



# Human Resource Governance Survey Report

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## About the report

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This PICG special report features results from a December 2014 survey on Human Resource Governance.

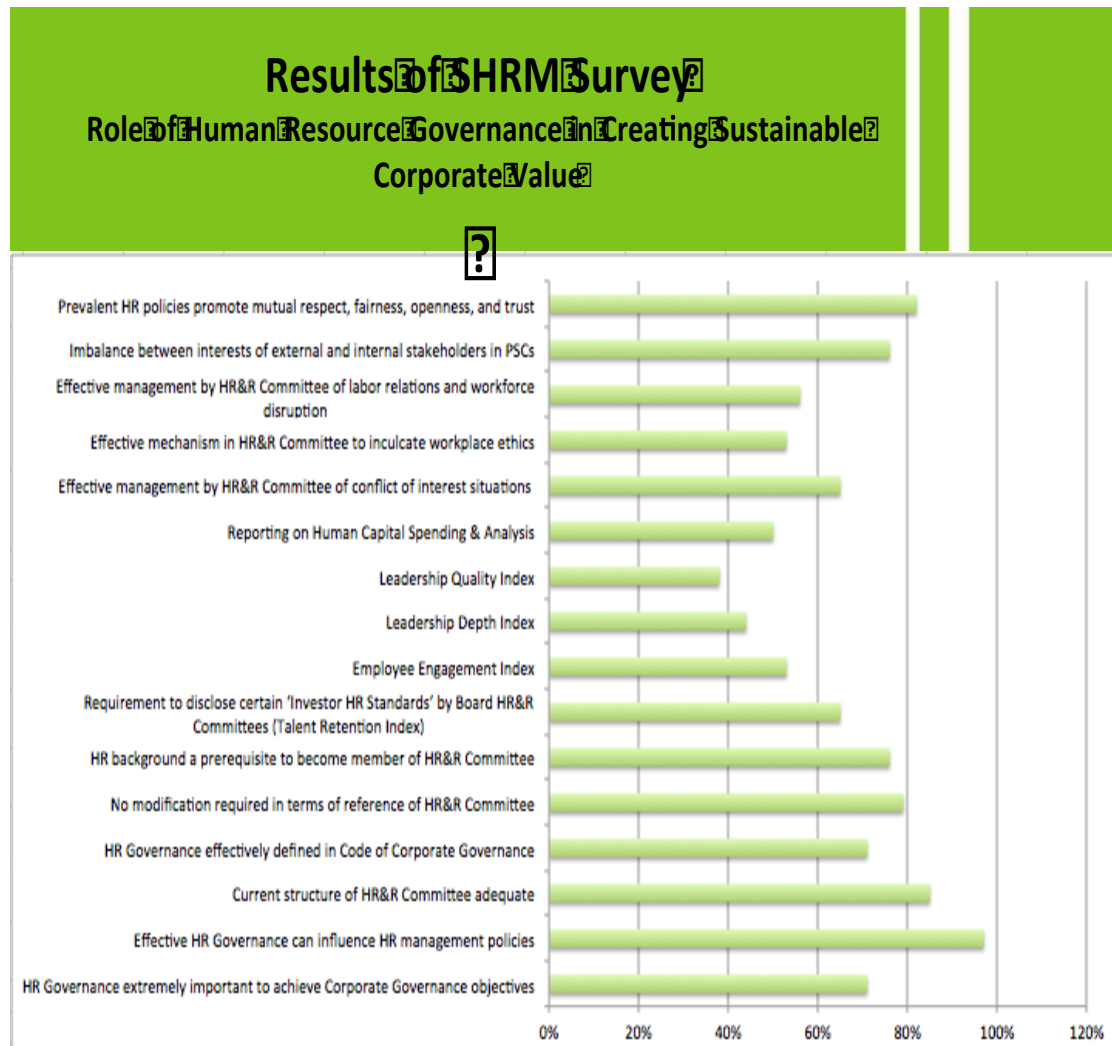
The survey was conducted by SHRM Forum Pakistan for their Conference “Strengthening Human Governance for Sustainable Corporate Value” held in Islamabad on December 13, 2014.

