplary organisational reporting of HC risks and to demonstrate the reliability and validity of the model. More specifically, this involved populating the PRRF with data based on each HC risk, and outlining the findings in individual tables with the following data included:

- **HC risk headings –** these connect to the PRRF, for example risk type, risk impact.
- **Framing –** selecting *the frame* for each risk. Again, these connect to the PRRF, for example description of risk, stakeholders impacted.
- **Evidence –** this section provides supporting evidence taken from the risk case studies.

It is important to highlight that in relation to the framing, firms are not limited to any one specific avenue in terms of how they choose to frame each risk, but may choose a number of different approaches based on the subheadings from the PRRF. For example, when considering the risk impact of health and safety, firms can choose between risk interconnectivity, stakeholders affected or strategic implications, or combine all of these aspects. The decision should reflect the organisation's operating environment to improve the effectiveness of HC reporting.

The seven dimensions of HC risk as illustrated in Table 7 are explored below:

1 health, safety and well-being risk
2 talent management risk
3 employee relations risk
4 business continuity and security risk
5 employee ethics risk
6 employee equality and diversity risk
7 reputational risk, which considers legal, regulatory, sustainability and social issues (for example human rights).

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1 Health, safety and well-being risk

Health and safety is a common risk to organisations. Understanding risk drivers is critical for managing health and safety issues. For example, a high rate of health and safety incidents on the shop floor may be the result of improperly trained staff. Lloyds reports risk drivers in their risk management framework; although Lloyds may not necessarily consider risk drivers in the context of HC risk, the concept is useful when considering HC risk.

The content analysis and literature review has highlighted that there has been an increased focus on the health aspects of health and safety risk in recent years. Landsec reported that the firm has designed workspaces with employee well-being in mind, including offices that feature outdoor terraces, shower filtered air, impressive views and high levels of natural light. Other examples include Legal & General, who conduct mental health training courses as part of mental health week and encourage physical fitness through the 'Stepjockey' stair-climbing campaign, which encourages physical health for businesses through various workplace challenges. The health and safety risk information may help firms improve both the quality of HC risk reporting in their risk frameworks and also provide some interesting ideas for how health and safety risks can be managed and measured.

Table 8: Health, safety and well-being people risk reporting framework

	Description	Evidence from FTSE 100 analysis
Type of risk	Risk drivers: the contextual factors which surround HC risk. The idea was taken from Lloyds.	**Aberdeen Asset Management** recognises that business mergers can lead to increased levels of stress.
Risk impact	Risk interconnectivity: according to SSE, risk interconnectivity is the idea that a highly interconnected risk has more ways to manifest than a less interconnected risk.	**Randsgold** highlights that the risk of malaria is related to employee absenteeism and reduced productivity.
Risk management and mitigation	Risk mitigation actions: a description of mitigating actions. This subheading could also include actions based on HC risk KPIs or metrics, for example, actions based on employee stress-related ratios such as employee work hours and absenteeism.	**Landsec** designs office schemes to improve employee well-being and productivity.
Risk performance or outcomes	HC metrics and KPIs: used to measure risk performance/threats across a number of years.	**Randsgold** records detailed H&S data such as the LTIFR rate, malaria rates, total injuries, near misses and the number of mines with OHSAS 18001 certification.
Risk opportunities	Risk opportunity analysis: examining if an HC risk has the potential to be turned into an opportunity.	**Antofagasta** makes use of virtual reality technology for H&S training for its mining workforce.
Change in risk profile	Change in risk profile: HC risk is dynamic in nature and can change and evolve. It is important to identify emerging risks and mitigating actions.	Change in risk profile: the media analysis and case studies highlight that mining firms are subject to disease outbreaks such as ebola and malaria and adjust risk responses accordingly, for example Randsgold.

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2 Talent management risk

Talent management refers to a number of HC risks, such as leadership succession, employee development, employee remuneration and reward, and the impact of socio-political events such as Brexit. The content analysis highlighted that talent management is among the highest reported HC risks, growing by 26% between 2015 and 2017. Management and mitigation of talent management risk includes monitoring and evaluation, particularly regarding skills gaps. Moreover, it is also important to monitor employee development and reward, as these factors may impact on retention.

