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ABSTRACT

This document reports the findings of seven case studies undertaken as part of a larger research project on the measuring and reporting of intellectual capital, being conducted by an Australian research team. The case studies aimed to investigate in more detail the approach of seven Australian organizations and enterprises to the recording and reporting of these three elements of intellectual capital (IC): internal capital; external capital; and human capital. Each of the individual case study reports includes observations about all three elements, but the study focused primarily on human capital and the connection between human capital and human resource management and development. This report contains five sections. The first section considers the drivers at the macro and micro levels that are placing pressure on enterprises and organizations to record and report a broader range of data in relation to their human resources and that are contributing to the acceleration of practice in this regard. The second looks at the extent of reporting by and within the seven case study organizations. The third considers the impact and implications of reporting on and for the organizations. The fourth section briefly discusses some stakeholder issues, particularly for governments, trade unions, and individuals. The fifth section summarizes the findings and indicates potential directions for further action and research. (KC)

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Human Resource Reporting

Some exploratory case studies in Australian enterprises.

CEET WORKING PAPER NO 23

July 1999

MONASH UNIVERSITY – ACER

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Human Resource Reporting
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Introduction

This is a report of the findings of seven case studies undertaken as part of a larger research project which formed the basis for a report by an Australian research team¹ to the OECD Symposium on the measuring and reporting of intellectual capital (Amsterdam, June 1999).

The case studies aimed to investigate in more detail the approach of some Australian organisations and enterprises to the recording and reporting of the three elements of Intellectual Capital (IC): Internal Capital; External Capital; and Human Capital. An objective was to provide a more empirically grounded perspective on the reasons Australian organisations are developing internal IC statements and management practices, to examine perceptions of the relevance of these reports; and to add an internal context and dimension to the understanding of Intellectual Capital.

Each of the individual case study reports includes observations about all of these three elements. However, this report focuses primarily on Human Capital, which was emphasised in the case studies in order to investigate the relationship between the recording and reporting of Human Capital and human resource management and development.

The case studies were largely exploratory in nature. In the absence of evidence of similar previous work in Australia they were very much 'a first go' at examining, and advancing understanding of, some reporting practices and of the issues, concerns, objectives and people shaping them. In addition, they were limited by time factors, the availability of appropriate interview subjects and difficulties in identifying enterprises and organisations engaged in innovative, or 'best' practice in relation to IC. Given these limitations in scope and number the case studies cannot be taken as generally indicative of the state of the reporting of Intellectual Capital and the use of these reports more generally in Australia. Rather, they provide a 'snapshot' of some reporting practices and the use of reports in decision-making by some organisations at the time the case studies were undertaken (April-May 1999).

Nevertheless the case studies provide some interesting material and form a foundation on which further research can build. In particular, each relates a different 'story' about the journey enterprises and organisations take in coming to value and record their intellectual capital. These stories demonstrate that while many of the factors that drive practice are similar, enterprises take different paths depending on their history and culture, the sector and industry in which they are located and the people within them. The case studies also underline the importance of the initiative and enthusiasm of individuals in advancing awareness and understanding of Intellectual Capital and promoting the establishment of recording and reporting mechanisms.

Structure of this report

This document comprises five sections. The first considers the drivers at the macro and micro levels which are placing pressure on enterprises and organisations to record and

¹Professor James Guthrie, Macquarie University Graduate School of Management, Richard Petty, University of Hong Kong, Rob Wells, KMSI and the author.

report a broader range of data in relation to their human resources and which are contributing to the acceleration of practice in this regard. The second looks at the extent of reporting by and within the seven case study organisations. The third considers the impact and implications of reporting on, in and for, the organisations. The fourth briefly discusses some stakeholder issues, particularly for governments, trade unions and individuals. A fifth section summarises the findings and indicates potential directions for further action and research and a sixth comprises summary reports of each individual case study.

The individual case study reports are not included here, but some are obtainable from the authors.

In both its structure and in its approach to analysing the case study material, this report draws heavily on a discussion paper, *Human Resource Accounting: Interests and Conflicts*, prepared for CEDEFOP (Jens Frederiksen and Sven-Age Westphalen, 1998).

Methodology and approach

The seven enterprises and organisations that are the subject of these case studies were chosen because each was identified as indicating, in some way, an innovative ('best practice') approach to recognition of its Intellectual Capital. In addition, consideration was also given in choosing appropriate subjects to the inclusion of some that have links with the Vocational Education and Training (VET) sector.

The selected enterprises/organisations were:

- *AMP (Australian Mutual Provident Society)*: a large, worldwide financial services organisation.
- *Fletcher Challenge*: a large New Zealand based enterprise with interests in building, energy, forestry and paper.
- *Hitachi Data Systems*: an international company offering information technology services.
- *Lend Lease*: a large international property and financial service organisation.
- *Morgan and Banks*: an international human resource consulting firm.
- *Simplot Australia*: a food processing enterprise with high profile brands.
- *Community Services, South Gippsland Shire Council*: a local government authority in rural Victoria.

