Accounting for People: a real step forward or more a case of wishing and hoping?

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Abstract

In principle, the *Accounting for People* initiative announced by the UK government in January 2003 held out the possibility of a real step forward in promoting the interests of employees. Despite its distinctly managerialist discourse, the initiative acknowledged that having now recognised that ‘people are our greatest asset’, employers should begin to consider how to report on their people management activities in financial statements. After more three and a half years of consultation, debate and deliberation, larger UK quoted companies are now charged with providing only a minimal level of general information on their employees. Whatever promise may have been evident to wishful thinkers in the early months of the initiative, this outcome confirms that there is little possibility for progressively ‘accounting for people’ as long as such practices are shaped by powerful sectional interests. The purpose of this paper is to subject the initiative to critical scrutiny. The paper seeks to document how the *Accounting for People* initiative was quickly and effectively emasculated as a consequence of the power and influence wielded by the UK accountancy profession, identified as a key agent of capital. Additionally, attention is drawn to a number of contemporary developments, largely and perhaps knowingly ignored in the course of the *Accounting for People* debate, that may yet inform and energise a more radical approach to accounting for people.

1. Introduction

In January 2003 the UK government announced the formation of a Task Force on Human Capital Management, charged with considering how it might be possible to 'account for people'. Following a ten month period of consultation and deliberation, the government published the Task Force's *Accounting for People* Report in November 2003 (DTI, 2003a). A principal recommendation was that information on human capital management (HCM) should be included in any expanded Operating and Financial Review (OFR) that might become mandatory for UK companies. As well as contributing to increased transparency in financial reporting, previously commended in the 2001 *Company Law Review*, mandatory reporting on HCM affords considerable support to those individuals and organisations who believed that people are now the most valuable asset available to management. In May 2004 the UK government affirmed that its proposals for expanding the OFR would take cognisance of the Task Force's report. Draft legislation on changes to company reporting laid before Parliament in January 2005 proposed that an OFR must include "information about the company's employees". These proposals passed into law on 22 March 2005, the provision of such information becoming a statutory requirement for large UK quoted companies whose financial year commenced on or after 1 April 2005 (HMSO, 2005). As a consequence of a surprise intervention by the Chancellor of the Exchequer on 28 November 2005, the OFR requirement was abandoned and with it, the legal obligation for UK companies to account for their people. The enhanced business review requirement that subsequently replaced a mandatory OFR effectively reinstates the status quo as far as (minimal) HCM reporting is concerned.

The purpose of this paper is to subject the *Accounting for People* (*AfP*) initiative to critical scrutiny. More specifically, the paper seeks to document how a potentially progressive (if not radical) development was emasculated, principally as a consequence of the power wielded by the UK accountancy profession. Of particular interest is the disregard for a number of contemporary developments in the intellectual capital field that promise to provide a more robust basis for attempts to account for people than those underpinning earlier initiatives designed to account for the human factor. The theoretical perspective underpinning the paper indicates that the enervation of the *AfP* initiative comes as no surprise, for as long as the existing accounting calculus prevails, there can be no meaningful accounting for people. The structure of the paper is as follows. In the next section we briefly outline a history of accounting for people, drawing attention to recent developments that, in our view, promise to progress such practices. This provides the background for the remainder of the paper. Section 3 details the *AfP* initiative from its inception in January 2003, through the passing into law in March 2005 of the requirement for UK quoted companies to provide employee information in the OFR, to the abandonment of this requirement. In the fourth section the suitability of the OFR as a germane approach to accounting for people is assessed, while section five offers an overview of the debate about the appropriate audit requirement for an OFR. The latter two sections attest to the power wielded by the UK accountancy profession, a conclusion explored further in the context of the competition between the UK accountancy and human resource management professions to shape the *AfP* initiative in section 6. In section 7 we consider the limited prospects of progressing accounting for people as long as the accountancy profession continues to promote prevailing sectional interests. The paper concludes with a brief call for critical accountants to embrace the challenge of accounting for people as an element of the mode of enabling accounting.