A list of respondents can be found at the end of this report.

**Table 1. Survey Results: Role of Human Resource Governance In Creating Sustainable Corporate Value**

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|--|-----|
| HR Governance extremely important to achieve Corporate Governance objectives                           | 71% |
| Effective HR Governance can influence HR management policies   | 97% |
| Current structure of HR&R Committee adequate   | 85% |
| HR Governance effectively defined in Code of Corporate Governance                                      | 71% |
| No modification required in terms of reference of HR&R Committee                                       | 79% |
| HR background a prerequisite to become member of HR&R Committee  | 76% |
| Requirement to disclose certain 'Investor HR Standards' by Board HR&R Committees                       |     |
| <ul style="list-style-type: none"> <li>• Talent Retention Index</li> </ul>                             | 65% |
| <ul style="list-style-type: none"> <li>• Employee Engagement Index</li> </ul>                          | 53% |
| <ul style="list-style-type: none"> <li>• Leadership Depth Index</li> </ul>                             | 44% |
| <ul style="list-style-type: none"> <li>• Leadership Quality Index</li> </ul>                           | 38% |
| <ul style="list-style-type: none"> <li>• Reporting on Human Capital Spending &amp; Analysis</li> </ul> | 50% |
| Effective management by HR&R Committee of conflict of interest situations                              | 65% |
| Effective mechanism in HR&R Committee to inculcate workplace ethics                                    | 53% |
| Effective management by HR&R Committee of labor relations and workforce disruption                     | 56% |
| Imbalance between interests of external and internal stakeholders in PSCs                              | 76% |
| Prevalent HR policies promote mutual respect, fairness, openness, and trust                            | 82% |

**Graph 1. Survey Results: Role of Human Resource Governance In Creating Sustainable Corporate Value**



## Analysis of Survey Results

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The main themes that emerge from the Survey results are:

- HR Governance
- Structure of the Board Human Resource & Remuneration Committee
- Disclosure of Investor HR Standards
- Interests of external and internal stakeholders in public sector companies
- HR Policy and Practice

An analysis of Survey results yields the following discussion.

### **HR Governance**

71 percent respondents state HR Governance is extremely important to achieve Corporate Governance objectives, and the same percentage state that the Code of Corporate Governance effectively defines HR Governance.

Corporate governance systems may provide an appropriate starting point for the development of any policies aimed at building an efficient human resource management system.

97 percent respondents believe effective HR Governance can influence HR management policies.

There are two components of Human Resource Governance

First:

- Board of Directors; and its
- HR & Remuneration Committee

Second:

- CEO/MD and the management's approach to HR; and its
- program efficiency and effectiveness

For HR management policies to be enforced, Boards must ensure that the CEO has implemented an effective internal HR governance framework.

### **Structure of the Board Human Resource & Remuneration Committee**

Eighty five percent respondents state that the current structure of the Board HR&R Committee is adequate, and 79 percent believe that there is no modification required in the terms of reference of the HR&R Committee.

Through the formation of the Board HR & R Committee, the Code of Corporate Governance has tried to ensure that contemporary HR governance is formally embedded in organization practices, particularly succession planning for the CEO and his or her direct reports.

In addition, an important role of the Board is to understand the various HR risks facing the organization. Most companies still do not adequately consider HR risk management and performance measurement.

A longitudinal survey from Deloitte suggests that companies should reevaluate the turnover intentions of their key employees and revise the retention tactics they employ to keep top talent on the job.<sup>1</sup> Barclays Africa Group now reports on 'regrettable turnover', that is, losing the people you do not want to lose, and how that creates material risks for the company.

Sixty five percent respondents believe the current structure of HR & R Committees allows for effective management of conflict of interest situations, while 56 percent believe it allows for effective management of labor relations and workforce disruption. 53 percent believe that HR&R Committees have an effective mechanism to inculcate workplace ethics.

