

# Missing the human element

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'Make human capital reporting accessible to investors'

Accountancy Age, 21 Sep 2006

Most organisations' operating models consist of a high proportion of people costs related to other costs. Given the expenditure and challenge in managing these 'assets' well, why in the age of supposedly transparent corporate reporting is the human capital element so poor?

There are no standard frameworks for managers to use to report human capital and, although there have been a number of previous failed attempts at measurement, expertise and applications have been in short supply. From a resource point of view, organisations naturally default to avoid the process, rather than engaging further. Thus, any reporting has tended to be qualitative and driven by the minimum from a compliance perspective.

For too long management, has not embraced the reality of the real differential that good management/ leadership produces.

Investors are not as sophisticated as the market would like. The understanding of business models and organisational dynamics is far less than one would expect. That said, from a human capital perspective, investors need some form of analysis that provides them with insight. Their understanding will drive management focus to report related quantitative elements of human capital. This would assist the 'market' in receiving more transparent reporting.

There are three ways to put it right. First, the 'market' needs to be provided with reporting standards on human capital that parallel accounting principles and also enable more detailed metrics which provide meaningful comparison.

Secondly, too many managers (and investors) have had little exposure to the vagaries of human capital management and organisational performance. Very few understand measurement as a discipline because practical training has not been available. Understanding what organisations are dealing with will provide the necessary platform for resource allocation and direction.

Lastly, given what investors (and stakeholders) are used to, a composite index relating to human capital would provide them with insight. This is very much on the proviso that it has a robust construct and differing performance characteristics.

The great news for organisations, managers, investors and stakeholders alike is that all of the above are available. The only question now is the old one of overcoming 'market' apathy and ignorance.

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