Of these seven, four are public companies (AMP, Fletcher Challenge, Lend Lease and Morgan and Banks). Two (AMP and Lend Lease) are among Australia's top 20 companies based on market capitalisation. Only one is in the public sector. Most are also large, with many employees. Only one (Community Services, South Gippsland Shire Council) has less than 100 employees. The sample therefore did not include a representative number of small-medium enterprises and public sector organisations.

Interviews were conducted with at least one person in each organisation, depending on contacts established and the examination of organisational material. Included were a chief executive officer, knowledge management directors and human resource or training managers. All interviewees were senior officers of the organisations.

Organisations and positions of Interviewees

<i>Organisation</i>	<i>Interviewee</i>	<i>Interviewee</i>
South Gippsland Hitachi DS	Manager, Community Services VP, Knowledge Centre	KM Consultant
Simplot	Manager, National Human Resources	
Lend Lease AMP	Chairman Manager, Intellectual Capital Project	General Manager, People
Fletcher Challenge	Information Systems Manager Member, Knowledge Advisory Network	
Morgan & Banks	Training Manager	Training Manager

The interviews reflected the exploratory nature of the case studies, asking about:

- The factors that had led to the recognition of IC.
- IC measures/indicators being considered or implemented and the systems to support them.
- The factors assisting or hindering recognition, recording and reporting of IC.
- The use of IC reports internally and externally.
- Anticipated future developments.

More detailed information was sought about Human Capital:

- *Human resource measurement and reporting practices*
The elements of human capital measured.
The ways in which they are assessed, evaluated and reported.
The ends and purposes for which this work is performed.
- *The impact and potential impact on decision-making of these practices, particularly in relation to investments in human resource development through training and other initiatives.*

Interviews varied to reflect issues revealed as important in examinations of background information about each organisation that considered its structure and focus, the sector within which it operates, its values and goals.. Further information about each case was collected from documents provided by the interviewees, from Annual Reports and from the organisations' web-sites.

A total of six face-to-face interviews were conducted in five organisations, and a further two interviews were conducted by telephone and/or email. An important limitation of the case studies is that during the course of some interviews it became clear that the particular interviewees were not necessarily those best placed in the organisation to answer the questions posed, although all were able to supply some useful information. In addition, interviewees often indicated others in the organisation who could provide

insights, if approached. However, due to time limitations it was not possible to follow-up these difficulties and recommendations and as a consequence there are some gaps in understanding about several organisations. These gaps mark fertile ground for further research.

Section One: Macro and Micro drivers

Frederiksen and Westphalen (1998) note that the development of human resource reporting can be seen as both part of and a response to changes at the macro (societal) level and the micro (enterprise/organisation) level. They indicate that the increased importance of intangible assets in contributing to the creation of global wealth poses 'theoretical and practical problems' that are being partly addressed through an increased emphasis on the reporting of human resources².

Two main changes are identified at the macro level that have influenced the 'revival and further development' of human resource reporting: changes in production and employment patterns and work organisation; and changing roles of governments enterprises and individuals. At the micro level they note perspectives linked to the development of human resource reporting for internal and external use.

The macro level

Macro level changes are summarised below:

<i>Changes in production patterns, work organisation and employment patterns</i>
<ul style="list-style-type: none">• The rapid advance of technology, transforming production patterns, work organisation and employment practices.• A shift from traditional industrial manufacturing to the production of intangible knowledge.• A shift from traditional production factors to knowledge as a primary input in production processes and thus, in output.• New forms of work organisation, such as self-organising groups and quality circles, reflecting new demands on the competences and skills of workers, who take on a broader range of responsibilities.• A change from stable, permanent employment to individualised, flexible employment.

Source: Frederiksen and Westphalen, 1998, pp 6-7.

<i>Changing roles of governments, enterprises and individuals</i>
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²Frederiksen and Westphalen use the term 'Human Resource Accounting'. However, the term 'human resource reporting' is used to denote a more flexible and broader approach to HR measurement than might be implied by the term 'accounting'.

A stronger emphasis on minimising public spending while providing a broad range of public services.

The use of public sector debt as an indicator of the limitations of the public sector's ability to provide social security and other public goods.

The formation of local partnerships, aimed at combating unemployment, poverty and social exclusion, such as among national, regional and local governments, social partners, non-government organisations, local communities and excluded groups.

The development of the 'political consumer'.

Increased competition in the labour market for skilled workers, reinforced by the demographic ageing of the population.

Changing distribution of responsibilities among individuals, enterprises and the public sector.

Source: Frederiksen and Westphalen, 1998, pp 7-8

Many of these changes are apparent within the case study organisations. Almost all indicate that their applications of technology have increased, including the automation of some production processes that formerly relied on manual work. Morgan and Banks, for instance, reports the ongoing movement of more of its business to the internet, while Simplot indicates increased application of technology in the processing of foods. Associated with technologisation is a need for workers with higher order, or different, skills. Several organisations (eg Lend Lease, AMP) have active graduate recruitment programs, enticing new staff to 'real jobs' with opportunities for further education, training and development. All organisations report internal systems and processes for supporting staff development linked to the strategic plans for the business as a whole, and for each unit within it.