2. Step one: recognising people are assets not costs

It would be disingenuous to suggest that people are absent from financial statements. In the guise of ‘labour’, people have long been incorporated within the income statement as an expense, i.e. a cost to be set against revenue. It follows from this that profit can be increased by managing, i.e. reducing, labour costs. The simplest means to accomplish this is to make people work harder for the same payment (Hopper and Armstrong, 1991). Alternatively, offer greater rewards in exchange for proportionately greater effort. Replacing labour with less costly machinery delivers the same result as does the deskilling of labour (Braverman, 1974). Exporting jobs to ‘low cost’ economies continues to be an attractive further option (Yuthas and Tinker, 1994). In a similar vein, within the management accounting literature investments in people such as training, upgrading skills, funding educational courses or redeployment expenses are designated discretionary costs. These are invariably represented as being amongst the most susceptible to reduction in times of declining financial fortunes, with the result that labour’s long term interests are sacrificed in the pursuit of continued short term profitability.

The recognition that it might be desirable to view people as assets, as well as costs, to the enterprise, is evident in the accounting literature long before the newly resurgent personnel profession, now rebranded human resource management, embraced the aphorism that ‘our people are our greatest asset’. In 1922 Paton observed that “a well-organized and loyal personnel may be a more important “asset” than a stock of merchandise.” (p486). The problem was how it might be possible to account for them within the balance sheet. Four decades later Hermanson (1963, 1964) commended the approach he designated human asset accounting, which provided a means of accounting for people as assets in the balance sheet as well as costs in the income statement. Hermanson dismissed the objection that since businesses did not own employees, they could not be accounted for alongside the other owned assets. He designated human assets as operational assets, asserting that in common with the various categories of owned assets they possessed a potential value to the business and should therefore be accounted for together with them. The problem remained, however, of how to accomplish this? In principle, Hermanson argued, it was simple: identify a robust valuation methodology that would furnish the requisite numbers. Two possible approaches were outlined, the unpurchased goodwill method and the adjusted present value method. Much of the subsequent history of accounting for people has been shaped by debates about merits of a succession of such valuation methodologies.

In a second early contribution to the literature, Hekimian and Jones (1967) linked accounting for people (human asset accounting) with ‘putting people on the balance sheet’. This is how many people continue to identify the challenge of accounting for people, despite the repeated protestations of the most enduring figure in the field., Eric Flamholtz. From the outset, Flamholtz argued that it was more appropriate to embed accounting for people within the traditions of managerial accounting rather than financial accounting and reporting (Brummet et al, 1968). In order to distinguish such an approach from putting people on the balance sheet, he designated it as human *resource* accounting. In 1974 Flamholtz identified human resource accounting as having three objectives: to develop methods of measuring human resource cost and value in order to provide a quantitative basis for decision making by managers and investors; to develop methods of measuring human resource cost and value necessary to monitor the effectiveness of management's utilisation of human resources; and to develop a theory explaining the nature and determinants of the value of people to formal organisations (Flamholtz, 1974a). Flamholtz views the last objective to be the most critical, being firmly wedded to the axiom that people are a scarce resource that managers must manage as efficiently and effectively as possible in order that it delivers the greatest benefits to the enterprise. The development of human resource accounting information becomes a means to this end, designed to improve resource utilisation. Despite his explicit managerial orientation, Flamholtz did not envisage the identification of human resource costs as merely a precursor to reducing them, believing that furnishing such information could ultimately have benefits for all parties. Equally, while he viewed people as valuable assets, he was never fixated on identifying the perfect valuation methodology, despite also devoting significant space in the three editions of his seminal *Human Resource Accounting* volume to discussions of such exercises, including his own early forays in the field (Flamholtz, 1974b, 1985, 1999).