Herein lays another integral component of the business model: the company culture. HR should embrace a corporate communication policy that regularly informs employees of the 'strategic and operational' direction of the company, in addition to corporate values, ethical behavior and compliance, so that every employee is aware of the parameters within which to deal with the company's outside stakeholders including customers and business associates.

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<sup>1</sup>*Managing talent in a turbulent economy*, Deloitte

## **Disclosure of Investor HR Standards**

To the question whether there should be a requirement to disclose certain 'Investor HR Standards' by Board HR&R Committees, 65 percent survey respondents opted for a Talent Retention Index; 53 percent for an Employee Engagement Index; 50 percent for Reporting on Human Capital Spending & Analysis; 44 percent for a Leadership Depth Index; and 38 percent for a Leadership Quality Index.

Our research indicates that it is not clear that generating and reporting more HR metrics will necessarily result in better organizational performance.

In November 2012, the international Society for Human Resource Management (SHRM) withdrew the Investor Metrics standard for consideration as an HR standard on account of insufficient 'support from the business community'.

The HR Indices for Investors Standard were to comprise a series of metrics such as talent retention, employee engagement, and leadership quality, to provide publicly traded companies with a voluntary tool to measure and report on the effectiveness and value of their human capital to potential investors.

The reason the investing community may have been opposed to HR metrics is that these metrics have proven to be less scalable. Take for example, employee engagement. Different organizations have different parameters for calculating employee engagement. Some organizations calculate an employee engagement index based on indicators such as employee satisfaction and retention. Others use a formal employee engagement survey once a year. These are good measures for a company's internal consumption, but they produce human capital data that is unique to each organization.

An increasing number of HR professionals are questioning the efficacy of reporting a greater number of metrics with greater frequency if they still fail to have a significant impact on organization effectiveness.

## **Interests of external and internal stakeholders in public sector companies**

Seventy six percent survey respondents state that there is imbalance between the interests of external and internal stakeholders in public sector companies (PSC) where the primary external stakeholders are the shareholders including the state, and the internal stakeholders are the corporation's employees.

In organizations with a dominant external stakeholder (the state), internal stakeholders' (employees) interests may be overlooked because management is required to prioritize the interests of the dominant stakeholder. Therefore, governing PSCs without governing their human capital may make it difficult for their managements to secure internal stakeholders' commitment to organizational objectives.

Deloitte's 2011 CHRO Public Sector Study, a major research study on public sector HR governance and management finds that public sector organizations are implementing HR planning and questioning the efficiency of their HR business models.

Areas of priority for HR governance in PSCs include:

- developing formal HR governance structures and practices;
- HR performance measurement metrics; and
- clarity of accountabilities for all internal stakeholders, including Board, CEO, line management, and other employees

An important component of the PSC Board's responsibility is to develop and implement policies to identify employees who have the right talent and experience to lead the corporation.

This is where a strategic talent management plan allows a PSC to:

- promptly fill critical talent management needs;
- identify essential skills to be developed in all employees by focusing on key development areas; and
- enhance the HR management process by identifying high performing



employees, internally

## HR Policy and Practice

Eighty two percent survey respondents think prevalent HR policies promote mutual respect, fairness, openness, and trust.

That is good news particularly in reference to the global, post credit crisis deficit of trust scenario. The 13<sup>th</sup> annual Edelman Trust Barometer conducted in 2013 uncovered a 'crisis in leadership' which highlights a worrying shortfall in trust between management and employees. The Barometer calls for a more inclusive style of leadership which seeks the views and inputs of employees as well as customers, experts and those who are active in the industries and communities in which the business operates.

## Recommendations

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We close the analysis with a few recommendations of our own viz. a viz. the Survey results.

The reason the investing community may have been opposed to HR metrics is that HR standards have proven to be less scalable, and may or may not be connected to organizational performance.

