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ABSTRACT

This document contains 11 reports from a 2-day meeting on how to report on investments in vocational education and training in enterprises and whether such reporting is worthwhile. The document begins with a brief overview of the meeting and the meeting agenda. The remainder of the report is devoted to the meeting papers, which are titled as follows: "Contribution of Mr. Evanghelos Boumis, Human Resources Manager of Titan Cement Co."; "Social Reporting in French Companies" (Dominique Fruleux); "Reporting on Human Capital in Denmark" (Jens Frederiksen); "Human Capital Reporting: Experiences and Proposals Discussed at the Agora" (Ulf Johanson); "Reporting on Human Capital" (Keith Drake); "Human Capital Reporting as an Area of Concern for Policymakers and the Social Partners--the Case of Finland" (Tuomo Alasoini); "Reporting on Human Capital--Is It Possible To Report on Human Capital and If So, Why and How?" (Helge Kielland Lovdal); "The Learning Enterprise and Corporate Governance" (Isabelle Guerrero); "International Standards for Reporting on Human Capital" (Riel Miller); "Quality Management for Companies: Developing Skills through Training with ISO [International

Organization for Standardization] Standard 10015" (Frederic Sechaud); and "Human Capital--Some Comments on the Possibility and Desirability of Establishing an International Reporting Standard--The Case of Italy" (Stefano Zambon). Also included are: a foreword; the meeting agenda; and a list of participants. Some reports contain substantial bibliographies. (MN)

CEDEFOP

PANORAMA

Agora VI
Reporting on human capital

Is it possible to report on human capital and, if so, why and how?

Thessaloniki, 24 - 25 June 1999

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The **European Centre for the Development of Vocational Training** (Cedefop) is the European Union's reference Centre for vocational education and training. We provide information on and analyses of vocational education and training systems, policies, research and practice.
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Foreword

Investments in human capital accounts for at least 10 % of national income in most OECD countries when account is taken of public and private spending on initial education as well as spending by individuals and enterprises on post-school training. Expenditure on such a scale raises important policy issues about what volume of spending is appropriate, how resources should be allocated between different types of investment in human capital, and how the cost is distributed, including its incidence on those who receive the most benefits.

Tom Healy, OECD

Lifelong learning is one of the credos of this decade. Societies must increase the investments in vocational education and training while also securing the societal returns from such investments. To be in business, companies are increasingly obliged to invest in human resources. To be employable, the individual must increasingly continue training throughout life. The more we invest, the more concerned we are about the quality and the returns, on all levels. Is reporting on human capital an answer to this growing concern?

This meeting in Cedefop's marketplace for exchange of ideas and experience, 'Agora 6 Thessaloniki', will highlight one of this decade's most challenging tasks: how to report on the investments in vocational education and training in enterprises. It will also ask the question is it worthwhile doing it?

The objective of this meeting is to enhance the awareness of reporting on human capital and to discuss its precondition for societal benefits, the competitiveness of enterprises and job enhancement for individuals. This includes discussions on the usability of such reports seen from enterprise level, government and social partners and the international level. The long-term objective of the meeting should be the development of an informal European network and the production of a discussion paper for the social partners that can support the national debate. The meeting will contribute to the European Commission's work on the development of human resources accounting guidelines for the Member States.

The bottom line of this seminar is simply that the inter-relationships between reporting on investments in, and policies on, human capital and its outcome have to be better understood.

All participants at the meeting will be directly involved in the area of reporting on human capital, either as practitioners, policy-makers or researchers representing the social partners on sectoral, national and international levels as well as public - national and international - bodies. Facilitators and speakers will be experienced top level managers, shop stewards and researchers.

The meeting will be formed around three discussion groups/workshops at the level of the enterprise, the national level and the international level;

(a) reporting at enterprise level: experience and practice with the Investors in People standard;

(b) governments and social partners' interests in and position on reporting on human capital;

(c) international organisations' interests in, and position on, reporting on human capital.

For all the workshops there will be four overriding themes:

(a) what are the main reasons for enterprises to start systematised reporting on human capital?

(b) which elements should be included in the disclosure of human resources?

(c) should there be a standard approach nationally and/or internationally?

(d) should disclosure on human resources be voluntary or compulsory for enterprises?

Please find below an introduction to each discussion forum.

(a) Reporting on human capital at enterprise level.

This workshop will discuss the applicability and usability of reporting on human capital at enterprise level.

Enterprises will present their objectives for producing reports on human capital, the method being used and its strengths and weaknesses. Organisations offering standard reporting tools will present their frameworks, the present and future potential for standard reporting tools and their strengths and weaknesses.

(b) Governments and social partners' interests in reporting on human capital

This workshop will discuss the likelihood of regulations and/or social partner agreements on standard reporting tools.

Representatives from governments and the social partners will present their position *vis-à-vis* standard reporting tools, the objectives and the elements to be included in such reporting mechanisms and the future potential for regulations and/or agreements on the topic.

(c) International organisations interests in reporting on human capital

This workshop will discuss the possibility for international standard tools for reporting on human capital.

Representatives from international organisations will present their views on the role of international organisations in policy promotion and standard setting.

Agenda of the meeting

Thursday 24 June 1999

9.00 a.m.	Welcome and opening of the Agora: Johan van Rens, Director, Cedefop
9.15 a.m.	Introduction by Sven-Åge Westphalen, Cedefop

SESSION I **Reporting on human capital at enterprise level: problems and perspectives**

9.30 a.m.	Reporting on human capital at Titan Cement Company S.A. (Greece), Evangelos Boumis
9.50 a.m.	Social balance in French enterprises, Syndex (France), Dominique Fruleux
10.10 a.m.	Reporting on human capital in Denmark, KPMG C. Jespersen (Denmark), Jens V. Frederiksen
10.30 a.m.	Discussion on the experiences in enterprises
11.15 a.m.	Comments on applicability and usability of human capital reporting tools, Ulf Johanson, Stockholm University, Sweden
11.30 a.m.	General discussion on reporting on human capital at enterprise level
12.30 a.m.	Critical analysis of the first session, Keith Drake, University of Manchester

SESSION II **Governments and social partners' concern in reporting on human capital**

Social partners' round-table discussion: **'What are the targets, expectations and fears of policy-makers and social partners regarding human capital reporting?'**

3.00 p.m.	Finnish Ministry of Labour, National workplace development programme, Tuomo Alasoini
3.15 p.m.	Danish Ministry of Business and Industry, Gitte Hansen
3.30 p.m.	Danish Federation of Trade Unions (LO i Danmark), Bernt Fallenkamp
3.45 p.m.	Norwegian Employers Organisation, Helge Løvdal
4.00 p.m.	Discussion on the targets, expectations and fears of policy-makers and social partners regarding human capital reporting

Comments on governments and social partners' concern in reporting on human capital

4.45 p.m.	Isabelle Guerrero, University of Aix-Marseille (France)
5.00 p.m.	Per Bukh, University of Århus (Denmark)
5.15 p.m.	General discussion about governments and social partners' concern in reporting on human capital
6.15 p.m.	Critical analysis of the third session, Keith Drake, University of Manchester

Friday 25 June 1999

SESSION III International organisations' concern in reporting on human capital

'Is it possible and is it desirable to establish international standard tools for reporting on human capital'

9.00 a.m.	George Varoufakis, Administrative Board President of ELOT, Greek branch of the International Standard Organisation,
9.15 a.m.	Riel Miller, Organisation for Economic Co-operation and Development (OECD)
9.30 a.m.	Frédéric Séchaud, Conservatoire National des Arts et Métiers, Paris, Project leader of the ISO group working on the ISO/FDIS 10015 standard
9.45 a.m.	Social partners' round-table discussion on European organisations concern in reporting on human capital - Union des Confédérations de l'Industrie et des Employeurs d'Europe (UNICE) - European Trade Union Confederation (ETUC), Jean-Michel Martin - European Commission, Directorate General XXII, Alexander Kohler
11.00 a.m.	Comments on possibility and desirability to establish international standard tools for reporting on human capital, Stefano Zambon, University of Padua, Italy
11.15 a.m.	General discussion
12.45 a.m.	Critical analysis of the third session, Keith Drake, University of Manchester
13.00 a.m.	Agora VI closes

Table of contents

1. Contribution of Mr Evanghelos Boumis, Human Resources Manager of Titan Cement Co.

As a member of the Management Board of Cedefop, I would like to welcome you all.

My remarks today will consist mainly of an account of my company's history and its community work and relations. First of all I think I should devote two or three minutes to a brief description of the group, commencing with certain key dates. The company built its first factory in 1902 in Elefsina, Attica. This was the first cement-producing plant in the Balkans and eastern Mediterranean. In 1911 we became a public limited company and in 1912 were quoted for the first time on the Athens Stock Exchange. The year 1948 saw the company's first, tentative venture into export activity, while in 1961 - and I should like to stress this because it demonstrates the company's sensitivity to the need for environmental protection – we introduced the first electric filter to be installed in Greece. In 1962 a second factory was set up, here in Thessaloniki, producing a million tons per annum. In 1966 a third plant was established, in the Patras region, in Achaia. By 1976 we also had a fourth factory, in Boiotia, completing our manufacturing installations in Greece and providing us with an overall annual production figure in the order of 5,500,000 tons. Some ten years later, in 1988, we started our international expansion, setting up a number of distribution terminals in the US and Europe. The 1990's saw us entering a new phase: we are now beginning to differentiate our activities, rationalise our existing business and branch out to new products. In 1992 we acquired a factory in Virginia, US. In 1996 we made what we regard as a very important effort to upgrade the company's computerisation by introducing the SAP system. In 1998 we embarked on a programme of acquisitions in the Balkans, starting with the purchase of an 82 % holding in a factory at Pleven, Bulgaria, and acquiring the majority of the shares (in a consortium with Holder Bank) of a factory in Skopje, the capital of the FYROM. So, those are a few of the milestones in the history of the company.

Now let us summarise the company's current position in Greece. We have four factories producing a total of 5,500,000 tons of cement each year, as well as six distribution centres dispersed around the country from Crete to Macedonia, in Kavala, in Heracleion, in Rhodes, Evoia and Larisa. There are also 20 units producing ready-mixed cement, with overall production of 1.3 million cubic metres per annum. In addition there are 12 quarries and mines producing over 7 million tons each year, and a new unit producing ready-mixed plaster.

Beyond the frontiers of Greece we have a factory in the USA, as well as 8 distribution centres – in New Jersey, North Carolina, Virginia, Tennessee, and other states. In the Balkans we have two factories, one in Bulgaria and one in Skopje. In Western Europe we have five distribution centres: one each in England, Italy and Spain, and two in France. In the Middle East we have recently set up two floating distribution units, one in Alexandria, Egypt, and one in Sathaca, also in Egypt.

A few words now on our financial standing. In 1988 we had a turnover of 160 billion drachmas. Net pre-tax profits were 36.5 billion drachmas, and post-tax profits were 25 billion. Total production, both here and abroad, amounted to 8.5 million tons of cement.

Now a couple of figures on our workforce. At the beginning of 1999 the group as a whole employed some 3,900 individuals. We have 2,115 employees here in Greece, 192 in the US, 1,025 in Skopje, in the FYROM, 360 in Bulgaria, and about 200 employers at our terminals. I hope these facts and figures will have given you some idea of the scale of the company's activities and will help you to follow what I shall be going on to say.

Certain conclusions follow quite naturally from the facts and events I have set out above. When TITAN embarked on its career in 1902 it was, and continues to be, a family business; at the present time it is being administered by the fourth generation of the family who founded the company. It is clear that the company has enjoyed a steady course of growth and expansion. The company has recently begun to branch out into new products, has embarked on international activities and has shown sensitivity in environmental matters. I think I should emphasise this by saying that we are the only company in Greece to have obtained ISO 14001 certification on environmental protection, and I believe this is a certification granted to relatively few manufacturing companies. Finally, we can claim that throughout its history the company, or the group, has implemented an advanced social policy and it is an account of this aspect of the company's life that will be our main subject here today.

Once again I shall begin by looking back at the company's history, because this will provide us with the necessary background for the conclusions we intend to draw on the company's social activity. Relations between workforce and management have always been friendly, with an atmosphere of positive cooperation. I remember how 30 years ago – yes, I have been working for TITAN for three whole decades – the Chairman of the company would come down to the shop floor at the Elefsina factory and be able to greet almost every man there by his Christian name. There was at that time an informal kind of social policy, which subsequently developed, as the company expanded and grew, into a more formal and substantial social policy within the Group. Thus, 25 years ago, when democracy returned to Greece after the junta, the company's management decided that we needed what we might call a social policy charter. Of course this charter was not intended to be something final and static; it had to develop and change in line with the circumstances and conditions prevailing at any time. But the basic axes and principles have remained unchanged, and I should like us to take a brief look now at what exactly the company's social policy has involved.

First of all, the company's social policy is set out in printed leaflets which are issued to employees and, sometimes, to third parties – so the policy is something which is made known to both our immediate and our broader social environment.

The company's social policy includes the principles and objectives of the company in this area, the relationship between the company and its workers, the terms and conditions of work, workforce training and development, union relations (eight different unions represent our Greek workforce), company relations with the families of the workforce, channels of communication within the company, participatory procedures, what the company believes it should offer as the member of a community and, finally, a statement of the priorities or objectives which determine the company's strategy for growth and development. Now it is not, of course, possible to quantify all the elements of our social policy and present them in the same form as a company's financial report, but we do attempt to provide a full account of all the aspects of our social activities. This social account, which we began to produce 17 years ago as a purely internal report, is now being produced for, and communicated to, a much wider audience.

Because of the pressure of time I shall confine myself to talking about just a certain number of the company's principles, about the purpose within a business of this kind to issue social reports and what it means to those outside the company. The speakers we have already heard, and the literature that Cedefop has sent us, have examined the issue in depth, so it is my intention not to delve into the philosophical issues but to offer an account of the result of our principles, the tangible product.

Let us look then at what exactly the social report contains.

First of all, we begin with the social product. This is a term we have employed ourselves, I don't know how apt it is, but anyway it is the term we decided to use. What is the social product? It is stated in drachmas, in tangible financial sums, and it represents the company's economic contribution, the resources it will be allocating to the workforce, the public sector, the shareholders, the creditors and the business itself. We will see later how all this is presented.

Secondly, it includes the profile of the company workforce. In other words, there is an effort to portray the main characteristics of the workforce, comparing it with earlier periods in order to draw certain conclusions and thus determine the workforce development policy and overall strategy. Among these characteristics we include the strength of the workforce, the number of people employed, their age, mobility, absenteeism and its causes, level of education and training, etc..

A third factor involved is the organisation and development of the workforce, by which I mean essentially education, training and continuing education. What we do is study the skills and abilities of the workforce in order to determine the training required and then draw up educational programmes integrated into the company career of each employee. Ongoing training and further education have now become standard practice for the company - a matter of necessity since we are continuously investing in new technology at our various factories.

A fourth element in the social report are the benefits given to the employees and other employee-related expenditure, showing spending on wages and salaries, employer's contributions, other benefits and provisions. There is also an account of the company's income policy.

A fifth element in the report is productivity as it relates to labour: changes in the turnover/employee index, the number of tons produced per man-hour, etc..

The sixth element concerns health and safety at work. This provides information on progress on accident prevention and shows whether or not we are employing the right tactics and offering the right training in this area. Monitoring is carried out, of course, using the standard indices of accident frequency and seriousness.

Finally, the report also offers an account of the company's activities in environmental matters.

So, these are, in brief, the various constituents of the social report.

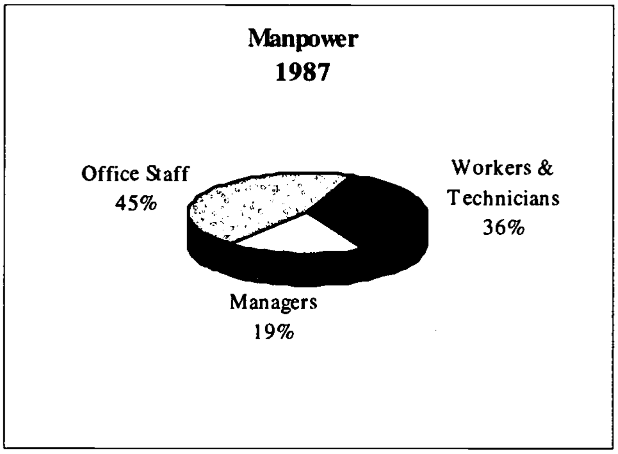
Let us turn our attention now to the way we try to quantify these factors in the report. First of all we have what we call the social product. I do not know if this is a generally accepted term, but it is what we call the figure for our net sales, which are 85 billion (all these figures will be in drachmas), plus various other revenues, another 2.8 billion, making about 89 billion drachmas. We deduct from this figure the cost of raw materials, fuel, spare parts and power, etc., whatever we have to use to manufacture our products, and that leaves us with a sum of 43 billion drachmas. If we take away the sum calculated for depreciation we are left with a balance of 41 billion, and this is what we call the social product. How is this then distributed? If you look at Table 1 below, you'll see that 36 % is allocated for the workforce, 16 % to the shareholders in the form of dividends, 20 % to the state in the form of taxes, and 4 % to creditors.

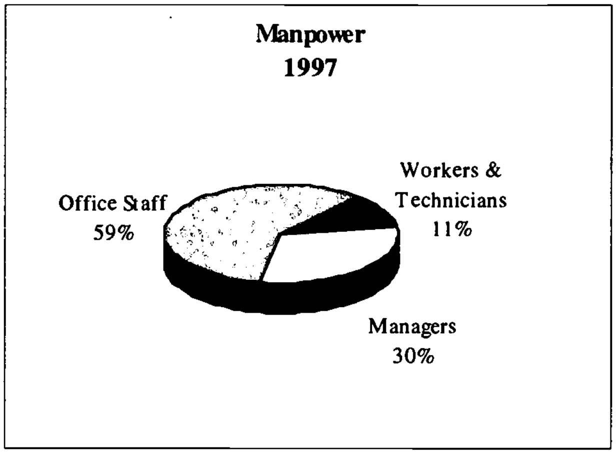
Table 1: Distribution of the social product

	in Million GRD		%
1. Personnel			
Net salaries and wages	10 117		
Contribution to social insurance funds	2 663		
Fringe benefits	1 321		
Provisions for the payment of staff leaving indemnities	376		
Earnings distributed to Company senior and middle staff	450	14 927	36.3
2. Company		9 891	24.0
3. State			
Withholding tax	1 394		
Income and other taxes	6 878	8 272	20 1
4. Shareholders (Net dividend)		6 696	16 3
5. Creditors		1 358	3.3
Social product (Total)		**41 144**	**100.0**

Let us now move on to the second element of the report, the profile of the workforce. I do not think I can claim any particular originality for what the company is doing here. We are all familiar with the information which is presented officially, or not presented, in the various reports. We have the overall strength of the workforce, and then within that overall figure we have certain categories of worker according to their position in the hierarchy: executives, office staff, technicians, labourers, etc. (Figure 1).

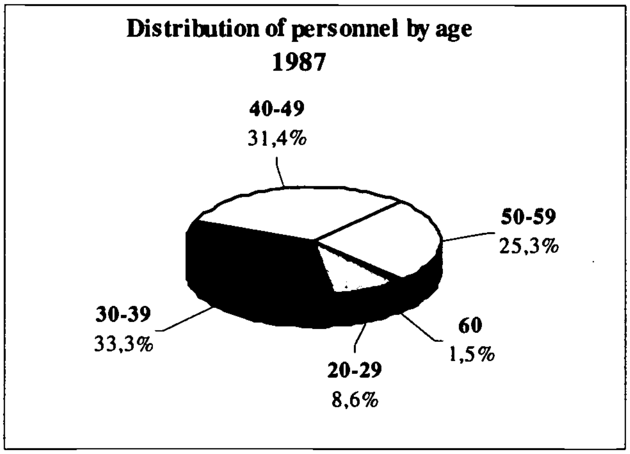
Figure 1: Overall strength of the workforce





We also have a distribution of the workforce by age (Figure 2) and past employment (Figure 3), and also the various levels of education of the employees (Figure 4). You see here that we always have two reference years: the current year and a date ten years earlier for purposes of comparison. There's also workforce training, divided into three categories: management, technical and information technology. These are training programmes which advance in line with progress in knowledge and technology and with the workers' own experience.

Figure 2: Distribution of the workforce by age



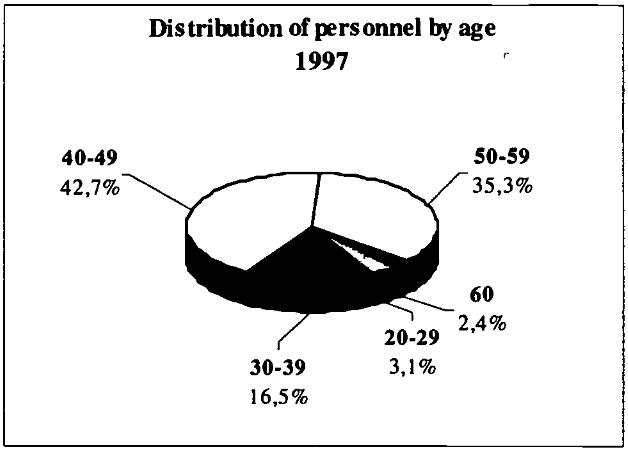


Figure 3: Distribution of the workforce by past employment

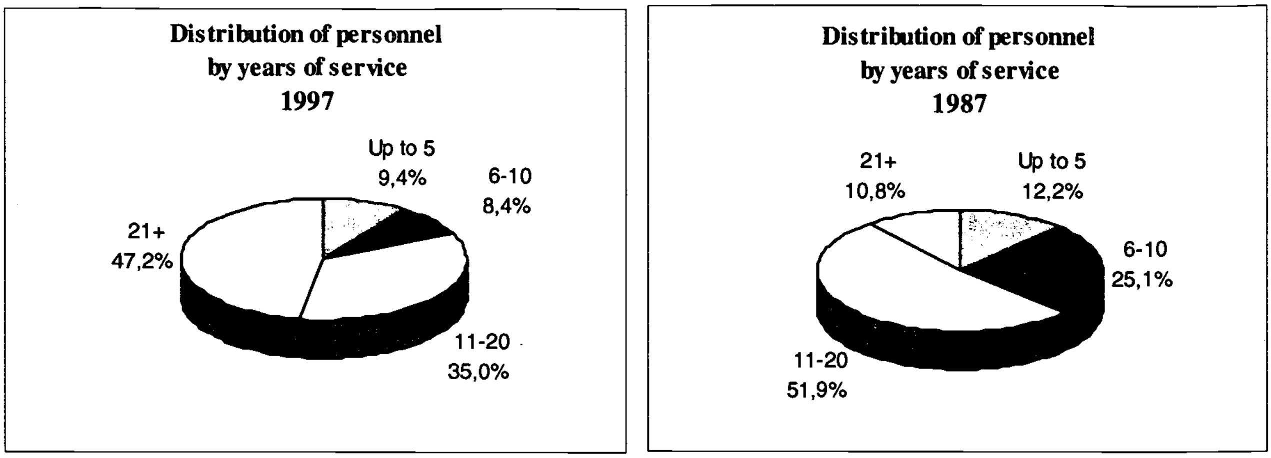
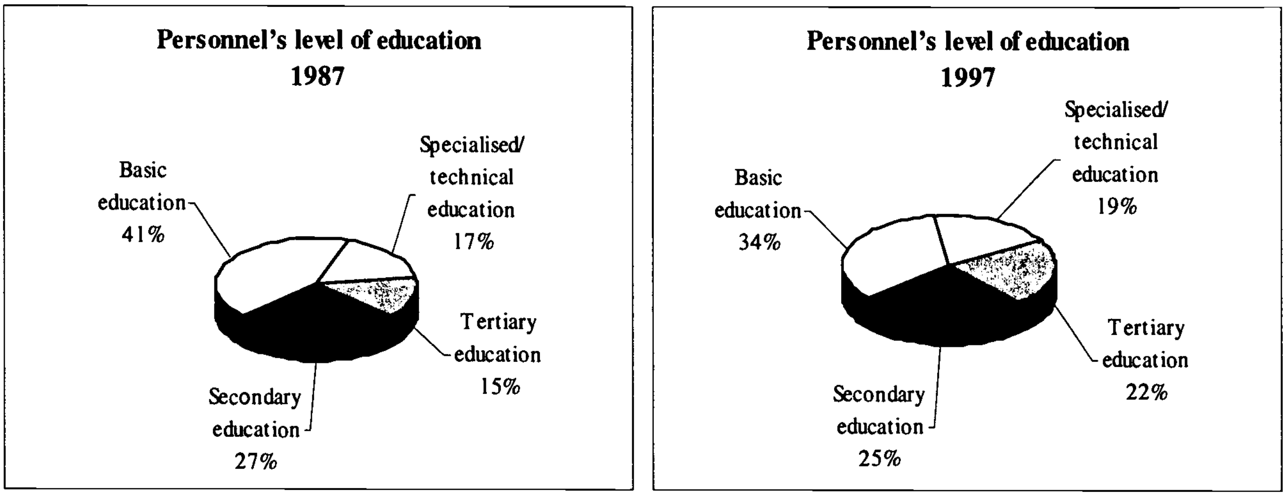


Figure 4: Distribution of the workforce by levels of education



Figures 5, 6 and 7 below show expenditure on training.

Figure 5: Personnel in training

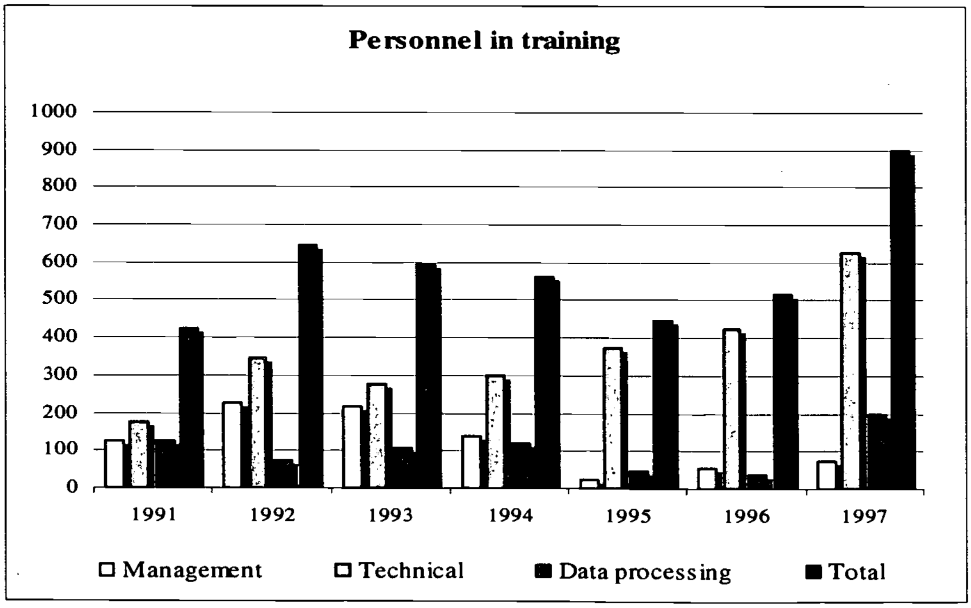


Figure 6: Man-hours consumed in training

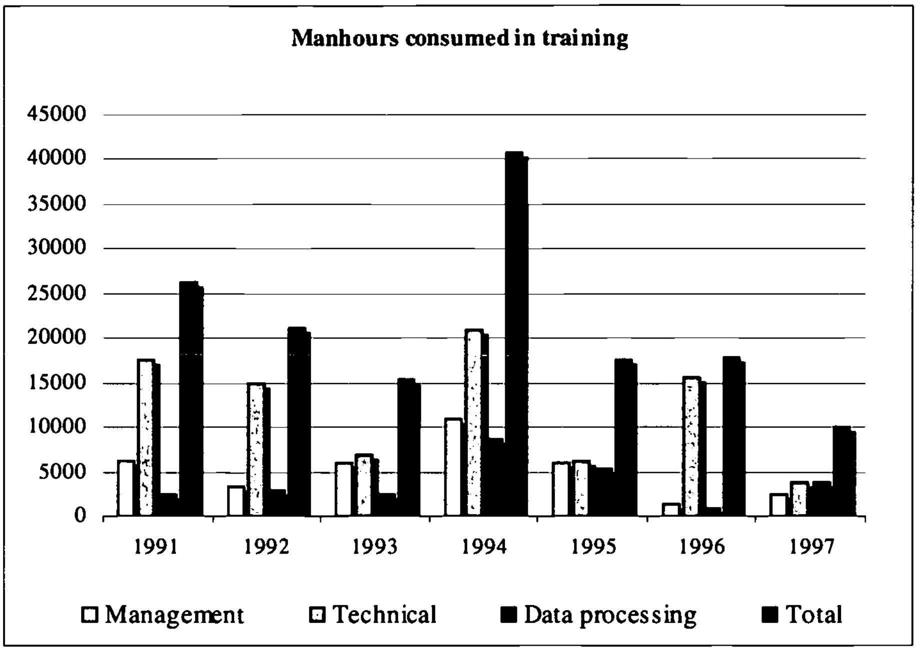
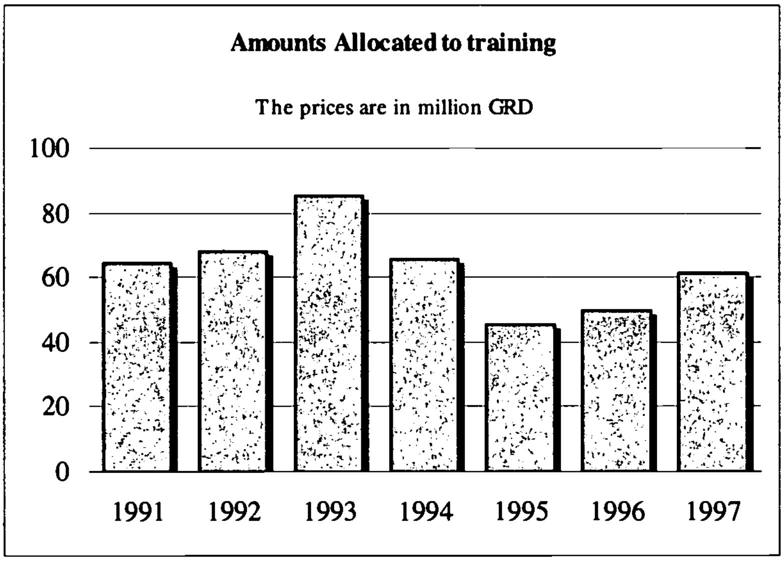


Figure 7: Amounts allocated to training



Figures 8 and 9 show the data on wages and salaries, alongside comparisons with the cost of living, the price index and inflation.