The mid 1970s proved to be the heyday of human resource accounting. The failure to deliver a credible means of putting people on the balance sheet did not endear it to practitioners, however, while few in the predominantly US research community were sympathetic to Flamholtz's underlying people orientation. Consequently, throughout the 1980s and early 1990s accounting for people attracted only a fraction of the attention it previously had, although never disappearing entirely (ICAS, 1988; Sackmann et al, 1989; Scarpello and Theeke, 1989; Roslender and Dyson, 1992). The principal exception to this downward trend occurred in Sweden where Johanson and Grojer began to develop 'personalekonomi' after 1981, later to be designated human resource costing and accounting (Grojer and Johanson, 1996, 1998; Johanson and Nilson, 1996; Johanson and Mabon, 1998; Roslender et al, 2007). This development was also very human resource oriented, reflecting the social settlement characterising Swedish society after the 1960s, combining insights from human resource accounting and utility analysis. Largely unconcerned with valuation issues, human resource costing and accounting focused on the development of financial information that clearly communicated the significance of people as an organisational resource.

During the past decade accounting for people has re-emerged as an increasingly well-subscribed research topic. It has done so as one aspect of the growing interest in intellectual capital or 'intangibles'. Intellectual capital is generally acknowledged to be divisible into three generic components: human capital; customer or relational capital; and structural or organisational capital (Brooking, 1996; Sveiby, 1997a; Lynn, 1998). Edvinsson (1997) argues that the difference between the market and book values of many enterprises in the Information Age or Knowledge Economy is a result of their possession of stocks of intellectual capital. At its simplest, accounting for intellectual capital entails reconciling market and book values, making use of detailed taxonomies such as the Skandia value system which provide a basis for identifying the specific constituents of a business' stock of intellectual capital. From this description, it should be obvious that one approach to accounting for intellectual capital is to engage in a series of valuation exercises. In the case of some constituents, e.g. trademarks, know-how, patents, etc, sometimes designated intellectual property, this is comparatively easy to accomplish. Brands and company reputation present greater difficulties, but far less than key human capital assets including employee competence, experience and expertise, leadership skills, capacity for inventiveness, teamworking abilities, etc, or relational capital assets such as organisational culture, knowledge networks and management succession programmes. The problems acknowledged over forty years ago in relation to human asset valuation persist, with some in the field continuing to search for the elusive breakthrough (Lev, 1999; Andriessen, 2004).

In his 1997 paper Edvinsson also identifies an alternative approach to accounting for intellectual capital. Instead of valuing its various constituents, he suggests the development of a set of indicators designed to represent the *growth* of a business's stock of intellectual capital over a period of time. Based on his experiences at Skandia AFS, Edvinsson identifies the Skandia Navigator as an appropriate vehicle for reporting this information (Edvinsson, 1997; Mouritsen et al, 2001a). Similar in nature to the original Balanced Scorecard measurement and reporting approach (Kaplan and Norton, 1992, 1993), the Skandia Navigator reflects a managerial accounting and reporting rather than a financial accounting and reporting emphasis. In parallel, Sveiby (1997b) suggests the Intangible Assets Monitor as an appropriate means of accounting for intellectual capital, with Lev's later Value Chain Scoreboard providing a further alternative (Lev, 2001).

The Scandinavian dominance in accounting for intellectual capital continues with the development of the Intellectual Capital Statement approach to the problem. A Danish government funded research project, with academic leadership provided by Mouritsen and Bukh, commends this approach (DATI, 1999, 2000; DMSTI, 2003;, Mouritsen et al, 2001b). Where it differs from the former scorecard approaches is in its narrative foundations, mirroring a trend that had been gaining support for a number of years in financial reporting circles, including in association with the business reporting concept (AICPA, 1994; ICAS, 1999; FASB, 2001; Upton, 2001). In addition, the researchers were strongly influenced by thinking in the knowledge management field (Demarest, 1997; Nonaka and Takeuchi, 1995; Prusak, 1997); as a consequence, the founding element of any Intellectual Capital Statement is management's knowledge narrative. Such statements also incorporate indicators where appropriate together with a range of additional representations of intellectual capital. A similar approach is also identified in the Meritum Report (2002), partly as a consequence of the participation of Danish researchers in that project (Bukh and Johanson, 2004).

