

ACCOUNTING FOR PEOPLE IN THE OFR

As from April 2005, over 1,200 publicly quoted companies in the UK are required to include a section on their approach to human capital management in their annual Operating and Financial Review, or state formally why they have not done so.

The new rules follow the DTI's acceptance in July 2004 of its accounting for people taskforce's findings – aka the *Kingsmill Report* – which sought to substantiate the old adage that people are an organisation's greatest asset. It concluded that sound human capital management produced better performance and accountability to all stakeholders, thus improving standards.

Being aware of the benefits that recruitment, staff retention and training can make to a business is critical. For example, the Chartered Institute of Personnel and Development and Mercer Human Resource Consulting have found that measuring the contribution employees make to a business improves management decision-making significantly. Yet companies are unsure how to quantify the contribution their employees make, or how their performance can be linked to improved financial results or corporate governance.

The CIPD's publication, *The guide to human capital reporting: An internal perspective*, provides

practical support for organisations to help measure and increase the value of their human capital.

Rob Davies, managing director at Water For Fish, a people and organisation consulting business, says that companies can measure the effect of human capital on the business via balanced scorecards, benchmarking, or through pioneering human capital metrics.

The *Kingsmill Report*, published in October 2003, specified five areas of human capital management where information should be available in the OFR:

1) Workforce size/composition
Strategic people issues are identified as central to an organisation's performance. Key considerations could include:

- What strategic trends affect the size of the workforce, either overall or in particular geographic areas or occupational groups?
- Are the age, gender and ethnic profiles of the company's workforce appropriate for the strategy they are pursuing?
- Is the balance between full-time and part-time workers right for what you want to achieve?
- Do differences in management and staff profiles have implications for the success of this strategy?
- How much does the organisation depend on external people and what are the implications?

2) Retention and motivation
When trying to understand how

successfully the organisation is managing its people and has achieved buy-in to its strategic direction, companies may consider:

- Is the level of staff turnover efficient in terms of the business strategy, or is it too high or too low to achieve a balance between new blood and experience?
- Is staff turnover particularly high among specific groups, at certain levels or within certain areas?
- Do indicators suggesting lack of engagement point to a reduction of buy-in to the organisation's strategy or to other difficulties that affect its ability to pursue it?
- What other intelligence is there on the extent to which all stages of the workforce are engaged with its aims and values; ie, as discovered through staff surveys?

3) Skills, competencies, training
To demonstrate how well-placed the organisation is to meet its goals, issues to look at include:

- How does the skills base relate to current/future business needs?
- How do actual/planned training and development contribute?
- How does the organisation develop talent internally?
- How successful are the techniques it uses?

4) Remuneration and fair employment practices

To show how the organisation uses these levers, boards should ask:

- What is the remuneration structure? Do the differentials fit with the business strategy?
- How does the remuneration system impact on performance?
- Is the balance between rewards for individual and team-based performance best suited to

strategic needs?

- How is non-financial performance rewarded?
- How successful has past remuneration policy been in contributing to performance?
- Does it discriminate unfairly in pay or employment?

5) Leadership

Companies should look at:

- What are the leadership skills and characteristics needed to implement the strategy the organisation is pursuing?
- How far do its existing managers possess and display those skills?
- What is the role of external recruitment and what are the costs of recruiting in this way?
- What are its future leadership needs and competencies?
- What initiatives is the organisation pursuing to develop future leadership internally?

Davies believes a thorough examination of how human capital management is approached by publicly quoted companies when preparing their OFRs will "open the board's eyes as to how the company can become more competitive and better governed".

Neil Hodge

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