Emerging risks such as Brexit have the potential to radically alter the talent pool of the UK and EU labour markets and as such require ongoing assessment. Once an organisation has analysed and evaluated the potential risks, it should use this information as part of strategic workforce planning. A good example of risk monitoring in action is INTU Properties' employee reward programme, 'win your dream', which rewards employees for dedication and excellence. Over time the organisation adds new reward criteria based on current and future talent management goals. In 2016/17, INTU added new categories for innovation and for outstanding commitment to health and safety.

Table 9: Talent management: People Risk Reporting Framework

	Description	Evidence from FTSE 100 analysis
Type of risk	**Level of risk:** when considering HC risk it is important to consider the level of the HC risk, as executive-level risks may differ from shop-floor risks.	**Burberry** is concerned about losing executive/leadership talent as a leader's vision often determines the brand success. Succession planning is key for Burberry.
Risk impact	**Strategic implications:** for many firms, linking HC risk to strategy is fundamental to achieving corporate goals.	**Taylor Wimpey's** annual report highlights that talent shortages exist across the industry in the main manual trades, impacting the firm's ability to deliver social housing.
Risk management and mitigation	**Risk monitoring:** involves assessing emerging risks, evaluating changes in existing risks or outlining plans for future risks. The risk monitoring idea was taken from banking firm RBS. It is important for talent development.	**Inmarsat** graduate recruits join as permanent employees and for two years are exposed to four different areas of the business through formal rotations. This exposure helps to broaden their skillset and knowledge base.
Risk performance or outcomes	**Risk outcome metrics:** in some cases it is important to be able to measure the outcome of risk management and mitigation activities, for example a new talent attraction programme will be judged by the number of new graduates entering the firm.	**Johnson Mattey** records the annual number of internal promotions, while car manufacturer Rolls-Royce records the number of graduates who entered engineering programmes.
Risk opportunities	**Future risk opportunities:** relates to opportunities that will occur at some point in the future but that firms can prepare for now. The idea was taken from Sage.	**Unilever** considers the millennial workforce and how HC strategies may have to evolve by 2020 to attract talent with new skillsets, which may improve the organisation.
Change in risk profile	**Change in risk profile:** HC risk is dynamic in nature and can change and evolve.	**Talent risk increase:** for some firms in the media analysis and cases studies, Brexit has increased talent risk, for example Barclays.

3 Employee relations risk

A good starting point for reporting employee relations risk is to consider internal and external stakeholders who are affected by the relationship between the organisation and its workforce. This will include employees, their families, management, trade unions and various independent bodies, including regulators. Reporting stakeholder involvement is one way of highlighting the importance of multiple perspectives; this is something the mining firm Anglo American includes in its report.

Employee relations risk is difficult to measure. As employee relations is a socially complex risk, it does not lend itself well to measurement using traditional HC metrics and indicators. Therefore, aside from reporting the number of strikes, measuring employee relations risk can be difficult. Instead, organisations such as Fresnillo have turned to employee surveys to develop employee trust and working conditions indexes that attempt to operationalise the concepts of employee relations. An important construct in the employee relations category is employee voice.

Table 10: Employee relations: People Risk Reporting Framework

	Description	Evidence from FTSE 100 analysis
Type of risk	**HC risk links to social/financial capital:** BT considers risk in the context of the business model, that is, human, social, innovation and financial capital. To understand the type of HC risk, it may be helpful to consider other forms of capital.	**Royal Mail** recognises that employee disputes could lead to revenue loss and the firm missing the quality of service targets prescribed by Ofcom. In this sense, the HC risk is also related to a breakdown in social capital and can be identified as 'employee relations' risk.
Risk impact	**Stakeholders affected:** to gain greater understanding of risk impact.	**Glencore** recognises unions to maintain good relations with staff and avoid disputes, where possible.
Risk management and mitigation	**Risk management and mitigation:** risk management relates to the analysis and evaluation of risk, while risk mitigation refers to the steps taken to avoid the risk.	**SABMiller**, when reporting on the Anheuser-Busch takeover, reported that the firm maintained employee relations through town hall meetings, functional meetings and individual meetings with management.
Risk performance or outcomes	**Risk measurement:** for firms to mitigate the potential for risk incidents occurring, firms need to be able to measure the HC risk.	**Fresnillo** reports that the firm conducts surveys to develop employee trust and working conditions indexes.
Risk opportunities	**Risk opportunity analysis:** examining if an HC risk has the potential to be turned into an opportunity.	**Johnson Mattey** has a good way of communicating with employees and taking their ideas on board. They have an open innovation platform called 'ideaslab'.
Change in risk profile	**Change in risk profile:** HC risk is dynamic in nature and can change and evolve.	**IHG** is a company that operates hotels globally and would be involved in a number of acquisitions. Mergers and acquisitions can lower morale and lead to a loss of talent. Therefore, the risk profile would need to be adjusted accordingly.