Figure 8: *Index of rise in nominal wages versus cost of living*

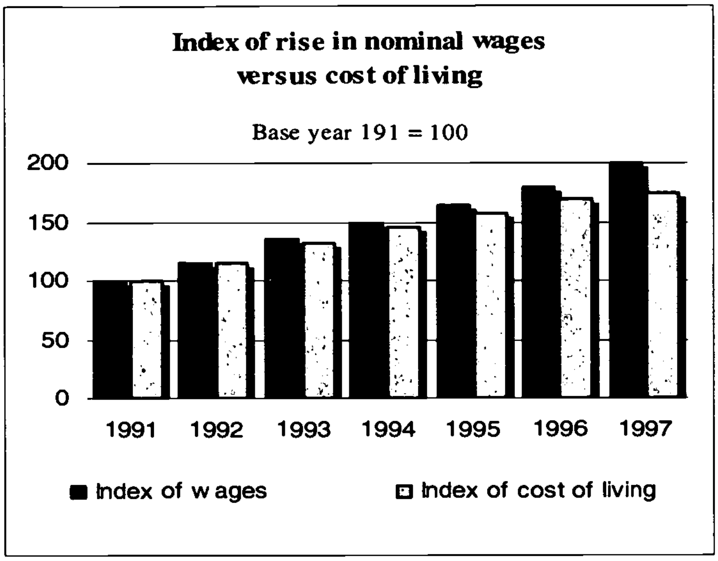
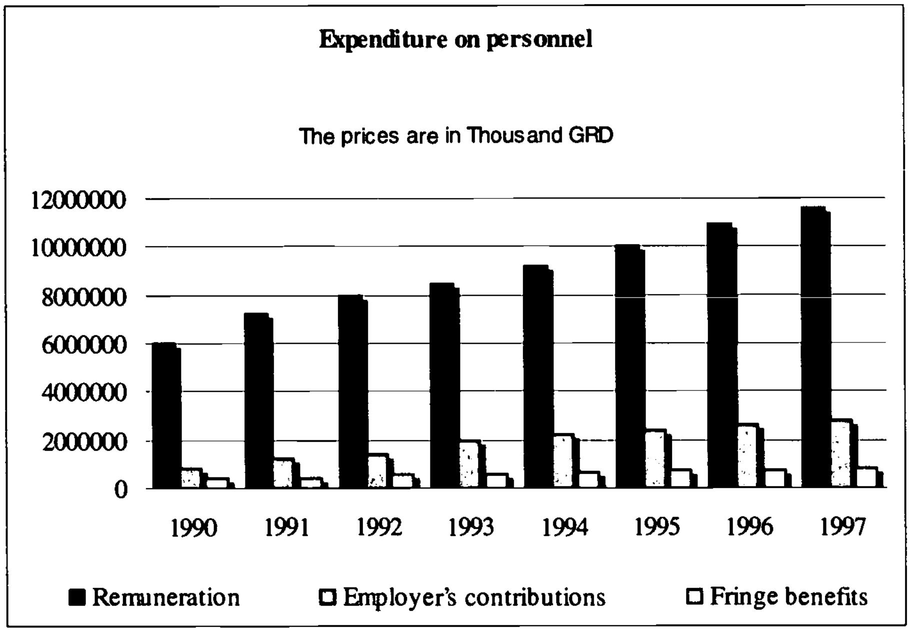


Figure 9: *Expenditure on personnel*



Then we move on to productivity. Figure 10 shows the changes in the turnover/worker index and Figure 11 shows tons produced per employee/hour. You can see there has been quite substantial progress in productivity; in fact it is this which has laid the foundations for the expansion and improvement of the group.

Figure 10: Turnover per Employee index

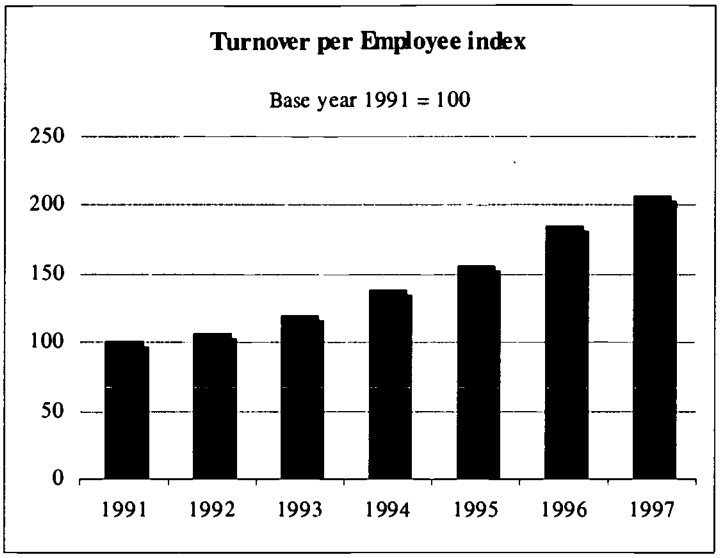
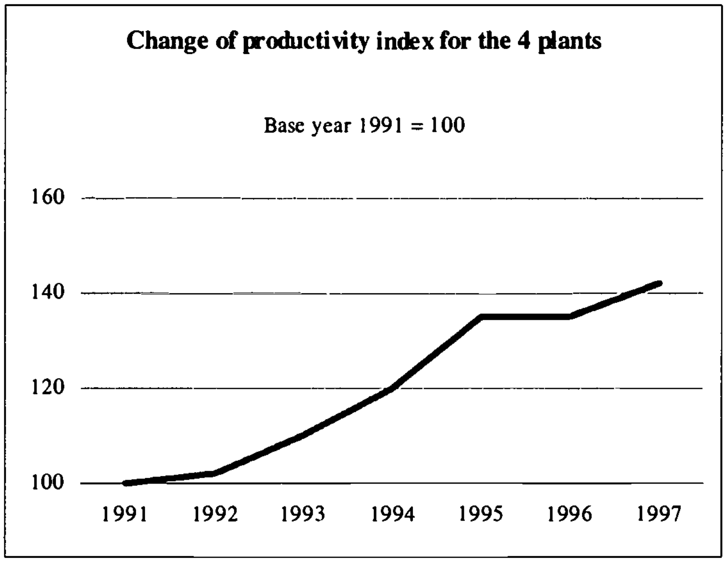


Figure 11: Change of productivity index for the 4 plants



Finally, we have the health and safety data, with the index of frequency and seriousness of accidents at our factories (Figure 12 and 13).

Figure 12: Accident frequency indices for Titan Plants and Cement Industries in other countries

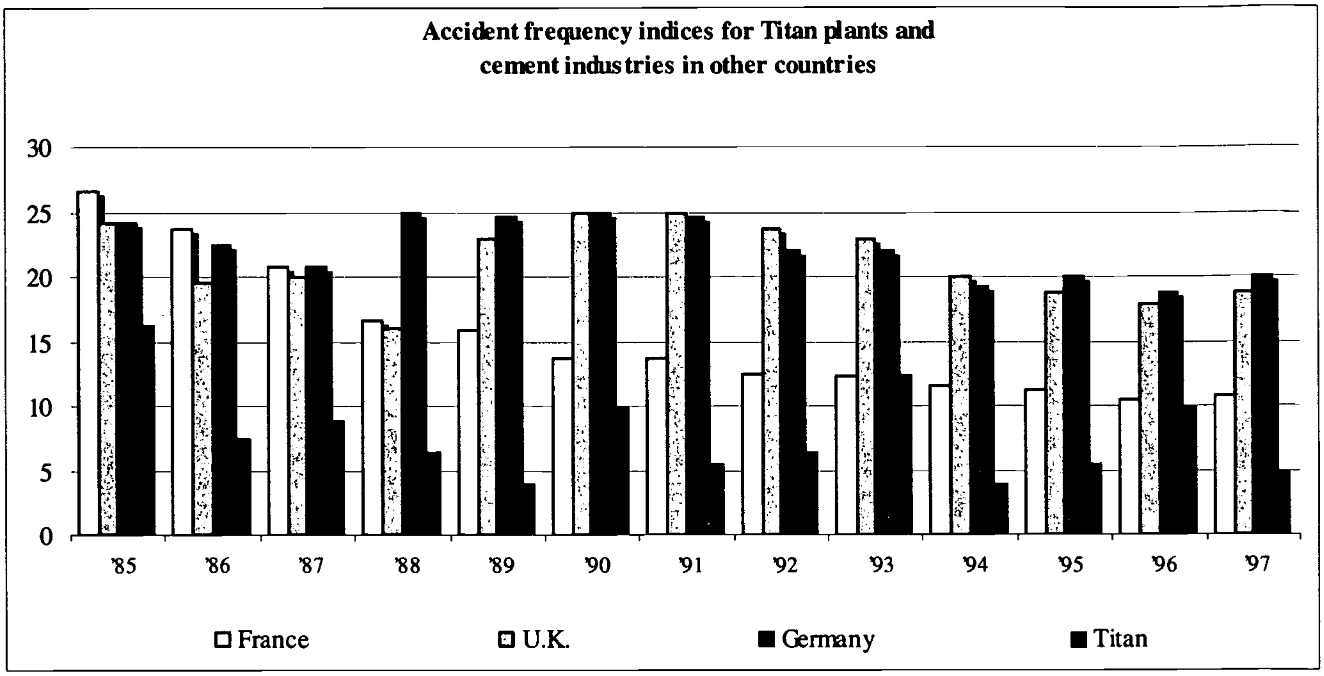
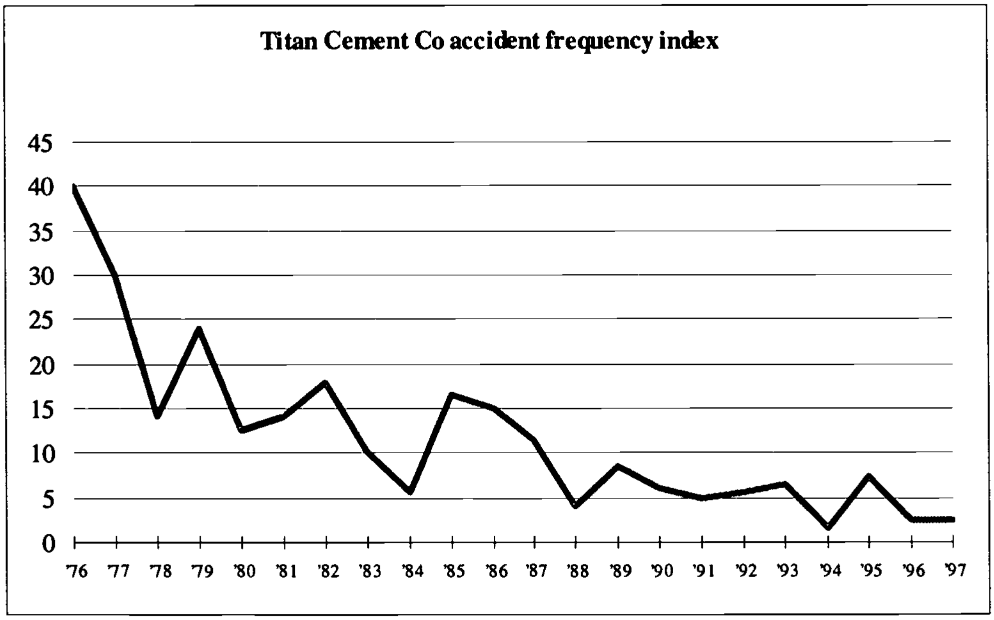
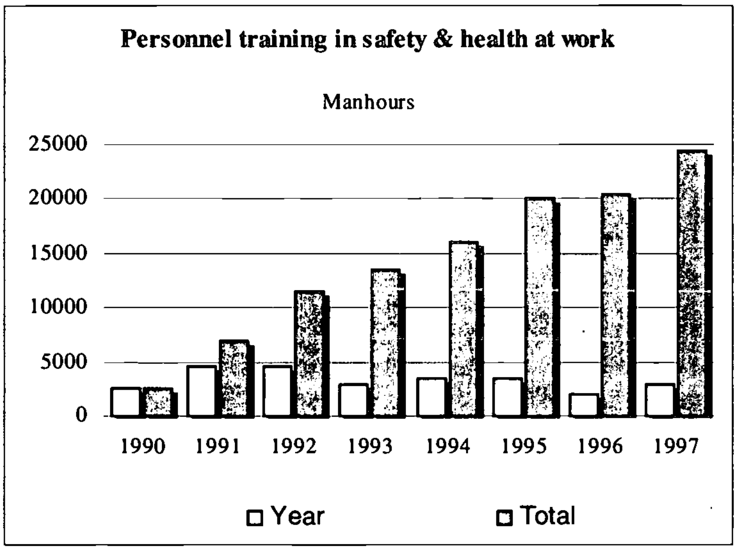


Figure 13: Titan Cement Co accident frequency index



And Figure 14 showing the number of hours devoted to training in health and safety matters.

Figure 14: Personnel training in safety & health at work



So, in brief, these are the contents of the social report. I believe we can make progress on the various problems and issues concerning Agora VI if certain solutions can be found which would enable us to improve our own social report and encourage all companies in future to present, alongside the conventional financial statement of their capital and commercial standing, an account, quantified as far as this is feasible, of the value of the human resources available to each business.

I thank you for listening to me so patiently.

2. Social reporting in French companies

Dominique Fruleux

Social reporting has been in existence in France for 20 years, rooted both in law and in company practice. Its existence is closely tied in with that of the Works Councils and their economic and social role. This anniversary has prompted meetings, articles and, most recently, an opinion ([1]) from the Economic and Social Council (ESC).

An assessment of the 'institution' of social reporting, and the questions as to its future, may be useful in reshaping it and connecting it – with a view to mutual enrichment – with current projects for informing and consulting employees at European level. This requires appropriate supporting documents.

Experience with social reporting in France may have much to offer in thinking about human capital reporting:

(a) social reporting shows that it is possible to define quantitative indicators within a sound framework. By so doing, a company's human resources may be mapped out from various points of view, such as jobs or training;

(b) social reporting was not designed as a management tool, but essentially as an instrument for social dialogue. As developed within the French approach it should be assessed as part of the broader backdrop of informing and consulting workers, which is relatively widespread in France;

(c) social reporting does not, however, resolve all questions on how to use human resources to their full potential. The switch from a quantitative to a qualitative approach remains a major challenge.

2.1. Social reporting: a product of social history and political will becomes law in 1977

2.1.1. Characteristics

Social reporting squares with two French characteristics:

(a) the history of the gradual recognition of the workers' movement, their demands and rights (Code of Employment), and their means of representation (the introduction of Works Councils in 1945, the recognition of the role of Trade Union delegates in 1968);

([1]) Annex 1: Opinion of the Economic and Social Council of France, 26 May 1999

(b) a tradition of what were often awkward industrial relations and of intervention by the state, frequently as incentive-giver or legislator.

2.1.2. Socio-economic background

Shaken by the events of May 1968, France was desperate for change. Wage claims were high, particularly under the banner of worker participation. Predominant trends aimed on the one hand at bringing about the modernisation of society and, on the other, at reconciling the company with its workers and with society.

Aware that the positive image and long-term success of companies did not depend on their financial results alone, some employer groups in France, as in other countries, wished to 'de-compartmentalise' the economic and social aspects.

The drive to assess the social side prompted various experiments, ranging from an analysis of the company's social situation to summarising how the company used its 'social forces' and helped renew them ([2]).

But social reporting projects differed, foreshadowing the terms and issues for an ever-topical debate. Some favoured the management tool approach while others stressed the idea of the instrument for concertation and social dialogue, with the involvement of the workforce and its representatives. The scope also varied according to the project: limited to the company and its workforce, or embracing the company's other collaborators, even going so far as to take the links between the company and society in general into account, particularly regarding environmental issues.

Depending on the scope of the questions tackled, the groups involved and the desired degree of 'transparency', answers to the question as to whether the social report should be published and circulated also took on a different slant.

2.1.3. Social reporting as a result of state will

In 1974, the new President of the Republic, Valéry Giscard d'Estaing, gave concrete expression to the desire for change by setting up a committee to look into company reform.

The result of broad-ranging concertation, the Sudreau report noted the criticism levelled at companies in the name of new aspirations, especially the challenge to Taylorist working conditions. The report aimed to reconcile the company's two dimensions - 'both the principle source for the creation of wealth and jobs, and the daily living environment of millions of French citizens who collectively find paid work therein'.

([2]) Company Social Reporting, minutes of the meeting held on 7 June 1975, Institut de l'Entreprise. Alain Chevalier, *Le bilan social de l'entreprise*, Masson, Paris, 1976, p.164.

The social reporting project was in chapter one of the report's proposals.

Passed on to the government, only the suggestion on social reporting (besides experiments already underway) quickly became law, to be applied in 1978. The limited debate gave rise to reservations on the part of the Economic and Social Council; certain discussions and amendments in the Parliament show the various options offered, and the line taken by the state.

2.2. Social reporting: an instrument for social dialogue between partners in the company

2.2.1. Targeted circulation and limited publicity

As part and parcel of employer-employee relations, social reporting meets the need to improve information within the company, following on from the setting up of staff representation bodies, without undermining the director's decision-taking powers.

According to members of Parliament, the point was not simply to introduce a new administrative requirement but to enable all parties involved to gain an overall view of the company or concern based on structured, organised and quantified information, and to develop social dialogue.

From the outset, heads of companies felt that 'social reporting should be first and foremost an internal company matter, established in order to spark a dialogue concerning what we wish to create together ([3])'. 'The social report is not an advertising document' was the view of the Metalworking and Mining Industries Union (UIMM).

There is a requirement for the social report to be transmitted on a restricted basis:

(a) to the Works Council, which must issue an opinion during a meeting on the subject;

(b) to trade union delegates, whose role was recognised by the law of 27 December, 1968;

(c) to the shareholders who, according to the law of 24 July, 1966, should receive the 'documents needed to enable them to express their views in full knowledge of the facts, and to provide an informed assessment of the company's management and performance' ([4]);

(d) to the labour inspector, to inform him of the social situation and facilitate his work;

(e) to any employee so requesting.

([3]) Jean-Bernard Forcade. *Association nationale des directeurs et cadres de la fonction personnel (ANDCP)*, 1977, quoted in *Le Monde*, 21 January 1998.

([4]) Article 162 of Law no. 66-537 of 24 July 1966 on commercial companies.

The Works Council plays a dominant role. It is, in fact, the prime recipient of the draft drawn up by the management, which is sent out a fortnight prior to the meeting at which the Works Council discusses it and issues its opinion. In theory the social report may only be circulated more widely once this meeting has been held.

The social report is drawn up annually, within the first four months of the following calendar year. It does not necessarily coincide with the accounting year.

2.2.2. Content established by decree

The social report is essentially a quantified retrospective report. In a move to avoid subjective assessment and to encourage dialogue, the government wanted objective indicators to be drawn up which would allow the facts (the report) to be distinguished from the comments (the meeting of the Works Council). Nevertheless, the examination of the social report was also to be used as a basis for drawing up social programmes, for example on improving working conditions.

It takes the form of a codification and annual sorting of the mandatory information, some 80 % of which was already available to the Works Council.

'The social report recapitulates in a single document the main quantified data which allows the company social situation to be assessed' (art. L 438-3). It is also a matter of 'recording achievements and measuring what changes have come about over the past year and the two preceding ones' (art. L 438-3, para.1, Employment Code).

Chapters in the Social Report
Employment
Payment
Health and safety conditions
Other working conditions
Training
Labour relations
Other living conditions governed by the company

The social report is thus strictly limited to working relations. It does not include 'societal' aspects.

The law stipulates the subjects of the seven chapters to be dealt with, leaving the detail of the headings to be established by decree following consultation with the trade unions and professional organisations.

The decree provides a list of 134 indicators, adapted to the size of the company or plant.

Rulings have provided more detail on applications, according to the sector of activity. The employment chapter is the furthest developed. ([5])

([5]) See Annex 2: Extracts of indicators in industry: Chapter 1, Employment; chapter V, Training.

2.2.3. Gradually increasing scope

The scope of the social report matches that of legislation on the setting up of a Works Council, with the proviso that the workforce usually numbers 300. Under French labour law, and the notion of the employer, it applies to any holding under private law in the trade and non-trade sectors (trade companies, associations, etc.). Part of the public sector has also been added to the private sector scope (public companies, state services and local authorities).

Although initially cautious, and in the absence of a suitable regulatory framework, the state gradually applied the social report's benchmarks to certain areas of the national civil service (annual report on the state of the civil service), or to the local civil service (80 % of the General Councils had a social report in 1996 ([6])).

Thereafter, the social report was brought in by decree for public hospitals ([7]) in 1988, and in 1997 the local civil service included the social report's seven headings in the list of information to be published in the report on the state of the locality.

2.3. Social reporting in a changing context since 1977

It should be pointed out that there is no assessment of the real state of the company's social report and how it is used. Its presentation is based on the view of observers from outside the company (ESC, researchers, journalists and consultants - as we are on a privileged basis as expert accountants to the Works Councils).

2.3.1. A respected requirement, revealing management and social relations.

Implementation of the new legislation has not presented any particular difficulties. It came about very gradually, applied to thresholds of 750 workers in 1979 and 300 in 1982. Meetings were organised by the Ministry of Labour, and led by the heads of company to make the new requirement better understood and show how it can energise social management in companies.

Moreover, the general legislative and statutory framework is particularly flexible. It provides a degree of freedom and initiative to enable each company, along with its staff representatives, to draw up a social report which best reflects its own situation.

The social report is also characterised by the weakness of its control mechanisms: only if the employer fails to provide the social report to the Works Council can he be accused of

([6]) Emmanuel Abord de Chatillon and Céline Desmarais, *Le bilan social territorial: outil de pilotage, d'information et de communication ou mode organisationnelle?*, Report from the conference on the twentieth anniversary of social reporting, *Laboratoire interdisciplinaire de recherche sur les ressources humaines et l'emploi (LIRHE), Université des sciences sociales (LIRHE)*, Toulouse 1, 5 –6 June 1997.

([7]) Covered by the 1986 law.

obstructing the council in its work. There is no penalty foreseen should information prove incorrect or incomplete, or should the report not be transmitted to the other recipients. This relative lack of control, i.e. of checks and sanctions, is probably inherent to the type of information contained (often within reach of, and verifiable by, the workers' representatives themselves), and its limited circulation, unlike company accounts. In line with a European Directive, the Commission on Stock Market Operations questions listed companies about the existence, publication and circulation of their social report; but the commission's checks shed little light on this aspect.

Given the weight of employee demands at the time, French employers were afraid that the publication and circulation of social reports would trigger comparisons, with the risk that in certain cases this would spark demands and conflict. This failed to materialise. We should recall that, although the social report was conceived during a period of growth (the thirty 'glorious' years following the war), it was actually implemented as the economic crisis, which began in 1974, was deepening.

Because of employers' fears that government would compare information, no instructions were given to centralise the information on social reports, nor were any statistics published as to how the law was being implemented.

At macro-economic level, data treatment is limited to a handful of researchers (the social report centre processes 500 reports with a battery of 450 ratios, allowing size and activity to be compared), and the annual publication classifying the fifty leading French companies for the confidential use of labour inspectors, or for the Works Council within companies.

Employers' organisations not originally in favour of the law nonetheless applied it across the board. According to part studies conducted (and our own experience) the vast majority of holdings affected respect the requirement (between two thirds and three quarters). In fact the social report came across as basically a new legislative requirement: it gave rise neither to the fears prompted by its summary presentation ([8]), nor to the hopes or wild enthusiasm which its emergence had generated.

The social report remained true to the notion of indicators, and the idea that an attempt to quantify social information was a way of ensuring its neutrality so that it could be used as a basis for dialogue between management and employees. The proposals - most of them on qualitative elements - which were contained in the Sudreau report which was drawn up by the ESC and the government but were not included in the law and therefore not applied, are nowadays used to criticise social reporting.
Rather than using their social report purely as an instrument of concertation between management and employee representatives, some companies chose to circulate it - or extracts from it - amongst their workforce and/or shareholders, or on an even wider basis for the

([8]) *Le bilan social: une bombe a retardement*, Raymond Vatier in *Le Monde*, 12th February 1980.

purpose of generating publicity. The vast majority, however, is more reserved in its attitude, circulating the report only in strict application of the law.

The same is true of the content. Some companies have experimented with a less academic format, such as the major company which produced a double-sided report (front: economic report, back: social report). Some such efforts were limited to the 'good' years alone...

In fact social reports often reveal social realities implemented within the company, but also the approach to social relations and the practices which hold sway within the company. Thus, the quality and reliability of the indicators depend not only on the company's information systems but also on the quality of social dialogue into which they feed. Where social dialogue exists we see Works Councils requesting and obtaining more precise indicators (e.g. by type of job and not only by major socio-professional category), or discussions within the Works Council bringing about changes to the company's social management (e.g. overtime being converted into new jobs).

The leeway left open by the law is thus sometimes used to enhance knowledge about the social situation of the company and its partnerships. Sometimes, however, it is also used to give indicators a different content to that laid down by decree (e.g. a permanent employee is not necessarily someone on an unlimited full-time contract, present from 1st January to 31st December). The information collected stems from different departments and its quality often depends on the software used, the means available and the procedures followed. Wherever it is seen as a 'chore' for the sole purpose of fulfilling a legal obligation, it tends to be trainees or external companies who are entrusted with the task of preparing the social report.

With little scope for sanctions and limited use as a management tool, the social report does not provide the degree of reliability it could otherwise offer.

The planning objective set out during the 1977 discussions would not appear to have been met. It was doubtless presumptuous to think that the preparation and circulation of social indicators could bring about a change in the behaviour of the various parties involved, particularly administrators. Sometimes this can happen, on the basis of discussions in the Works Council, but given the leaders' discretion it is impossible to shed any real light on this issue.

What is more, with information technology, companies have developed increasingly elaborate management systems, starting with financial and then social elements.

2.3.2. Developments in the economic, social and legal environment

Transforming the company and changing work

It would appear that two contradictory trends are now running side by side in respect of changes in working conditions and jobs: the trend towards work enrichment and skill optimisation is countered by practices which put the value of work at risk. Reorganisation often targets improvements in productivity, greater flexibility and cost reduction; these are achieved by outsourcing tasks and thus bypassing the 'problems' involved with personnel management. Skill and initiative rank lower than the all-important goal of making savings and respecting compulsory procedures.

Internationalisation and globalisation are leading to the spread of competition conditions which, rightly or wrongly, is used to justify economic redundancies and outsourcing.

Moreover, the structure and shape of companies is changing. Concentration on the core of the profession, acquisition mergers, decentralisation, subsidiarisation, outsourcing and a move towards structures which take employees out of the sphere of labour law and bring them under the scope of commercial law. These changes in company anatomy are not without their social consequences: changes to collective agreements, personnel thresholds no longer being met. Over the last twenty-five years it would appear that the social consequences of this shift towards the outsourcing of activities and labour have been more tangible by far than the positive effects which might have been expected from the better use of worker capabilities and responsibility. The idea that a company's long-term performance depended on the attention paid to staff training, on the development of employees' ability to take the initiative and their capacity to work together, on ways of encouraging genuine attachment to the management's technical and economic projects, all turned out to be of secondary importance within process of company reorganisation.

'New forms of employment' are developing (fixed term contracts, temporary assignments, part time). We are also witnessing a structural evolution in the relative clout of economic sectors (less industry, growth of services) in conjunction with a fall in the number of large companies and the proliferation of SMEs. On January 1,1998, 6.7 million workers were covered by social reporting, that is to say 40.7 % of the total workforce. In 1982 the figure was 5.5 million, but this represented more than 50 % of the active population.

Far-reaching changes to companies and workforces affect the social report, and lead, conversely, to questions being asked about the role it could play in channelling these developments.

Given the developments in labour and organisations, it is only right that some thought be given to the real shape ([9]) of the company. One current trend tends to see the 'social aspect' in terms of company activity with all its off-shoots (derived jobs, outsourcing) related back to its sphere of influence.

If the social report is limited to a hypothetical core of activities and jobs it runs the serious risk of being overtaken unless it adapts to the reality of the network company or galaxy.

([9]) *Mutation du travail et révolution de l'emploi: le grand défi des organisations et des enterprises, Entreprise et progrès*, Magnard-Vuibert Multimédia, 1997, p.29.

Discussion on measuring company performance and tools for social assessment

The use of traditional management tools is looking ever less suitable for assessing the effectiveness of the types of cooperation seen as essential to today's company. Some blame this lack of managerial flexibility for the fact that most 'humanist' projects to reform work organisation have become bogged down ([10]) .

The preparatory report for the XI plan on how French companies have performed stresses that 'it would be contradictory to strive for increased worker participation and to shoulder them with greater responsibility when at the same time there is a shift towards labour management which relies excessively on redundancies and other forms of external flexibility' ([11]).

This is also the fundamental development expressed by Bernard Auberger, François Lagrange's deputy and co-author of the Sudreau report: 'times were very different: there was no attempt to push for all-out redundancies, people were looking for social progress, equality between men and women, a salary scale which wasn't too open....' ([12]).