Investors generally do not look for information on how a company is organized or staffed, or what are the financial costs associated with talent retention or employee engagement. Investors want data that is quantifiable and standardized. According to an E&Y study high-performing companies are investing in a capability called strategic workforce planning (SWP) which is integrated with corporate strategy, business planning and financial planning to enable HR to align human capital investments with long-term business priorities.<sup>2</sup>

Thus, the HR function must be cognizant of the changing landscape of corporate reporting. There are two substantial institutions now pushing for more substantive

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<sup>2</sup>*Adding value: A guide for boards and HR committees in addressing human capital risks and opportunities, Ernst & Young*

reporting of human capital information based on the belief that human assets drive company strategy, growth and shareholder value. They are:

- The International Integrated Reporting Council (IIRC) in the United Kingdom
- The Sustainability Accounting Standards Board (SASB) in the United States

A core element of the IIRC's Integrated Reporting <IR> Framework is the integration of human capital<sup>3</sup>-- along with five other capitals including financial capital, manufactured capital, intellectual capital, social and relationship capital, and natural capital -- and financial information in a single report.<sup>4</sup>

Human capital reporting offers a great opportunity for the HR function to articulate how it creates value and to become strategic like it aspires to.

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<sup>3</sup>International Integrated <IR> Reporting Framework version 1.0

<sup>4</sup>The capitals model in the Framework is intended to serve as:

- benchmark for all the forms of capital organizations use;
- part of the theoretical underpinning for the concept of value

## List of Survey Respondents

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Mohammed Asim Bhatti  
Head Of HR  
Kohinoor Textile Mills Limited

Irfan Ahmed  
Chief Operating Officer  
Optimus Limited

Jarri Masood  
Senior Manager HR & Admin  
3M Pakistan

Dr.Farid Khan  
Country Manager  
Pfizer Pakistan Limited

Muhammed Asad Iqbal  
HR Generalist  
Dupont Pakistan Pvt. Limited

Aisha Kirmani  
American Buisness Council of Pakistan

Syed Muhammed Hussain Gardezi  
Senior Manager HRIR  
Crescent Bahuman Pvt. Limited

Sadia Nadeem  
Associate Professor  
FAST School of Management

Shahzad Ali Memon  
Manager HR  
Jaffer Brothers Pvt. Limited

Shmaz Mir  
HR Manager  
EPCL

Muhammad Umer  
Country Head of HR  
Standard Chartered Bank Limited

Talha Asim Ghazi  
Head of Human Resources  
Thatta Cement Company Limited

Syed Mazhar Hussain  
CHRO  
Pakistan Telecommunication Company Limited

Masroor Ahmad  
GM HR  
Pakistan Petroleum Limited

Leon Menezes  
Professor of Practice  
Institute of Business Administration, Karachi

Syed Amjad Habib  
Head of HR  
Shirazi Trading Company (Atlas Group)

Humera Ahmed  
Head of HR

Abdul Aleem  
Chief Executive  
Overseas Investors Chamber of Commerce and Industry

Aziz Merchant  
Head of HR  
UBL Fund Managers Limited

Arshad Akif  
Chief Executive Officer  
ASK Development

Sitwat Hussain  
Head HR  
Descon Engineering Limited

Wajid Ali  
Head HR  
Khushhali Bank Limited

Ansar Yahya  
Chief Executive & Managing Director  
Rafhan Maize Products Company Limited

Farha Abdul Latif  
Company Secretary  
National Foods Limited

Sumika Farooqui  
Country HR Manager  
Proctor & Gamble

Asif Saeed  
Head HR&A  
Attock Refinery Limited

Shahzad Saleem  
Head HR  
KSB Pumps Limited

Tipu Zaheer  
Human Resource Manager  
Uch Power Private Limited

Akram Durrani  
DH FERTILIZERS

Asif Malik  
Vice President  
ICI Pakistan Limited

Abdul Rehman  
General Manager HR  
US Denim Mills Limited

Aurangzeb Ahmed Khan  
Group Head HR  
Siddiqsons Limited

Shafique Ahmed Uqaili  
Chief HR  
Allied Bank Limited

Khalid Nasir  
General Manager  
Antal (Pakistan Office)/FCG Limited