The problem of replacing an ageing workforce is of importance to many of the organisations which have a median staff age higher than desirable, but is a particular concern of Simplot which has difficulty in attracting young workers to its plants in rural areas. All organisations indicate a re-organisation of work (over the past decade or so) with an increased emphasis on the use of teams to promote the sharing of skills and knowledge as well as to increase both quality and flexibility. Lend Lease (MLC) for instance, is currently experimenting with a dramatic re-fit of one of its buildings to create a work environment that is productive, improves opportunities for knowledge-sharing, but in its design incorporates the facilities of a home as much as an office, bringing together 'their personal and the professional'. A number of organisations indicate that former hierarchical divisions have been reduced in importance as a team-based organisation of work has been adopted.

Several organisations indicate in words (eg annual reports) and/or action (eg Lend Lease's strong community involvement) that the images they project are an important consideration in relation to customers, clients, staff and investors. While none specifically mention the emergence of the 'political consumer', this may be implicit.

Further research is required to understand how enterprises and organisations understand this term and the impact it has on their organisational plans and practices.

The case studies confirm that the drive to retain highly skilled staff is an important influence on organisational practices. Drawing on the work of Carnoy et al (1997) Frederiksen and Westphalen (1998) note that in the shift to a more flexible workforce middle and lower level workers may seek more job security than firms want to give, while highly-skilled workers may want less than is optimal for the firms. Consequently, firms will make attempts to retain highly-skilled workers, for instance through compensation and training schemes. For most of the case study organisations, becoming ‘the employer of choice’ in the industry is an important objective, associated with the recruitment and retention of staff. They report the implementation of a variety of measures to assist in the achievement of this goal including, but do not emphasise, remuneration. Many organisations acknowledge a growing importance to workers of other considerations, such as opportunities for professional and personal development, for leisure and for involvement in the broader community outside work.

Table 1 below indicates some examples of the many initiatives being implemented by the case study organisations toward becoming ‘employer of choice’ in the industry.

Table 1: Initiatives in support of the objective to become ‘employer of choice’: some examples* from the case studies

<i>Organisation</i>	<i>Initiatives</i>
Simplot Australia	Remuneration, opportunities to obtain a qualification through Recognition of Prior Learning (RPL) gained in the workplace.
AMP	Postgraduate education opportunities in conjunction with a university.
Lend Lease	Workplace re-organisation to bring together the ‘personal’ and the professional. Opportunities for community involvement. Personal and professional development.
Morgan and Banks	Professional development opportunities. A non-hierarchical organisation of work.

*Selected at random.

At the micro level

Frederiksen and Westphalen (1998) note that at the micro level the development of human resource reporting is linked to perspectives on its potential use. For internal use it can be considered a management tool and for external use, a tool for ‘profiling the organisation’ - for projecting a particular image. From the reasons often given by organisations for developing human resource reporting they indicate some which are for internal use only, some for only external use, but several which are for both internal and external purposes:

Table 2: reasons for developing human resource reporting

<i>Internal only</i>	<i>External and internal</i>	<i>External only</i>
To improve human resource management.	To overcome problems arising from the valuation of intangible assets.	To overcome the difficulties in providing sufficient information to investors in traditional balance sheets.
To focus on employees as assets	To redistribute social responsibilities between the public and the private sectors.	To profile the enterprise and improve its image.
To retain qualified labour force.		To attract future employees.

source: Frederiksen and Westphalen 1998, p 8.

Broadly, the evidence of the case studies, though limited, indicates that the same types of reasons may be influencing Australian enterprises and organisations toward a stronger focus on Intellectual Capital. However, because reporting is still only at a preliminary or developmental stage, these reasons have not yet been fully validated in practice. Rather, they can be described as ‘objectives’, marking the potential outcomes and benefits that enterprises and organisations aim to achieve from the implementation of reporting measures.

Drawing on the case study material, and utilising the framework adopted by Frederiksen and Westphalen (1998) of *internal*, *external* and both *internal and external*, Table 3 indicates the range of these objectives. Internal objectives are connected with issues of human resource management. They encompass the identification of skills and skill gaps and the appropriate allocation and use of these skills by and within the organisation. External objectives reflect the aim of the organisation to project a particular image in order to attract new business, investors (and investment), customers and clients. Internal and External objectives are more of a mixed bag. Some reflect the existence of disagreements in relation to the value of human resources and investments in human resource development. In this regard, human resource reports are seen as a political tool for use by those who recognise the value and role of Intellectual Capital to convince others, both within and outside the organisation, of the links between human resources and financial success. Other objectives indicate that the image the organisation projects is important for internal as well as external purposes, such as in retaining existing staff as well as attracting new staff.