The French Competitiveness Commission believes that 'it is now no longer possible to measure competitiveness by comparing the number of pieces produced with the number of hours needed to make them. Further parameters need to be brought into the equation: fewer rejects and defects, product quality, customer service. The hourly cost of labour is only one element of cost and manpower reduction, one adjustment variable amongst others. In other words, it is the overall combination of factors (work, capital) and their efficiency which plays the determining role. However, management tools are still deeply marked by the Taylorist approach. Analytical accounting, cost calculation or management control are based on Taylorist assumptions: they hinge on an additive, partial type of productivity. Such tools assume an excessive division of labour and productive activity. What we need today is to measure the performance of the organisation as a whole rather than simply juxtapose various types of performance' ([13]).

Little use has been made of social reporting in this drive for new performance measures. Studies conducted show that the quality of working conditions and social relations within the company have a positive effect on its performance ([14]), but it is difficult to identify and sort out the exact correlation.

([10]) Francis Ginsbourger, *La gestion contre l'entreprise: réduire le coût du travail ou organiser sa mise en valeur. La Découverte*, Paris 1998, pp. 27-28.

([11]) *France, le choix de la performance globale*, preparation for the XIth Plan: Commission for French Competitiveness chaired by Jean Gandois. *La Documentation Française*, 1992, p.35.

([12]) Quoted in *Le Monde*, *Le bilan social, seul rescapé du rapport Sudreau*, 21 January, 1998.

([13]) *France, le choix de la performance globale*, *op.cit.*, 1992, p. 43.

([14]) Particularly by Charles-Henri d'Arcimoles.

The increase in information to staff representation institutions

Without going into the background and development of the Works Councils, the information issue has always strongly affected its members. The legislator has regularly intervened in order to confirm and complete the role of the Works Council, both before and after the advent of social reporting.

With the recognition of each new responsibility came documents - economic, financial and accounting documents, but also social ones. At the same time, the 1977 law on social reporting, its decrees and rulings, was not changed in any way.

Thus it is estimated that the social report contains less than 50 % of the data now sent to the Works Council (compared to 75-80 % when it was brought in). In other words, once there are 50 workers on the payroll the Works Council is fully entitled to more information than is laid down in the social reporting indicators – reserved for companies with more than 300 workers.

The law thus stipulates that the Works Council be informed of changes in manpower levels and qualifications, by sex, of the workers covered by different types of contracts, those on temporary contracts or belonging to another company. The social report provides neither this information, nor any data on part-time work.

To give another example, at meetings on the training plan the Works Council examines the conditions for taking on and training apprentices and young people on alternance courses as well as adaptation, qualification or career guidance contracts, none of which figure in the social report. The problem with social reporting provisions is that they have not been brought in line with the times.

In an attempt to simplify and harmonise the information given to the Works Council, the 1993 5-year law regrouped and pooled some of the data in an annual report for companies with less than 300 employees. This information was not transferred to the social report.

The various consultation and information sessions with the Works Councils on several subjects (e.g. training, employment monitoring) give rise to in-depth work at meetings spread over the year, which sometimes leads to social reporting being rather side-tracked. Nevertheless, all of these action-related discussions should be considered part of the overall view of the company's social dimension, which only the social report can provide.

Questions related to social reporting outside France

For a long time France was the only country to have social reporting enshrined in law. The idea has since developed elsewhere - sometimes along similar lines, as in Portugal, in other cases completely differently, as in Belgium. Recently there seems to have been an upsurge of interest in the social dimension of the company; this needs to be put to best use and become standard practice.

At European Union level, the concept of social reporting does not appear to figure within institutional thinking at all. But the emergence of transnational information and consultation bodies ([15]) and new interest at Community level on the issue of informing and consulting workers about in-company changes and developments fall within the same logic as social reporting. These elements could provide a propitious environment for its revival and spread.

2.4. Social reporting: what it can become

Twenty years on, the social reporting tool is shaped and marked by its age. When it was put to the National Assembly, the Minister for Labour declared of it '... I imagine that the social report of 1990 will not be identical to the 1980 one, since company knowledge will evolve and progress'. There has, in fact, been little development within private companies who were happy simply to observe the requirement to the letter. In contrast, apart from local initiatives, social reporting covering the hospital sector since 1988 has revealed other concerns. It is also more operational, both within each establishment and at sectoral level.

The Economic and Social Council's opinion endorses the tradition of social reporting, which it would like to revive as a 'dynamic tool of analysis for an evolving reality - the human and social role of the company. Updated social reporting would allow us better to examine the social dimension of the company's economic performance, an issue which is at present attracting renewed attention.'

2.4.1. Putting to use an interesting tool: the assets of social reporting

As a document of quite some symbolic importance, the social report is always much anticipated. It provides recognition of the workforce and of their participation in the production process. It quantifies the social element within the company, thus establishing and highlighting the workforce's share. In a way it is the counterpart of, and complementary to, financial documents.

Over the years the indicators have become commonplace and entered into everyday parlance. Trade union militants and workers use them on a daily basis (e.g. turnover, average staffing levels). Thanks to the synthesis and monitoring they provide over three years, the elements of the social report are used as reference points during other Works Council discussions: vocational training, economic and financial reporting It is worth noting that:

(a) the social report is the only document providing social information about the company;

(b) it provides a retrospective view covering a relatively broad field;

([15]) The revision of the Directive on the European Committees reopens the issue of what information is to be provided by employers.

(c) as defined by law, it provides a structured and homogeneous framework for clear quantitative information (in theory non-ambiguous and verifiable);

(d) even though the social report may look dry, it is relatively reader-friendly, being easier and less jargon-ridden than economic or financial documents;

(e) its definition leaves scope for contractual and negotiated improvements (a flexibility which has never been widely used);

(f) the 3-year perspective is highly useful, particularly in sensitive areas such as employment and working conditions, or for demographic data;

(g) in this way social reporting allows comparisons in time and space;

(h) it represents a basis for discussion in the overall analysis of the social situation between the head of company and worker representatives; this sometimes leads to the refocusing of certain aspects of social policy;

(i) it enables the elected members of the Central Works Councils to learn about companies other than their own;

(j) even from a company director's point of view, it provides an opportunity to assess social aspects (as presentation and discussion of the accounting report allows assessment on another level).

On reaching the first of the aims set for it in 1977, i.e. facilitating access to social information, social reporting lost some of its originality. The indicators have not developed since the outset.

2.4.2. Room for improvement: overcoming limitations to achieve better use

As well as brushing up the indicators, what is needed is to be more in touch with social concerns within the company while creating more links and a better perspective. Social reporting needs to create links with other data (e.g. financial), keep the company level in perspective (forecast management), and allow comparison within the sector or group.

Thus the use of social reporting would become proportional to its real value and the work that is put into it. The energy which it requires should shift from formal considerations to tackling problems. 'Take the indicators: most companies just want to include them because they are stipulated in the documents, even though most of them are ineffective. Mixing up trainees on leave with fixed-term contracts, totting up accidents at work without reporting their actual cause, giving data on aggregate remuneration by major category or making do with an average for part unemployment: all this lacks precision and detail and does not allow a discussion of social policy choices', says a trade union delegate at Renault.

Some possible ways of updating social reporting are:

(a) assess developments year on year, the shape of the company and its plants: workers being taken on or leaving when subsidiaries are created, or in the wake of sell-outs, acquisitions or mergers;

(b) include a description of current work organisation and its development, related to the company's activity and rhythm, including an annual calculation of working hours;

(c) include data on the social consequences of working conditions;

(d) link the social report's information to the social databases and computerised management tools now in frequent use (which automatically renders them reliable);

(e) besides the gross figures, provide certain meaningful ratios (e.g. ratio of training hours per trainee, workers trained per category/average staff within the category);

(f) encourage comparison with the vocational sector;

(g) provide a more detailed job description, either by qualification or in relation to the organisation;

(h) include data related to forecasts for jobs and qualifications (development of skills, the idea of a vocational pathway);

(i) monitor the development of social plans and how these impact on the company and the locality.

Thus, while respecting the original concept of social reporting as a tool for information, concertation and planning, and by taking account of experience gained, social reporting could bring social issues to the forefront. The social report's less exhaustive statistics would be balanced out by increased relevance.

Nowadays, the social report could be built up around several themes: employment, labour, the linkage between social and economic data. On the employment issue, for example, given the increase in the types of employment offered by companies, social reporting should be capable of better measuring the various forms of employment, including those which, strictly speaking, exceed the company's jurisdiction. More exact figures by type of contract, worker category, and length of contract translated into full-time equivalents are useful, as is information on the employment aids received. Together, these various improvements should make it possible to better assess:

(a) the internal employment and outsourcing policies followed by the company;

(b) the flexibility policy applied, whether internal or external.

On this theme, as on others such as training, the social report could provide:

(a) quantified indicators, fewer in number but more relevant,

(b) the company's own comments, explaining its policy in the field,

(c) the Works Council's reactions.

Besides the indicators supplied on an annual basis, each Works Council could also select between one and three themes on which to focus its attention for a period of time of relevance to the company's social life. Comparisons would therefore still be possible, and would be further enriched by issues relevant to each company. This type of social reporting, more in touch with the real situation and concerns of the various players, would probably bring it back into the focus of discussions concerning the company's social policies.

The social report does not become publicly known as do company accounts, which are published and posted on Minitel or the Internet (and supported by TV advertising to publicise companies' economic and financial results). In view of this we might question whether the information contained in the social report is genuinely confidential. Is there any reason why the social report, which provides a common core of information, should not be consulted by anyone wishing to gain an overview of the company? Data deemed confidential by companies is usually related to strategy, management information or specific know-how, none of which are contained either in company accounts and forecasts or in the social report.

2.4.3. Positioning the social report

Both the aforementioned developments and the Economic and Social Council's opinion show that there is scope for reform of the social report; once again there is a wealth rather than a dearth of options.

The modernisation issue should be discussed, although the conditions for updating should be examined first. Moreover, the form modernisation should take is very closely linked with the objective pursued. We need to tackle certain questions, such as which players the social indicators should be developed around, and to which aims priority should be given.

Social indicators, for whom?

We believe ([16]) that proposals to improve the social indicators hinge on a definition of the angles (and therefore the recipients) to be considered: macro socio-economic and/or micro socio-economic. It would be possible, maybe even desirable, to postulate different documents for the two scenarios, although it would not be advisable to mix them.

Indicators, for what purpose?

The multiplicity of viewpoints necessarily brings us back to the aims. If the approach adopted exceeds the company framework the objectives could be structured around the search for:

(a) statistical databases allowing for synthesis reports at national or branch level (cf. public hospitals), or, for example, according to the job catchment area;

([16]) Isabelle Chambost, Dominique Fruleux, Patrick Roturier, *Modernisation du bilan social: une nécessité, mais des voies diversifiées, Les cahiers de Syndex* No 6, 1998, p. 76-83.

(b) an analysis of the impact of employment policies implemented by public authorities (cf. Belgian legislation);

(c) knowledge of the social policies applied in companies.

Private companies reject this approach outright. If we adopt an in-company angle, the objectives change:

(a) to provide a social steering instrument. In this case, the social indicators are integrated into the usual management tools;

(b) to provide an instrument for measuring the company's social performance. In conjunction with the economic performance indicators, this can constitute an integrated analysis of global performance;

(c) to provide an instrument for social concertation.

The internal approach does not rule out the possibility that the players in the company may be interested in going beyond their micro-economic framework, depending on their own objectives ([17]).

In the words of a journalist for *Le Monde*: 'Twenty years after it came into being, a reshaped social report would help balance out the excessive use made of economic or strictly financial parameters. The very idea of global performance... would gain credibility if it could draw on other solid sources. It would also be a way of recreating the link with the Sudreau report. In this spirit, the *Centre des jeunes dirigeants de l'économie sociale (CJDES)* has prepared an ambitious social report which better corresponds to the concerns of companies wishing to be well-integrated and citizen-minded' ([18]).

The initiative has the backing of the European Commission, and research work has got underway in other Union countries. The issue of information reliability and validity still stands, as does its applicability to all companies in that area of competition. Companies would still have to accept greater transparency in their social management.

2.5. Social reporting and human capital reporting within the company

2.5.1. Can social reporting be seen as human capital reporting in the company?

For the purposes of social concertation the social report was, for a long time, one of the rare, if not the only, synthesis document attempting to assess social aspects and evaluating, in a

([17]) Not forgetting the precautions for use in inter-company comparison.

([18]) Alain Lebaude, *Le Monde*, 21 January 1998 quantified way, the share of human resources in company activity. Social reporting introduced the idea of measuring, which is already part and parcel of human resource management thanks to the presence of 'instrument panels' and indicators which allow changes to be assessed, and which sound the alarm when necessary.

Like the accounting report, the social report provides an annual review of the company. It cannot claim to be a tool for social management, even though it can contribute to, and achieve, such a role.

2.5.2. A report on the company's human resources?

The existence of social reporting shows that assessing human resources is possible, but a difficult and necessarily limited exercise. A 'social report' can come close to a company's social reality without managing to delimit it. In France we speak of human resources more readily than of human capital, perhaps because we wish to distinguish between the use of financial and technical capital, which depreciates over time as it pays off, and the use of human capital.

The term 'resource' picks up on the term used for the raw materials - which are part of company expenses and help create wealth - but also has overtones of fluctuation. The term 'capital' refers to investment ([19]), ownership, and balance sheets. Semantics aside, certain fundamental questions need to be addressed before a 'human capital' assessment can be drawn up. What is to be counted? What is to be assessed? How? Why?

This brings us back to the concept of measuring an evolving 'material' in an evolving context. All experience has shown that this is no easy matter. lets it is possible to take continuous vocational training as an example.

The social report contains a number of indicators: the number of persons, courses per social category, costs involved. Some companies indicate training subjects, but in order to obtain a genuine assessment, other aspects could be included: promotions achieved, comparison within

([19]) For ten years those French companies who opt for it have been enjoying '*crédit-impôt formation*'. This is a form of tax relief (25% of the annual surplus of training expenses exceeding the legal requirement), thus recognising the training investment made by companies. Training thus enjoys investment recognition (in the form of taxation), although not in accounting terms, since the accounts look at the cost on the books rather than the investment.

In another area, the tangible (company works) and intangible (research-development) investment field, and under certain conditions, investments in human resources, may be entered into the balance, paid off or spread over several years. Along the same lines, investment in continuous vocational training (beyond the legal minimum to maintain human resources) could be spread over several years (see Isabelle Guerrero, *Treating capital investment and investment in training on an equal basis*, Cedefop, European Journal of Vocational Training No 14, p. 62-68). But for tax purposes companies often prefer to consider these costs as accounting costs rather than as investments. Tax considerations or company assessment issues often take precedence over investment arguments (spread and measured over the long term), or even over short term viability, i.e. accounting payments.

the sector. Questions should be raised. Training in response to what requirements, what achievements, what recognition? How can the impact of training be assessed? A lot is known about how it benefits the company (it has a greater impact on productivity than on salaries), but there is still the difficulty of how actually to measure it ([20]).

In thinking about skills, several companies decided to look at the level of basic training, training which leads to formal qualifications and other experience acquired. The point is to prepare a report on the human resources available to the company concentrating on a single aspect. Simplified social reporting (or human resource reporting) cannot possibly reflect all information on human 'capital' and potential. To give a further example, human capital also needs to be assessed when the overall company is being assessed - as an intangible asset that is difficult to measure ([21]).

In effect, what arises is the question of the obsolescence of accounting tools ([22]) and the issue of how to take the human dimension into account during merger operations ([23]). It would seem that a large number of managers feel it impossible to assess the human factor; this has led to certain failures when leaders have neglected the human side and company culture.

Noting that certain types of organisation undermine the social fabric, François Guérin of the ANACT points out that labour is seen as a cost rather than as a resource ([24]).

Nevertheless, there is an increasing degree of awareness of these issues amongst certain economic stakeholders and financial markets. Having used (and sometimes abused) 'age measurements', companies then noted a drain of experience ([25]). Some authors remind us that the demand for short-term efficiency could be to the detriment of development potential ([26]) and note that companies do not have sufficient faith in their workers ([27]). Some companies are introducing ways of taking full advantage of know-how that may be at risk. ([28]) More voices are now being raised in favour of assessing the company's social responsibility or finding new

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([20]) Alan Barrett, Ben Hövels. *Towards a rate of return on training: assessing the research on the benefits of employer-provided training*. Cedefop, European Journal of Vocational Training No 14, p. 30-39.

([21]) Ulf Johanson. *The answer is blowing in the wind. Investment in training from a Human Resource Accounting perspective*. Cedefop, *European Journal of Vocational Training* No 14, p. 52-61.

([22]) Jittie Brandsma, *Funding lifelong learning: key issues*. Cedefop, *European Journal of Vocational Training* No 14, p. 9-23.

([23]) Thierry Conilh de Beyssac, General Director of Hewitt Associates. *Human element only taken into initial account in 5 % of operations Le Monde*, 18 May 1999.

([24]) Marie-Béatrice Baudet. *Companies concerned about race for employee productivity. Le Monde*, 8 April 1998.

([25]) Olivier Piot, *La gestion inconséquente des âges en enterprise. Le Monde*, 6 January 1999.

([26]) Olivier Piot, *Priorité au 'clone' directement opérationnel. Le Monde*, 17 December 1997.

([27]) Sumantra Ghoshal, *Les entreprises ont la fâcheuse habitude de créer un environnement qui tue l'esprit d'initiative et annihile les énergies. Le Monde*, 17 December 1997.

([28]) Antoine Revechon, *Les entreprises essaient de conserver leur 'patrimoine de connaissances'. Le Monde*, 12 January 1999.

management methods to reconcile economic and social factors ([29]), even at the twenty-ninth edition of the Davos World Economic Forum in January 1999 ([30]).

As for the technical tools, the discussion on how to calculate personnel and the questions raised regarding the rationale of certain assessments highlight the fact that, apart from the organisational methods and principles employed, what differs is the very manner in which labour and the workers are perceived ([31]).

Thus, it would seem both essential and technically possible to carry out human resources reporting as well as social reporting. Such an exercise however will always be unsatisfactory, as it provides limited knowledge of past reality.

Even though it is constantly being improved upon, it will never be perfect, as it applies to what is the most qualitative, shifting - and sometimes difficult to control - of elements within the company: its workers. It also reveals the way in which they are seen within the company.

([29]) Michel Capron, Gérard Leseul, *Le Monde*, 17 December 1997; Michel Capron, *Le Monde*, 16 December 1998.

([30]) Marie-Béatrice Baudet, *L'idée d'une notation sociale pour les entreprises cotées en Bourse fait son chemin. Le Monde*, 9 February 1999.

([31]) Laurence Baraldi and Jean-François Troussier, *Le calcul des effectifs: quelques exemples dans l'industrie.* Etudes, Travail et Emploi No 77.

Annex 1: Opinion of the Economic and Social Council

The French Economic and Social Council reaffirmed the basic role of social reporting. By providing an 'overall' vision of the social situation within the company and its development, it backs up the two main aspects of social dialogue within the company: concertation within the framework of the Works Council, and negotiation of agreements with the trade union delegates. This is an essentially internal role for social reporting in the dialogue between social partners, extending it to groups, the vocational sector and, on request, to society limited to elected individuals in the close vicinity, while developing its general use.

The ESC proposes that social reporting be adapted to current issues by:

(a) Simplifying the provision of the statistical information asked of companies. Recalling that the presentation of the same data in various forms nowadays presents little technical difficulty given the spread of information technology, the number of administrative submissions or surveys required of companies nonetheless still needs to be reduced (e.g. social reporting data adapted to the SMEs in 1993, and their inclusion in the revised general social report could permit the lowering of the threshold at which social reporting applies).

(b) Updating the indicators for social reporting, scrapping any obsolete ones and making good the lack of information on the essential aspects of company life (e.g. new forms of labour and employment, public employment aid and training policies, continued vocational training for employees, new forms of top-up payment, provisions in the field of health and safety, vocational equality between men and women).

(c) Amending the structure of the social report by linking the employment and training headings; by pooling information on health, safety and working conditions within one single chapter; by creating an additional chapter on the company's social activity within the local socio-economic fabric (environment, local partnerships)

(d) Carrying out social reporting at group level. It is at this level that decisions affecting employees' futures are taken. Legislation on group committees and the development prospects for information and social consultation within European level groups are heading in this direction.

It also asks for social reporting to be enriched. Noting the dryness of its content and the expectation of objective comments, it proposes that 'comments made by the employer be added to but on the condition that they be submitted for discussion within the Works Council as stipulated by the law, and that the latter should be allowed to make its point of view known in the opinion which it is required to issue, and which should be part of the final document. Thus, all "programmes" involving the company on training, employment and prevention matters...could be described in the social report in order to be linked in with the quantified developments in corresponding areas. Except for reasons of confidentiality, the explanations already given to the Works Council should be made public...It is in the light of the discussions stemming from consultation of the Works Council that the formula and terms best adapted to the situation can be found and selected in joint agreement.' The ESC also advocates that the social report be circulated and read within the company.

Finally, it hopes to improve circulation and make better use of the social reports. The ESC notes that the stated objective of treating equally economic and social matters, employees and shareholders, no longer squares with reality. It recommends that it become mandatory to provide the social report to shareholders. It also suggests that, at their request, the social report be provided to local representatives (the mayor, presidents of the general and regional Councils). It points out that using the social reports would make for better knowledge about, and understanding of, companies, and would bring out the links between economic performance and social dynamics. It thus proposes that the centralisation of the social reports be encouraged, facilitated and developed in conjunction with the national statistical information board (CNIS), in order to ensure statistical confidentiality. The ESC hopes that the use of social reporting will be encouraged, particularly within the vocational sector, particularly in order to add to the sector reports which serve as a basis for negotiations.

The necessary modernisation of social reporting should, in this case, retain the initial framework of incentives and legislation, and breath new life into the responsibility of the social partners in the area directly affecting them (re-defining the indicators at national level, regularly adapting to company reality). For this purpose the ESC proposes that certain amendments to the law and the decree be worked out within the framework of the national commission for collective bargaining and sectoral adaptation through branch negotiation. The proposal for the Civil Service is to draw on the example of the hospital service (which, moreover, plans to lower the threshold to 150 employees in order to take better account of company reality).

The ESC's opinion was adopted by 138 votes from among 174 voters, with the private company and liberal professions group voting against, and abstentions registered by the craft group and two entitled individuals. The remaining groups all voted in favour: employees' unions, associations, cooperatives, mutual benefit groupings, public companies, agriculture and entitled individuals.

The assembly has fewer reservations than it had for the 1977 law. Is this a sign that the project was a major innovation at the time? Will the increased backing come across in the form of increased investment amongst signatories, thus giving second wind to this social achievement?

Annex 2: Social Reporting Indicators for Companies in the Industrial and Agricultural Sectors

(Annex B of the Ruling of 8th December 1977)

Extracts : chapters I (employment) and V (training) Years N-1, N-2 et N-3

		Engineers, managers	Supervisory technician	Workers	TOTAL
11	**Workforce**				
111	Total workforce on 31.12				
112	Permanent workforce				
113	Number of employees on a fixed term contract on 31.12				
114	Average monthly workforce for the year under consideration				
115	Breakdown of total workforce on 31.12 by sex				
116	Breakdown of total workforce on 31.12 by age				
117	Breakdown of total workforce on 31.12 by seniority				
118	Breakdown of total workforce on 31.12 by nationality : French Foreigners				
119	Breakdown of total workforce on 31.12 according to a detailed qualification structure				
12	**Outsourced Workers**				
121	Number of trainees (schools, universities...)				
122	Average monthly number of temporary workers				
123	Average length of temporary contracts				
13	**Recruitment over the year under consideration**				
131	Number of persons recruited on non-fixed term contracts				
132	Number of persons recruited on fixed term contracts				
133	Number of seasonal workers recruited				
134*	Number of workers under 25 recruited				
14	**Departures**				
141	Total departures				
142	Number of resignations				
143	Number of redundancies for economic reasons including retirement and early retirement				
144	Number of redundancies for other reasons				
145	End of fixed term contract				
146	Departure during trial period				
147	Transfer to other company				
148	Voluntary and early retirement				
149	Death				
15	**Unemployment**				
151	Number of employees partially laid off during the year under consideration				
152	Total number of hours of partial lay-offs for the year under consideration : Compensated Uncompensated				
16	**Handicapped**				
161	Number of handicapped on 31st March of the year under consideration				
162	Number of handicapped as the result of accidents at work occurring in the company, employed on 31st March of the year under consideration				
17	**Absenteeism**				
171	Number of days absent Number of theoretical days worked				
172	Number of days on sick leave				
173**	Breakdown of illness according to length of absence				
174	Number of days absent for accidents at work or on the way to work				
175	Number of days absent on maternity leave				
176	Number of days absent for authorised leave (family events, special leave...)				
177	Number of days absent for other reasons				

* applicable to companies with more than 750 employees

** applicable to companies with more than 2000 employees

51	**Continuous vocational training**						
511	Percentage of wages put into CVT						
		In-company training	Conventions	Payment into insurance funds	Payment to approved bodies	Treasury and others	Total
512	Amount used for CVT						
		Engineers, managers	Supervisory technician	Blue collar workers and skilled employees	Labourers, skilled workers, unskilled employees	Total	
513	Number of trainees Men Women						
514	Number of training course hours Paid Unpaid						
		Prevention	Adaptation	Vocational training	Refresher, top-up		
515	Breakdown by type of course (example of breakdown)						
52	**Training leave**					Total	
521	Number of employees having enjoyed paid training leave						
522	Number of employees having enjoyed unpaid training leave						
523	Number of employees whose request for training leave was turned down						
53	**Apprenticeship**					Total	
531	Number of apprenticeship contracts drawn up over the year						

3. Reporting on human capital in Denmark

Jens Frederiksen

Reporting on human capital may cover management reporting, including reporting to employees, as well as reporting to external stakeholders. This chapter concerns itself with reporting to external stakeholders.

In Denmark there is increasing focus on managing, accounting and reporting to the public on human capital. Consciousness of the intangible assets arising from competent employees is growing. And there is increasing acceptance of the idea that these intangible assets, not shown in traditional financial statements, should be presented to the public.

3.1. Prerequisites of communication

Those enterprises that have a systematic approach to human capital accounting and management are in a position to communicate on human capital in a reliable and qualified manner. The main reason is that the subject of communication is also rooted in the strategy, vision and day-to-day operation of the enterprise. This reduces the risk of communicating information representing a picture postcard of the enterprise, thus creating an inappropriate gap between the reality of the enterprise and the image presented to the public.

In addition, the quality and reliability of the data and information included in the communication will be relatively high, because it will be based on data used in the day-to-day management of the enterprise. Data and information used in this way will generally be of a higher quality than data collected on an ad-hoc basis and not used otherwise.

3.2. The need to communicate performance

Commercially based enterprises, as well as non-profit organisations and semi-public or public institutions, are increasingly working with human capital reporting. These organisations – each with their own motivation – may need to communicate to the public the results of changed management forms and the intangible assets present and being developed within the organisations.

3.3. Motivation for reporting on human capital

3.3.1. Commercially-based enterprises

Motivation for private enterprises to report on human capital may include:

(a) a wish to describe hidden values (intangible assets), including human capital, present in the enterprise but not presented in the financial statements. As a result, the public may perceive the enterprise's value as higher. The target audience for this type of information may be shareholders and lenders;

(b) a wish to establish a dialogue with the public about the enterprise's values, management and its attitude to its employees;

(c) a wish to raise the enterprise's profile, for example by describing the key competences of its employees. The target audience for this type of communication may be customers;

(d) a wish to present the results of its efforts toward its employees, for example by benchmarking and comparison with other enterprises. The target audience for this type of information would be the employees.

For listed companies and other enterprises with many owners, the wish to present the enterprise's hidden values and achievements not presented in the financial statements is often given a high priority. In principle, this is true whether the enterprise adopts a shareholder value approach or a stakeholder value approach to its public relations.

3.3.2. Non-profit organisations

Non-profit organisations expect to be evaluated by sponsors and other external stakeholders on the basis of their achievements. Achievements may be measured either as the ability to use volunteers and paid staff to achieve results in accordance with the purpose of the organisation or as the efficient operation of the organisation. The target audience for reporting on human capital is usually sponsors, volunteers and politicians.

3.3.3. Public institutions

In many countries, semi-public and public institutions at state, regional and municipal levels have, for a number of years, been under political pressure to improve their operating efficiency. Many such institutions in Denmark have chosen to implement the most modern management tools, among other things to manage, motivate and improve the competences of their employees with a view to strengthening their achievements. These types of organisation have an interest in presenting their human capital to the public, and the target audience for the information is usually politicians, appropriating authorities and taxpayers.

3.4. Society's need for human capital reporting

Today society is demanding more information on achievements, results and values in enterprises and organisations. Two important spokesmen for society in that connection are politicians and the two sides of industry. Danish politicians have taken a number of initiatives in recent years to improve the achievements of enterprises and organisations and increase the level of information on these matters.

An example of such an initiative is the Danish statutory requirement for a large number of government institutions of a certain size to prepare and publish annual reports and accounts. A set of mandatory rules has been set out for the preparation of such accounts. One of these is that the accounts should comprise a section on 'staff and organisation'.