The implications of these latter developments for accounting for people are extensive. Not only do they provide alternatives to the highly restrictive valuation emphasis implied in putting people on the balance sheet, they do so in ways that are not greatly reliant on financial numbers and reporting formats. This is something that Flamholtz was unable to achieve, despite consistently acknowledging the importance of "nonmonetary measurement of human resource value" (Roslender et al, 2007). The opportunity to account for people using indicators shaped by the needs of people rather than accounting is a major step forward, alongside the possibility of using this approach in association with extensive narrative content. Conscious of the objection that the latter advances continue to imprison people within the accounts of their employers, Roslender and Fincham (2001, 2004a) have advocated the promotion of self accounting approaches, identifying them as a further example of an enabling, emancipatory orientation consistent with the precepts of the critical accounting project. Self accounting will allow the 'assets' to speak for themselves, forever distancing them from their designation as 'costs'.

The majority of these recent insights were in place in 2003 at the launch of the *AfP* initiative. While those of an academic nature might be expected to have only a limited impact on the various parties to the initiative, there are grounds for optimism that studies funded by a European government agency, as well as by the European Commission itself, would have been known to both the UK government and those individuals it believed were sufficiently expert to consider the prospects for accounting for people in the UK context. In retrospect, such optimism is seriously misplaced.

3. The *Accounting for People* initiative

In January 2003 the UK government established the Task Force on Human Capital Management, chaired by Denise Kingsmill, previously appointed to examine women's participation in the labour market and to make recommendations on ways of reducing the pay and opportunity gap between men and women, publishing her findings as the *Kingsmill Review* (DTI, 2001a). In the course of the latter enquiry, Ms Kingsmill observed that while good HCM was recognised as a crucial element in organisational performance, it was generally under-reported in the UK. Rectifying this situation was consistent with the promotion of greater transparency in company reporting (DTI, 2002), hence the establishment of the Task Force and associated Advisory Forum.

The Task Force’s remit had three elements. First, to identify the performance measures currently used to assess investment in human capital, the term used consistently to denote ‘people’ in subsequent deliberations. Second, to consider best practice in human capital reporting and those performance measures of most value to stakeholders. Third, to establish and champion the business case for producing such reports. Both private and public sector organizations were to be examined in to determine examples of best practice that might be codified and commended to the wider reporting community. The Task Force was charged with reporting its findings in autumn 2003, doing so in *Accounting for People – Report of the Task Force on Human Capital Management* (DTI, 2003a) published in early November.

In its May 2003 Consultation Paper (DTI, 2003b), the Task Force affirms the view that the role people play in organisations is crucial to their continuing success, placing a premium on effective people management. To support this view, it cites the findings of a commissioned literature review on the relationship between human capital and organisational performance (Stiles and Kulvisaechana, 2003). While noting that it is not yet possible to demonstrate causality between strong people management and superior business performance, the Task Force asserts that a consensus linking them is emerging in the research literature. The Consultation Paper also acknowledges that people cannot be managed in the same way as other types of asset. This should not preclude efforts to collect information on people that will be of value to those responsible for their management as well as the various stakeholders beyond an organisation's boundaries, i.e. the development of an accounting perspective on people. In the Task Force's view:

> [R]elatively few employers make a systematic attempt to assess their human capital (the relevant knowledge, skills, experience and learning capacity of the people available to the organisation), to appraise how well the organisation uses this resource through its human capital management (HCM) practices, or to examine changes over time. (DTI, 2003b, p1).

Fewer still report their HCM practices externally, further reinforcing the case for a concerted attempt to account for people.

Throughout the Consultation Paper, the Task Force intimates that its preferred *modus operandi* is to identify a set of key HCM indicators or benchmarks to be commended to businesses for inclusion in any HCM report. The Consultation Paper reports, however, that a second commissioned study on the use of HCM indicators in the UK suggests current interest is modest (Foong et al, 2003). Many organisations have few if any indicators in place, although overall there is evidence of a range of examples with a focus on employee turnover and employee satisfaction. The Task Force is equivocal about what might be learned from practices beyond the UK case (see a third commissioned study by PricewaterhouseCoopers, 2003), concluding that it seems unlikely that it will currently be possible to identify best practice in the case of either measurement or reporting.