4 Employee ethics risk

Research undertaken by the CIPD in 2016 highlighted that firms have a tendency to avoid reporting on isolated employee ethics breaches in favour of large-scale collective business ethics scandals, such as the PPI banking debacle. Hence, although organisations may acknowledge the risk of employee misconduct, very few report isolated instances of employee ethics breaches, such as harassment or bullying, and therefore may fail to properly outline the ethics risks facing the firm.

INTU Properties sets an important precedent of transparent reporting, as its report outlines and describes employee ethics risks and provides narrative summaries relating to employee ethics breaches that occurred during the year, that is, employee negligence and misconduct. Scenario-planning reports can be an effective employee ethics management tool. For example, Rolls-Royce leads ethics training programmes built on manager-led group discussions based on real ethical dilemma scenarios.

Table 11: Employee ethics: People Risk Reporting Framework

	Description	Evidence from FTSE 100 analysis
Type of risk	**Description of risk:** the media analysis highlighted that some firms were not describing firm risks as well as they could. For example, ethics risk should include information on the risk of isolated ethics breaches such as insider trading, harassment and misconduct rather than just reporting the number of whistleblowing cases or large-scale ethics breaches.	**INTU Properties** is quite unique as its reporting is transparent and honest with individual ethics breaches and litigation cases being openly discussed. For example, there were five ethics cases reported in a specialised section. Examples include security staff leaving a centre early and a report of inappropriate purchasing practices between a supplier and certain staff (investigations led to three employees leaving the firm).
Risk impact	**Risk appetite** can be defined as 'the desired amount and type of risk that an organisation is willing to take in order to meet their strategic objectives'. For example, the Capita Group takes into consideration risk appetite in their actual model and ranks risks as 'critical', 'uncomfortable' and 'tolerable'.	**Lloyds'** solution to conduct risk after the PPI scandal is to measure how the firm is performing in terms of risk appetite metrics and to reward employees based on desired behaviours in relation to customer-centric metrics. These include product meets customer need, customer retention, service/product usage and customer complaints.
Risk management and mitigation	**Risk management:** for example scenario planning. To manage and prevent risk, it is important to run through a number of different scenarios with staff. The idea for this initiative was taken from Sky.	**Rolls-Royce** approved an ethics training programme in 2016 that was built on manager-led group discussions based on real ethical dilemma scenarios. Monthly dilemma-based stories drawn from real cases are also published on the group's intranet for study purposes.
Risk performance or outcomes	**HC metrics and KPIs:** used to measure risk performance/threats/opportunities across a number of years.	**Johnson Mattey** records anti-bribery and corruption training by region (%) and competition law training by region (%). **Rolls-Royce** records the number of employees that received employees' ethics certification by management. In 2016, this figure was 97%. **RBS** reports the value (£) of attempted fraud prevented in its UK operations
Risk opportunities	**Risk opportunity analysis:** examining if an HC risk has the potential to be turned into an opportunity.	**Rolls-Royce** was the only organisation to report ethics opportunities when reporting on an initiative that put employees in the middle of scenario-based ethical dilemmas.
Change in risk profile	**Change in risk profile:** HC risk is dynamic in nature and continues to evolve.	**GSK Pharma** sales reps are no longer compensated for individual sales targets; instead they are rewarded on technical skills, scientific knowledge, quality of service/ interactions and broader business performance.

