



**ACCOUNTING STANDARDS BOARD'S REPORTING  
STANDARD 1: OPERATING AND FINANCIAL REVIEW  
REPORTING EXPOSURE DRAFT**

**Response by the Chartered Management Institute**

**28 February 2005**

## **Overview**

The overall stated purpose of the OFR is to provide a report that is "forward-looking in orientation in order to assist investors to assess the strategies adopted by the entity and the potential for those strategies to succeed". Therefore it is exceedingly disappointing that an obligation to provide some employee information has not been deemed necessary.

However, a more important opportunity has been missed in terms of the draft "Implementation Guidance", which could provide much further guidance and advice on forward-looking indicators that offer strategic value to business planning.

## **Context of response**

The UK Human Capital Management (HCM) Performance Steering Group was established in November 2004 by the Chartered Management Institute and the Centre for Applied HR Research at Oxford Brookes University (CAHRR) with the support of Oracle. It sets out to bring together a community of practice to share progressive thinking about the development of human capital management reporting from a senior management perspective.

The Group was set up with the overall goal "to define a process standard methodology to classify, measure, manage and optimise the strategic and operational value of human capital".

The Group's objectives include raising awareness among UK boards, Government departments and leading investors of the potential of human capital management reporting (HCMR) to create sustainable added value for organisations.

The Group will be producing its own guidelines at the end of March 2005 offering basic advice on measuring human capital based on initial research by the Chartered Management Institute and CAHRR research on employee governance sponsored by Oracle. This research showed that advice on basic HR measures was badly needed, not just as a response to regulations but to provide information critical for those running or funding major businesses.

The Steering Group supported the outcomes of the work of the Accounting for People Taskforce as it raised awareness and understanding of the importance of Human Capital Management Reporting (HCMR). In view of the potential role that OFR could play in raising the standard of people management in companies and members of the Group would very much welcome the opportunity to contribute to further drafting of the section "Information on Employees" in the Implementation Guidance.

## **Reporting Standard**

The Steering Group broadly supports the overall disclosure framework detailed in the Reporting Standard.

We agree that there should not be a prescriptive approach setting out indicators on employees. Indeed, it is welcomed that the OFR recognises the importance of employees throughout all the key elements of the disclosure framework.

Examples that include explicit reference to employees include:

(a) the nature, objectives and strategies of the business

para 33: The nature of the industry will affect the directors' determination of an appropriate time perspective for reporting in the OFR:

"... a service industry with few physical assets and depending on the supply of particular employee skills for its source of competitive advantage, will plan over a period consistent with its ability to recruit, train and develop its staff..."

## (b) Resources

Para 49: "The OFR shall set out the key strengths and resources, tangible and intangible, available to the business. These may include: employees, intellectual capital etc... "

## (c) Relationships

Para 56: "For many entities, relationships with customers, suppliers, employees .... will be important, as will the entity's broader impact on society and the communities affected by its activities.

### **Reporting Standard: Implementation Guidance**

The Steering Group is very disappointed by the extent and scope of the guidance provided in respect of information on employees. This is a missed opportunity to provide practical guidance about the type of information that can and should be produced.

The work of the Institute's HCM Working Party 2004 and the research by CAHRR/Oracle found that current reporting practices on HCM are patchy in terms of both content and quality, suggesting early work in progress and a wide range of approaches. However, as is to be expected, multinational companies appear to be setting the pace, both in measurement and reporting.

Therefore, although the Group does not subscribe to the view that there should be a single set of reporting metrics, we do have evidence of the process by which good HCM reporting combines narrative and hard data about the aspects of people management that most affect business performance.

The implementation guidance misses a valuable opportunity to build in the strategic value of HCM. The only two examples given are how to measure employee morale and employee health and safety. Both of these are well-established measures and both are looking at the respective "risk" factors of high employee turnover and lost time through injury.

The guidance does not share progressive thinking and developments in HCMR that focus on future value creation through seeking competitive advantage through the deployment and development of employees.

This is a major anomaly given that the stated purpose of the OFR is to be forward-looking. There are no references to how investment in employee development, talent management, succession planning or building workforce capacity can impact on future performance. Indeed, simple statistics such as hours spent on training and number of courses taken are meaningless unless their impact is evaluated in the business context.

Furthermore, there is no reference to job design, performance-based compensation, objective appraisal systems, diversity and equal opportunities, employee support (such as healthcare and health promotion): all aspects of people management that can help engage employees and impact on long term performance.

The focus of the draft implementation guidance is very much in lag indicators rather lead indicators. This entirely misses the purpose of helping investors assess the future impact of various people management strategies.

## Conclusion

In conclusion, the Steering Group is committed to sharing progressive thinking on better people management to provide real value to employers, employees, shareholders and potential investors. We appreciate that the initial guidance is in draft and would welcome the opportunity to share a draft of our forthcoming guidelines and recommendations with the Accounting Standards Board to help the development of future drafts.

This response has been developed and submitted on behalf of the following members of the Steering Group:

- Rhiannon Chapman CCMi, chair of the HCM Performance Steering Group
- Brigadier Robin Bacon, Strategy Director for Service and Personnel Policy, Ministry of Defence
- James Bennett, UK Sales Director, HCM Solutions, Oracle
- Petra Cook, Head of Public Affairs, Chartered Management Institute
- Richard Cullen, Head of HR, National Probation Service
- Dr William Scott-Jackson, Director, Centre of Applied HR Research at Oxford Brookes University, and Chairman of Research, Capital Consulting
- Randal Tajer, Managing Director, Human Resource for UBS Wealth Management and Business Banking
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