The minimum requirements on information about staff and organisation in the annual reports for government institutions are as follows:

(a) staff consumption for the current and the preceding three years as well as budget figures for the following year;

(b) absence due to illness for the current and the preceding three years;

(c) additions and disposals for the current and the preceding three years;

(d) overtime/additional work for the current and the preceding three years;

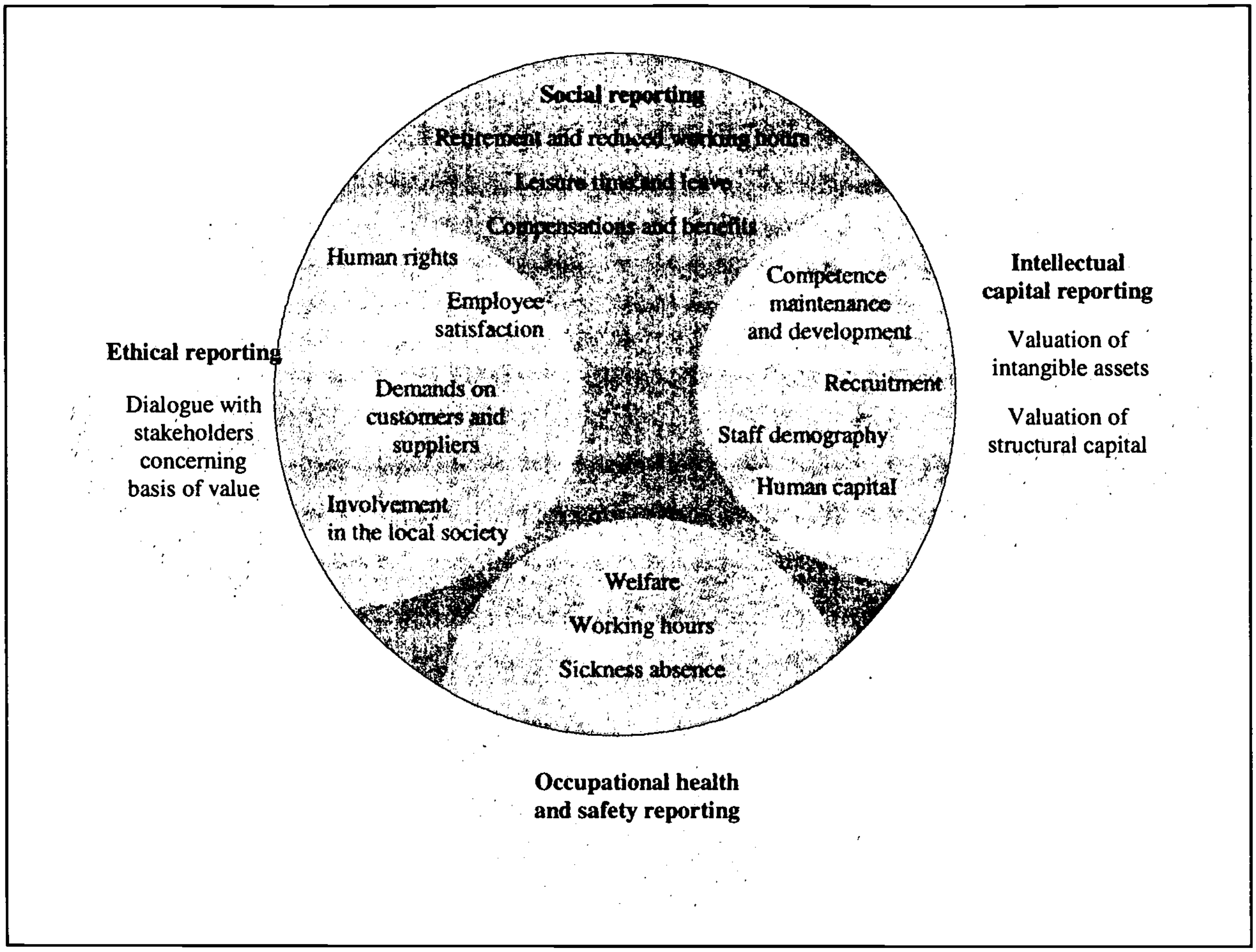
(e) description of organisation structure and diagram;

(f) analysis and assessment of the development.

In addition, various ministers have launched a number of projects (and set out statutory requirements) on the publishing of various information from the organisations in non-monetary terms. The Minister of the Environment and Energy set out statutory requirements on environmental information in the so-called green accounts. Subsequently, the Minister of Social Affairs launched a pilot project concerning social accounts, primarily focusing on how enterprises handle their responsibility toward the people in and around the enterprise. The Minister of Labour has launched projects concerning the development of environmental health tools with a view to increased focus on the physical and psychosocial working environment in enterprises. Another very important project was launched by the Minister for Business and Industry on the development of intellectual capital reporting in commercially based enterprises. Under this project, 19 enterprises published knowledge accounts in the spring of 1999. The indicators presented in these new accounts can often be seen as performance indicators in the enterprises' human capital reporting.

The indicators regarding human capital included in the new types of reporting are summarised in this figure

Figure 15: Issues in common in all the new reports



3.5. Inclusion of human capital information in financial statements

The Danish Commerce and Companies Agency has set up a financial reporting board consisting of representatives from a number of organisations. The board has been assigned to prepare a report that documents the considerations in relation to a new Danish nnual Accounts Act. The report *The financial reporting board's report on amendments to the Annual Accounts Act 1999* was published in March 1999.The report includes considerations regarding possible legal requirements on the disclosure of information about intellectual capital. The report states that the disclosure of such information is not required pursuant to the existing annual accounts act or EU accounting directives. However, the EU and the OECD are interested in measuring and disclosing of such information.

The financial reporting board's conclusion regarding the disclosure of information about intellectual capital:

'Concurrently with the development of society towards a knowledge and information society, intellectual capital and other intangible values are becoming increasingly important. Therefore, a general requirement must be introduced in respect of disclosure in the annual report of the enterprise's intellectual capital, etc., where, in the opinion of the management, such information may have a material effect on the future earnings. Alternatively, reference can be made to a separate statement on intellectual capital and other matters which are important for the true and fair view of the enterprise in the annual report.

Intellectual capital will be particularly relevant in cases where the enterprise's activities are based mainly upon human resources.

As the area is in a development and test phase during which methods and presentation are being developed, legal requirements should not be made here and now in respect of disclosure of information. However, it is important to indicate that such relevant information should be included in the financial reporting, i.e. in the annual report.

The information about intellectual capital is of course subject to the quality requirements applying to the concept and thus the requirement concerning a true and fair view. The somewhat lower reliability which is typical of such information is compensated for by, among other things, the additional weight attached to the continuity of information in order that such information can be compared in the course of time.'

Where actual statements of intellectual capital are prepared, the applied methods and principles should be described in the section regarding accounting policies.

The development has thus started towards specific legal requirements for the disclosure in the enterprises' year end financial reporting of information about intellectual capital. However, the management of the enterprise is to assess and decide whether the intellectual capital in the enterprise is so material to the financial performance or financial position of the enterprise that it should be disclosed in the annual report.

There is thus no doubt that the information gained by enterprises in their use of human capital will increasingly be incorporated into financial statements, as well.

3.6. Human capital reporting and the labour market

In recent years, the Danish labour market organisations have been taking initiatives that largely conform to the human capital reporting concept. These initiatives are mainly focused on the objectives of retaining employees in the labour market as well as supplementary training and development of competences. In order to meet these objectives, it will be necessary for enterprises to plan initiatives and activities using human capital reporting. For example, there is a connection between absence due to illness (the reduction of which is in the immediate interest of the enterprises) and attrition/early retirement from the labour market, the reduction of which is in the long-term interest of both enterprises and society as a whole. Furthermore, it is in the interest of enterprises to provide their employees with training and new competences in order for these to handle technological development, etc., and maintain competitiveness with, for example, low pay areas. The advantage in this respect to enterprises in general and to society is that employees with such training will be better equipped in situations when they are forced to seek new employment – their ability to obtain new work is increased. The Danish Confederation of Trade Unions (LO) has chosen to make it a priority that such initiatives be documented in national competence accounts, while the employers' organisations do not wish to make the disclosure of such information mandatory.

3.7. Human capital reporting and credibility

It falls outside the scope of this chapter to describe the assumptions and rules on which accounting information to the public is based. However, there is reason to highlight certain aspects under the issue of Credibility.

It is essential that management decide, before presenting Human Capital, whether the form of the report should resemble an advertising leaflet or be more neutral and objective. If the aim is a report that is seen as credible, the following should be taken into account:

(a) verifiability - the information should be verifiable, in order that an independent party can confirm the data in the accounts;

(b) reliability - the report should be correct and neutral, i.e. the whole truth should be told and the report should be free of bias and manipulation. Positive as well as negative information should be included;

(c) comparability - the numerical information presented in knowledge accounts often does not provide external users of the accounts with an indication of whether the performance of the enterprise is good and whether its intangible values are great or small. Where possible, external users should be provided with comparatives. This is most easily done by stating comparative figures over several years for the same enterprise, in order that the user may assess whether the development is positive or negative. Another possibility is by providing comparisons with other enterprises;

(d) changed computation methods - data may be computed differently from one year to the next, and the change in measuring or computation method may in itself cause a change in the data. Therefore, the enterprise should disclose the method used in procuring data, and if policies or computation methods have been changed the effect should be explained;

(e) integrity - the points of view and values expressed by management in the knowledge accounts should be rooted in the enterprise, e.g. in human capital. Employees should be able to identify with the information presented.

Notwithstanding the enterprise's intention to present information that is credible and objective to the public, the public may not perceive it as such. One way of ensuring greater credibility is to have an independent third party, such as an auditor, control the accounts and provide them with a verification declaration.

3.8. Summary

The trends with reference to human capital reporting can be summarised as follows:

(a) reporting will change from strict financial reporting to performance reporting;

(b) management will change its focus from financial key indicators to more holistic management;

(c) links between new management concepts (balanced score card, total quality management, knowledge management) and human capital reporting will be strengthened;

(d) there will be increasing amounts of human capital information (compulsory or voluntary) in the annual reports of listed companies.

In short, it is not a question of whether the most important elements of human capital reporting will be implemented. The question is how soon it will happen.

4. Human capital reporting: experiences and proposals discussed at the Agora

Ulf Johanson (32)

4.1. Abstract

This chapter takes human resource costing and accounting as a point of departure for making a number of proposals in connection to human capital reporting. Experience with human resource costing and accounting is compared with contemporary Swedish practice regarding measuring and reporting human resources and other intangibles to mobilise action. Based on the differences that are revealed by the comparison, three major problems are addressed:

(a) consensus as regards definitions and classification of intangibles is lacking;

(b) valid and reliable indicators of intangibles are not commonly shared;

(c) 'the production function of intangibles' remains as tacit knowledge with single managers.

At the end of this chapter proposals are made for a further development of these core questions.

4.2. Clarification of some concepts

Numerous concepts have been proposed with respect to accomplishing representations of human capital at the enterprise level. Some of these concepts are human resource accounting (HRA), human asset accounting, human worth accounting, utility analysis (UA), cost & benefit analysis of human resources (CBA). In spite of a comparably long experience with most of the concepts, there is far from a global consensus as regards what the different concepts comprise.

In the 1980s the author proposed the concept HRCA. This tries to highlight costs, incomes and values related to human resources. It comprises both HRA and CBA of human resources. Whereas HRA is closely related to conventional accounting, CBA and UA are not, although all three of the concepts comprise specifications of costs as well as estimations of values. The

(32) The author wants to thank the participants at the Agora in Thessaloniki in June 1999, Professor Jan Mouritsen and Maria Mårtensson for fruitful feedback on some of the proposals made.

difference between CBA and UA is that the former concept may include even non-monetary benefits.

The concepts have been proposed for use in decision-making, persuasion or learning tools. Putting human resource values on the balance sheet, which has been suggested by HRA proponents, is supposed to affect external stakeholders like analysts and investors whereas UA and CBA of human resources has normally been proposed as an instrument to influence internal actors. Specifications of human resource costs in the income statement have been addressed to external as well as internal actors.

4.3. Interest in human resource costing and accounting

In spite of several suggestions from researchers that valuing human resource on the balance sheet will make a difference to analysts and investors, their interest in the subject remains reluctant and only simple examples of balance sheet applications have been accomplished during the last 30 year period (with the football industry as an exception). Put bluntly, experience from literature, practical applications and discussions during a great number of conferences reveal that the balance sheet issue is presently a dead topic.

However, this is not the case with the income statement and the CBA approach respectively although there are some measurement difficulties (e.g., when is a CBA actually practised, could it be said that a cognitive elaboration in a single person's mind is an example of practising CBA?). The proposal is that human resource income statements as well as CBAs have been, and are frequently, practised.

Interest in the income statement approach and the CBA approach resides mainly with:

(a) managers;

(b) human resource people;

(c) occupational safety and health;

(d) union representatives.

However, even politicians and trade unions in the Nordic countries have showed a significant interest in the subject during the last decade. Whereas the activity level was very high in Sweden at the end of the 1980s and in the beginning of the 1990s, initiatives started to emerge in Finland in the middle of the 1990s. Presently, the activity level appears to be highest in Denmark. A few examples are;

(a) in 1991 the Swedish government proposed a legal obligation for firms to deliver a HRA report in order to improve the safety and health at the workplace;

(b) in the 1980s and in the beginning of the 1990s Swedish trade unions published a number of booklets on the subject;

(c) the Finish government promotes the use of HRA from the point of view of lifelong learning as well as occupational safety and health;

(d) the Central Organisation of Finish Trade Unions have proposed that HRA is a means of improving working life;

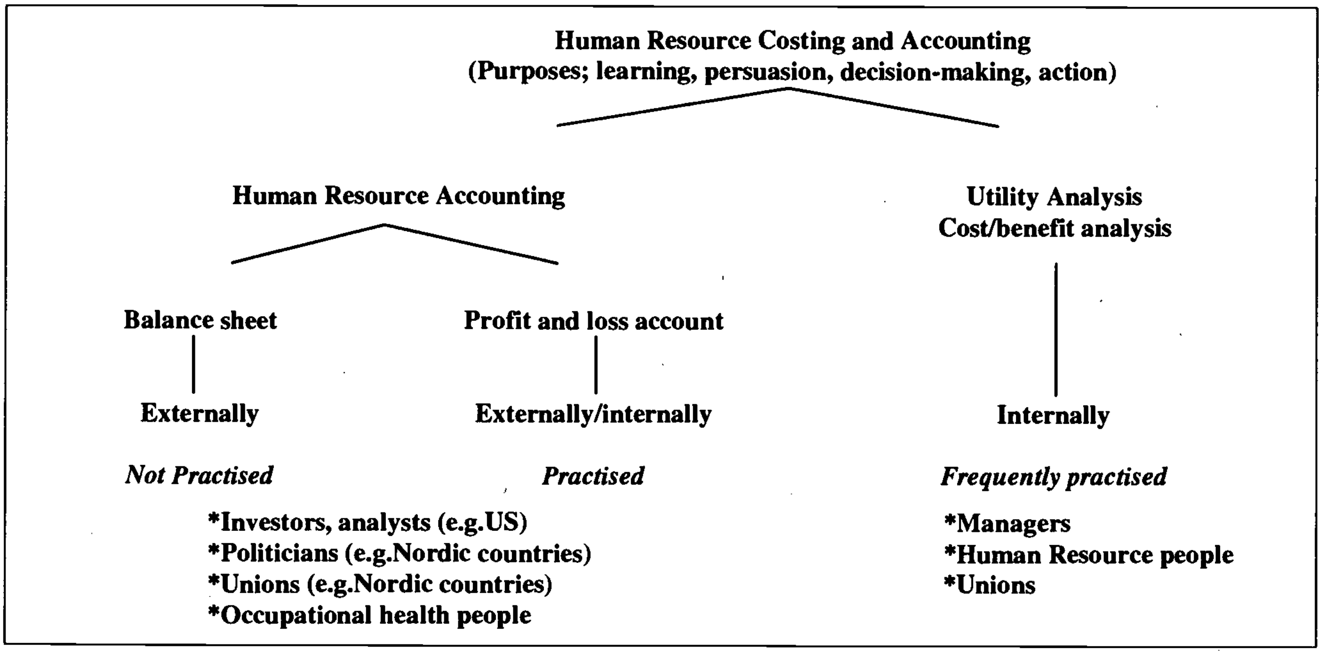
(e) the Danish government presently supports experimentation with social, ethical, occupational safety and health and intellectual capital reporting;

(f) the Danish Labour Union has taken an initiative using CBA of human resources as a possible tool to affect not only working life but even company performance.

Notably the balance sheet issue has not been addressed by any of the governments or trade unions.

What has been proposed so far is summarised in the figure bellow.

Figure 16: Human resource costing and accounting; concepts and practise



4.4. Effects of human resource costing and accounting

Regarding the effects of HRCA, scientific investigations have been accomplished with respect to decision-making and learning. Decision-making has been investigated in experiments with students, managers and investors whereas learning studies have been performed with managers in their daily life ([33]).

([33]) An overview of these studies is provided in Johanson, 1999.

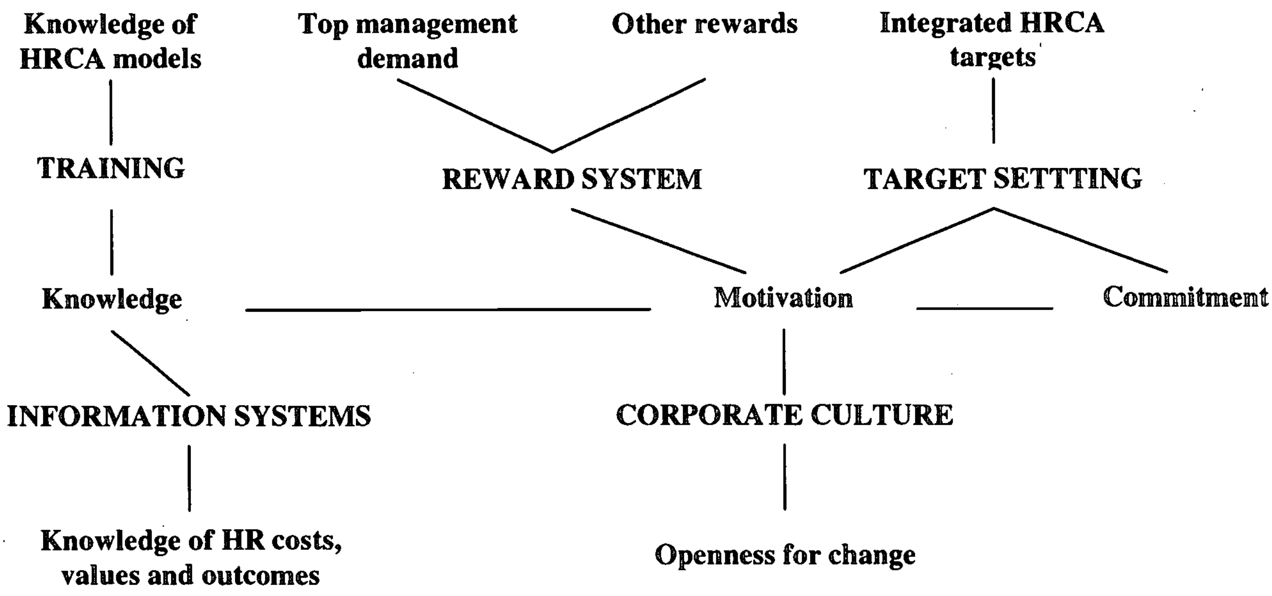
Decision-making studies reveal that students and managers change their decisions in accordance with the HRCA-information that is provided. Experiments also suggest that investors change their decisions as a consequence of the HRCA information but a number of other studies ([34]) propose that investors are not interested in HRA information. Finally, studies of learning (mainly Swedish) propose that although single managers learn from practising HRCA instruments, it remains doubtful if organisations learn.

Figure 17: Effects of applying human resource costing and accounting that is found in scientific journals.

Published articles reveal;	
Influence on managerial decision-making:	**YES**
Influence on investor's decision-making:	**?**
Influence on managerial learning:	**YES**
Influence on organisational learning:	**?**

The results from the learning studies address the question of why organisations do not learn although single managers do. Inhibiting factors in the organisational learning process studied in seven separate Swedish cases (among others a bank, an electronic business, a software business, a telecommunication company and a local authority) are found in the next figure.

Figure 18: A distilled model of inhibiting factors and their relationship to habitual action from a management control perspective. Efforts to be initiated to weaken the inhibiting factors are shown in block letters (Johanson, 1999).



([34]) Further references are found in Johanson et al., 1999.

This could be formulated in a different manner. The lesson to learn from the seven Swedish cases is that training, information, reward, target-setting and cultural systems are considerable inhibiting factors for a sustainable implementation of HRCA. To overcome these factors efforts should focus on:

(a) knowledge of human resource costs, values and outcomes as well as how to calculate these components;

(b) top management demand and other ingredients in the reward system;

(c) HRCA target-setting;

(d) openness to change.

In the three most ambitious of the seven cases, training in HRCA was carried out, information systems were changed and knowledge was successfully influenced. This new knowledge had an effect on motivation, but HRCA targets integrated with financial information were never established. Support from top management was ambivalent, and other elements of the reward systems were not changed. It can be concluded that organisational learning processes were initiated, but the question remains of whether or not organisational habits would be changed in the long run.

Based on the above study, some fundamental questions can be asked. Why is top management reluctant even if managers in general hold a positive attitude toward HRCA? Why are no HRCA targets accomplished although human resources are said to be the most important resource? Why is HRCA not integrated in the management control process even if this was the objective when a decision was made to implement HRCA?

4.5. Investigating 'best practice' in measuring human capital

Studies on the effects of applying HRCA have been focused on investigating whether normative HRCA proposals from researchers and consultants work or not. Another approach would be to explore inductively what firms actually do with respect to controlling human resources by means of utilising measurements. Such an approach has been chosen in an ongoing study of 11 Swedish firms suggested by a panel as being the most advanced with respect to continuously measuring not only human resources but intangibles in common. The sample comprises two banks, two software, one construction, one telecommunication, one office equipment, one education consultant, one public relations consultant, one transportation and one engineering company. The majority are large or medium-sized (more than 500 employees) companies.

Preliminary results suggest that these firms perform a measurement and management control routine (MR) that comprises not only indicators of different kinds but also a mobilising routine where indicators are utilised to mobilise change. The general purpose of the MR is to improve upon critical success factors for the long-term competitiveness of the firm. Most of the firms in the sample accomplish continuous measurements and data are subject to evaluation by management at different levels. This means that the understanding of the critical success factors is enhanced and the MR is subject to continuous change. Managers are normally committed to act in accordance with the measurement results, which further supports the learning.

At a basic level, classifications of intangibles are simple because they are utilised to visualise, and thereby communicate, how both intangibles and tangibles interact to realise the visions of firms. These simple classifications, however, do not contain exhaustive or exclusive classes, since this is of no interest to firms. However, intangibles are subject to division to find the performance drivers. Statistics or investments based on historical 'facts' seem to be of less interest than perceptions of activities that enable future performance. These 'enablers' are not assets in an accounting sense but are customer and employee perceptions of individual competence (knowledge and capabilities), organisational competence (databases, technology, routines and culture) and relational (relations, reputation and loyalty) competence. This division of intangibles is very close to what has been proposed in knowledge-based literature. Some of the firms distinguish between intangible enablers and intangible outcomes.

The MR is an instrument for analysing performance, i.e. the enabling intangibles, and thereby increasing the value of the stock of knowledge. The MR as an organisational learning routine comprises not only measurements but equally important subroutines: mobilising attention to the MR; performing surveys; statistical analysis; diffusion of measurement results; determination of indicator ownership and contracts; and encouraging the accomplishment of contracts by, for example, salary bonuses. All these subroutines are very important in the learning process; with respect to statistical analysis it is suggested that this is the kind of language that top management understand.

4.6. A comparison between experience with HRCA and the most advanced firms with respect to measuring and reporting human resources.

The aim of measuring and reporting is to mobilise action. Perhaps it is more relevant to say change organisational habitual action. If the above experience with HRCA is compared with the recent Swedish case study a number of differences are revealed:

(a) the inhibiting factors referred to in the Swedish organisational learning study (figure 18) do not exist in the Swedish case study;

(b) core measurements that the firms in the Swedish case study perform to increase understanding of intangible performance drivers are not measurements proposed in HRA or UA literature. It is fully understandable that outside stakeholders such as investors and analysts reject the latter kind of information as long as they do not refer to any kind of higher identity inscription, e.g. shareholder value or 'the production function of intangibles';

(c) HRCA is a too limited view. The Swedish case study firms try to increase their understanding of not only human resources but also other intangible resources like customers and structures;

(d) the Swedish case study firms try to reveal 'the intangible production function'. This problem is normally not focused in HRCA literature regardless of the fact that a correlation between human resources investments and company success is anticipated;

(e) financial indicators are important but not enough. Employee and customer perceptions are as important as 'facts' based on aspects such as costs and statistics. Indicators comprise measurements of outcomes as well as intangibles that enable the outcomes.

4.7. Proposals

At present there seems to be an emerging global interest in an agreement upon some sort of international guidelines for a voluntary disclosure of information of intangibles. This was obvious at the OECD conference on intellectual capital in Amsterdam, June 1999. These guidelines have to be based on a framework comprising indicators that are understandable as well as useful from an internal management control perspective. To be successful in accomplishing this task at least three questions have to be addressed;

(a) today there is no consensus regarding definitions and classification of intangibles. To be able to communicate there is a need of a shared understanding, i.e. definitions and classification of the concept is of central importance;

(b) operational, valid and reliable indicators of intangible stocks and performance drivers have to be developed and commonly shared;

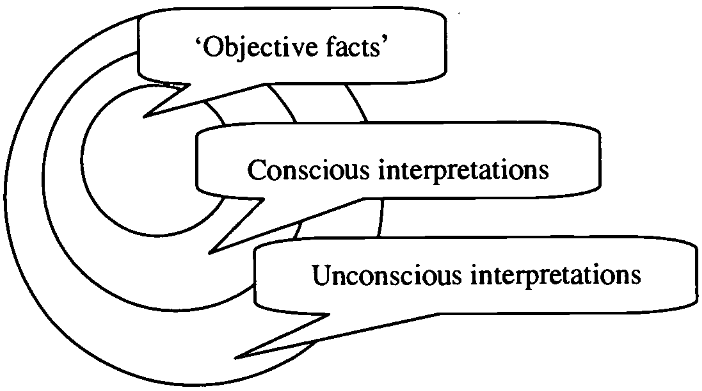
(c) finally, though perhaps of primary importance, there is a need of an increased understanding of the importance of different intangibles as stocks as well as performance drivers. How do different intangibles relate to general stories, or rules, or inscriptions ([35]) about how to run the firm? Some of the most advanced firms are trying to reveal the 'production function of intangibles'. This function might be known by many managers as a kind of tacit knowledge. However, the function is of extreme importance as a frame of reference to intangible indicators for different stakeholders. Therefore tacit knowledge has to be transformed into explicit knowledge.

([35]) In the present vocabulary the concepts 'general rules, stories, inscriptions' and 'the production function of intangibles' refer to knowledge about how to run the firm. Whereas 'the production function of intangibles' may refer to some kind of explicit knowledge, the other concepts may comprise even unconscious elements. The practice of the concept 'rules' is influenced by evolutionary theory whereas the use of 'stories' and 'inscriptions' is inspired by Jan Mouritsen, Copenhagen Business School.

The question must be asked whether it is ever possible to reach a common agreement regarding the three proposals made above. Can different kinds of intangibles be defined and exclusively, as well as exhaustively, classified? The answer is definitely not. Because of the pure nature of intangibles, such a consensus is never supposed to be accomplished. Definitions of intangible assets and intangible investments for accounting and statistical purposes could findcommon acceptance, but definitions of such intangible phenomena as cognitive (or even unconscious) structures and processes in an organisation are not likely to attain such status. Providing this opinion about intangibles is also to say that the production function of intangibles can never be totally revealed.

All intangibles could be, and are, interpreted in many different ways. The relationship between a single salesman and a customer may serve as an example. The frequency and the length of the contact probably affects the output of the contact. But even more important is the quality of the contact. This quality comprises conscious and unconscious segments. To generalise, all intangibles can be looked upon as comprising more or less objective facts, conscious cognitive interpretations of the phenomenon and unconscious interpretations of and processes related to the phenomenon.

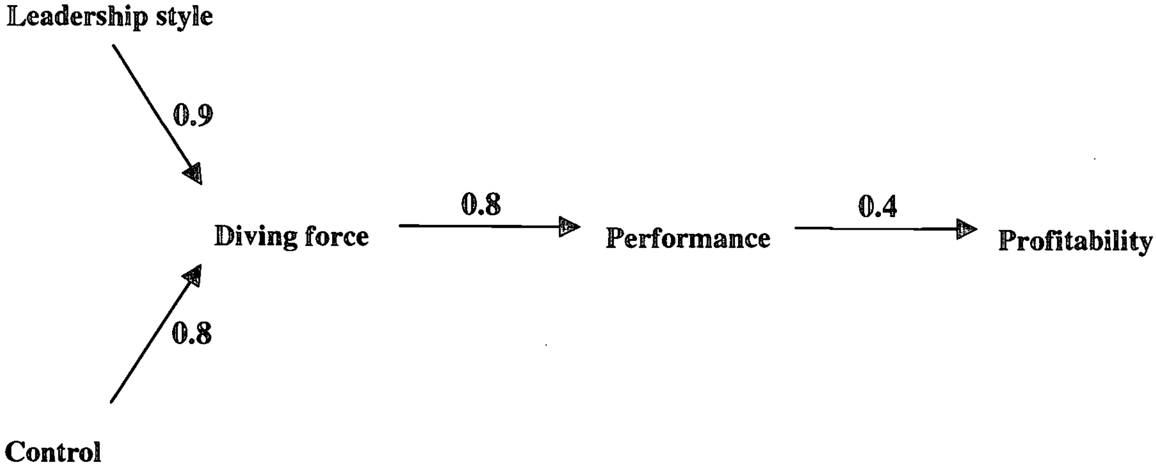
Figure 19: The intangible atom



There is a powerful need for clarification of what we are talking about whenever the word 'intangibles' is used. At least it is desirable to separate those intangibles that could be commonly defined from those that could not, if identification, control and measurement are to be undertaken; even more so, if comparability is a desirable quality in what concerns accounting, statistical and managerial purposes.

However, further steps can be taken concerning all of the three proposals. Among the most advanced Swedish case study firms the anticipated production function is presently subject to a test. These firms test the relationship between different intangible items and firm performance. In some cases significant correlations are found whereas in other cases indicators are rejected and redefined. One example is a major construction company in which the following significant (p<0.01) correlations were found in the 1998 survey (9000 responses):

Figure 20: Correlations to financial performance in the Construction Company in the Swedish study of advanced firms with respect to measuring intangibles.