The way forward for both HCM measurement and reporting is, therefore, to adopt an approach described as *evolutionary*. Such an approach promises to combine the flexibility that businesses need to develop an interest in HCM and its measurement, with the objective of establishing a common core of minimum reporting standards. Given the limited interest in HCM in general, businesses must be given the opportunity to identify those aspects significantly affecting organisational performance and to develop the relevant indicators to reflect them. At the same time, the necessity of ensuring that what is reported in the name of HCM is rigorous, deemed reliable by the various stakeholders, and permits comparability between reporting entities and over time are vital considerations. The Task Force's position is expressed as follows:

> We recognise the tension between setting any minimum reporting requirements high enough to allow reasonable comparison between organisations, including use of the same metrics, and avoiding an over-prescriptive approach that might stifle innovation, prejudice commercial confidentiality or be unduly burdensome. Our inclination is to favour an evolutionary approach starting with a fairly general set of recommendations, with progressive improvement as measurement and reporting arrangements develop. (DTI, 2003b, p6).

Closer inspection indicates that although the Task Force argues it is premature, even counterproductive, to identify (i.e. implicitly prescribe) key HCM performance indicators, a relatively limited information set is envisaged. Initially two generic categories are identified: indicators related to the maintenance and development of skills together with indicators of employee motivation (DTI, 2003b, p5). These increase to four categories: size and composition of the workforce; employee motivation; staff training and development; and remuneration and fair employment (op cit, p6). In addition, the Task Force envisages that HCM reporting will be best accomplished employing a combination of numerical and narrative information. The case for extending narrative reporting within annual financial reporting packages has gathered increasing support during the past decade as such practices, *inter alia* in the form of the OFR and its US counterpart the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), have demonstrated their value (Rutherford, 2003). The related business reporting concept (AICPA, 1994; ICAS, 1999; FASB, 2001; Upton, 2001) also incorporates a greater narrative content.

In the penultimate section of the Consultation Paper, the Task Force briefly considers the question of reporting mechanisms, observing that there have been suggestions that HCM information might be included in company OFRs:

> The [2001] Company Law Review report identified certain items that it recommended should always be included in the OFR and certain items that should be included the directors in good faith identified them as material……The latter included, amongst other points, corporate governance and an account of the relationships with employees, customers, suppliers and others. (DTI, 2003b, p7).

Deliberations on the future form and implementation of the OFR are noted to be continuing, the Task Force welcoming views on how HCM might best be reported, given the expectations of investors and other stakeholders.

The November 2003 report makes five recommendations based on the findings of the former three commissioned studies (Foong et al, 2003; PricewaterhouseCoopers, 2003; and Stiles and Kulvisaechana, 2003), the representations received in response to the May Consultation Paper (DTI, 2003b), input from the Advisory Forum and its own deliberations. The first recommendation is the most significant and complex. HCM reports should adopt a strategic focus in communicating a business's current understanding of the links between HCM policies and practices, its strategy and its performance. Such reports should include information on: size and composition of the workforce; retention and motivation of employees; details of skills and training initiatives; remuneration and fair employment practices; and leadership and succession practices. In addition, there is a requirement that the process by which any HCM report is produced be both “balanced and objective” and “susceptible to review by auditors” (DTI, 2003a, p4). The latter requirement is new, not being evident in the May Consultation Paper. Lastly, a strong accounting emphasis for the *AfP* initiative, and the need for such reports to enable comparisons over time and, where possible, employ commonly accepted definitions, is affirmed.

Recommendation two identifies the proposed expanded OFR as the vehicle for HCM reporting. This was suggested in the closing paragraphs of the May Consultation Paper but only briefly debated. The OFR is described as being the “strongest contender” for HCM reporting (p22), something that the great majority of those responding to the Consultation Paper are said to concur with. The Task Force argues that in order to ensure that any HCM information that is reported has credibility, it is necessary that it be based in a robust reporting process, ”susceptible to review” by auditors. As an issue of good governance, HCM reporting should be the responsibility of the Board or some body directly accountable to it, e.g. an audit committee. As similar thinking has been evident in relation to attaching mandatory status to the OFR, it appears logical to link the two initiatives in this way. In addition, the OFR provides a means of reporting a combination of quantitative and narrative information on HCM. Recommendation two further suggests that if an organisation omits to include HCM information in its OFR, the Board should explain the omission.