Table 3: Objectives of human resource reporting. Some indications from Australian case studies

<i>Internal</i>	<i>Internal and External</i>	<i>External</i>
<p>To improve human resource management:</p> <ul style="list-style-type: none"> • Identifying the range of skills, competencies and expertise available within the organisation. • Identifying the most appropriate person/s for particular tasks. • Assisting in putting together teams of staff for particular projects. • Revealing gaps in skills and competence in the organisation. • Clarifying roles in the organisation, including roles as 'knowledge brokers'. • Assisting in planning for career progression, succession, training or development and knowledge management. 	<p>To indicate human resources as an asset in order:</p> <ul style="list-style-type: none"> • To attract and support investment in the organisation. • To convince investors and other staff of the value of human resources. <p>To provide information indicating:</p> <ul style="list-style-type: none"> • the links between human resource interventions and financial results. • the returns on investments in training and development. <p>To present an image of the company that will attract new staff and increase the retention of existing staff.</p>	<p>To provide information to investors and potential investors about the capabilities of the organisation.</p> <p>To present an image of the company as capable and competent:</p> <ul style="list-style-type: none"> • To attract targeted and new customers and clients. • To attract new business. <p>To keep up with competitors.</p>

Comparing this classification with Table 2 exposes differences which may reflect the ways in which organisations describe and present their reasons and objectives for human resource reporting. In Table 3, objectives relating to the presentation of human resources as an asset are indicated in the 'external and internal' column. This contrasts with Table 2, in which similar reasons are listed as 'internal', but is consistent with an indication by Australian case study organisations that a focus on employees as an asset is important for both the internal purposes of resource and investment allocation and for the external purposes of supporting investment. A shift in the objective relating to retention of staff has a similar rationale, reflecting that Australian organisations view an emphasis on staff retention as an image-enhancing initiative for external purposes, such as attracting new staff, as well as an internal objective related to maintaining the level of skills and capabilities.

An important consideration emerging from the Australian case studies is that depending on the local context of the organisation, the nature of its business, its history and culture and its strategic goals and plans, the number and mix of objectives, and the emphasis given to particular objectives, may vary. As a private company, for instance, Simplot

Australia has no need to provide information to investors. A more important external use of Intellectual Capital reports is to present an image of the organisation that will support employee recruitment, particularly the recruitment of young people to its rural plants. Similarly, as an organisation in the public sector, Community Services, South Gippsland is also not concerned about investment, but indicates that statements of its Intellectual Capital will help in projecting an image of the organisation as capable and competent that will assist in winning further business. Given the small number of case studies, however, it is not possible to draw any firm conclusions about the relationship between objectives and organisational characteristics. This would require much further research.

Where Frederiksen and Westphalen (1998) indicate that the development of human resource reporting is related to its role in the re-distribution of responsibilities from the public to the private sector, no similar indications emerge from the case studies. This does not mean that this objective does not exist, but merely that it is not considered by the case study organisations. Research which included governments, government bodies and some other social groups might yield a different result.

Within the European Union local and international industrial networks and union leaders argue that enterprises and organisations should be seen as an integral part of society and thus accept their share of responsibility (Frederiksen and Westphalen 1998). They also indicate that this has contributed to pressure on the private sector to 'monitor, measure and report on' their human resources. The case studies indicate that some enterprises and organisations already have a commitment to the personal as well as to the professional welfare and development of their staff, which suggests an acceptance of some social responsibility, particularly where it supports the work of staff members,

If you get their life right, they'll work better

- Manager

...a balanced approach to the management of our business, ensuring our people are happy and ...we have the right skills...

- HR Manager

Section Two: reporting human resources

Although each case study organisation was chosen because it indicated an innovative approach to Human Capital, overall few have yet implemented systems and processes for measuring and reporting human resources beyond record-keeping systems for financial information such as pay and superannuation.

All organisations made very positive and supportive statements in their annual reports, other published documents, and in case study interviews, about the value of the skills and knowledge of their staff to their success and several indicated the importance of providing a more formal and systematic indication of this:

...there must be some other way of telling everyone how great our people are and how wonderful our training is and how indispensable we are...

- Manager

we've got to demonstrate that these HR interventions have a direct link to this level of profitability...

- HR Manager

Nevertheless, none of the case study organisations have fully implemented the use of tools for more formal reporting, although some partial implementation is indicated and several report progress toward a more comprehensive application. Tools in use or being investigated include:

Table 4: reporting Intellectual Capital

<i>Reporting Tool</i>	<i>Users</i>
Balanced Scorecard	AMP (internal use) Simplot (internal use)
Intangible Asset Monitor	Community Services, South Gippsland Shire Council (for internal and external use) Hitachi Data Systems (investigating)
Other:	
<ul style="list-style-type: none"> • Netmapping • revised mgt/personnel systems • staff surveys 	Fletcher Challenge Food processing company AMP, Community Services South Gippsland.
<ul style="list-style-type: none"> • skills databases 	Simplot, Hitachi Data Systems.

The construction of skills databases reflects the importance to the organisations of internal objectives in relation to human resource management and development: matching skills to tasks, bringing people with different skills together to undertake particular projects, identifying skill gaps to guide staff recruitment and training and development. Several organisations indicated that the collection of information for the databases had brought to light skills that they did not know existed among their employees, such as language skills:

...these kinds of skills, we just don't know we have...

- HR Manager.

In constructing skills databases, information had been sought not only about qualifications and work skills, but also in relation to aptitudes and behaviours, utilising psychometric testing.