5 Security, disruption and business continuity risk

Security, disruption and business continuity risk includes risks such as cyber-attacks and terrorism and the risk of business disruption from pandemic diseases, major health and safety incidents, and the loss of key executives. For example, ITV have highlighted in their annual reports that there are times when senior leaders and the board are in one place or travel as a group because of the nature of the TV production business. To combat this risk, the firm has succession plans in place and nominated replacements for all key positions.

When it comes to examining the impact of potential security breaches or business disruptions, it may be important to consider the degree of risk interconnectivity to fully understand the damage such events can cause. For example, SSE refer to risk interconnectivity as the potential for a risk to expand and create new risks and impact other areas of the business. Table 12 also highlights that one of the key aspects of managing business continuity and disruption risk is considering the change in the firm's risks profile. For example, a firm's risk profile may change in times of terrorism, including recent European terrorist attacks, and in changing political environments.

Table 12: Security, disruption and business continuity: People Risk Reporting Framework

	Description	Evidence from FTSE 100 analysis
Type of risk	**Risk drivers:** it was highlighted in the media analysis that many firms fail to fully account for the diversity of risks facing the company.	**Royal Dutch Shell's** global operations expose it to social instability, civil unrest, terrorism, piracy, acts of war, and risks of pandemic diseases that could have a material adverse effect on the business.
Risk impact	**Risk interconnectivity:** according to SSE, risk interconnectivity is the idea that a highly interconnected risk has more ways to manifest than a less interconnected risk.	**Royal Dutch Shell** highlights that the above developments could have an adverse effect on the organisation's earnings, cash flows and financial condition and threaten the safe operation of its facilities.
Risk management and mitigation	**Risk mitigation:** for example system testing, to mitigate the threat of external cyber-attacks. Firms such as Tesco engage in penetration testing and resilience activities in conjunction with the firm's IT staff.	**BP** conducts 'ethical phishing tests' to educate employees in this area. Accordingly, the number of employees who click on links in test emails has fallen by more than 70% since 2012.
Risk performance or outcomes	**Lessons learned:** in some cases, large-scale incidents that have occurred can threaten the continuity of the business. In these cases, firms can benefit from lessons learned moving forward. The idea for a lessons learned narrative was taken from Reckitt Benckiser's risk framework.	**Reckitt Benckiser** implemented a new safety compliance and governance structure following the large-scale 'Korea health incident': deaths and lung injuries were caused by inhaling Oxy Sac Sac, a humidifier sanitiser product. Employees were also at risk as they manufactured similar types of products. A number of executives were jailed.
Risk opportunities	**Risk opportunity analysis:** examining if an HC risk has the potential to be turned into an opportunity.	**Aberdeen Asset Management** has a continuity programme for remote working, including key system access for employees if they cannot travel to the offices via the 'Aberdeen on the go app'. Moreover, if normal business systems or premises become unavailable, the organisation has alternative back-up premises for key offices.
Change in risk profile	**Change in risk profile:** HC risk is dynamic in nature and continues to evolve.	The risk of Brexit means some organisations such as HSBC are considering relocating their head offices and employees to EU countries to mitigate the emerging threat of business disruption. The risk of a potential second Scottish referendum may mean that Scottish-headquartered firms such as RBS may move offices out of Scotland. The risk of European targeted terrorism has disrupted travel firm TUI's holiday bookings and operations.

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6 Employee equality and diversity risk

Equality and diversity is a key priority for many organisations looking to ensure that employees are not held back from reaching their full potential. Much research has linked employee diversity and equality management practices with higher labour productivity and workforce innovation and lower voluntary employee turnover (Armstrong et al 2010). Hence, a key objective for firms is to establish a culture of diversity and inclusion. An example of this is security firm G4S, which acknowledges that a failure to attract female talent to the organisation could affect growth. Risk in this category can play out in a number of ways; hence there are various categories under which such risks can be reported. Table 13 illustrates a number of examples of equality and diversity risk reporting.