The third recommendation is that responsibility for overseeing the introduction of HCM reporting be devolved to the Standards Board. Such a body had previously been mooted in the *Modernising Company Law* White Paper (DTI, 2002), following recommendations made in the *Company Law Review* (DTI, 2001b). The proposal was to designate a single body, developed from the current Accounting Standards Board (ASB), to which would be devolved powers to make “detailed rules on a range of accounting, reporting and other disclosure issues.” (DTI, 2002, p45). In its fourth recommendation, the Task Force invites the Government to consult stakeholders on developing a programme to aid the dissemination of best practice on HCM and HCM reporting. Finally, the Task Force charges the proposed Standards Board with the task of monitoring the progress of HCM reporting in OFRs and subsequently to report thereon to the Industry Secretary within two years of its [SB] formation.

The remaining three sections of the report outline current HCM practice in the UK and overseas, HCM methodologies and metrics, including the balanced scorecard, Skandia Navigator, EFQM Excellence Model and Economic Value Added, and provides a brief summary of the “Comments, Contributions and Responses Received”. A number of illustrations of HCM reporting are included from organisations such as BP, Cadbury Schweppes, Guy’s & St Thomas’s Hospital Trust, the Royal Bank of Scotland and Unilever. The earlier pragmatic option of promoting an evolutionary approach to accounting for people is strongly affirmed:

> We conclude that an evolutionary approach that combines a strategic focus with safeguards to ensure balance and objectivity and progressive improvement in comparability of data offers the best prospect of meeting these conflicting requirements. The degree of current interest in HCM reporting leads us to believe that the emergence of shared standards may be

> relatively fast with appropriate encouragement, whereas a more prescriptive approach risks generating a response that would be less useful to investors and other stakeholders. (DTI, 2003a, p16).

The November report's publication created only minimal interest in the UK press, either popular or professional (Roslender et al, 2004). In line with this, it took then Secretary of State for Trade and Industry, Patricia Hewitt, six months to announce the UK government's response to the recommendations. This was done in combination with a statement regarding consultation about proposals for introducing a mandatory OFR for quoted UK companies together with amendments to the Directors' Report in line with the 2003 EU Modernisation Directive (www.dti.gov.uk/ministers/speeches and www.dti.gov.uk/cld/accounting_for_people). Ms Hewitt's response to the Task Force's second recommendation indicates that from this point onwards, the implementation of the *AfP* initiative is intimately linked with the development of the OFR:

> The draft OFR regulations propose that companies must include information on employees where necessary for an assessment of the company. The OFR consultation document [DTI, 2004] makes it clear that most if not all companies will have something to report on employees, and highlights the Accounting for People report as useful guidance to help companies in this. Where companies do not consider information on employees necessary for such an assessment, it is proposed that they must state this. (www.dti.gov.uk/cld/accounting_for_people).

The response to recommendation three indicates a change in government thinking of great significance for the *AfP* initiative. Work on HCM reporting is now to be progressed by the Accounting Standards Board (ASB) "as part of its work on the OFR standard". The Standards Board proposal is therefore jettisoned, something confirmed in the OFR Consultation Document (DTI, 2004). A subsequent ASB press release confirms the invitation to develop an appropriate OFR standard and the establishment of an Advisory Committee for this purpose (ASB, 2004a). An exposure draft is promised "in the second half of this year" consistent with the DTI objective of making the OFR mandatory for companies whose accounting year begins on or after 1 January 2005; it appeared in November 2004 (ASB, 2004b), with consultation invited until the end of February 2005.

In response to the Task Force's fourth recommendation, Ms Hewitt comments that "HCM reporting is linked to many other areas of DTI work. We will use these links to keep up the profile of HCM reporting and highlight its benefits to companies.". Finally, in response to recommendation five there is further evidence of a systematic undermining of the integrity of the *AfP* initiative. Instead of a review after two years of implementation, it is now proposed that the ASB be responsible for monitoring the HCM reporting developments. It will do so "as part of a broader review of the OFR", this review being "in about five years time", to allow the OFR regime sufficient time to bed down.