Why is reporting still at such a preliminary level? Three main reasons emerge from the case studies:

1. Knowledge dissemination

The stories case study organisations tell about how and why they become aware of the value of their Intellectual Capital and begin to consider how (and for what purposes) it might be recorded and reported reveal the important role of an

individual, or group of individuals, within the organisation. Some of these individuals experience an '*a ha*' reaction when exposed to the idea for the first time, but this exposure often occurs only by chance such as through a magazine article, a conference paper, or a discussion with someone from another organisation.

These individuals or groups may try to drive development of the idea within the organisation, attempting to gather support by indicating the potential to explain *what is* and to guide decisions about *what could be*. However, there is no certainty that they will reach those who would be most effective in disseminating ideas and information, or those who would be likely to implement or use the reports. The lines of communication between those 'who know' and those 'who don't' may be weak or long, so that information moves from one point to another only very slowly - or only in part.

2. Internal priorities

Enterprises and organisations facing many challenges may choose to direct their efforts in another direction and thus accord human resource reporting a lower priority than some other initiatives, including other Intellectual Capital initiatives. Hitachi Data Systems, for instance, began an investigation of the implementation of an Intangible Asset Monitor but has since postponed this work to concentrate on other areas of development.

3. Promotion and implementation difficulties

Case study interviews reveal that some difficulties are encountered by those seeking to promote or implement new approaches to Intellectual Capital. These difficulties arise from:

- *entrenched cultures and practices* which support the domination of financial matters and counter the inclusion of other types of measures
- *attitudes* that see the measurement of Intellectual Capital as 'fadism', or 'overly-scientific'
- *territorialism* in organisations structured into divisions that limit cross-divisional initiatives
- *problems in identifying* appropriate systems and tools and
- *a lack of skills* in using systems and tools.

However, some factors that assist promotion and implementation are also identified:

- *changes in organisational leadership* that mark a break in cultures and practices and enable the spread of new ideas, values and ways of doing things
- *leadership* - ie support from senior levels within the organisation
- *simulation activities* that enable the development of ideas and skills in an artificial environment

...Suddenly they could see that what they'd always been saying - that their people were important - suddenly they could see why they were

important and how that was having an impact on what they were doing and on their results...

-Manager

- *outside expertise* assisting in identifying problems and needs and designing solutions.

In spite of these difficulties, there are signs to indicate that future research may reveal a very different picture of practice, for reporting appears likely to become more formal, detailed and widespread in the future. Several of the case study organisations are considering, or are setting up, new systems to improve their recording, measuring and reporting of Intellectual Capital. This is occurring largely on a project basis. Simplot for instance, has invested heavily in *Project MIC* (Measuring Intellectual Capital) which encompasses the development of job models across all levels and divisions of the organisation and a skills database. All staff are being involved in both aspects of the project, offering input and feedback on the job models and assisting in identifying their own skills and capabilities. At Fletcher Challenge, a netmapping project, indicating the knowledge relationships between different staff and groups has been undertaken within one mill site and initially has concentrated on senior staff. The success of this project is now feeding into Intellectual Capital initiatives in other parts of the organisation.

Section Three: Impact and Implications

Decision-making

European research has indicated that the measuring and reporting of human resources can have an impact on decision-making. Gul (1984) found that information about human resources can be useful for decision-making where it is relevant, improves the quality of the information available overall and reduces uncertainty. More recent research by Johanson and Nilson (1996) has found that this information can change decisions by making more obvious connections between human resources and financial results. The objectives of the case study organisations (listed in Table 3) in moving toward more formal reporting of their Intellectual Capital show that an impact on decision-making is expected and sought both within the organisation (eg in relation to human resource management) and outside the organisation (among investors, clients/customers and potential employees).

In spite of the preliminary level of reporting of Intellectual Capital by the case study organisations, some impact on decision-making has already occurred, notably with positive outcomes:

- In two cases improved information about Intellectual Capital has been influential in convincing senior Managers and/or the Board of the need for new initiatives and further investments in the human resources area.
- Benefits were reported from better matches of people, skills and tasks including rises in quality, in productivity and efficiency, in satisfaction among customers/clients and staff.

- In one organisation, improved information about human resources identifying staff who fulfil a role as key knowledge brokers has led to changes in plans for staff separations. Previous decisions to offer redundancy or early retirement to several staff members were altered when their value to the organisation was made clear. Strategies were subsequently implemented to enable more effective communication and use of the knowledge of these staff.

These instances indicate the potential of improved human resource reporting to affect decisions and to produce benefits within and outside the organisation implementing it. As implementation strengthens further impacts may become evident.

Human resource development

In Australia, investments in training and development have traditionally been reported as a cost, rather than as an investment, even where firms and organisations rely heavily on their staff to generate earnings and growth. Thus there is a tendency for enterprises to under-invest in this area and to rely instead on the public sector to support the required levels of education and training. The potential for human resource reporting to change these practices and attitudes and to offer a new basis for private support for human resource development is therefore an important consideration.