Table 13: Employee equality and diversity: People Risk Reporting Framework

	Description	Evidence from FTSE 100 analysis
Type of risk	**HC links to social and innovation capital:** to gain a better understanding of risk, BT considers risk in the context of social, financial and innovation capital.	**Sage** is committed to diversity and inclusion and believes that diverse teams and equal opportunity drive high performance and innovation.
Risk impact	**Strategic implications:** for many firms, linking HC risk to strategy is fundamental to achieving corporate goals.	**G4S** acknowledges the risk that a failure to attract women into the security sector could impact growth.
Risk management and mitigation	**Risk management:** pursuit of an equal and inclusive workforce where individuals are not held back from reaching their full potential.	**Royal Mail** have been a national partner of the disability charity **Remploy**, working together to provide jobs and placements for people with disabilities. In 2016/17, the organisation offered 142 placements to disabled and disadvantaged candidates.
Risk performance or outcomes	**Risk metrics and KPIs:** used to measure risk performance/threats/ opportunities across a number of years.	**BAE** is one of a few firms that record age-related statistics, for example percentage of staff in different age brackets. In terms of equality, **Landsec** record the percentage of staff receiving a bonus and this data is presented for both males and females. Finally, **RBS** records the ratio of total gender balance in the top three senior layers.
Risk opportunities	**Risk opportunity analysis:** examining if an HC risk has the potential to be turned into an opportunity.	**National Grid** have an interesting leadership/ diversity initiative that relates to the role of leadership in creating a culture of diversity. This involves initiatives such as reverse mentoring, whereby senior group leaders are paired with employees to discuss issues such as diversity and inclusion.
Change in risk profile	**Risk management moving forward:** when organisations achieve a risk management goal, it is also important to set future targets.	In 2015, 99% of **MillerCoors'** leadership completed unconscious bias training. One of MillerCoors' 2020 goals is for women to comprise 35% of management.

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7 Reputational risk

Business reputational risk encompasses a variety of different HC-related risks such as legal risk, regulatory risk and risks relating to environmental and social issues, such as the firm's carbon footprint and human rights breaches. It is important to consider these issues, as each of the aforementioned risks has the potential to damage the firm's reputation in the public domain. This applies to their reputation in the eyes of both customers and other stakeholders, such as investors, regulators and potential future employees. For example, many firms have been the subject of boycotts in the past for human rights breaches such as using child labour in the firm's supply chain or using negligent suppliers who tolerate poor working conditions at supplier manufacturing sites. Moreover, with the introduction of changes to the EU legislation on non-financial disclosures introduced in 2018 (European Commission 2018), it is imperative that firms are able to outline and report on both environmental and social issues within their annual report.

Table 14: Reputational risk: People Risk Reporting Framework

	Description	Evidence from FTSE 100 analysis
Risk impact	**Risk interconnectivity:** according to SSE, risk interconnectivity is the idea that a highly interconnected risk has more ways to manifest than a less interconnected risk.	**AstraZeneca** feel that a data breach in terms of clinical trials could have long-standing implications for the organisation in terms of financial penalties, reputational damage, litigation proceedings and employee privacy.
Risk management and mitigation	**Risk mitigation actions:** a description of mitigating actions. Could also include actions based on HC risk KPIs or metrics.	**Next** carries out regular inspections of its suppliers' operations with regards to human rights issues to ensure compliance with the standards set out in the Next code.
Risk performance or outcomes	**Risk measurement:** for firms to mitigate the potential for a risk incident occurring, the firm needs to be able to measure the risk.	**Fresnillo** briefly mentions that it records the number of media mentions in relation to its mining activities and risks.
Risk opportunities	**Risk opportunity analysis:** examining if an HC risk has the potential to be turned into an opportunity.	**Sainsbury's** have asked staff for their own suggestions to help reduce energy use. The best ideas will be adopted into the programme for a wider rollout. Since the campaign launched, Sainsbury's have saved £1.8 million.
Change in risk profile	**Change in risk profile:** HC risk is dynamic in nature and continues to evolve.	**Change in risk profile:** any major risk event (positive or negative) has the potential to alter the firm's risk profile.