The production function differs between firms. But, surprisingly, the functions also have much in common. In those firms where significant correlation to financial performance is found, leadership and/or customer relations demonstrate the strongest connection ([36]).

Standardised indicators are also under way. Firms appear to utilise the division into human, market and structure (or organisational) capital. In a Danish report ([37]) measurements of intangibles in 10 Danish and Swedish firms are classified in the following manner.

Table 2: External reporting on intangibles in 10 Danish and Swedish organisations (Erhvervsudviklingsrådet, 1997, p. 17)

	'How it is' Resources Statistics	**'What is done?' Qualification Internal key-ratios**	**'What is the output?' Consequences Effectiveness**
Human resources	• Age structure • Training and education • Training costs	• Percentage of employees with plan for development • Training days per employee • Training costs per employee	• Employee attitudes • Turnover • HRA • Added-value per employee

([36]) These figures are of extreme importance for the mobilisation of action. In the present case it is reported that this is the language that top management understands. It is not only the figures themselves that are important but equally important is the practise of a systematic statistical analysis. The picture probably triggers a general story or inscription suggesting that the result of systematic work should be taken into account. The figure is legitimised (compare argumentation theory) by systematic work and action is mobilised.

([37]) *Ehrvervsudviklingsrådet* (1997) written by Mouritsen.

Customers	• Income split on markets and products • Marketing costs	• Customers per employee • Marketing costs divided with income • Administrative costs divided with marketing costs	• Customer attitudes • Repurchases • Customers with long relationships with the company
Technology	• Total IT investments • Number of internal/external IT customers	• Number of PCs per employee • Soft- and hardware costs per employee	• IT competences
Processes	• Cots per process • Number of employees split into different processes • Investments in R&D and structure	• Rate of turnover • Lead time for product development • Acclimatisation time for new organisational units	• Wastage in percent • Waiting time • Quality

This classification provides a starting point for a further elaboration of a possible framework of measurements of intangibles.

Even if single indicators and the classification of intangibles above can be questioned and possibly changed, it can not be disregarded that they are inductively developed from some of the most advanced firms. However, most of the indicators are collected from mainly external reporting whereas the indicators found in the most advanced 11 Swedish firms are practised in the management control process. A comparison reveals that what is missing in the classification above are indicators on the mobilisation of performance. These enablers (How it is done) could benefit from being separated from stocks (How it is), activities (What is done?) and outcomes (What is the output?). The enablers are subjectively perceived skills like leadership, relations between people and organisational culture.

Operational standardised indicators are presently emerging. Taking Sweden as an example, different organisations today provide commonly accepted indicators in each box of the classification scheme.

Table 3: Intangible indicators provided by different Swedish actors.

	'How it is' Stocks	**'What is done' Activities**	**'How it is done' Enablers**	**'What is the output?' Outcomes**
Human capital	**A** **B** **I**	**A** **B** **I**	**S**	**A** **B** **S** **I**
Market capital	**A** **I**	**A** **I**	**S**	**A** **S** **I**
Structure capital	**A** **B** **I**	**A** **B** **I**	**S**	**A** **B** **I**

The abbreviations in the table refer to the following actors:

A Cost items are already standardised within the traditional accounting framework.

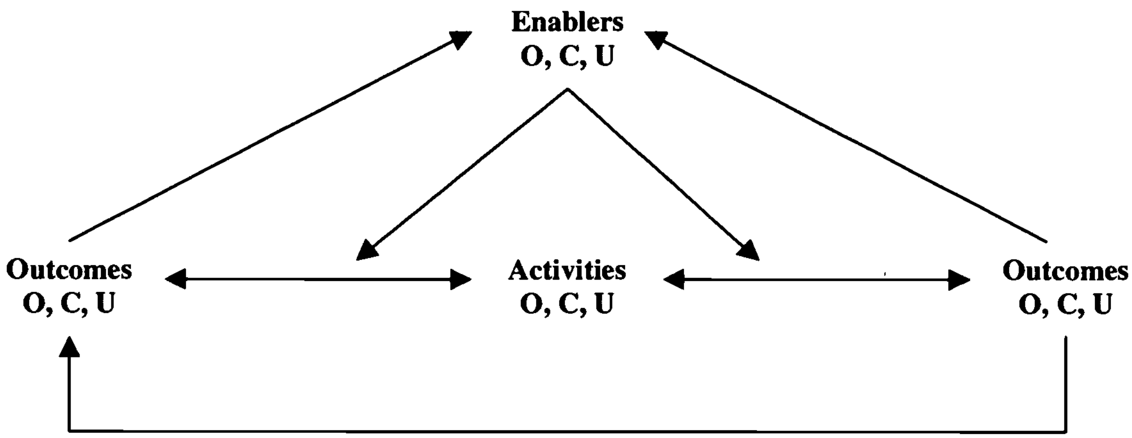
B The Swedish Benchmarking Institute has for since some years provided measurements of items such as average age, time spent on training as a percentage of working time, sickness rates, etc. Between 100 and 200 Swedish firms have probably adopted these standards.

C Within the ISO 9000 system many items are subject to a standardised measurement.

D In the Nordic countries the SIFO/SMG group has provided, since the beginning of the 1990s, a framework, standardised indicators and measurement tools regarding employee and customer attitudes. These perceptions are regarded as the enablers of performance by the 11 most advanced Swedish firms.

A dynamic representation of the table is found in the figure bellow. Every intangible category includes the three elements: objective fact (O), conscious (C) and unconscious (U) interpretation as well as human, market and structure capital. The total figure equates to 'the production function of intangibles'.

Figure 21: A dynamic classification of different intangibles.



4.8. Conclusion

To conclude, the proposed framework (Table No 3) could serve as a base for a further development, even comprising a smorgasbord of indicators. To be useful the framework and the smorgasbord of indicators (i.e. the classification of intangible measurements) must be exhaustive enough to comprise elements of the production function of intangibles that are relevant to a variety of firms in different countries. In some cases it will probably be possible to find indicators that exclusively and exhaustively cover a specific element of the production function. In other cases it will be impossible to develop such indicators. In the latter situation substitute measurements have to be regarded as good enough. This does not cause problems because, as proposed earlier, the production function of intangibles can never be totally revealed. Intangibles include, by definition, unconscious elements.

The framework and the smorgasbord could be subject to a test at the 'agora'. If interested parties come to the agora and adapt the ideas then the proposal may fulfil the demands. If not, the Sisyfos work may continue until the myth of the possibility of understanding, measuring and explaining the production function of intangibles in a useful way is exchanged for another interesting and energy-consuming myth.

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5. Reporting on human capital

Keith Drake

For two days participants with divergent agendas and therefore differing information needs debated the reasons for reporting on human capital and how to do it. The debate focused successively on enterprise perspectives on reporting human capital, on governmental and social partner concerns, and finally on the issue of international standards.

This note has no pretensions to be a balanced review of vigorous and complex discussions. ([38]) Instead of summarising the discussions it reacts to them. It is based on reflections offered at the end of each session which aimed to do two things:

(a) to play back, but with a different spin, just a few of the most striking points to emerge from papers and discussions;

(b) to highlight one or two features of the topic under discussion which were surprisingly underplayed or even totally neglected.

5.1. The enterprise perspective

From the beginning the Agora was rooted in good practice through a case study of one Greek firm (Titan Cement) and experience with a range of French and Danish enterprises mediated by accountancy/consulting firms (Syndex and KPMG C. Jespersen) who are deeply engaged in helping firms with social and intellectual capital reporting. This experience illustrated the way in which, in practice, the various stakeholders can be served by reporting through the financial balance sheet complemented by non-financial reports, whether these are mandatory on firms but not necessarily in the public domain, as in France, or voluntary, as in Greece and Denmark.

It is no longer surprising if a cement firm or a construction company is self-consciously turning itself into an overt, knowledge-based enterprise. The case studies showed that such firms do not necessarily sell high value-added, knowledge-intensive products. What the firms are doing is to reconceptualise the production of goods and services, any goods and services.

It was open house on usually-unexamined assumptions about the most basic characteristics of economic activity. So participants considered the consequences of competing ways of conceiving the firm and the consequences of an economy without firms. This radicalism stemmed from an acute awareness among participants of the extent to which the way we

([38]) So many of the facts and insights which follow originated in the Agora that individual attribution is generally not feasible, except to note that the author alone is responsible for any errors and obscurities.

explain numbers depends heavily on a multitude of preconceptions which we bring to the task. Yet again it turns out that hard numbers have soft centres.

None of the quantitative methodologies associated with human resource accounting is without serious flaws. For instance, it is particularly relevant to investing in people that none captures the true risk/return profile of such investments. Just one of the serious limitations of any form of cost benefit approach is the use of a single discount rate throughout the entire life of a projected investment. This seriously misrepresents the project's real risk, which is almost never constant over the project's whole life. Most investment projects are riskier in the initial or development stages than they are later. But even after development, risk is liable to vary because of market uncertainty which is not, of course, predictable.

Quantitative evaluation of the formation and use of human capital is extremely valuable. It should not be avoided just because evaluation of investment in any intangible is at least as difficult as evaluation of physical capital formation. It was not stressed during the session, but the case for quantified evaluation does not rest on its accuracy as a portrayal of a future which is as unknown for one type of investment as it is for any other. The case for quantified evaluation is certainly not established by modelling it on the idealised world of rates of return, where the unknown is assumed to be known. The case is established by comparison with the everyday realities of decision-making about human resources in enterprises. One of these realities is that a company's financial records will always fail to capture investment in, depreciation and use of its intangible assets. These assets (Box 1) are human capital or structural capital, but they all derive from, and depend directly on, the quality of human capital.

Box 1

Typical intangible investments of a firm

(a) technology (R&D) expenditures or the purchase of its results, investments in design, patent and licence work;

(b) training;

(c) the ways in which work is organised;

(d) labour relations;

(e) management structures;

(f) the formation of technological and commercial links with other firms and with suppliers and customers;

(g) market exploration and development, advertising and after-sales service;

(h) in-house development and acquisition of bespoke software.

<u>Source</u>: Department of Trade and Industry/Cabinet Office (1996), *The UK's Investment Performance: Fact and Fallacy*. Competitiveness Occasional Paper 1, London, June, p.1.

Actual allocative decisions in firms are generally made on the basis of casual, intuitive and implicit estimates. Quantitative financial and non-financial evaluation does not offer less subjectivity and less use of judgement. What it offers is:

(a) a greater range and quantity of information;

(b) information on more dimensions of human capital use, costs and benefits;

(c) consequently, more relevant information;

(d) more systematic and open application of judgement to decisions about investing in people.

The result is far greater transparency for all stakeholders concerning the firm's management of its most important resource.

However, unlike the case study firms which figured in the opening session, most firms are still inclined to see employees not so much as assets but as necessities. The practice of the case study firms, far more widespread experience and critiques of the literature (from Guerrero and from Johanson) all suggested that not a lot more progress is to be expected from trying to incorporate valuation of human assets in the financial statements of companies.

The overwhelming consensus favoured reporting which was largely non-financial, i.e. voluntary, off-balance-sheet disclosure. But participants identified as a high priority the need for understanding before standardisation. It seemed clear, for instance, that French legislation on social reporting which is over twenty years old, and designed as a tool for dialogue not as a management tool, is in great need of modernisation which recognises the changed anatomy of firms and the consequences of major alterations in work practice. No instrument is for ever.

In different ways the contributions of both Guerrero and Johanson underlined the value of focusing on the learning processes of the firm, on knowledge creation, and not just on training. If either financial or non-financial numbers are to be made really intelligible to stakeholders it is essential that people understand connections. Inside the firm one of the most critical of these connections is that between embodied knowledge (people's know-how, know-what, know-why and know-who) and disembodied knowledge (the collection of skills, routines and knowledge which have become part of the firm's structural capital and do not leave the building at 6 pm). To report on either of these differently-owned capital stocks in isolation from the other is completely untrue to the nature of both the learning processes and work processes of the firm.

At the same time, connections between financial statements and reporting which is not constrained by accounting rules, such as social reports or Danish-style intellectual capital accounts, are also critical. A firm's financial numbers are like that small fraction of an iceberg's mass which is visible above the surface of the sea: they are intimately related to a far greater but invisible array of activities which lie beneath the accounted surface.

5.2. Governmental and social partner concerns

Companies have various motivations when they begin to develop seriously their reporting on the use, costs and effectiveness of employees:

(a) sometimes they are seeking to change attitudes and to persuade workers to help managers to redevelop the firm into a more effective knowledge or learning organisation, which acquires knowledge from customers, allies, suppliers and competitors, and shares it among all employees who need it for production and who convert it into business value;

(b) some firms, such as those experimenting with intellectual capital accounting in Denmark, are seeking to promote innovation;

(c) others want to use externally a selection of data on human capital performance to help them to raise capital more cheaply and to market the company with a view to mergers and acquisitions.

In all three instances companies wish to control the production and disclosure of information for their own managerial purposes. In general they need to be persuaded of the value of incurring the cost of providing further information to meet the purposes of unions or governments. However, there is some evidence from across a range of countries that, when information is not put into the public domain, firms have become more willing to share it with other stakeholders, i.e. with investors, lenders and regulators as well as with unions and with governments. Commercial and managerial imperatives seem to be driving this shift of attitude, more than statute or just the threat of mandatory but non-public reporting.

Two issues not addressed in the roundtable discussion were the consequences for reporting of the emergence of 'the new worker' and the problem of defining the public interest.

5.2.1. The challenge of the new worker

In a jobless economy people would be self-employed, contracting for tasks through a maze of networks. Such an economy is a long way off; but its harbinger has arrived in the form of a growing number of highly expert workers (whose expertise is not defined by credentials). If these experts are employees, their negotiating strength enables them to take a major role in defining the nature, location and timing of work, which has to be recurrently renegotiated in the form of unique employment contracts. If they are self-employed, these knowledge workers engage in a series of at-will contracts with different users.

As new technologies and competition start to transform more and more economic sectors and labour markets, institutional evolution is unavoidable. One characteristic of labour markets undergoing transformation is that the growing employment of highly flexible one-person firms produces a growing demand for information on the capabilities as well as the availability of these expert workers. This rising demand has already led to increasing business for intermediaries like Manpower Inc. and for occupational skill networks. Growing demand for this kind of intermediation is a challenge but also an opportunity for unions.

On the selling side of the labour market, experts need to know who wants their skills and knowledge just as much as skill users need to know who can do what for them. It looks as though a significant share of the skill search and matching to tasks which has traditionally been done by management on the internal labour market of the firm will be externalised before very long.

In this new, emerging dispensation it is the flexible employment agencies who can facilitate matching, can be an employer and train people who need an employer, or can act as an intermediary for those engaged in at-will contracting. There is nothing to stop a union from becoming such an employment agency, at the same time acting as an employee mutual which either employs or acts as agent for its own members. The union interest in reporting human capital would then be transformed since the union would be managing directly investment in and deployment of its employees' or clients' skills rather than representing them inside a firm. Only tentative steps in this direction have been taken by a few unions across the whole Community. French legislation mandating the *Bilan Social* dates from the Taylorist seventies. A post-Taylorist world requires post-Taylorist organisations equipped to defend and promote the interests of individuals working in or with knowledge-based enterprises where the old configuration of labour and capital and internal and external labour market has, to a large degree, broken down.

5.2.2. Defining the public interest

The flux which is the modern workplace is a suitable subject for anthropological analysis. A quarter of a century ago an anthropologist and a political scientist (H Heclo and A Wildavsky) published a penetrating analysis of the British governmental process called *Private government of public money*. It identified the mores of the tribes who lived in the Whitehall village. Much the same could be done with the workplace, analysing the mores of the tribes who live there - managers, workers, unions - and those who live close by, i.e. customers, suppliers, investors, lenders, regulators, politicians and civil servants.

Members of the various tribes would reveal their objectives with regard to reporting - why they do or do not want it. One of the most difficult tasks for the analysts would be identifying the public, non-tribal interest in reporting. Each tribe looks for certain benefits from reports which would be circumscribed to suit its interests; and it often wants to shift cost onto someone else or at least share it with other stakeholders. As reporting in one form or another increases, the framing of conflicting stakeholder interests requires governments to forego the usual, tempting process of stroking interest groups. Instead, government has to decide on a set of policy trade-offs which will here mandate, there constrain and elsewhere encourage disclosures on human capital formation and use, with a consequential distribution of benefits and costs among the interest groups. To define and then pursue this public interest is at the very heart of public policy on reporting.

5.3. International standards

It seems that for international organisations the holy grail is no longer reporting through financial accounts. Rather it is international agreement on standards for off-balance-sheet and, probably, voluntary disclosure.

In a survey of social and environmental reports produced voluntarily by Italian companies, Zambon found 250 different kinds of information but also some movement towards standardisation, which can also be found among Danish companies engaged in intellectual capital accounting. Although France has long prescribed the minimum contents of the *Bilan Social,* the non-mandatory, experimental approach illustrated during the Agora from Greece, the Nordic countries and Italy is probably more representative of the average situation throughout the Community.

The experience of stakeholders from countries with quite different institutional structures suggests that, on this basis, it is both feasible and desirable to make corporate knowledge in general, and the nature and value of human capital in particular, more visible. There seem to be at least three requirements for any international standardisation of reporting:

(a) eclecticism

At one time there was, in some quarters, a desire to fit all disclosure about intangibles within an accountancy straightjacket. However, the new consensus favours eclecticism in measurement and valuation. This involves more than combining financial and non-financial data: it requires a disaggregated picture.

We value many things without being able to put a single cardinal measure like euro or metres on everything. Often we use the simplest of ordinal measures: x is more or less valuable, bigger or smaller than y. Other times measures are non-additive because we employ a mix of cardinal measures, for example, training expenditures in euro and labour quality defined against a competence benchmark. Within each measure there is perfect additivity and none between them. Non-additivity is no great problem, just ordinary life.

(b) focus

Johanson urged focus on three manifestations of human capital:

(i) knowledge activities;

(ii) outcomes;

(iii) investments, including innovation in sharing as well as creating new knowledge.

(c) framing

An agreed framework for information is essential for internationally standardised reporting since it can only sample the range of measurement which may be available at an organisational or a national level. The composition of this internationally-agreed sample should include some data from each of the three manifestations.

Some relatively robust quality control products can be identified, for example internationally the ISO standard on training or at national level, the Investors in People standard in the United Kingdom. (39) But participants were acutely aware of the difficulty of establishing international standards as the international economy becomes more knowledge-driven and more virtual, with ever-increasing penetration of national economies by global competition. Different national approaches to raising the quality and use of information, for instance in industrial relations in France and Denmark, are anyway not likely to be capable of being generalised outside the peculiar institutional and cultural contexts of each country.

What has to be developed in common, across national boundaries, are:

(a) understandings;

(b) terminologies and measures;

(c) standards for disclosure, practice and quality benchmarking.

Definition and agreement of standards requires a framework, i.e. a structure of understandings not only about the definition and monitoring of standards but about the expected role of standards and the dynamics of the economies within which standards are generated, can be modified and will be replaced.

Whether they are set bureaucratically or are market-defined, standards can quickly and easily become obstacles to change - the roles of VISA on the internet and of Microsoft in personal computing were suggested examples. The speed with which quality in goods and services can now be redefined and the rate at which market conditions can alter tends to outflank rather quickly the more old-fashioned approaches to establishing instruments of regulation and quality evaluation. In a networked global marketplace producers and consumers face additional risk when trying to ensure that they get what they buy or receive payment for what they provide. Similar additional risk can be expected to spread in labour markets as work comes to be performed on a task-by-task basis under individually-negotiated contracts instead of through company-managed workforces.

The definition of international reporting benchmarks for human capital is not a process equivalent to Moses bringing down from the mountain ten standards inscribed for ever on a tablet of stone. Standards for a wilful asset like human capital operate in a dynamic environment. So the measures used and the framework will have to be provisional and easily revised if they are to remain valid and reliable.

The framework within which reporting standards are set has to reflect a competitive but mixed economy and be part-market, part-bureaucratic. Governments have a clear interest in preventing the emergence of a purely market-driven standard in the light of experience with electronic standards, e.g. for video recorders or computer hardware and software, where the

(39) Informs stakeholders reliably about some of the basic features of human capital use by the firm, mostly volumes, expenditures, distribution and management of training.

highest technical standard does not necessarily translate into the standard-setting market leader. However, the market can destroy or limit uptake as well as create standards. For example, in the United Kingdom there are market reasons why the bureaucratically-defined IiP and ISO training standards are spreading. Equally, there are market reasons why a single and comprehensive structure of National Vocational Qualifications, despite endless subsidy and bureaucratic levering, is not superseding and will not supersede all other vocational qualifications and the standards which they incorporate. So international reporting standards are most likely to thrive in the shape of a market/bureaucratic hybrid.

Much of the Agora was devoted to consideration of case studies of firms or experience at government level, or experience of the social partners in countries such as France, Denmark, Greece and Italy. In addition, participants expressed their hopes and concerns about the use of reporting tools at all levels from the individual firm up to the international organisation. Apart from a few instances, such as French legislation dating from 1977, experience with the use of these tools has been essentially ad hoc. Perhaps the time is now ripe for a phase of more systematic development? The collective agenda seems to require:

(a) understanding;

(b) testing;

(c) agreeing;

(d) building.

It looks to be essential:

(a) to build on what has already been tried at firm, national and international levels but also to explore new ways of converting quality into quantity, focusing on what are agreed to be areas where there are critical deficits of reliable and valid data;

(b) to agree a framework of understandings about key relationships and so develop formats within which reliable and valid data can be made intelligible. For all its disputes, accountancy has been substantially successful in developing an internationally understood reporting framework for the value and performance of tangible assets. The challenge is not to fit human capital reporting onto that particular Procrustean bed but to develop a compatible framework for the critical resource and other intangible assets.

6. Human capital reporting as an area of concern for policymakers and the social partners - the case of Finland

Tuomo Alasoini

This chapter provides a short overview of recent Finnish discussion on reporting on human capital. Generally speaking, there is a widespread consensus among Finnish policymakers and labour market organisations on the need for better information on human capital development at both workplace and national level. The concept of 'human resource accounting', central to the idea of reporting on human capital, is, however, often poorly defined or incorrectly used in public discussion.

In theory, the concept of human resource accounting consists of three elements: a human resource report, a human resource balance sheet, and a human resource profit and loss account. In Finland, the concept usually refers to ways of distributing information on enterprises' human resource development in a systematic manner, or making calculations on their intangible intellectual assets or the input costs and output of their investments in human resources and the working environment. The focus is on reporting, but there are also examples of Finnish enterprises and public bodies which publish profit and loss accounts which include detailed information on human resources. However, there are currently no serious attempts being made in Finland to include human capital aspects in company balance sheets.

Owing to the problems over definitions and to the lack of empirical research in this field, it is not possible to give precise figures on the extent of human resource accounting in Finland. It can be estimated, however, that there are today around 100 organisations in Finland which publish a separate human resource account, most of them in the public sector. This number of organisations is notably less than in Denmark or Sweden (*cf.* Frederiksen 1999; Johansson *et al.* 1999). The prospects for spreading the use of human resource accounting in Finland seem, on the whole, much more favourable in the public sector than among private enterprises.

As far as Finland is concerned, we can safely agree with Frederiksen and Westphalen (1998, 4) that there is no consensus either among researchers or among companies (or other organisations) about the exact content of human resource accounting. Characteristic of the Finnish discussion compared with the approaches adopted by the OECD or the EU is its broader perspective on human resources, which also covers the working environment and occupational safety and health. This is probably owing to the fact that Finland has a long tradition of research and a high level of expertise in these fields, and that the Finnish trade unions have been actively involved in setting the agenda for discussion.

6.1. The importance of human capital development

The success of individual enterprises, regions and nations is nowadays increasingly dependent on their capacity to create and apply new knowledge in an efficient way. We can justifiably speak of a transition to an era of knowledge-based economic growth. At the enterprise level, this means that in order to be successful in financial or operational terms enterprises must have the capacity to adopt new forms of work organisation (such as work teams) and empowering methods of management, to improve the skills of their employees in a systematic way, and to create favourable conditions for the continuous development of company operations. Empirical data gathered at workplace level in Denmark, Finland and Sweden in connection with the Nordic Nordflex Project, for instance, show that workplace productivity was positively associated with the extent of teamwork, job rotation and delegated responsibility, the presence of organised human capital development, and the use of a compensation system based on results or quality (*Flexibility matters*, 1999).

Working and human resource practices have not kept pace, however, with this new development. Even in the Nordic countries, which are often regarded by international yardsticks as forerunners in the implementation of new working patterns, at many workplaces the ways of utilising and enhancing employee skills still derive from Tayloristic thinking. According to the Finnish data in the Nordflex project, only in a minority of enterprises were training needs surveyed and training assessed systematically, or work organised in such a way that it enabled continuous learning and development of employee skills (Antila & Ylöstalo 1999). Another Finnish study utilizing data from Statistics Finland's *Quality of working life* survey and surveys at branch and company level in the metal industry also shows that human resources at many Finnish workplaces are deployed and developed in an inefficient way owing to poor design, organisation and management of work (Kevätsalo 1999).

This is not to say that there has been no real change in Finland in the use of human resources. For example, the rapid growth in productivity in Finnish industry during the 1990s was based more on improvements in the organisation of work and production and methods of management than on a high level of investment or the introduction of new process technologies as such (Maliranta, 1999). Moreover, the Government and the labour market organisations have launched several joint efforts with a view to reforming Finnish working life. In 1993, for instance, a tripartite national productivity programme was launched, followed three years later by the more extensive national workplace development programme with nearly 300 development projects at 500 Finnish workplaces. Both initiatives will continue until 2003 under the programme of the new Government which took office in April 1999. So, it is no exaggeration to argue that Finland has adopted a deliberate strategy of building better competitiveness through developing human resources.

6.2. Human capital reporting in Finland – the current position

A common slogan among company managers is: 'People are our firm's most important resource.' However, the way information on human capital is presented by enterprises in their official reports clearly contradicts this claim. A leading Finnish business review, *Talouselämä*, recently analysed the annual reports of more than 80 of the largest Finnish enterprises from the point of view of human capital development. The general conclusion was that very little room was devoted to it. There were, of course, positive exceptions like Nokia, ABB (Asea Brown Boveri) and Nokian Tyres. The problem, however, is that in the private sector there is no common standard for the content or form of providing information on human capital. It is impossible, in practice, to make valid comparisons on human capital development between different enterprises even when they do actually provide data on intangibles.

According to the Finnish Accounting Act (1997), the sole function of accounting is to give information on the current financial state of a firm and how it achieved its financial result. The aim of the act is to provide a 'true and fair view' of this. One would suppose this to mean all information which could be expected to have an effect on a firm's success in the future, including also its human capital. This, however, is not the case in practice (Ahonen, 1998, 24).

Eronen (1999) analysed 126 companies listed on the Helsinki Stock Exchange during 1983-97 to determine whether human resource information disclosure in their annual reports had any effect on their market-to-book ratios. According to her study, 60 % of the companies published written information on their personnel exceeding the minimum requirements of the accounting act. In addition, 38 % provided information on training and development, absences, labour turnover and pensions in the form of indicators, 20 % on costs in these four fields, and 24 % on efficiency (e.g. net sales or value added per employee). There were clear differences between industries. The extent of human resource information disclosure was positively associated with the annual net sales of the company.

Surprisingly, Eronen found a declining trend in the extent of human resource information disclosure by the companies studied. There was also a change in the focus of information: in many cases, quantitative data had given way in the 1990s to written descriptions of a more qualitative nature on issues such as training and other forms of personnel development, the level of initiative, innovation and working capacity. This declining trend does not, of course, mean that companies' interest in human capital monitoring is diminishing; it is rather a reflection of the fact that today even more of this information is collected only for internal use by the companies themselves.

According to Professor Guy Ahonen (oral information, 7 September 1999), only some 20 enterprises in Finland publish an official human resource account. In contrast, there are dozens of local authorities and government agencies in the public sector, which publish data on their human capital. Some municipalities have already produced human resource accounts for several years, with varying extent and content of information disclosure. The total number of municipalities which publish an official human resource account annually is around 50 (the total number of municipalities in Finland is more than 400). The Association of Finnish Local Authorities encourages municipalities and joint municipal boards to adopt systems of human resource accounting, particularly regarding the social welfare and health care sector. The association also monitors the spread of such systems and assesses experiences related to their introduction to the municipal sector.

In the state sector, there is probably more uniformity in this field than elsewhere. In 1995, the personnel department of the Ministry of Finance launched a pilot project in eight government agencies, which led to a recommendation for reporting on human resources in the state sector (Ministry of Finance, 1996). Today, some 30 of the 103 government agencies in Finland produce a separate human resource account; for instance, the Finnish Ministry of Labour, which also took part in the pilot project, publishes an annual 20-page report on the state and development of human resources in the entire labour administration. This report provides information on the number and structure of the personnel, the use of working time, labour costs, the demand for and supply of manpower, the motivation and working capacity of the personnel, investments in human resources and measures of efficiency. The aim of the Government is for human resource accounting to be in use in 44 % of government agencies by the year 2001.

The focus of interest in human capital reporting among public sector organisations in Finland is more on occupational safety and health and the working capacity of the personnel than on knowledge and learning. However, one important reason for the increased interest is the fact that in an environment of budget constraints public-sector organisations have to find new kinds of indicators to demonstrate their level of efficiency.

6.3. Governmental initiatives to promote reporting on human capital

The Finnish Government has actively sought to promote companies' interest in monitoring and reporting on human capital. The Ministry of Education and the Ministry of Labour have been active in this field from the point of view of lifelong learning, whereas the Ministry of Social Affairs and Health has been interested in reporting on human resources more from the point of view of occupational safety and health.

In 1997, a committee set up by the Ministry of Education (1997) proposed that the Government, labour market organisations and research institutes should launch a national project to promote reporting on human capital. The Ministry itself launched a further study on experiences with different forms of human resource measurement and accounting based on expert interviews and case studies in five Finnish enterprises and public bodies. It turned out that different enterprises and public bodies applied widely differing models and even used the same concepts in different ways. The general, and rather modest, conclusion was that different enterprises have different needs and models for assessing human capital must always be tailored to serving these different needs, using company vision and strategy as the starting point (Karjalainen, 1998).