Frederiksen and Westphalen (1998) note that most of the Human Resource reporting models being developed in European enterprises focus on human-resource development rather than on putting figures on Human Capital. While no similar conclusion can be drawn from the Australian case studies, given the lack of formal reporting to date, it is clear that the case study organisations, which all recognise and acknowledge the value and role of their Human Capital, also express strong support for human resource development and demonstrate support through a variety of initiatives. Their supportive attitudes and practices are linked primarily to:

- a recognition of their growing skill requirements and
- initiatives to ensure they obtain and maintain the required level of skills by attracting skilled staff, developing the skills of staff, and retaining staff.

The capacity of human resource reporting to demonstrate more clearly the links between human resources and financial results is seen particularly by interviewees working in the Human Resources area as offering a means and opportunity to challenge the thinking that underlies the identification of investments in human resources as a cost. It provides a way to demonstrate 'what they already know' - the value of people to the organisation:

...they are looking at our dollar, bottom line...and we had to come up with another way of proving how valuable we were...

...having the balanced scorecard in place means ... an acceptance that at some level performance in other areas as well is going to provide for that financial return...

It thus also supports an increase in investments in training and development:

...now the Board says 'you haven't got enough training dollars in the budget' ..they're pushing us to do more training...

Several of the case study organisations emphasise characteristics and behaviours when they recruit new staff, rather than skills, on the grounds that skills can be learned while attributes that do not already exist cannot be developed. This approach entails a strong role for human resource development in ensuring that staff acquire the skills they need to perform the work required of them. It promotes closer links between training and development and the strategic goals of the organisation and its constituent divisions or units.

As noted earlier, a majority of the case study organisations provide opportunities for training and development among a number of initiatives aimed at increasing retention of skilled labour. Staff are often able to identify their own training/development needs and/or choose from a number of alternatives. However, in most cases the level of support they receive depends on the extent to which the chosen options relate to the strategic objectives of the organisation, or the unit in which they are working. This supports the conclusion that even though organisations are concerned to retain staff, they are also careful about the investments they make in their training and development.

Common to several organisations is an approach to human resource development which indicates that though support will be provided where the activities contribute to organisational goals, responsibility for training and development ultimately rests with the individual:

you're responsible for your own career
- HR professional

These case study investigations did not examine the reasons behind this view, which is open to several different interpretations. It thus remains a subject for further research.

Several organisations were in the course of developing, or had put in place, initiatives which, through links with education institutions, enable staff to obtain a higher level qualification through recognition of the skills they use in their work. Contrasting with these formal arrangements are many informal processes for skill and knowledge acquisition and development. These include mentoring, the re-organisation of workplaces, increases in the frequency of staff professional and social meetings and the construction of 'teams' and 'communities'. All are aimed at improving staff interaction and knowledge sharing. In addition, two organisations indicate that they provide opportunities for staff to participate in personal development activities such as community work, counselling, etc.

Together these many initiatives underscore the importance of human resource development to the case study organisations. Given this demonstrated commitment, it seems probable that as they implement human resource reporting, training and development are likely to be among important considerations in their framing of reports.

Section Four: Stakeholder Issues

Frederiksen and Westphalen (1998) indicate five groups of stakeholders in human resource reporting, each with their own set of issues. These are summarised in Table 5 below:

Table 5: major stakeholders and issues in human resource reporting

<i>Governments</i>	<i>Trade Unions</i>	<i>Investors</i>	<i>Enterprises</i>	<i>Employees</i>
regulation	transferability	information	HR	security
social	work conditions	HR capacity	Management	flexibility
responsibility	education and	future potential	information tool	influence
HR	training			training
Management				
Education and				
Training				

source: Frederiksen and Westphalen (1998) p 34.

An additional number of minor stakeholders are also identified including local governments, the 'political consumer', employers' associations, sub-contractors, potential employees and dependants. To these in Australia could be added industry bodies, non-government organisations, industry training bodies and education and training institutions and organisations, particularly those providing or shaping work-related education and training.

The focus of the Australian case studies on enterprises and organisations and the limitations of the research mean that stakeholder issues have not been investigated or discussed, except in relation to enterprises and, tangentially, to the individuals they employ. Thus only a few comments are offered. Much further research is needed to uncover the full range of stakeholders and stakeholder issues involved in the development and implementation of human resource reporting in Australia.

Governments

Frederiksen and Westphalen (1998) find that a reason for the development of human resource reporting is its role in re-distributing social responsibilities from the public to the private sector. For Australian governments, which continue to provide much of the funding for education and training, the possibility of shifting some costs to the private sector presents both an opportunity and a challenge: an opportunity to reduce pressure on their own funds; and a challenge to find ways to increase the uptake of human resource reporting.

In considering appropriate action, governments face a number of options, including regulation and the imposition of additional accountability requirements. However, the potential for governments themselves to benefit from human resource reporting through their own role as employers, is substantial and suggests that this may be an appropriate course of action. It would give them an opportunity to 'lead by example' while benefiting from outcomes such as improved internal management.