7 Discussion

Improving practice with the People Risk Reporting Framework

The PRRF provides firms with a blueprint for improving the quality of HC risk reporting and challenges organisations to frame HC risks for improved measurement and management. Given the changes to the EU legislation on non-financial disclosures introduced in 2018 (European Commission 2018), the framework will help organisations to improve their workforce risk disclosures. Organisations must now consider the main risks and outcomes surrounding environmental and social issues, such as human rights. The PRRF can help direct firms in terms of both managing and measuring these risks, and the supporting evidence tables in the previous section provide worked examples of how firms can approach reporting on these risks.

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Building in resilience in the face of uncertainty

Given recent geo-political and social change, for example the EU referendum in the UK (Brexit), it is imperative that organisations manage and measure the *growing diversity* of HC risks. Brexit has impacted both talent management risk and business continuity and disruption risk. Given these changes, it is important that organisations are able to report on the implications of Brexit in the realm of HC risk and are also able to outline contingency plans for dealing with the HC implications of Brexit.

Our data shows that few consider employee well-being issues such as stress management and burnout. Instead, these are considered in other parts of the annual report. Linking these risks to the overall risk framework can improve the quality of HC risk reporting, as the content analysis highlighted reporting in the area of well-being increased substantially in 2017. There are also opportunities for improving HC reporting in areas such as employee relations in terms of employee involvement (that is, the voice of the workforce), the contingent workforce and employee suggestions and innovation. Reporting on areas such as human rights could be improved, as many FTSE 100 organisations face these risks and yet reporting is sparse.

The PRRF adds new perspectives in terms of framing HC risks. The addition of a risk measurement section is important not only for measuring current HC risk performance, but also for monitoring HC risks on an ongoing basis, thus enabling organisations to respond quickly to changing environments. It is clear that an HC measurement function is missing from risk frameworks in use today. Therefore reporting would be improved by linking key HC risks with HC performance metrics and KPIs. In addition, the term risk management is not limited to the management and measurement of negative risk events. Instead, this report highlights that firms could consider risk opportunities. These risks can be considered in the context of the firm's risk appetite or with the introduction of a risk preference scale, as highlighted in the PRRF.

Does risk opportunity reporting differ?

Our quality assessment of the FTSE 100 firms found that firms tend to ignore risk opportunities in their general risk management frameworks. Including an integrated 'risk opportunitie' section in a best practice framework represents a logical improvement in the quality and transparency of HC risk reporting, as it provides a more comprehensive overview of the firm's risk profile.

8 Conclusions

The updated content analysis of the HC reporting practices of some of the UK's leading organisations found that overall HC reporting increased by 9% between 2015 and 2017, which was a smaller increase compared with that between 2013 and 2015 (19%). All of the five categories (that is, knowledge, skills and abilities, human resource development, employee welfare, employee equity and workforce risk) saw decreases in the rate of reporting, with employee welfare actually decreasing by 5%. The biggest changes in reporting are illustrated in Figure 2.

However, even though an item may have increased in terms of the rate of reporting, this did not mean its overall sentence count was high. Indeed, this was the case for entrepreneurship, motivation and employee turnover; while flexibility, innovation, career development, internships, employee relations and equality had both a decrease in the rate of reporting and a low sentence count. Notwithstanding, although the reporting of both career development and internships was low, there was a substantial increase (64%) in the reporting of apprenticeships.

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

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

Items such as innovation, flexibility, employee relations and employee turnover can be related to the contingent workforce, that is, an employment relationship that is not considered to be permanent. Therefore, given the changes in UK employment practices over the past few years, it is perhaps surprising to see the limited reporting in this area. Furthermore, contingent work coupled with job insecurity can increase employee health and safety risk significantly. Research has shown that when such workers feel insecure about their jobs, they are less likely than permanent workers to comply with safety regulations.

While all companies face different types of risk, there were a number of risk categories that are common to most organisations. These are talent management risk, health and safety risk, employee ethics risk, diversity and equality risk, employee relations risk, business continuity risk, and reputational risk. The risks for most of these categories can come from the internal or external environment, with the exception of employee ethics and diversity and equality, where the risks all come from the internal environment.

Good practice people risk reporting: can it improve transparency?