The Ministry of Labour set up a working group in Autumn 1997 which proposed that a tool to monitor the use and development of human capital should be developed and disseminated to enterprises through the 15 regional employment and economic development centres and local employment offices (Ministry of Labour 1998). The proposal envisaged a modular tool flexible enough to suit the needs of enterprises of different kinds. Particular attention was to be paid to the SME sector, which, according to the proposal, was in urgent need of new means to help draft training plans, anticipate future training needs and develop into learning organisations.

The Ministry has been especially interested in research and development work on human resource accounting by the Finnish Insitute of Occupational Health and the Swedish School of Economics and Business Administration in Helsinki under the leadership of Professor Guy Ahonen. Ahonen has built a comprehensive experimental model for human resource accounting which contains a human resource profit and loss account, a balance sheet, and a formula for reporting. Ahonen's proposal divides reporting on human capital into three parts (Ahonen, 1998):

(a) first, the model includes information on the human capital of a firm in quantitative terms, such as the number of employees (permanent/temporary, full-time/part-time, blue-collar/white-collar, etc.) and categories of working time (productive working time, working time used for development and training, working time lost for a variety of reasons, etc.);

(b) the second element in the model consists of information on human capital in qualitative terms, such as a breakdown of the employees according to age, sex, level of skills, health and working capacity;

(c) the third element is work organisation, which is further split into two parts. Internal work organisation consists of information on labour turnover and mobility, teamwork, suggestions, management styles, social relations at work, reward systems, investments in ICTs and R&D, company culture, etc.. The external dimension includes the views of the customers and other relevant stakeholders of a company.

The Ministry of Social Affairs and Health has also been interested in human resource accounting. The Department for Occupational Safety and Health conducted a project on working environment economics from 1994 to 1996. Its aim was to develop occupational safety and health at workplaces by producing and distributing information and models for action concerning the financial cost of poor working conditions and the benefits of investments aimed improving the working environment. Among other things, the project provided methods for costing and accounting absenteeism, accidents at work, disability pensions, labour turnover and workplace atmosphere (Ministry of Social Affairs and Health, 1997). The Department has since been involved in marketing and further developing the models for use by workplaces.

6.4. Future prospects for reporting on human capital in Finland

The Finnish Government and the labour market organisations are nowadays unanimous on the need to promote monitoring and reporting on human capital at workplace level. In the new Government programme, the Government makes a commitment 'to promote introduction of human resource accounting on a voluntary basis', a commitment also included under pillar III (i.e. encouraging the adaptability of businesses and their employees) of Finland's new national action plan for employment (Ministry of Labour 1999). This means, in practice, that the Government encourages research, experimentation and development of new methods and information. For instance, there have been discussions about including human resource accounting as a new target area in the Finnish National Productivity Programme as well as in the new Government-initiated research and action programme to promote coping at work.

Trade unions share this positive view. However, they are more inclined than the Government to see the importance of better reporting on human resources in terms of its preventive role in improving the quality of working life, and especially in promoting employees' working capacity and combating burnout. This point of view is strongly emphasised by the Central Organisation of Finnish Trade Unions (SAK), the largest employee central labour market organisation in Finland with more than 1,100,000 members.

Employers' associations like the Confederation of Finnish Industry and Employers (TT) are also in favour of increased use of comprehensive reporting on human capital in enterprises, provided that this takes place on a voluntary basis without enforcing legislation. Employers take a positive attitude towards monitoring and reporting on human capital primarily as a means of helping to safeguard the availability of skilled labour.

We are unlikely to see any radical change among enterprises and public bodies towards better reporting on human capital, although many interesting development initiatives are currently under way in Finland. Enterprises which seek to stay at the cutting edge in productivity development, to reassure investors and to safeguard their manpower needs for the future must, in any case, develop new measuring and accounting methods for their human capital development, either with or without publicly supported initiatives.

The real challenge for public policy is to find the right incentives to get a sufficient critical mass of rank-and-file workplaces involved in better monitoring and reporting on their human capital. There are many 'objective' factors which will make human capital an issue of increased strategic importance for both enterprises and public bodies in the longer term. These include the growing knowledge-intensity of operations, the ageing of the workforce, the general declining trend of labour supply in Finland from the early 2000s and the problems with working stamina in an environment of rapid structural and technological change.

Growing interest in the 'balanced scorecard' among Finnish enterprises and public bodies is perhaps a good example of how a market-driven tool for strategic management can also provide a fresh look at human capital. Human resource accounting and the balanced scorecard share many features, including a critical view of traditional accounting as paying insufficient attention to issues of learning and knowledge. Despite certain clear differences in their focus and motive (Ahonen, 1998; Johansson *et al.*, 1999), we can justifiably argue that human resource accounting and the balanced scorecard serve the same purpose; they broaden companies' perspectives by making the links between the company's vision, strategy and human capital more explicit.

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7. Reporting on human capital – is it possible to report on human capital and if so, why and how?

Helge Kielland Løvdal

I have been asked to give my impressions in this report on human capital reporting as they developed during the Agora. It will be a subjective view and no effort to report on the totality of the conference.

The Agora gave an overview of the situation in Europe in a very convincing way. I will not go into the overview of the seminar, but I will address five different aspects of the topic as they became important to me during our work, and then give some views on necessary work ahead of us.

The perspective for me will be the question of national and industrial competitiveness. I clearly see the immense social and political importance of the concept 'employability'. I will, however, focus on the competitiveness issues, even if I see that in most of Europe unemployment and 'employability' are the main driving forces behind human capital reporting. In my opinion, however, the only real long-term defence against unemployment is for the social partners to focus on national competitiveness.

The conclusions in this report are my own and do not necessarily represent the official view of my own organisation.

7.1. Everybody wants more information

In a time of rapid change it is obvious that the need for information increases among individuals, organisations and public institutions. The challenge for governments is to choose which information is so important so that mandatory reporting of this information will have as a consequence better data for decision-making with as few negative consequences as possible.

The situation with human capital reporting is often compared by government representatives with the example of environmental reporting. In the environmental field there was originally a situation where there was a critical lack of strategic information. That led to less than optimal decisions on all levels. After the development of more comprehensive mandatory environmental reporting, and after the necessary control mechanisms were installed, the situation is radically changed. Decisions have improved and the inner and outer environment has been drastically changed for the better The business community has accepted the changes since the measures was for all and did not lead to 'an uneven playing field' for competing companies.

It is important, however, to observe the difference between human capital reporting and environmental reporting. At the company level there are no HC standards, definitions or common reporting systems on which to base a mandatory system. Not two companies that report on training expenses in their annual reports agree on which items are included in the budget figures or in the cost reporting. In addition, perhaps the major part the relevant reporting involves presentation of non-quantifiable phenomena. Furthermore a large part of the essential information is not available. The issue of reporting on human capital' is, in general, very different from earlier examples of company reporting.

7.2. Small businesses needs less reporting – not more

It is generally accepted that a nation's competitiveness is positively correlated with the interest in the population for starting new businesses. In Norway we have carried out a series of research exercises to identify the set of conditions necessary to increase the number of entrepreneurs. The Government shoved strong interest in increasing the number of small businesses especially during the period we had high unemployment. The one factor that is present in all the studies is the need to reduce bureaucracy and time-consuming reporting. And all the efforts to reduce the load on the small businesses seems to have had very limited results.

In this sector of the relationship between the business community and the government there is a paradox. The large number of entrepreneurs who start and try to develop their own business is an important training and development area for a nation's competitiveness. It is here a nation develops the human assets for future wealth and employment creation. Yet the government's way of collecting data from these companies for use at central levels, in order to identify and govern these processes, are felt by leaders of small businesses as the most negative aspect of creating a dynamic learning environment.

7.3. Business needs wider information on intangible assets

There is a lack of information at company level on the connection between investment in competence and productivity . Over the last five to eight years there has been a marked increase in the interest in company investment in intangibles by nearly all external and internal stakeholders.

Stakeholders outside the company - owners, financial institutions and society at large - are at the company level not satisfied, however, by human capital information alone. Human capital reporting has to be connected to a wider and more comprehensive account of intangibles in order to close the present information gap about company resources. That does not imply that Cedefop should not concern itself with HC reporting. But there is a definite need to keep close links to the total field of reporting intangibles.

Isolated human capital reporting could lead to fragmentation of information that is increasingly needed for problem solving both in government and in business.

7.4. Accounting is out

Human resource accounting has been around for 30-40 years and has been rejected throughout this time. It is a set of concepts that cannot do the job of reporting that we have discussed at the Agora but still we discuss HC reporting year after year hampered by this obsolete thinking.

It is understandable that those of us with a political interest in mandatory reporting are fascinated with the thought of an accountancy system that promises to have as a product the information that they need. The problem is that the system has never worked and cannot deliver what it promises. The problems that we talked about at the Agora cannot be reported in an accountancy system.

It is my hope that this Agora can contribute further to the burial of this discussion which is driven mainly by accountants who are looking for new business opportunities. That is an acceptable goal but, in my opinion, this mixture of indicator and accounting system discussions has become quite negative.

7.5. Competence and competitiveness

In macroeconomics the correlations between investments in education and national competitiveness are accepted as valid. It is perceived as fact even if it is difficult to see the direct consequences for competitiveness of, for example, increased educational budgets over a period of some years.

At the company level the direct correlation between investments in training and earnings are much more unclear. There are probably as many companies that have invested too much in training in a period as there are companies that have invested too little when one judges the effects on earnings.

This means, among other things, that on the company level the relationship between training and competitiveness is more complex than can be seen in talking about the positive effects of increased investment in training. Reporting on a company's human capital will not manage to catch the essential relationship between training and such factors as leadership and learning environment. The best documented relationship between competence and earnings I have seen comes from in the auto industry. There are very few production systems existing under harder global competitive pressures and that leads to higher awareness of the effects of investments in competence than in most branches of industry. What they have found is that the most successful factories are the ones able to integrate top theoretical competence with the learning from problem-solving in the production process. And that this runs as a continuous process.

If public stakeholders want to know about the relationship between investments in human capital and competitiveness in the process of wealth creation in various sectors, their enquiry has to be based on indicators that show real relationships, as in the example from the auto industry.

7.6. The tasks ahead

Being involved in the Agora for two days gave an opportunity to reflect on what are the necessary tasks that now lie ahead in order that the work to further intangible reporting shall continue. I will comment briefly on a couple of the areas that I consider critical in order to develop this field.

7.6.1. Indicator development

It seems to me that the current situation of intangible reporting is a period where the testing of various indicators seems to be important and useful. To test, for example, a set of indicators concerning training/education in various national environments would represent a useful intervention in the field. Any future system for reporting on intangibles has to be based on indicators that have been tested for validity. This issue is important for Cedefop because there is a lack of international educational institutions involved. The field is left too much to chartered accountants. There is also, especially in the field of learning, a lack of creativity. How do we indicate and report on organisational learning? How do we measure improvements in the learning environment?

7.6.2. What needs to be reported

The discussion around HC reporting can easily become abstract and theoretical. That is necessary at certain stages of development of new knowledge.

We are now entering a phase where the emphasis probably will be on voluntary disclosure of HC information. What I see lacking is an effort to describe the sort of information needed by the various stakeholders. What do they have today? Why is that not sufficient? What could be accomplished with better information in various specific areas?

An effort to present a more specific checklist of information needs of various stakeholders could be a valuable support to the work currently taking place in various countries.

8. The learning enterprise and corporate governance

Isabelle Guerrero

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This chapter examines the implications of considering knowledge accumulated in enterprises through learning, either by means of vocational training or by experimentation, as a strategic resource and a corporate asset. The concept of value creation conveyed by investment in knowledge assets leads to a reconsideration of the financial theory on corporate governance, i.e. how enterprises should be controlled and by whom, mainly based on property rights and shareholder's residual claim, as shown by the agency theory. The characteristics of information age corporations modify the relevance of this theory and underline the need for an efficient management of knowledge. Moving from the notion of property right on physical assets (stock) to the notion of interest held in an enterprise (stake) allows consideration of stakeholders, namely employees, as investors in their enterprise through the firm-specific knowledge they own. Based on literature related to knowledge theory and corporate governance works, this paper studies the conceptual reasons why employees should play an active role in corporate governance by sharing residual return and by controlling investment resources allocation.

Introduction

Our societies are now beginning a 10 to 50 year transition to a knowledge-based economy (von Krogh, Roos and Kleine, 1998) and enterprises are discovering terms such as knowledge, intellectual capital and knowledge management, in other words 'brain power' (Stewart, 1991). The more critical implication of these emerging concepts is that the already existing patterns, and theoretical frameworks, especially in the corporate world, become obsolete and are no longer able to describe accurately what is going on. Actions then are taken in a reactive way and lack the consciousness that would be needed to be the best possible for individuals and society.

Relationships between knowledge and firm management are difficult to understand because they relate to entirely different epistemological fields. To understand knowledge creation, it is necessary to view the enterprise as a living organism able to build its own representation of the world and self-produce its proper knowledge. However, corporate management and governance are based on a contractual view of the firm where financial transactions play the central role. The most challenging issue is probably to put together an individual and holistic approach.

The holistic and cumulative nature of corporate knowledge implies that notions like investment, capital, ownership, power and legitimacy are not longer relevant. Is knowledge a potential instead of a capital, stressing that this kind of capital is not an asset with a fixed value but an ever-changing resource with its importance and value depending on constant development and improvement? Is human capital an asset or a liability? Are human talents owned or are they on loan to the organisation? Mary O'Sullivan (1998) advocates the development of a theoretical framework that links corporate governance with economics of innovation, which is comparable to the learning process.

This chapter begins with reference to research work carried out in the field of cognitive science to understand the characteristics of knowledge as a result of a learning process carried out by the enterprise. Having understood the nature of knowledge, we can proceed to discuss methods and tools of knowledge management. Corporations need to discard their ingrained notions of control, structure and goal rationality to adapt to the emerging 'learning enterprise' so as to understand how to determine and leverage the value of knowledge. Consideration of the issues of knowledge as the main resource, or asset, to the enterprise are followed by the theories of property rights and contracts in corporate finance, to point out the critical features of corporate governance. Finally there is a demonstration of how it can be possible to integrate some characteristics of the learning enterprise in corporate governance patterns through asset recognition and capital structure.

8.1. Knowledge as the result of a learning process

The increasing belief that knowledge management is one of the most challenging areas of enquiry in the field of corporate management has favoured new concepts, issues and ideas in the understanding, management and measurement of knowledge in organisations. The core paradigm is that knowledge, like most intangible assets of the firm, is the result of an organisational process and its understanding depends on the epistemological approach of the firm. While the enterprise is seen as a collection of production factors in economics, cognitive science combines insights from neuroscience, biology, philosophy, artificial intelligence and psychology to open new ways to define the specific nature of knowledge and its links with learning. Three epistemological approaches to the firm are particularly well adapted to integrate the learning process that leads to knowledge accumulation.

In the mid-1950s, the cognitivist approach ([40]) developed a particular way of knowing. Organisations are considered as open systems that generate knowledge by formulating increasingly accurate 'representations' of their pre-defined worlds. Hence, data accumulation and dissemination are the major knowledge development activities: the more data firms can gather, the closer the representation will be to reality. In this context, learning consists of

([40]) Herbert Simon, Noam Chomsky, Marvin Minsky, John McCarthy and others.

taking information from the environment and relating it to the previous acquired frame of reference-firm (Simon, 1993).

In the connectionistic approach, which derives from cognitivism, the rules of process information are not universal, they vary locally. Enterprises are seen as self-organised networks composed of relationships and driven by communication (Zander and Kogut, 1995). Learning aims at establishing new connections and thereby extending the network-firm.

The third, and probably most promising, approach is called autopoiesis. It is a concept developed in biology 30 years ago and applied to organisational knowledge by Maturana and Varela (1992) as a construct which allows the distinction between living and non-living systems since autopoiesis is a Greek word for 'self-production'. An autopoietic system, therefore, is characterised as one that contains within its own boundaries the mechanisms and processes that enable it to produce and reproduce itself. Von Krogh and Roos (1995) reject the notion that the world is a pre-given and defend the idea that knowledge is embodied and structurally coupled with the world, i.e that both coevolve. The enterprise is seen as a living organism rather than a machine for processing information (Nonaka and Takeuchi, 1995). Learning is the process of interpreting incoming data, which become knowledge if they are true and believed as such by employees.

While the very nature of learning depends on the firm's paradigms, it can be caused either by intentional behaviour, through vocational training or experimentation, in order to cope with hyper-competitive environments (D'Aveni, 1994; Hamel and Prahalad, 1994), or by chance, when it depends on anything that is unexpected and may bring about chaos and disorder which in turn might be the stimulus for a new order (Nonaka, 1988).

8.2. Knowledge as a strategic resource

Research in strategic management has pointed out that knowledge, in one form or another, is of central importance to the development of sustainable advantage for firms. To know how it can potentially influence the field, it is necessary to integrate the economic and sociological perspectives (Stehr, 1994) and to move from an exogenous variable in economic analysis to an endogenous one, in order to shed more light on the potential to rethink the role of knowledge. Knowledge is important for a specific set of reasons.

8.2.1. Sustainable, heterogeneous resource distribution

The resource-based view (Selznik, 1957; Penrose, 1959; Mahoney and Pandian, 1992) in strategic management explains competitive advantage as a result not of product-market positions but of differences in equipment and combinations of critical organisational resources (Amit and Schoemaker, 1993). Characteristics of such resources are that they are hard to substitute, imitate or transfer (Barney, 1991). The increased relevance of intangible resources, and knowledge in particular, for sustainable differentiation has led to an explosion of publications on knowledge. Qualitative performance measurement tools are a good example of a new branch in the field of strategic management. Kaplan and Norton (1993) introduced with their balanced scorecard, an instrument that combines performance measurements from different perspectives. The Swedish insurance company Skandia was inspired by this idea and developed its own instrument to evaluate intellectual and financial assets: the 'business navigator' (Brooking, 1996).

Besides the measurement of knowledge, other questions arise from the observation that knowledge implies sustainable and heterogeneous resource distribution. How can investments in knowledge be passed on to stakeholders? How can they be informed about the value of hidden assets? What is the future role of traditional resources? Who owns intangible resources? Where is the balance between knowledge exploitation and development?

8.2.2. Changes in the nature of resource investment decisions

The low predictability of the impact that knowledge can have on the performance of an economy leads to the question of how these resources connected with knowledge might be understood. Von Hayek (1975) pleads for distinct scientific methods to approach complex phenomena and argues that, in most cases, it is enough to develop 'imperfect true knowledge' about a phenomenon that is characterised by complexity, i.e. multiple interconnections of individual elements.

As a consequence, strategic management needs new tools to see emergent patterns in knowledge endowments. A firm has to be able to identify current knowledge inside and outside the enterprise to decide upon knowledge development projects. Moreover, formation of knowledge is a lengthy process and investments in the field are difficult to make because knowledge is only partly transferable or tradable.

8.2.3. Changes in the nature of work and property

The shift of our societies towards the post-industrial society suggests that a crisis in existing concepts (Jameson, 1992) triggers the creation of something entirely new. The partial replacement of traditional resources by knowledge gives rise to new work forms. Property is distributed and is increasingly intangible and invisible because the critical resources reside in the individuals themselves. Intellectual property is controlled by corporate actors and cannot be sold, given away or inherited (Stehr, 1994).

This embeddedness of individual knowledge in the corporate system explains the importance of continuous employment. Both employee and employer benefit from a close and sustainable work relationship because it enhances firm-specific knowledge that determines competitive advantage. However, this firm-specific knowledge forces the employee into dependence on the employer since he represents the most valuable asset. The risk borne by the employee is then a loss in his employability due to the non-transferability of firm-specific knowledge and that risk should be rewarded like capital investments made by shareholders (Blair, 1995).

The above-mentioned characteristics of knowledge stress the need for efficient management, since the invisible structure reflects the identity of the organisation and its members and determines organisational rules, procedures and actions on the visible level. Financial flows in the enterprise reflect the distribution of power and legitimacy and represent a privileged tool to modify the control and accountability of managers responsible for the strategic agenda of the firm. Thus, the starting point should be the identification of the link between knowledge and finance as a means of rethinking financial theory.

8.3. Corporate governance

The work carried out by corporate governance researchers tries to explain the relationship between ownership and control. The main issues deal with enhancement of corporate performance via the supervision of management, ensuring accountability of managers to shareholders and other stakeholders. The problem is to understand how the structure and process of governance motivate actions that increase the wealth of the business. Corporate governance covers the motivation of managers towards improving the business and the control of their behaviour.

Based on the theory of property rights and the theory of incomplete contracts, Hart (1995) explains how allocation of asset ownership affects *ex-ante* incentives to investment non-contractible and relationship-specific owned by other parties, i.e. human assets. He shows that reallocation of ownership changes the *ex-ante* incentives to each party and the optimal allocation maximises the value created by these investments. Thus, the theory of incomplete contracts predicts which individuals should own which assets. The investments that drive the results are in human capital but they have no effect on productivity if the investing individual is denied access to the assets.

Corporate governance works follow two main directions: shareholder theory in a narrow sense and stakeholder theory in a broader sense.

8.3.1. The shareholder theory: return as an incentive for risk bearing

The most common theoretical framework for corporate governance dwells upon the theory of property rights (Alchian and Demsetz, 1972) and the agency theory (Jensen and Meckling, 1976; Fama and Jensen, 1983). The relationship between shareholders and managers plays a central role together with the relationship with financial creditors, which is analysed deeply through the theory of capital structure (Harris and Raviv, 1991).

Shareholders, or principals in the agency theory, are those who bear the residual risk in case of enterprise's bankruptcy and are entitled to receive the residual returns for the equity they own.

They have no assurance that managers, agents in the agency theory, will act in their interests. Managers need then to be monitored and controlled, which represent agency costs for shareholders. The purpose of corporate governance is to reduce those agency costs and make sure that shareholders' interests are respected.

8.3.2. The stakeholder theory: from an economic to a political position

Based on the human capital theory (Becker, 1975), Blair (1995) develops the idea that: 'employees should be considered as residual claimants because they have a stake that is at risk in the company'. She focuses on two key assumptions about the finance view:

(a) H 1: the stock market is efficient. She demonstrates that it is actually myopic because legal and accounting rules constrain the ability of the market to obtain information on strategic issues such as R&D, new products, human capital investments.

(b) H 2: firms should solely maximise shareholders' value. She proposes consideration of the stakeholders' view instead. If equity holders are entitled to residual return for the residual risk they bear, stakeholders are asked to make firm-specific investments (knowledge) for which they cannot be fully compensated through perfect contingent claim contracts. They bear some of the residual risks and are justified in receiving some of the residual return and exercising some control.

Becker (1975) gives the theoretical explanation in his human capital theory: firm-specific skills involve training costs which can be divided into costs of general training borne by employees and costs of specific training borne by employers. Specific training involves retained investment for both employer and employee due to contractual incompleteness. It is possible for the employee to quit and the employer lose the reward for his specific training expenditure, or to be fired in which case the employee loses the return for his investment in general training. Becker concludes that specific training costs should be shared between employer and employee because when employees pay a share of the cost of specific training, wage effects are similar to general training. The concept of resource allocation can be analysed as an individual process that implies clarification of the nature of the claims to financial and human assets based on the investments that individual shareholders and employees make.

The stakeholder theory builds on the idea that the enterprise should be run for the benefit of all those who may be deemed to have a stake in it: investors, employees, customers, suppliers and the relevant community. Arguments against state that managers should hold the balance between these groups and take note of their rights but that stakeholders should not receive any specific corporate governance rights because this runs against modern capitalism and inspires nationalisation. In contrast, arguments in favour of stakeholders state that companies cannot survive unless they deliver value to their chosen stakeholders. Shareholders have legal rights of their own but insufficient understanding of the capitalist market system. The purpose of a firm is an important responsibility and it should be shared by all the stakeholders (Campbell, 1997) if it wants to survive.

Some authors consider that the stakeholder approach is based on ethical grounds, the idea is that 'stakeholding' is all about treating people properly since property rights should not be considered to be without any obligation. Harrington (1996) notices that despite the persistence of agency theories, a stakeholder theory of the firm best approximates the true descriptive and normative behaviour of business organisations. If the role of government is to maximise the full range of private-public relationships for any given series of inputs, the role of corporations is to maximise the balance of diverse stakeholders' interests. Then a stakeholders' interests paradigm becomes the natural foundation for the ethical analysis of policies which regulate business

8.4. Corporate investment and capital structure

Financial theory considers the enterprise as a bundle of non-human assets, or investments, under common ownership, which are financed either by equity or by debt. The proportion of each financial resource determines the capital structure that permits analysis of corporate governance characteristics. Capital structure theorists (see Harris and Raviv, 1991 for a state of the art), have studied the role of capital structure, i.e. short and long term debt financing versus equity. Debt financing appears to be an efficient way of allocating control in a state-contingent fashion between providers of financing and wealth-constrained entrepreneurs who derive private benefit from control. As a matter of fact, in large enterprises with dispersed ownership the optimality of the one share/one vote rule leaves great opportunities to managers' enjoyment of the private benefits of control.

If knowledge is to be considered as an asset, who owns it? If employees are the owners, the capital structure should reflect it and financial rights (equity if the knowledge asset belongs to the enterprise, and debt if it is just on loan) should be recognised as property rights and debt contracting. Consequently, considering training expenditure as an asset and a liability from the accounting point of view (Guerrero, 1998) is an example of pragmatic evolutionary measures that could be taken as a starting point.

8.5. Conclusion

As a firm-specific asset, characterised by a holistic learning process, proper management of knowledge implies that a number of challenging questions, in respect to corporate management and governance, would be solved. How should knowledge be measured in financial statements (assets or expenses)? Who are the owners of firm-specific knowledge? How should it be financed and by whom? It seems that there exist two kinds of solution. Either the existing paradigms and patterns based on the industrial economy are no longer valid, and they should be entirely changed, or they have to be properly modified, even if just partially, to cope with the problem,. The choice is then between revolution and evolution. The second alternative appears to be more pragmatic and more palatable.

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9. International standards for reporting on human capital

Riel Miller

OECD International Futures Programme ([41]), (June 1999)

This chapter addresses the question 'Is it possible and is it desirable to establish international standards for reporting on human capital?'. ([42]) At this stage in the proceedings fairly clear answers have been provided to both parts of this question. So far we have seen that companies are already introducing human capital reporting with international salience. We have also heard that international standards in this field would be desirable as a way of improving the quality of information and decision-making.

The aim is to summarise developments in two areas that have a bearing on the emergence of international standards. First, progress is being made in elaborating a conceptual framework for thinking about ways of making human capital (be it in the firm or elsewhere) more transparent. This, in turn, helps with the task of assessing progress towards the development of standards. Second, there is work under way at the OECD that is pertinent to the eventual creation of international standards for firm level reporting of human capital.

9.1. Emergence of a conceptual framework

Underlying any system of measurement and reporting are the common definitions and standards that make assessment and communication possible. In the field of human capital there have always been operational methods for determining and explaining what someone is capable of doing. Apprenticeship grades, educational certificates and social designations (e.g. medicine man), all provide insights into what someone knows how to do. Figure 22 provides a summary of the various parts of a broad conceptual framework for looking at the sources of learning, the decisions that influence how we use and accumulate knowledge, and the various ways in which human capital is validated or made transparent. ([43])

For the purposes of the discussion here the main questions relate to the central circle that contains a range of mechanisms, institutions and practices that serve to validate and make

([41]) The opinions expressed in this paper are the personal views of the author. Internet address for the OECD International Futures Programme www.oecd.org/sge/au . E-mail: riel.«@oecd.org

([42]) The term human capital is restricted in this discussion to the knowledge component or what people know how to do. The overall status of human capital depends on a range of other capacity-related factors, like health, economic and social conditions.

([43]) See: Miller, Riel, *Measuring What People Know: Human Capital Accounting for the Knowledge Economy*, OECD, 1996 and Riel, Miller, Agora 5 - *Why Measure Human Capital*. Available from Internet: http://www2.trainingvillage.gr/download/agora/themes/agora05/A5_Miller_EN.pdf more transparent what people know. Although the world is far from converging on any universally understood standards for validating or revealing what people know how to do, this conceptual framework helps to highlight a number of areas where convergence is already underway. For instance, in certain parts of the labour market there are job titles and certification, such as for a C++ programmer, that are understood world-wide. However, most of the innovations and changes occurring in the area of human capital validation are being pioneered below even the national level. Individuals, firms, local communities and regions are all seeking ways to enhance the recognition and transparency of human capital.

What simultaneously complicates and drives the efforts to increase transparency are the important changes taking place in most economies and social systems. These changes are at once rendering old methods for validating what people know inadequate and shaking up the older, mostly formal signalling systems like school diplomas and industrial era apprenticeship and training programs. Overall, pressure to improve the quality of information about human capital is growing. The knowledge economy puts a premium on people's capacity to learn, take initiative, manage responsibility and innovate. This need for continuous and less-predictable learning also tends to break the industrial era's almost exclusive interest in formal certification based on attendance at a particular educational institution. Gradually, the focus is shifting to outcome-based measures that are agnostic regarding where and how people acquire their skills. In this context the breadth and sophistication of the signals used to make decisions about both incremental investments in learning (flow) and how best to use what people already know how to do (stock), become even more important.

Efforts to find better methods, more suited to the diverse ways in which people actually learn and the many different uses to which they put their knowledge, do seem to be gathering momentum across a wide range of countries and circumstances. Be it in economies in transition or those on the cutting edge, it is crucial to make efficient use of existing knowledge and of the limited resources available for learning. Firms, as discussed in the next point, are particularly aware of this challenge as they attempt to embrace more effective knowledge management for the sake of customers, employees and investors.