Only one of the organisations selected for the case studies is in the public sector - and at the level of local, rather than state or federal, government. The decision of this

organisation to implement Intellectual Capital reporting was, to a substantial extent, the result of changes in the local government sector which forced it to make dramatic alterations to its attitudes and practices (Compulsory Competitive Tendering of local government services). These changes opened up new opportunities, but also forced a new attention to costing, pricing and the monitoring of performance that has been assisted by the development of an Intangible Asset Monitor.

Further investigation might uncover if, and why, other governments and government organisations have been slower to implement human resource reporting. Responses may also give further clues to the slow take-up by other organisations and enterprises.

In Europe, Frederiksen and Westphalen (1998) indicate that government organisations are adapting human resource reporting elements to their own reporting practices. Their experience in implementing human resource reporting may be able to serve as a resource for Australian governments, guiding them through some of the issues and difficulties that are encountered.

Trade Unions

Little trade union influence or participation was evident in the case studies. One organisation indicated union involvement in an Intellectual Capital project, another commented that negotiations had taken place when working conditions were changed. The potential for a stronger role is evident in that Frederiksen and Westphalen (1998) indicate support for human resource reporting from the International Labour Organisation, based on the view that it attempts 'to go beyond the economic approach' (p 27). The ILO has developed information and training materials to assist members in influencing the development of reporting systems, based on the common interests of enterprises and employees:

The cornerstone of this strategy is that the employees should be directly involved in and exert influence on enterprises training and development programmes (p 27).

The emphasis that case study organisations place on attracting and retaining staff through initiatives combining remuneration, training and development, and pleasant working environments suggest that human resource reporting provides new opportunities for trade unions to achieve improved conditions for their members - and a new role and influence in enterprises.

Employees

Decline in the membership and influence of trade unions in Australia has accompanied decentralisation of industrial relations processes. Noting a similar phenomenon in Europe, Frederiksen and Westphalen (1998) comment that as a consequence employees are becoming more directly involved in negotiations and thus

there is a greater need for individual employees to form opinions on new relations emerging at the enterprise level (p 31).

They note that for individual employees human resource reporting presents both risks and opportunities. On the one hand, it enables easier identification of staff who do not meet set performance standards. On the other, it provides employees with 'an

instrument' to improve the 'work environment, education and training opportunities and career prospects' (p 31).

While the Australian case studies provide evidence of the benefits to individuals, such as improved working conditions and opportunities for training and development, few 'risks' are observed. Some organisations report internal difficulties in gaining consensus about appropriate measures, for instance, resistance to the reporting of salaries. This has led to negotiations about specific reporting measures.

Failure to observe risks does not mean that they do not exist. Their absence may relate to the conduct of the research (employees were not interviewed) any may also reflect the current low levels of reporting. More risks may emerge as reporting progresses or in response to further research. However, these risks may be balanced or outweighed by benefits.

Section Five: Summary and observations

Objectives of human resource reporting

Case study enterprises and organisations use information about their Human Capital in two main ways: to project an image that supports a particular view of the organisation; and to provide information useful in decision-making, particularly in relation to human resource management.

In using information about Human Capital, three groups of objectives are apparent. Internal objectives are concerned with improving human resource management and include the identification of skills and abilities (including skill gaps), the allocation of people to particular tasks or types of work and training and other forms of development. Internal and external objectives include demonstrating the links between human resources and financial results in order to support investment in the organisation and the allocation of internal investment to the human resource area, attracting and retaining staff. External objectives include presenting an image of the organisation (eg as capable and competent) that will attract new or different customers or clients and new or repeat business.

The number and mix of objectives, and the emphasis given to particular objectives, may vary according to organisational characteristics such as history and culture, sector and industry, strategic goals and plans.

Extent of reporting

All case study organisations demonstrate recognition and acknowledgment of the value of their Human Capital to their work and to their financial success in reports or on their web-sites. However, the number who also measure elements of their Human Capital and report these measures, either internally or externally, is very small. In addition, where reporting occurs, it is still at a very preliminary stage.

Only two organisations indicate that they use a Balanced Scorecard – both for internal purposes only. One only has an Intangible Asset Monitor (currently in preparation),

while another has investigated but postponed implementation of the IAM, due to other priorities. A small number are establishing databases of skills or knowledge relationships or conducting employee or client surveys.

Ongoing work toward the establishment of reporting measures is apparent so that more extensive reporting is anticipated in the near future.

Impact and implications of reporting

The range of objectives reported by the case study organisations in relation to human resource reporting indicate that an impact on decision-making within and outside the organisations is both sought and expected as improved information about Human Capital becomes available. Within the organisation, the areas of Human Resource Management and Development are both expected to benefit substantially as the links between financial results and human resources become clearer. Outside the organisation there is expected to be an impact on the decisions of investors, clients/customers and potential staff as a new image of the organisation is projected.

Even though reporting is currently at a very preliminary stage, some impacts are already reported. These impacts are identified as having produced positive outcomes. Increased support from senior management for training and development is noted by at least one organisation. Several report improved efficiency and productivity through more informed human resource management, including the identification of people who act as 'knowledge brokers' and the better matching of people, skills and tasks. Skills which were not formerly known to exist within organisations have come to light and the identification of skill gaps has enabled improved targeting of training and development. Surveys have shown increased levels of satisfaction among clients/customers and staff.