From developing and testing the PRRF we highlighted a number of good practice cases in each of the risk categories. The studies highlight the diversity of issues that are frequently presenting as risks to firms, and in the case of those organisations studied there are various frameworks being used to inform reporting. The PRRF brings together elements of the best practice frameworks that were analysed, and presented a simple structure for presenting people risks.

Implications

We note a number of important implications following the outcomes of this study (see Table 15).

Table 15: Implications for practice

	Description
Adopting voluntary approaches for strategic/ key measures	Organisations appear to focus on complying with legislation and governance codes and little else. There is little innovation with regards to the voluntary disclosure of strategically important key indicators that are known to be pertinent for key stakeholders such as investors. Organisations should look to improve practice beyond measures that are regulated for.
Reporting is subject to trend effects: consistent thematic reporting is absent	Organisations tend to focus on particular areas year by year in line with external trends, as opposed to adopting thematic reporting on key indicators. The results for human rights reporting highlight this, having now plateaued after an initial flurry of reporting. Trend effects can be particularly damaging as strategically important information is not reported on a frequent basis, and this is required for investors to assess performance.
Decline in engagement reporting points to reduced interest in employee voice	The decline in employee engagement risk reporting, which had reduced by 21% between 2015 and 2017, is particularly noteworthy. This is because it is one of the clearest manifestations that organisations are not taking the employees' voice seriously, as it is through mediums such as staff surveys that employees can communicate their views to their employer. This coupled with other indicators of employee voice declining or having low count rates highlights a potentially growing risk of employee perspectives not factoring in to key decision-making, an obvious risk to business performance.
Risk management frameworks miss key HC risks and opportunities	While it is clear that there are some good HC-related risk reporting practices being conducted by FTSE 100 companies, it is also clear that the current risk management frameworks being used in many annual reports are not adequate and need improvement. Organisations also need to consider emerging opportunities, such as improved workforce data and analytics. The adoption of the PRRF would alleviate the issue of non-standard approaches missing key pieces of information.

9 Recommendations

To conclude, we propose a set of key recommendations to key stakeholders in the HC reporting space.

Recommendations for HR departments

- HR departments should work with senior management, and those responsible for compiling the annual report, and provide them with all HC-related information, including that related to the contingent workforce and risk. The latter would include any risk metrics or KPIs.
- Employee voice should be measured where possible and examples provided to those compiling annual reports, as any employee voice activity should be reported to stakeholders.
- In general the HR department should ensure that annual reports provide a thorough account of all HC elements, and the reporting of HC items is not just seen as a means of complying with legislation and corporate governance codes. This includes facilitating discussion about information that relates to competitive advantage, and that which is in the public domain already.
- The HR department should look to encourage the adoption of the concepts described in the PRRF, and help ensure there is sufficient coverage of all the risk categories (for example talent management risk) and that all sections of the framework are populated adequately.
- The HR department should quality-assure that all HC risk-related incidents are reported on an annual basis to provide complete transparency for all stakeholders.

Recommendations for boards

- Boards should adopt the PRRF developed in this report and populate all sections as fully as possible. A full consideration of all risk categories should be conducted.
- Boards should also adopt a practice of full transparency when it comes to the reporting of risk-related incidents, such as ethical breaches or industrial action. All such incidents should be reported to assure stakeholders they are getting a complete overview of what has occurred over the past year.
- Boards should also go with the spirit of any legislation or corporate governance codes related to narrative reporting, and not just comply with them to avoid any scrutiny. This would lead to users of accounts getting a full picture of all HC and risk items from year to year and not just being provided with a particular theme one year and something else the following year. This would include reporting on employee voice and any issue relating to a contingent workforce.
- While not encouraging any form of 'boiler plate' reporting, boards could consider some of the examples of good practice outlined in this report and take a similar approach in future reporting.
- Boards should use the concepts described in the PRRF to challenge and hold management accountable for the management and reporting of HC risk.

Recommendations for stakeholders

- Stakeholders, particularly shareholders, should put pressure on organisations to both adopt the PRRF and encourage people risk reporting.
- Investors, particularly institutional investors, should liaise with boards and management to set the tone of people risk reporting and encourage greater transparency in their engagements.

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Issued: July 2018 Reference: 7693

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