9.2. Current firm-level work at the OECD

Present efforts at the OECD in the field of reporting on human capital and other intangibles are mostly focussed on the indirect measures that arise in the context of the firm as a whole. This concentration on firm-level reporting for external sources reflects a number of pragmatic issues. In particular it is important to recognise that shifts in methods for accounting and reporting human capital reflect a broader transformation taking place in the way firms sustain profits and gain competitive advantage. Here the changeis away from the methods of mass-production towards new processes that attempt to inspire the innovation, initiative and responsibility required for continuous customisation of output to the unique demands of individual consumers. The crux of production is no longer physical labour that follows as quickly as possible the instructions given by a designer or engineer. Instead there is a much closer relationship between conception and execution as workers and consumers add their knowledge directly to the final output.

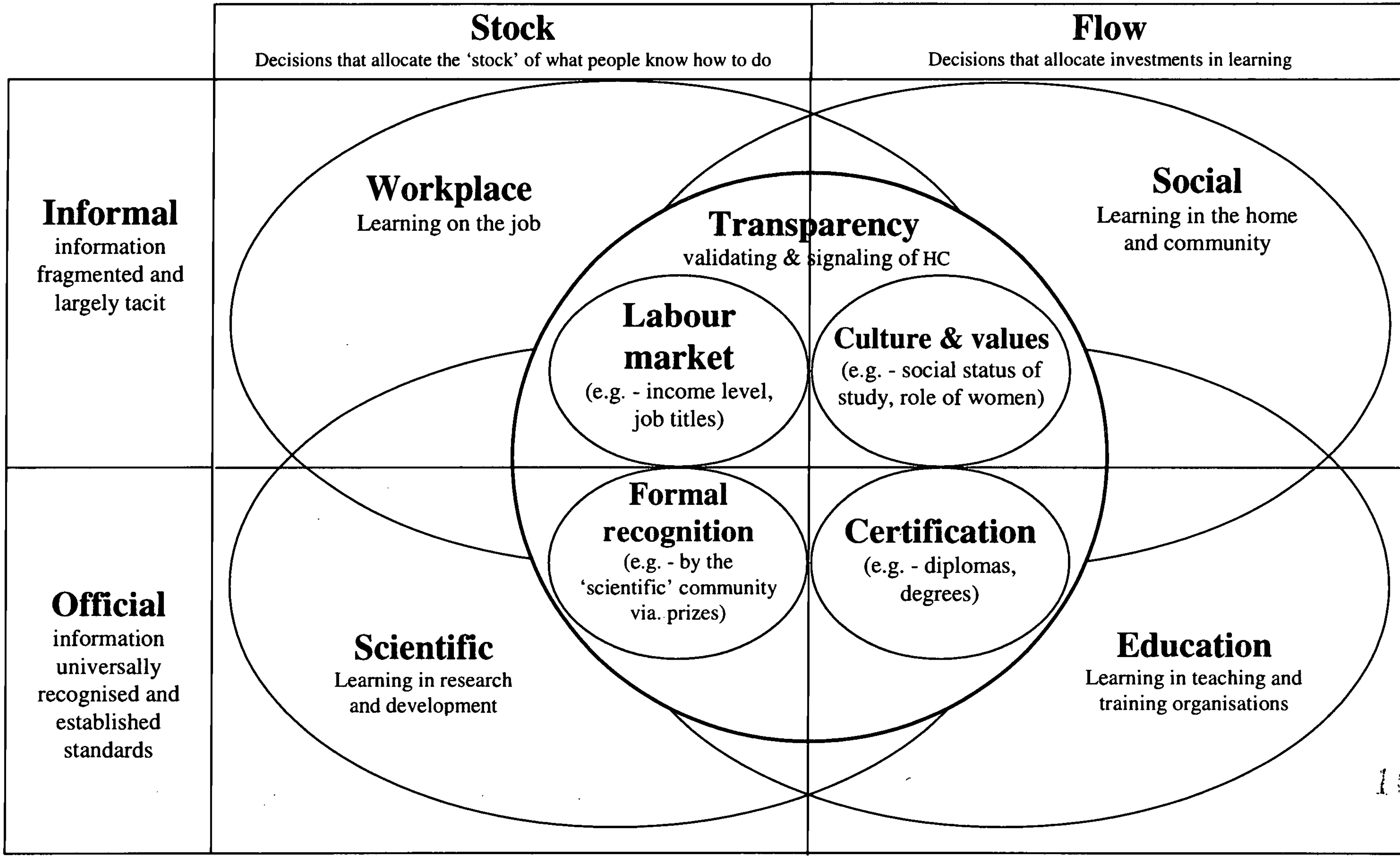
As a result, what people know, the human capital in all parts of the enterprise, becomes essential for staying competitive and maintaining profit margins. This means that efforts to increase the transparency of the stock and flow of human capital within the firm, through reporting and other techniques, has become a fundamental part of organising production. Without such transparency it is very hard to manage effectively or offer appropriate incentives for either the efficient use or development of human capital. No wonder that many firms are engaged in the difficult task of finding ways of significantly improving the quality of human capital information. However, each enterprise and sector has different attributes. Consequently, one-size-fits-all approaches to achieving human capital transparency within the firm will not work.

In contrast, external to the firm, where there is a diverse public and an interest in being able to make comparisons across different companies, it would be very useful to establish certain minimum standards for reporting human capital assets. In the long-term, if the methods (central shaded circle of Figure 22) for assessing the output capacities or accumulated competences of individuals become more efficient and widespread, it may be feasible to consider ways of bringing measurement of human capital more directly into financial accounting frameworks. For now it seems impractical and probably even counterproductive to attempt to include quantitative, monetary assessments of the value of human capital directly in the external financial accounting and reporting of a company. Instead, at this stage in the evolution of the knowledge economy, focussing on disclosure standards for indirect measures appears to be the most constructive strategy for improving the external transparency of human capital assets.

Such standards would help to reduce the costs associated both with producing and interpreting these reports. Examples of the kinds of quantitative items that might be usefully disclosed are staff turnover levels by skill group or ratios of sales to training expenditure. On a more qualitative basis it could be useful to find more standardised ways of presenting the methods used within a firm to encourage both innovation and the development of human capital. The most effective way of finding out which items are likely to be both useful and practical to include in external human capital reports is probably to survey best-practices. This is one of the aims of current work at the OECD.

The OECD's interest is in assessing the many recent developments and experiments in the field in order to find indicators that are reliable, trustworthy, consistent and inexpensive. These attributes of a robust reporting of human capital could help to establish guidelines for standards and quality assurance in this new area. Eventually, it might be possible to extend reporting to encompass the full range of intangibles that underpin business performance in the knowledge economy. For managers, investors, workers and clients, this kind of transparency would help to ensure efficient allocation of their time, effort and money.

Figure 22: Conceptual Framework - Learning and the transparency of what people know how to do



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10. Quality management for companies: developing skills through training with ISO standard 10015

Frédéric Séchaud

10.1. Introduction

In 1993 the technical support sub-committee, which was responsible for producing the ISO 10000 series within the International Standardisation Organisation's (ISO) technical committee on management and quality assurance, entrusted a working party with the task of preparing a methodological guide on training. Since then, the future ISO 10015 standard on 'quality management - guidelines on training' has triggered broad-ranging discussions and important contributions from many countries. It has been voted and commented on since 1997, leading up to its planned publication in 2000.

The advent of this document in the field of quality can be explained by the convergence of two factors: on the one hand, the requirements of ISO 9000 on training offered users adequate guidance (Brulé, Séchaud, 1997); on the other hand, the increased recognition of the crucial importance of men and women for economic competitiveness made it necessary to make explicit one of the essential ways of exploiting their capabilities: training.

10.2. The ISO 9000 requirements on training

Why did the ISO decide to take an interest in training? Since their emergence in the early eighties, the ISO 9000 standards have looked carefully at staff training and education: numerous references stress how essential they are within quality systems. In the quality assurance standards (1994: ISO 9001, ISO 9002, ISO 9003), an entire article (4.18) is devoted to training:

'The supplier must create and keep up to date written procedures which make it possible to identify training needs and to provide training for all those responsible for any activity affecting quality. Those entrusted with specific tasks must be qualified on the basis of appropriate basic training, additional training and/or appropriate experience, depending on need. Training records must be kept up to date'.

There are two explicit requirements: the first involves defining and implementing procedures to identify, and respond to, training needs; the second consists of being able to prove that the requisite training has been given, in order to respect the traceability requirement.

An initial comment should be made. While procedures and traceability are essential in generating trust in the organisation, the quality of training does not depend on these conditions alone. In fact, it depends first and foremost on how well the organisation requiring the training manages certain processes.

Moreover, apart from in ISO standards 9001/2/3, recommendations on quality system management are also presented in ISO standards 9004-1/2/3 (1994). What emerges from reading through them is the heterogeneous nature of training aims, depending on what is required for the given task or situation: adapting to a new job or activity, carrying out specific tasks, raising awareness and motivating in terms of the company's approach to quality, training the training personnel, etc..

However, none of these texts gives any clear indication as to the methods that should be applied in order to meet these recommendations. It is doubtless essential to have the appropriate tools and methods allowing assessment of training results *vis-a-vis* training aims in order to check whether training covers the needs of customer organisations in terms of expected skills. Since 1990, AFNOR and later ISO, aware of this necessity and of the lack of support documents, have been striving to develop standards aimed at improving the quality of training.

10.3. Managerial origins and international argumentation

Having established the technical basis, we can now try to locate the management concepts and practices which may lie behind this approach. One founder of quality, Edwards Deming, perfectly summed up the principle according to which the individual can be seen as the most important element of the system to be optimised (1993). In his view, management should not equate its workforce to a product, or consider it a burden but rather place it on the positive side of the balance as the organisation's most valued asset. One thoroughly operational way of applying this principle would be to recognise that skill is very different from other performance factors such as individual motivation, clearly established objectives and financial and technical resources. According to Deming, training becomes a lever for adapting to those changes which, within production and its organisation, demand new skills. Training is also the best way of spreading a systemic approach to on-going improvement, problem-solving and to limiting variations ([44]) through the 'plan-do-check-act' cycle.

Practitioners in industrial enterprise have also developed the idea that knowledge of processes and transfer of methodology within the organisation could create a specific competitive advantage. For example, according to Dingus and Justice (1993), to establish the conditions for competitiveness and reduce organisational friction, managerial activity should seek to

([44]) Given the variations which affect the capacity of production systems, Deming drew a distinction between common causes (requiring a change of system), and special causes (requiring corrective action).

understand 'how we did it' in order to transform 'it' into working routines. Possibly in implicit recognition of the dual social and strategic dimension of information as defined by Crozier (1977), these authors claim that processes can only be improved through cooperation between individuals and by individuals and processes working in a complementary fashion.

The importance of teamwork in solving systemic and training problems was also revealed during in-depth research into the effects of innovatory practices in human resource management on productivity in the North-American steel industry (Ichiniowski, Shaw, Prennushi, 1994). These researchers empirically confirmed the hypothesis that a combination of various HRM practices improves productivity more than the total effect of a string of separate practices. As well as cooperation and training, the authors also stressed that practices of increased communication with workers, motivating forms of payment and relatively flexible task distribution also have a positive impact on the performance of both organisations and individuals. Undoubtedly, recognition of the composite nature of HRM practices does not make any easier the task of picking out components of intangible investment to calculate their viability.

These three references speak volumes about the context within which the project for an international standard on training in quality was decided upon. They may also illustrate some of the reasons which led to three quarters of the votes from the member countries of the technical committee favouring a text with muscle, expressing the crucial importance of skills and therefore training as a factor of company efficiency. The text would be given an ISO guide standard reference (not usable for certification by a third party, as with all the guide standards in the ISO 10000 series), and would not merely become a 'technical report' which would have much more limited circulation. The main arguments put forward by the working group responsible for the document, and approved by the Technical Committee responsible for reshaping the ISO 9000 standards by 2003, are therefore clear:

(a) a growing number of organisations design and conduct training and on-going education within a strategic approach, as a potential source of competitive advantage. However, there are not enough texts to guide organisations in this field, especially small and medium sized companies;

(b) given developments in the world market, where training is playing an increasing role, a technical report would not have the same impact as a guide standard;

(c) within the revision of the ISO 9000 standards, it has been decided that the number of documents shall be limited to three basic standards (ISO 9001 on requirements related to the quality management system, ISO 9004 as a guide for improving performance, and ISO 10011 on auditing), and that the current guide standards in the 10000 series shall be incorporated into these basic standards.

The 'standardisers'' reasoning is, therefore, based on the fact that training, a complex and specific field, deserves, and in fact requires, a full text in order to assist those organisations which really need it. Let us now examine which approach was favoured as the one likely to generate most interest.

10.4. A systemic view of training as a process

The scope of application of the future ISO 10015 covers design, implementation, and the improvement of the training systems on which the quality of the products supplied depends. International consensus was reached on drawing up a generic assistance guide for implementing training projects, via the analysis and description of the elements of the process. These are to be tackled in four main stages:

(a) identifying and analysing training needs;

(b) designing and planning training;

(c) providing training;

(d) assessing the results of training.

This type of process is linked directly with the company's quality system. As such it can only be successful if it is guided by management. It is in their interests to reduce any deficit in human resource capabilities and to channel investment in training.

Each stage is described and its inputs and outputs specified. In order to meet the traceability requirement and to make it possible to check the quality and implementation of corrective action, the description of each stage states what type of information is to be recorded at the outcome. Some of these records (training register, checking points for the processes and their results, constraints, teaching means and criteria for their selection) may be combined in order to pave the way for the preparation of the organisation's training plan.

Finally, a cyclical model is used to describe the system and its process, creating the prospect of continuous improvement.

The current choice to provide the future ISO 10015 with a relatively uncomplicated structure and content was largely determined by the fact that the guide was to be adapted to the constraints of small organisations which make up the lion's share of economic units throughout the world. This was linked to a further essential aspect, i.e. the degree to which training practices and procedures were formalised; this varied widely from one country to another, depending on the corresponding legal-institutional framework. Because of the variety of practices, the training processes needed to be represented in systemic fashion in order to arrive at a universally applicable facility. For the sociologist, this idea of 'universal use' immediately raises the issue of needing to understand local development peculiarities and the way in which international standards can coordinate management operations (labour, products, processes, personnel) using procedures deemed to be efficient at local level. The proposed conclusion is intended to trigger thinking about the potential for universal use of the future ISO 10015 standard.

10.5. An open and provisional conclusion on the standardisation and globalisation of quality tools

A set of research studies into the management tools applied in various contexts (Dubar *et al.*, 1998), shows that observation of universal use allows the diversity of local and cultural adaptations of the same tool to be recognised. These studies show that there are two possible contexts for the development of management tools, some of which are favourable and while others are unfavourable.

An unfavourable context is one that emphasises a hierarchical and monopolistic managerial culture based on decisions taken in a 'top-down', one-way direction, without trying to achieve grass-roots consolidation. In this type of context, employees tend to be reticent towards any new management policy that is seen as a managerial instrument, rather than as a restructuring tool aimed at dealing with problems encountered at work. Often, these policies favour the career strategies of those who propose them without recognising others' existing skills. Such tools generally tend to overturn previous decisions, thus causing obstacles within the organisation.

A favourable context is one with a certain degree of managerial openness, which contributes to organisational learning and encourages the best possible use of informal competences. This tool allows a transition from informal organisation, where skills are invisible and not validated by the company, to formal organisation, where capabilities are not only validated by the company but recognised as being essential. The approach is different: instead of imposing a process, people are invited to participate in it. The provisions for adopting the approach are recognised, so that careers, skills and practices can be put to the best possible use.

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11. Human capital - some comments on the possibility and desirability of establishing an international reporting standard - the case of Italy

Stefano Zambon

11.1. Introduction

The issue of the representation of human resources in company official reports is today part of a wider debate on the effectiveness and relevance of accounting and reporting systems. In recent years one of the main features of accounting and management studies has been the widespread search for appropriate measures to capture the value of the firm and its new resources. There is, in fact, significant agreement in the scholarly and professional communities that the process of value creation in companies is changing, and that the value of a firm's performance is not adequately portrayed by traditional financial measurement tools. In this respect, new macro and micro events such as the dematerialization of economic activity, the knowledge society, the service-based economy, and advances in technology have profoundly undermined also the bases oftraditional systems of value calculation. In particular, accounting systems seem to be highly inadequate when addressing the valuation of intangible assets, including those related to human resources (such as competences, skills, and other relevant features). Some of these assets are represented in the balance sheet (purchased brands, intellectual property, consolidation goodwill), but the majority of them – such as human resources – remain outside the boundaries of proper accounting detection ([45]).

The management of organisations is coming to terms with the broader role played by intangible, non-financial, and human factors. Accordingly, new theoretical and operational tasks are imposed on accounting for representing and understanding the multiple levels of today's organisational performance. Whereas the balance scorecard of Norton and Kaplan (1992) is one of the first and best known attempts to portray the different dimensions of company operations (see Figure 23), new and more sophisticated representational forms are emerging. The traditional notion of value itself seems to be at stake, being linked eminently to financial, short-term variables, which are oriented only towards shareholder interest.

([45]) It is interesting to note that in August 1999 the Chairman of the US Federal Bank, Mr. Allan Greenspan, indicated in the poor accounting treatment of software and information system expenses in financial accounts one of the main elements that has been responsible for the unusually high price-to-earnings ratio of US companies in the last few years. The treatment of such costs as period expenses would undervalue both the firm's profit and its net assets.

From joint consideration of the above two phenomena - the inadequacy of traditional accounting systems to represent intangible assets and the realisation of the multidimensional nature of company performance - comes a new concept for coping with the issues posed by today's different economic and technological environment. The concept is that of intellectual capital (IC), which has received growing international attention in recent years.

Despite the different definitions and measures of IC which have been proposed, what appears to be undisputed by all scholars is the recognition of human resources as an essential component of an organisation's IC. In other terms, it seems to be commonly understood that one of the basic 'ingredients' of a firm's IC is the value and features of its personnel. In a sense, then, it seems that story has gone full circle. After twenty years of little attention being paid to the valuation and reporting problems linked to human resources, we are now facing a revival of so-called human resource accounting under a different and wider conceptual heading, that of the IC.

The aim of this chapter is to examine the issues associated with the establishment of a financial accounting standard dealing with human resources and IC, and to tentatively suggest alternative paths by virtue of which these particular assets could find a more extensive recognition in company official reports. This is done through examination of the situation in Italy, where human resource features are increasingly disclosed in ad hoc documents presenting the social and/or the environmental impact of company activities. To this end, a content analysis of Italian social and environmental reports will be carried out to show the growing concern of Italian companies with the representation and disclosure of financial and information variables linked to human resources and IC.

The chapter is structured as follows:

(a) brief examination of the development of human resource accounting from the 1960s;

(b) identification of some of the basic, yet open, questions relating to the recent new interest in human resource accounting;

(c) examination of today's most influential accounting standards to gauge whether they would allow – in their present form - recognition of human resources as an asset in company financial reporting;

(d) exploration of alternative paths of representing such particular assets in other company documents, such as the social and/or the environmental reports, and the characters of such emerging practice by Italian firms;

(e) final issues and considerations for future research and policy-making.

11.2. The historical development of human resource accounting

According to Flamholtz (1999, pp. 1-3), the development of human resource accounting (HRA) has passed through five discernible stages.

The first stage of development, from 1960 to 1966, was marked by interest in HRA and the derivation of basic HRA concepts from related bodies of theory. The initial impetus for the development of HRA came from a variety of sources, including the economic theory of human capital, organisational psychologists' concern for leadership effectiveness, the then new human resource perspective.

The second stage, from 1966 to 1971, was a period of basic academic research to develop and assess the validity of models for the measurement of human resource cost (both historical and replacement) and value (both monetary and non-monetary). It was also a time of research designated to formulate the present and potential uses of HRA. A few exploratory experimental applications of HRA in actual organisations also occurred.

The third stage of development of HRA, which dated from 1971 to 1976, was a period of rapid growth of interest in HRA. It involved a great deal of academic research throughout the world (see, for example, the two committees of the American Accounting Association on HRA in 1971-72 and 1972-73). It was also a time of increasing attempts to apply HRA in business organisations.

The fourth stage in the evolution of HRA, from 1976 to 1980, was a period of declining interest both in academia and in the corporate world. One of the reasons for the reduced interest was that most of the relatively easy preliminary research had been accomplished. Only a few major studies have been carried out.

Stage five, which can be dated from 1980 to the present, has involved the beginnings of a resurgence of interest in the theory and practice of HRA. From the 1980s there have been an increasing number of significant new research studies.

The most recent development is that associated with a scholarly and a professional interest in company IC. It is perhaps too early to talk of a new, distinct stage (which would be the sixth one according to the Flamholtz's typology). However, it seems rather clear that human resource accounting is profoundly implicated in this recent evolution, and that we have to come to terms with it in future years.

11.3. Some open issues relating to the accounting recognition of human resources

We are witnessing a new phase in economic development which is characterised by continuous innovation, the spread of digital and communication technologies, the relevance of network forms of organisation, as well as the prevalence of soft, intangible and human factors. The so-called 'new' or 'intangible economy' is the context in which organisations have to work today. Many researchers and institutions (EU Commission, US Brookings Institution, OECD) have turned their attention to the economic and business implications of the intangible economy. In this new context, we have already pointed out that innovative notions of wealth such as those of intellectual capital, relational capital, and organisational capital are emerging, while old concepts - such as human capital (HC) - are acquiring a fresh significance on conceptual and practical grounds.

This new era is having profound implications for company reporting. Since the 1990s worldwide standard arbiters have been grappling with the representation and valuation problems linked with intangibles, and the debate still seems to be continuing. In parallel, some companies - especially in the Scandinavian countries - have begun to produce reports that are divergent from the traditional, financially-oriented ones. These reports may take various names (intellectual capital report, report on intangibles) and utilise different indicators, but they share a desire to go beyond financial dimension and to identify and trace the new value drivers of an intangible nature - which invariably include also human resources - which could permit long-term, sustainable company growth. This practice is now spreading from Scandinavian countries to others.

While these significant developments are taking place in company reporting - involving also a 'new' recognition of HC -, some basic questions start to emerge as a consequence of this phenomenon. They can be summarised as follows.

11.3.1. Why HC reporting now?

This is the easiest question. The rapid and profound changes that are occurring in the economy of most industrialised countries are pushing toward the recognition of new value drivers. Especially in knowledge-based companies, human resources are clearly the most relevant assets. In this respect, company reporting in the new economy would require a different accounting model which could include also the HC.

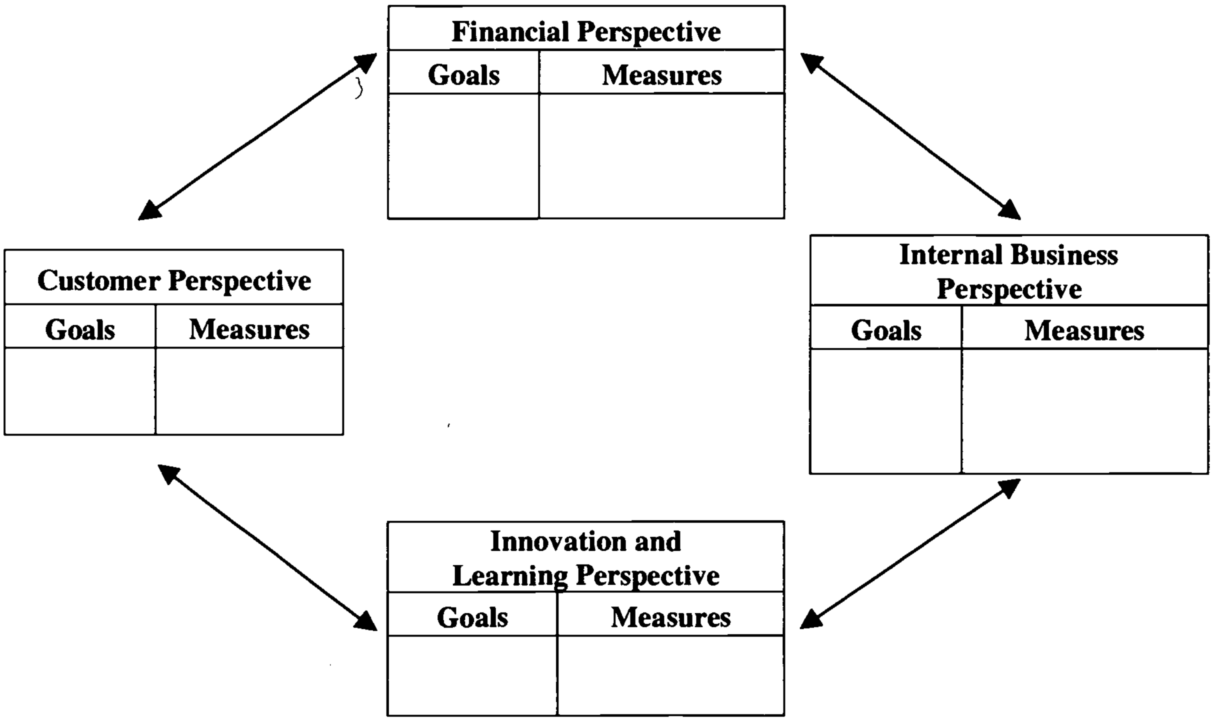
11.3.2. To whom is directed HC reporting?

This is a more complex question of a general nature, which can be divided in two interrelated issues: 'Who are the intended users of the HC or IC reports?' and 'What is the objective the intended users could pursue through these reports?'. The first issue does not seem to have an obvious answer. If the response is 'only trade unions', then the revival of interest in HC reporting is due to be short-term. A different response would be that HC reports are also of interest to investors and shareholders, because from these documents - and this would be a possible response to the second issue - they can extract important information on the sustainability of company growth, especially if this is strongly based on its personnel's competence and skills. However, this would require the systematic perception and interpretation of HC by shareholders and investors as a fundamental variable for forecasting future company development. In other terms, investors and shareholders should 'learn' to appreciate and to include also HC (and IC) variables in their judgement schemes. Perhaps those who support the preparation of HC (and IC) reports should also address the issue of their intended 'usefulness', which is often assumed but never really seriously considered and demonstrated. At present, this set of issues is still an open question.

11.3.3. Internal or external reporting on HC?

Are we envisaging purely external HC (or IC) reporting or should we encourage also the preparation of internal reports on this issue? Or perhaps we should have reports on HC for internal purposes, and only after gaining enough experience begin to produce these documents externally? At present, it seems more likely that we will mainly have externally oriented reports, even though many companies have begun to include variables relating to human resources in their management reports, to aid more comprehensive and conscious managerial performance evaluations. Support for this process has come from the diffusion within companies of tools such as the balance scorecard (Norton and Kaplan, 1992), which also comprises information on company HC within the innovation and learning perspective (see Fig. 23).

Figure 23: The balanced scorecard (Norton and Kaplan, 1992)



11.3.4. A supplementary report on HC or a special section of financial reports?

This is quite a delicate question for the successful production of company information on HC. Today many companies already publish information and data on their human resources in their annual reports. This information is generally included in the reporting section called management discussion and analysis (MD&A). However, if this information were to be systematically disclosed and enlarged in company reporting, then we would have to modify national accounting rules in order to include the obligation to release such information. At present this process of change does not seem to be easy to carry out on a generalised basis.

The production of an ad hoc, separate report devoted to company HC or, more widely, IC would place major emphasis on these variables and give them a different visibility. However, it is unlikely that the preparation of a separate report would help expand the number of companies disclosing information on their HC or IC.

11.3.5. Which regulatory source?

Would it be more appropriate to regulate HC reporting and its contents by statutory rule, an accounting standard, a set of guidelines, a recommendation, or an International Standards Organisation (ISO) statement? Clearly, each of these options poses different problems in terms of geopolitical scope and enforcement. For example, a statutory rule could be enforced without difficulty because of its very nature. However, bodies which can issue statutory rules have, in general, national powers and, as a consequence, these rules do not apply beyond the respective national territories. An important exception to this is the European Commission, which could play an important role in setting internationally accepted statutory rules in this field. At the other end of the spectrum we find standards fixed by the market, Such as ISO standards on quality (e.g., ISO 9000, ISO 14000, and so on). These rules have the advantage of being accepted and recognised by companies and the business community internationally, but there are no tools for enforcing them globally or even nationally.

11.3.6. Does a reporting requirement on personnel training have to be the same as a reporting requirement on HC?

A particular question is whether a rule concerning information disclosure on, and the valuation of, personnel training activities should be necessarily included within a wider standard concerning the reporting on HC, or whether such a rule could stand on its own. In principle, it would help consistency to have an individual and comprehensive reporting regulation on both aspects (training and HC). In practice, however, it would be much easier to arrive at a standard on HC company reporting through a gradual process, of which a reporting rule on training activities could be the first step in this direction.

11.3.7. Who would audit the HC report?

Another important question is that of auditing of HC or IC reports. Who will be auditing these documents and according to which procedures and rules? Carrying out an audit process requires a set of clear and accepted principles for drawing such reports and for verifying them.

Further, who will certify the reliability of the information concerning HC? Who will attest the competence of future HC report auditors? Clearly this is a very open question.

11.4. Current accounting standards and HC reporting

We will now briefly focus on the compatibility of the HC recognition with today's accounting standards. In particular, we will examine the definitions of an asset as formulated by the most influential standard setting bodies in order to verify the viability of HC detection within the framework of current accounting rules.

According to the US *Statement of financial accounting concepts* no. 6 (SFAC 6, December 1985), 'assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events' (para. 25). The items that qualify as assets are commonly called economic resources.

According to the IASC's framework (July 1989), 'an asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise' (para. 49). 'The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents to the enterprise. The potential may be a productive one that is part of the operating activities of the enterprise' (para. 53).

According to the UK *Statement of principles for financial reporting* (December 1999), which is still in the exposure draft form, 'assets are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events' (para. 3.5). Control, in this context, means the ability to obtain the economic benefits and to restrict the access to others.

Despite the fact that, in principle, the recognition of human resources as assets is not conceptually excluded from the above definitions, all the three normative accounting sources exclude, in general, the treatment of human resources as balance sheet assets. The only exception is the football industry, where the value of the players is explicitly recognised in teams' balance sheets and amortised along the length of the contract. A point of difficulty with the above definition is the notion of 'control of the resource and of its future economic benefits'. Clearly, unless we admit slavery, the control by a company over persons cannot be full and unproblematic, as it would be required by the notion of an asset.