Why so little reporting?

Many reasons account for the comparative lack of human resource reporting observed in the case study organisations. Lack of skills is an important factor exacerbated by difficulties in disseminating knowledge about ideas and ways of reporting and using reports. Conflicting internal priorities are also important. Most of the organisations have faced many challenges over recent years in responding to the imperatives of changing markets and staff expectations. Some have chosen to expend effort in other directions. Those who have attempted to encourage a more systematic approach to the measurement and reporting of Human Capital have often come up against entrenched attitudes and practices, particularly the domination of financial matters. They have faced the cynicism of those who regard human resource reporting as 'fadism' and 'overly-scientific'.

Stakeholders and stakeholder issues

Though the case studies did not set out to identify the range of stakeholders, or stakeholder issues other than those relating to enterprises, it is clear that the progress of human resource reporting both depends on, and affects, a broad range of such stakeholders.

Enterprises and organisations implementing human resource reporting are arguably the primary stakeholders, but others include: individual employees, trade unions and

governments. Employer and industry bodies and industry training bodies also are affected and could have an influential role in further developments.

European research has shown that human resource reporting is considered as a useful tool in shifting social responsibilities from the public to the private sector. In Australia this potential has not been investigated, but might offer both opportunities and challenges to governments which seek to reduce pressure on public funds.

For trade unions and for individual employees, human resource reporting may offer a way to progress the improvement of working conditions, including opportunities for training and development. However, there may also be risks in exposing new sorts of information.

What next?

The case studies point to many unresolved issues and questions in relation to human resource reporting that provide a foundation for further research. Given the existing low level of reporting the full range of benefits, and potential benefits, as well as any disadvantages, is unclear. As implementation of reporting progresses it may become possible to observe these more clearly – and to use this information to assist other enterprises and organisations.

The case studies did not address questions about differences in reporting experience by sector, by industry and size of enterprise or organisation. These may be important – particularly if implementation of reporting proves to be costly. At what point, and in what circumstances will the benefits outweigh the costs?

As noted above, further attention is warranted to stakeholder issues. Who are the stakeholders? What concerns do they have? What is the extent and nature of their influence and what might be its impact?

The links between human resource reporting and training and development also require further attention, particularly as reporting develops further. What difference does reporting make, and how, to decisions about training and development? What sort of training and development is favoured? Who receives it?

The case studies also demonstrate that there is both a need and a capacity for action in disseminating knowledge about human resource reporting and in promoting the skills it demands. Much also remains to be done to challenge the domination of financial reporting.

Section Six: Case study reports

Table 6: summary of case study findings in relations to Human Capital

	<i>HR objectives (general)</i>	<i>HR objectives (reporting IC)</i>	<i>Reporting systems/processes</i>	<i>Difficulties</i>	<i>Assists</i>	<i>HRD</i>	<i>Benefits identified</i>
AMP	Employer of choice Staff recruitment and retention	Knowledge management.	Balanced scorecard Employee surveys		New CEO, changed business direction.	Responsibility for your own career Targeted training and development agreed in annual performance agreements. RPL, Internal and external training	Increases in employee satisfaction
Community services SGSC	Efficient, effective use of people and skills.	To indicate the value of HR HR Management	Intangible Asset Monitor Attitude/satisfaction surveys. Skills database.	Lack of skills Culture and attitudes	Simulations Change in mgt, support from senior mgt.	Targeted to business strategy Personal development	Efficiency, productivity, skills, confidence. Informed decisions Support for HRD
Fletcher Challenge	Workers to have the knowledge needed to perform their work.	Identify knowledge relationships, brokers.	Mapping of knowledge relationships. Database of 'knowledge pool'.		Change in senior mgt. Support from senior mgt.	Mentoring/buddy systems, knowledge-sharing groups	Information for decision-making.
Hitachi Data Systems	Resource utilisation Staff retention	Identify skills Measure employee satisfaction	Skills database, Intangible Asset Monitor (not implemented)	Integration of Aus'n and international processes	Internal sponsorship, simulations	Mentoring, internal and external training	

	HR objectives (general)	HR objectives (reporting IC)	Reporting systems/processes	Difficulties	Assists	HRD	Benefits identified
LendLease	Employer of choice Staff retention Knowledge-sharing	Identify Human Capital Investment HR Management			Support from senior levels Openness to innovation.	'Manage your own career'. Mentoring, internal and external training, knowledge sharing, personal development, community involvement, non-hierarchical workplace organisation,	Information for decision-making.
Morgan and Banks	Staff recruitment and retention. Employer of choice. Knowledge sharing	Investment			Changed business focus Increasing use of technology	Individual career responsibility Mentoring, shadowing internal and external training non-hierarchical workplace organisation, team meetings.	
Simplet	Employer of choice Resource utilisation	job models and role clarity identify skills and behaviours	Balanced scorecard. Skills and competencies matrix.	Culture Territorialism Costs	New MD Support from senior mgt. Story-telling.	RPL Targeted development Manage own career	Quality and volume improved. Links between HR and financial results. Support for HRD



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