PEOPLE POWER IS HARD TO QUANTIFY

In May, the Accounting for People Taskforce, set up by trade and industry secretary Patricia Hewitt and headed by Competition Commission deputy chairman Denise Kingsmill, produced an initial consultation document on tackling 'accounting intangibles'. This autumn, the taskforce is expected to make recommendations to the government.

The phrase, 'our people are our most important asset' has become one of the most overused statements in company reporting. In many annual reports, the words are little more than a sop to current attitudes inserted by executives who are oblivious to the irony that their organisations have been engaged in delayering, downsizing and other schemes involving job losses. But even in companies where there is a genuine commitment to staff and a belief that they make a difference, the phrase causes difficulties – simply because there is no way of proving it.

The idea that the much talked-about gap between the value of a company's physical assets and its stock market valuation can be accounted for by intangibles, such as brands and the contribution of its employees, has largely been an intuitive assertion, much like the notion that training is a good investment.

In May 2003, the Accounting for People taskforce, set up in January by Patricia Hewitt and headed by Denise Kingsmill, produced some initial thoughts for tackling accounting intangibles in the form of a consultation document; it is expected to make recommendations to the government in the autumn.

Measuring people

Among its mix of accountants, business leaders, a trade unionist and an academic, the Accounting for People taskforce includes Fred Goodwin, chief executive of the Royal Bank of Scotland, which is believed to have done more than most to develop a human resources function focused on helping the company achieve its aims. But while this might work for the acquisitive financial services group, the taskforce will not force everyone else to follow suit.

Instead, it is seems to be adopting a cautious approach, not least because, as it says, "there is little agreement" on which metrics provide the greatest insight into human capital management. Moreover, it recognises the tension between setting a minimum reporting requirement high enough to allow reasonable comparison between organisations and avoiding an overprescriptive approach that "might stifle innovation, prejudice commercial confidentiality or be unduly burdensome".

Accordingly, Kingsmill and her colleagues favour an evolutionary approach, under which a fairly general set of recommendations will be produced, and then progressively improved as "measurement and reporting arrangements develop".

The killer indicator

This has found wide support among commentators and interested parties. For example, Brett Walsh, head of human capital services at accountancy and business advisers Deloitte, is supportive of the document because he thinks it will change the way in which HR is driven in organisations. In particular, he believes the relationship between FDs and HR directors will improve significantly because the latter will have access to the sort of data that will enable them to have more meaningful discussions with their counterparts in finance.

This is not to say there are no concerns about how the taskforce's thinking will work in reality. At the Institute of Chartered Accountants in England & Wales, which is holding a roundtable on 16 July prior to submitting its response, head of financial reporting Nigel Sleigh-Johnson says the document is a good first step, but he argues that it raises many questions.

The most fundamental of these relates to which measurements – employee satisfaction, staff turnover, training, etc – will prove most useful in accounting for human capital. Jeffrey Schmidt of the consulting firm Towers Perrin and one of the prime movers in the human capital debate has called measuring and managing human capital the "holy grail" of HR. But he warns there is no magic formula.

A similar argument is made by Mark Goyder, director of the business think-tank Tomorrow's Company and a member of the advisory forum for the Kingsmill taskforce. Noting the risk of searching for the killer indicator, he says the group has taken the right approach in urging experimentation and accepting that different sectors will emphasise different factors. He cautions organisations against putting too much emphasis on measurement for its own sake because what gets measured not only gets managed, it also gets manipulated. "One of the fundamental truths about measurement is it's a background against which you can make judgements," he says.

Such an attitude has already been adopted by the Chartered Institute of Personnel and Development in its external reporting framework for human capital. This allows companies to, in the words of director-general Geoff Armstrong, "present a range of data, give a balanced view of their human capital and show how their approach to people management adds value".

Whether such information will appear in the operating and financial review being developed as part of the wider reform of company law is not clear at this stage. What is more certain is that the once fuzzy notion of human capital is becoming more focused and more scientific, and is being seen as an important element alongside more traditional financial measures in understanding the performance of companies.

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