Another interesting point is the distinction operated by the standard arbiters between the two concepts of financial capital maintenance and physical capital maintenance. A choice between these two concepts is needed for establishing a benchmark against which to gauge when a profit is realised for the year. According to the US SFAC 6, 'Two major concepts of capital maintenance exist, both of which can be measured in units of either money or constant purchasing power: the financial capital concept and the physical capital concept'. The latter 'is often expressed in terms of maintaining operating capability, that is, maintaining the capacity of an enterprise to provide a constant supply of goods or services' (para. 71).

According to the IASC's framework, under the concept of financial capital maintenance 'profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, or contributions from, owners during the period'. Under the concept of physical capital maintenance 'a profit is earned only if the physical productive capacity (or operating capability) of the enterprise (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, or contributions from, owners during the period' (para. 104, letter a).

The above definitions suggest that the recognition of human resources as company assets would require the choice of the concept of physical capital maintenance. Indeed, given the features of the intangible era we are entering, a new conceptual benchmark to recognise profit would be needed, i.e. that of human or intellectual capital maintenance, but this development is still to appear in the views of the most relevant accounting standard arbiters.

11.5. Representing human resources: the case of social and environmental reports in Italy

No company in Italy yet publishes an HC or an IC report. Even though practice does not explicitly talk about HC and/or IC, however, there are some clear signs of a coming change.

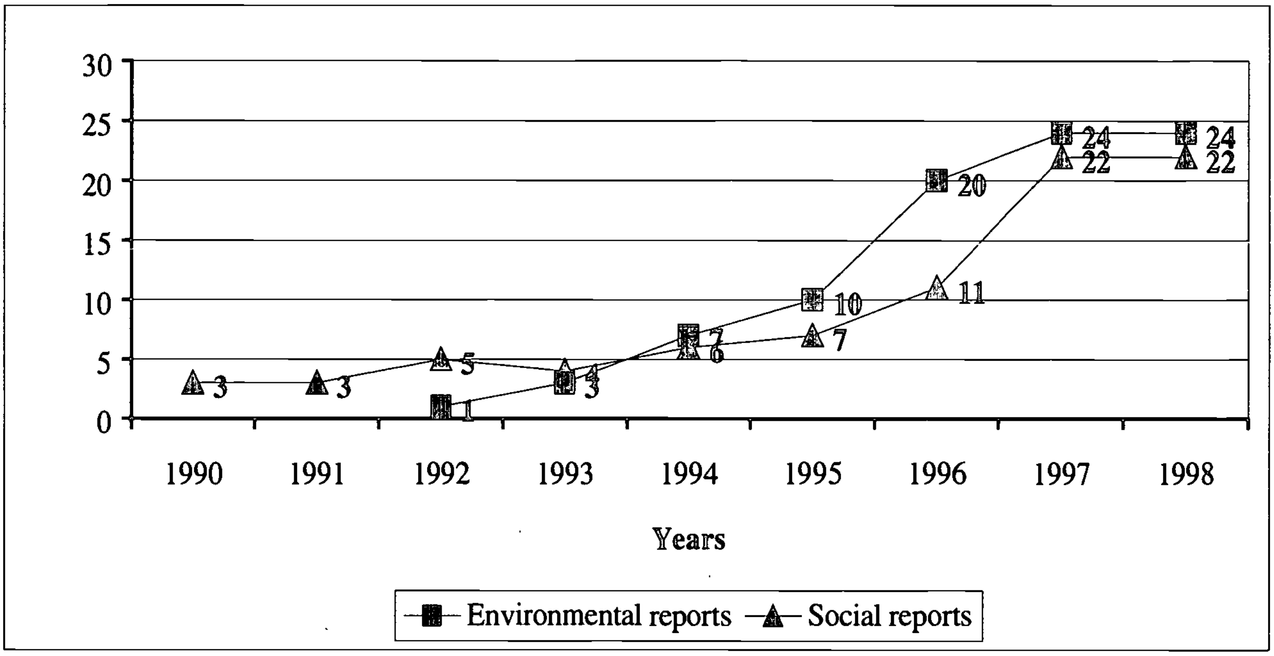
A new sense of 'corporate social responsibility' - which extends also to the respect of the environment - seems to be spreading across the country. According to this new corporate sensibility, a company has non-financial obligations. Its business interest cannot be different in the long term from the social interest and there is also a link to the community benefits produced and enjoyed by the company. Therefore, this new social and environmental conscience does not contradict the traditional financial aims of a company, but it sets boundaries to company decisions in favour of both social categories, of which employees are a significant part, and the environment and, more generally, the quality of life of human communities.

From the second half of the 1990s, the need to consider the social, the environmental and the financial performance of a company has also brought about in Italy - as elsewhere - the production of social and environmental reporting. Accordingly, in relation to the emergence of this new 'corporate sensibility', an increasing set of companies have started to prepare social and environmental reports on a voluntary basis (*cf.* appendix A).

These reports are produced in particular by local public utilities (ACEA, AEM), co-operative organisations (AGAC, COOP), and former state-owned companies (Eni Group, Telecom

Italia). For a large number of them this phenomenon is quite recent, even though ever increasing in number (1996-1998) (cf. Fig. 24).

Figure 24: Number of environmental and social reports in Italy by year of publication



For the preparation of environmental reports Italian companies follow:

(a) EU rules, i.e. the eco-label regulation, BS 7750 for environmental management, and the EMAS Environmental Statements (EMAS Regulation 1836/93) dealing with the environmental report format, eco-management, and the audit scheme;

(b) ISO Standards, i.e. the ISO 14000 for environmental respect and performance evaluation;

(c) guidelines published by the FEEM – the *Fondazione ENI Enrico Mattei* (*ENI Foundation Enrico Mattei*), which has also set up a working group on 'environmental indicators and accounting system'.

Italian social reports are produced according to the following standards:

(a) the model suggested by the European Institute for Social Report (*IBS – Istituto Europeo per il Bilancio Sociale*). The innovations introduced with this model, when compared with the approaches proposed by the *Bilan Social* in France and the *Sozialbilanz-Praxis* in Germany, concern both the firm's ethical and social value statement (which is here formally included in the company social report), and the form of this report (composed of four sections, i.e. the firm's identity, the value added, social relationships, and social accounting). A large number of companies in Italy is adopting the guidelines of the IBS model;

(b) social accountability (SA) 8000 which was issued by the Cepaa (Council for Economic Priorities Accreditation Agency) on October 1998, and refers to the audit of 'social accountability' or, in other words, of the ethical 'level' and social responsibility of a firm. The whole system of market-driven, international standards, i.e. ISO 9000 for the quality system, ISO 14000 for the environmental respect and now also SA 8000, is intended to help firms increase their market credibility and efficiency. In particular, SA 8000 certification could reinforce a firm's image as an open and dynamic organisation pursuing ethical and social aims beyond the traditional financial ones.

It should be pointed out that, for the first time in Italy, an audit has been conducted for the 1998 social report of the company ACEA. This 'verification statement' is made up of the audit principles utilised and the auditor's report. Before that, an audit opinion had been included in the environmental reports of a quite large number of companies (*cf.* Audit and supplementary information in appendix C). It should also be noted that the audit of the ACEA social report refers explicitly to international standard SA 8000.

In the light of the above developments taking place in Italy, empirical research has been conducted in order to explore the actual contents of the social and environmental reports produced by Italian companies, and to verify whether these reports contain significant information regarding also the organisations' HC and IC.

The first phase of the research has required identification of the companies which prepare social and environmental reports (*cf.* appendix A): this has taken some time because of the lack of a comprehensive public list of the companies preparing such documents. Subsequently, the whole social and environmental reports prepared by Italian entities (25 and 27 reports, respectively) have been examined and their content standardised and compared. The information contained in the reports has been initially allocated according to certain general subject areas (*cf.* appendices B and C). Seven main subject areas have been identified considering the information appearing in both types of reports. They are as follows:

(a) human resources;

(b) financial variables;

(c) processes;

(d) customers;

(e) audit and supplementary information;

(f) environmental respect;

(g) technology.

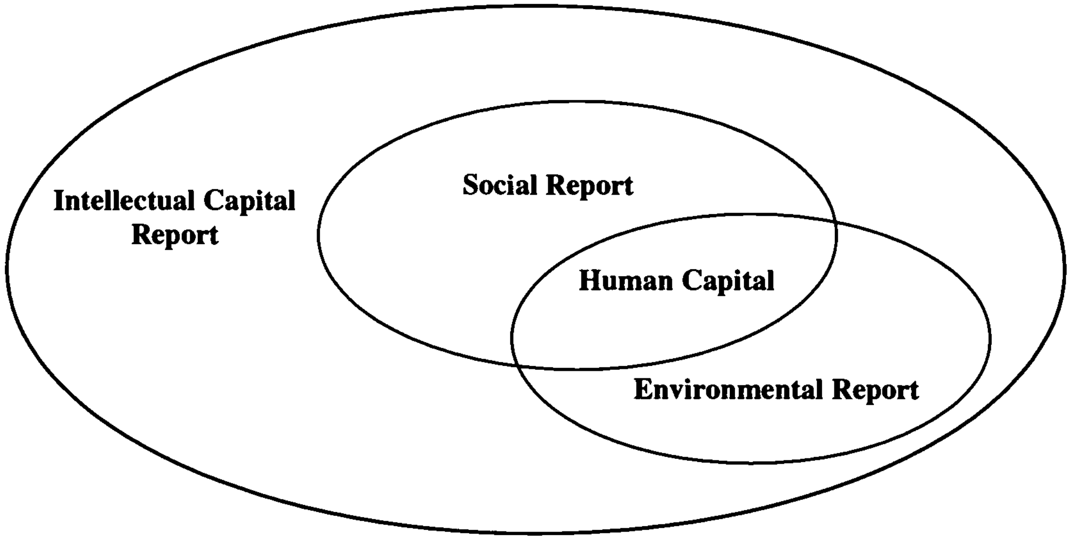
Each subject area is then divided into qualitative classes, i.e. variables, which have been measured through ad hoc quantitative or qualitative indicators offered by the companies themselves. The frequency of occurrence in the various company reports has been observed for each variable. In appendices B and C only variables which have been disclosed at least three times in different reports have been taken into account. The subject areas have been ranked according to the total reporting frequency of their variables.

The total number of observations from social report variables with a frequency of three or more is 1,065 (of which 678 are observations linked to human resources variables). The total number of observations from environmental report variables with a frequency of three or more is 483 (of which 82 are observations linked to human resources variables).

The first significant finding has been that many variables comprising the Italian social and environmental reports are also basic ingredients of the IC reports. The attention paid to human resources, customers, internal processes, value-added production and distribution, and environmental impact can also be found in the IC reports prepared by Scandinavian companies.

Surprisingly enough, even though the overall purposes of the social and environmental reports are different, what emerges is that three areas are common to both types of documents (human resources, processes, financial variables). The other four are specific to one of the two: customers to social reports; audit and supplementary information, environmental respect and technology to environmental ones. The presence of many overlapping information elements suggests that the distinction between social and environmental reports is weak, i.e. that there is an attention to the company environmental impact in the social reports, and to the company human resources and social impact in the environmental ones. In this respect, we could represent the relationship between the IC, the social and the environmental reports and the HC variables in Italy as shown in Figure 25.

Figure 25: The empirical relationship in Italy between IC, social, environmental reports and HC



Appendix B indicates the most frequent information released in Italian social reports. This has a large number of variables and indicators relating to the human resource area and gives rise to the larger volume of information comprising Italian social reports. The variables have both internal (e.g., number of employees, seniority, training) and external connotations (e.g., company socialising activities, description of social and company context), with a large dispersion of observations, even though it concerns a reporting frequency of at least three. An interesting variable in this area, but one that does not appear in the analysis because its frequency is less than three, is the social budget. This new document is contained for the very first time in the report of Zanussi Metallurgica – Electrolux Group, and includes the main social objectives and principles which should guide the company in its social action and the preparation of its social report. In particular, the list of short and medium term objectives aims to reinforce the relationship between the firm and the local community (e.g., training, women's employment, sub-supplying agreements, quality increase, work safety). These annual objectives derive from a process of analysis and negotiation carried out between the company and the delegates of the local community.

Appendix C gives an overview of the most frequent information in Italian environmental reports. The smaller number of variables and indicators reference human resources, *vis-à-vis* social reports, suggests that companies tend to perceive this type of information as more appropriate to the latter documents. Indeed, companies producing both social and environmental reports appear to include HC information in the former statements. Notwithstanding, the total reporting frequency of variables relating to human resources in the Italian environmental reports is still the second after the information on processes.

Analysis of the current situation in Italy indicates consistent elements which show that the road to HC and IC reporting in Italy will be a long one but progresses has been made through the growth in social and environmental reports with a strong HC and IC orientation. However, the analysis has also revealed two significant phenomena. There is a large dispersion of information, which calls for some form of standardisation to achieve a better comparability and quality of the indicators. At the same time there is overlapping information between the two different sets of documents, which reinforces the need for a harmonisation of these two forms of reporting – and, implicitly, of the HC and IC information included in them.

11.6. Discussion and conclusion

The above considerations raise consequences and further questions - complementing those in 11.3 - for the future of the HC reporting.

11.6.1. Will there be a spontaneous international harmonisation of HC, IC, environmental and social reporting?

The Italian experience shows that there are several points in common between the HC, the IC, the social and the environmental reports. This is because some of the variables that are considered in these documents - such as the representation of the human resource features -

are virtually the same. It is perhaps too early to say whether this spontaneous trend toward convergence between these reports will become internationally shared. However, the Italian case reveals that, on practical grounds, the similarities between those documents are at least equal to their differences.

11.6.2. Will there be a proxies approach to reporting on HC and IC?

In the foreseeable future it is not likely that we will able to reach an individual, all-inclusive expression of a company's HC and IC, which is comparable to shareholders' equity for financial capital. Instead it is likely that we will continue to express an organisation's HC and IC through a number of variables, which can then be interpreted as a series of proxies of the capital analysed.

A related problem is that these proxies-variables are not measured using the same yardstick (as in the case of financial capital). This reinforces the previous conclusion, i.e. that, at the moment, it does not appear viable to state an organisation's HC or IC in a unitary and synthetic way using a single number.

11.6.3. Will there be two different reporting representations (and standards) of an organisation's capital?

An immediate consequence of the previous observation is that we will probably face at least two different representations of company capital. The financial capital will be expressed according to the usual, traditional reporting, comprising balance sheet, income statement and information disclosure, and the HC and IC, which will be represented through innovative forms of reporting. Accordingly, it is also likely that we will need two different sets of reporting and audit standards.It may well be that the desirability of a reporting standard on HC and IC will transform itself into a need for it.

11.6.4. A bottom-up approach to standardisation in this field? Company best practice? A quality and comparability problem?

The setting of a standard on HC (or on IC) poses, first of all, the problem of the source of its contents. Given the novelty of the field and the lack of a commonly accepted theory, a bottom-up approach to the setting of such a standard - i.e. an approach based on companies' best practices - appears today as the easier and more credible way. Of course, this approach opens up two further issues, i.e. 'How can companies' best practices be effectively selected?' and 'Who can make this selection in the most neutral manner possible and in the public interest?'. In turn, these two issues could lead to the possible rise of a quality problem, which is typical of any standard constructed on a pragmatic basis. Moreover, if different standards on HC reporting are issued in various countries, this will probably pose a further problem of comparability and standardisation of HC information released by organisations operating in distinct national contexts.

11.6.5. A political legitimisation problem? An enforcement problem?

At an international level there are several authoritative bodies which might well serve as standard arbiters in this field: the International Accounting Standards Committee (IASC), the International Organisation of Securities Commissions (IOSCO), the Organisation for Economic Cooperation and Development (OECD), the International Standards Organisation (ISO), the United Nations (UN), the European Union (EU). When the time is right for the setting of a reporting standard on HC or IC, the presence of so many competing bodies, which are also expressions of different types of authority, suggests the risk of a power struggle to become the standard arbiter in the field.

In conclusion, we agree with one of the major scholars of the domain of human resource accounting, according to whom:

'Unfortunately, neither financial nor managerial accounting has responded to this change in circumstances. Furthermore, the accounting paradigm and related measurement technology have not been reconceptualised to account for this economic transformation. Due to the continued use of measurement tools which are no longer well suited to the current era, anomalies have resulted' (Flamholtz, 1999, p. 350).

However, there is also agreement with the same author when he observes that:

'... we are at the leading edge of what is still a relatively new paradigm and measurement technology that will have profound effects on the way in which people are managed in organisations' (Flamholtz, 1999, p. 5).

Italian social and environmental reports, with their significant focus on HC and IC variables, together with other developments, especially in the Scandinavian countries, are a cause for moderate optimism. The accounting realm should soon feel the need to adapt to new company operating conditions and to devise more adequate forms of reporting - such as the IC report - to trace and document the innovative sources of company value. Among these human resources will undoubtedly continue to play a preeminent role.

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APPENDIX A: Italian entities producing social and environmental reports

ENTITIES	SECTOR	REFERENCE YEARS
Social report:		
1. ACEA	Local public utility	since 1998
2. AEM	Local public utility	1998
3. AGAC	Local public utility	since 1996 annually
4. Agip Petroli – Gela refinery	Oil	since 1997 annually
5. Agip Petroli – Leighorn refinery	Oil	since 1997 annually
6. Agip Petroli – Priolo refinery	Oil	since 1997 annually
7. Agip Petroli – Sannazzaro refinery	Oil	since 1997 annually
8. Agip Petroli – Taranto refinery	Oil	since 1997 annually
9. Agip Petroli – Venice refinery	Oil	since 1997 annually
10. A.M.SE.F.C. - Ferrara	Funeral services	since 1996 annually
11. ASPIV	Local public utility	1996; 1998
12. Popular Bank of Etruria and Lazio	Banking	since 1998 annually
13. Cartiere Favini	Paper production	1994; 1997
14. Cassa di Risparmio di Cento	Banking	since 1997 annually
15. Coo.s.s Marche	Social and health services	since 1996 annually
16. Coop	Distribution (food)	since 1990 annually
17. Coop Lombardia	Distribution (food)	since 1990 annually
18.Cooperativa Murri	Real estate services	since 1997 annually
19. CoopFond	Banking	since 1997 annually
20. Credito Valtellinese	Banking	since 1995 annually
21. Enel (n.a.)	Electric power	only 1997
22. Enichem - Porto Marghera and Ravenna refineries (n.a.)	Chemical/Oil	only 1992
23. Enichem - Porto Marghera refinery	Chemical/Oil	only 1995
24. Ferrovie dello Stato	Railway	1994; 1995
25. Società Autostrade	Motorway management	since 1996 annually
26. Telecom Italia	Telecommunication	only 1997
27. Unicoop Firenze	Distribution (food)	since 1990 annually
28. Unipol Assicurazioni	Insurance	since 1992 annually
29. Zanussi Elettromeccanica - Mel factory	House-hold appliances	only 1996
30. Zanussi Metallurgica - Maniago factory	Metallurgical	only 1997
Enviromental report:		
1. ACEA	Local public utility	since 1998 annually
2. AEM	Local public utility	since 1997 annually
3. AGAC	Local public utility	since 1996 annually
4. Agip	Oil	since 1996 annually
5. Agip Petroli	Oil	since 1996 annually
6. Ambiente	Environmental services	since 1996 annually
7. Antibioticos	Pharmaceutical	since 1995 annually
8. Ausimont	Chemical	since 1995 annually
9. Cartiere Favini	Paper production	1994; 1997
10. Ciba	Chemical	since 1993 annually
11. Edison	Electric power	since 1994 annually
12. Enel	Electric power	since 1996 annually
13. Eni	Chemical/Oil/Gas	since 1995 annually
14. Enichem	Chemical/Oil	since 1992 annually
15. Enirisorse	Metallurgical	since 1996 annually
16. Eni Tecnologie	Applied R&D (oil)	since 1996 annually
17. Federchimica	Chemical	since 1994 annually
18. Falck	Electric Power/Metallurgical	since 1998
19. Fiat	Conglomerate	since 1993 annually
20. Italgas	Gas	since 1996 annually
21. Montedison	Chemical	since 1995 annually
22. Saipem	Oil	since 1996 annually
23. Società Autostrade	Motorway management	since 1997 annually
24. Snam	Gas	since 1995 annually
25. Snamprogetti	Engineering	since 1996 annually
26. Telecom Italia	Telecommunication	only 1997
27. Texas Instruments	Computer	only 1994

Notes: n.a. = not available.
The following entities are part of the Eni Group: Eni, Agip, Agip Petroli, Ambiente, Enichem, Enirisorse, Eni Tecnologie, Italgas, Saipem, Snam, Snamprogetti.
The following entities are part of the Montedison Group: Montedison, Antibioticos, Ausimont, Edison.
The following entities are part of the Swedish Electrolux Group: Zanussi Elettromeccanica, Zanussi Metallurgica.
The following entities have a co-operative nature: AGAC, Coop, CoopFond, Coo.s.s. Marche, Coop Lombardia, Cooperativa, Murri, Unicoop Firenze.

APPENDIX B: The most frequent information in Italian social reports (max. 25) ([46])

A) HUMAN RESOURCES

Variables	Indicators	Frequency
1. Company socialising activities:		
- cultural initiatives		15
- social meetings		12
- travels		12
- sports organisations		11
- recreation centres	Number of members	11
- social information campaigns		10
- trade unions organisations		9
- journals		8
- scholarships	Amount	7
- summer stays	Number of participants	7
- insurance policy		7
2. Training	Number of training hours/participants/courses by subject area	19
	Number of participants	19
	Number of hours	12
	Number of days of training	10
	Total training costs	10
	Number of employees participating in training courses by qualification	9
	Number of training hours according to legislative decree 626/94 (workplace safety law)	9
3. Work absences	For illness (%)	14
	For work accident (%)	12
	For strike	12
	For healthcare reasons (%)	10
	Number of work absences estimated	8
	Number of working days estimated	8
	For illness by qualification and sex (%)	7
	Number of work absence for trade-union conflicts	7
4. Seniority	Number of resignations	15
	Number of new employees	14
	Number of working years for the firm by seniority class	12
	Average number of working years for the firm by employees' age	9
	Number of transfers	8
	Total average number of working days for the firm	7
	Number of deaths	6
5. Work safety:		
- work accidents	Frequency index (no. of work accidents on actual working hours)	11
	Number of work accidents (annual trend)	10
	Incidence of work accidents	7
- wasted days for work accidents	Seriousness index (no. of wasted days on actual working hours)	11
	Number of wasted days	8
	Average period of work accidents (days)	7
- training, information		3
6. Employees' health	Clinical laboratory exams	9
	Medical check-ups	9
	Acoustic functionality	8
	Breathing functionality	8
	Visual functionality	8
	Incidence of illness cases	7
7. Number of employees	Total number of employees	19
	Number of employees by qualification and sex	14
	Number of employees and breakdown by department	14
8. Qualification	Staff breakdown by qualification	20
	Trend of qualification	11
9. Age	Number of employees by age and sex	12
	Number of employees by age and qualification	9
	Number of employees by age	3
10. Education	Staff breakdown by level of education	20

(Continued)

([46]) Information considered here is that appearing at least three times in the reports of the various entities.

11. Salaries	Actual total labour cost Total wages by qualification and sex Average individual amount of salaries	10 8 3
12. Geographical origin	Breakdown of employees by residence (no. and %)	15
13. Description of social and company context		14
14. Relations with social community and public institutions		15
15. Personnel turnover	Turnover by department	13
16. Sex	Staff breakdown by sex	11
17. Organisational incentives	Bonus based on performance parameters	8
18. Internal communication forms		4
19. Breakdown of social interventions by nature		3
TOTAL		**678**

B) Financial Variables

Variables	Indicators	Frequency
1. Fixed assets investments - fixed assets - work in process	 New works Maintenance expenses capitalised Mobile assets New works Maintenance expenses capitalised Mobile assets	 7 7 7 7 7 7
2. Fixed assets value	Fixed assets Intangible assts Work in process	6 6 6
3. Production of value added		18
4. Income statement		15
5. Breakdown of labour cost by composing items		14
6. Breakdown of current expenses by type		12
7. Breakdown of financial investments by type		11
8. Breakdown of value added by stakeholders	Value and %	13
9. Breakdown of taxes by type		8
10. Environmental, health and work safety expenses		7
11. Amounts paid to the State (rents, taxes)		6
12. Profitability ratios	ROE	6
	ROI	3
13. Financial ratios	Current ratio	4
	Liquidity ratio	3
	Cash flow ratio	3
14. Trend of main results		7
15. Balance sheet		5
16. Composition of the net capital employed		3
17. Risk capital and its trend		3
18. Shareholder profile and breakdown by their nature		5
TOTAL		**206**

C) CUSTOMERS

Variables	Indicators	Frequency
Suppliers	Suppliers' sales (value and %) Suppliers (no. and %) Consumption (raw material and external service purchases) Orders Breakdown of supply costs by nature Average amount of orders Global collection and investment of the credit amounts Breakdown of the credit allocations per customer type Customer description	14 12 7 5 5 4 3 3 3
Customer satisfaction	Distribution channels by service nature (%) Activation, reparation and quality of supplied service Number of surveys	15 12 12
Public relation office	Number of claims	6
External information	Number of copies distributed of the entity's journal	5
Tariff trend of the provided services and their evaluation	Unit prices	3
TOTAL		109

D) PROCESSES

Variables	Indicators	Frequency
Use of natural resources	Costs and investments by resource type Wastage by resource type	11 10
Supplied services: - *sewerage system and water purification* - *water*	 Number of purifiers Plant capacity Pollution elements Tariff trend Tariff trend	 3 3 3 3 3
Breakdown of emissions by nature		8
Quality standards	Service accessibility and safety (first aid response, no. of appointments respected, response rate to written claims) Accessibility to the service Estimate of the time for the production of service Administration of contractual relations (invoice corrections, meter inspections, pressure verification)	4 4 4 3
Quality certifications (ISO 9000 and ISO 45000)		5
Breakdown of rubbish by nature		4
Control of the hygienic conditions		4
TOTAL		72

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Appendix C: The most frequent information in Italian environmental reports (max. 27) ([47])

A) PROCESSES

Variables	Indicators	Frequency
1. Energy indicators	Specific emissions	11
	Specific consumption	11
	Wastes	3
	Energy coefficient	3
2. Energy distribution	Extension of energy distribution channels	6
	Breakdown of energy distribution by consumption nature	6
	Number of energy distribution plants	5
	Total energy distributed	5
	Geographical spreading of the energy distribution network	5
	Number of energy receiver lines	4
	Consumption relating energy distribution	3
3. Energy transport	Total size of energy transport lines (km)	7
	Geographical location of energy transport lines	5
	Number of energy transport lines	5
	Average transport	4
	Energy transport consumption	4
	Maximum transport capacity	3
4. Pollution monitoring system	Types of pollution components found	9
	Number of analysed parameters	6
	Number of controls	6
	Means of pollution monitoring	5
5. Consumption	Total consumption	19
	Consumption per industry and per country	3
6. Environmental releases (wastes) and scraps	Total environmental releases (wastes) and scraps	15
	Emissions per industry and per country	3
7. Work safety certification (workplace safety law 626/94)		9
8. Products and services		9
9. EMAS regulation		6
10. Process description		7
11. Use of resources		8
12. Quality certification (ISO 9000)		5
13. Plant surface		4
14. Main plant and basin surface		3
TOTAL		**207**

B) HUMAN RESOURCES

Variables	Indicators	Frequency
1. Work safety	Frequency index (no. of work accidents on total working hours)	16
	Gravity index (no. of working days lost on working hours)	13
	Number of work accidents	6
	Days of work absence	3
	Series of frequency index by factory and for the whole group	3
	Series of gravity index by factory and for the whole group	3
2. Training (on): - employees' health, work safety and environment	Number of hours	6
	Number of participants	3
- work safety and environment	Number of hours	3
	Number of participants	3
3. Number of employees	Total number of employees	6
	Number of employees by factory and for the whole group	3

(Continued)

([47]) Information considered here is that appearing at least three times in the reports of the various entities

4. *Information to and relations with society* - newsletters and journals - projects with research institutes and entities	Number of copies	5 3
5. *Employees' health*	Number of check-ups and medical exams	3
6. *Safeguard of the artistic goods*		3
TOTAL		**82**

C) ENVIRONMENTAL RESPECT

Variables	Indicators	Frequency
1. *Environmental protection:* - rubbish	Breakdown of disposed rubbish by sector and by country Breakdown of production, recycling and disposal of rubbish per category (per industry, country, in Europe and in Italy) Total rubbish production Disposal plants for special rubbish Production, recycling and disposal of rubbish by its nature (by sector, by country, in Europe, in Italy)	15 5 4 3 3
2. *Statement of environmental principles*		26
3. *Testing and research laboratories*		5
TOTAL		**61**

D) TECHNOLOGY

Variables	Indicators	*Frequency*
Energy sources	Production capacity of the plants/stations Number of energy plants/stations Energy power of the plants/stations Geographical location of energy plants/stations Breakdown of energy plants/stations by type of energy sources Size of energy plants/stations (km, m^2, m^3) Consumes by energy sources Maintenance expenses	11 10 7 6 6 6 4 3
TOTAL		**53**

E) FINANCIAL VARIABLES

Variables	Indicators	Frequency
1. *Environmental expenses*	Current costs (by intervention area) Capital investments Total	9 8 5
2. *Work safety and health expenses*	Current costs Capital investments Total	5 5 4
3. *Main financial data*		5
TOTAL		**41**

F) AUDIT AND SUPPLEMENTARY INFORMATION

Variables	Indicators	*Frequency*
1. *Glossary*		20
2. *Audit of the Environmental Report:* - auditor's report - audit principles: • completeness, understandability and reliability		10 9
TOTAL		**39**

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Agora VI
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