Following consultation on *Draft Regulations on the Operating and Financial Review and Directors' Report* (DTI, 2004), on 24 November 2004 the Secretary of State announced to Parliament a number of key changes to the proposed OFR regime. Two are of significance to the *AfP* initiative. First, the date for implementing any new OFR regime shifted to 1 April 2005, in part to allow time for reviewing the OFR Reporting Standard being developed by the ASB. There was no mention of a bedding down period. Second, and more crucially, the relatively onerous requirements formerly placed on the audit profession in respect of HCM reporting in recommendation one in the November 2003 report and, implicitly at least, the broader set of OFR information, have now been abandoned. In her statement Ms Hewitt comments:

> Auditors will be required to state in their reports whether the information given in the OFR is consistent with a company's accounts as well as whether any other matters that came to their attention in the performance of their functions as auditors of the company were inconsistent with information directors have given in the OFR. (www.gnn.gov.uk/environment/detail).

In the Draft Statutory Instrument laid before Parliament in January 2005, paragraph 4 of Schedule 7ZA indicates that an OFR must include "information about the company's employees" (www.hmso.gov.uk/cgi-bin). The proposals were debated in the succeeding weeks, passing into law on 22 March 2005 without any further amendment. The ASB issued an OFR Reporting Standard, incorporating a measure of guidance on employees (pp53-56), on 10 May 2005 (ASB, 2005).

At the Confederation of British Industry conference on 28 November 2005, the Chancellor of the Exchequer made the surprise announcement that the mandatory requirement for around 1300 quoted companies to produce an OFR was to be abolished. Since much the same information would be incorporated in the Business Review section of the new Directors' Report, scrapping the OFR requirement was also a politically valuable exercise in 'cutting red tape'. The DTI quickly affirmed, however, that interested parties might wish to contribute to their consultation process on extending mandatory narrative reporting, the outcome of which would inform any future Company Law Reform Bill (brought before the House of Commons on 24 May 2006). In January 2006, the ASB, having withdrawn the OFR Reporting Standard, issued a replacement Reporting Statement (ASB, 2006) to encourage companies to publish OFRs on a voluntary basis, using the Statement as an authoritative source of best practice.

In summary, while "employee matters", together with those relating to society, the community and the environment, continue to be invoked by Labour spokespersons, it is difficult to avoid concluding that, after a brief interlude when encouraging accounting for people was on the political agenda, it is once again a very minor consideration.

4. The Operating and Financial Review

In this section we briefly review the development of the OFR, in particular its capacity to incorporate an intellectual capital narrative that could fulfil the Task Force's desire for an evolutionary approach to HCM reporting.

The OFR has been a major Government focus throughout recent efforts to revise company law. In its White Paper, *Modernising Company Law* (DTI, 2002), the Government stated that the new OFR constituted a "significant improvement in the quality of reporting" (Annex D, p1). A statutory OFR for the "most economically significant" companies was a key recommendation of the Company Law Review Steering Group (CLRSG) that produced three consultative publications between 1999 and 2000, culminating in its final report in 2001 (CLRSG 1999, 2000a, 2000b, 2001). The OFR was to be made compulsory (it began life as a non-mandatory ASB statement in 1993) because the Company Law Review Steering Group had

> ……been told that compliance with the existing ASB guidance is patchy, particularly in areas such as reporting on relationships with employees, and that this is particularly true in relation to companies outside the FTSE 100. (DTI, 2001, paragraph 3.36).

Studies of current (voluntary) practice (Weetman and Collins, 1996; Rutherford, 2002, 2003; Company Reporting, 2004; Deloitte, 2005) have identified a wide variety of OFR reporting in terms of both style and content. Information is very often split into two distinct sections, operational and financial, but can appear in other parts of the annual report. The government intended the new statutory OFR to be a separate stand-alone component of listed company financial statements.

The introduction in June 2003 of a new EU Company Law Directive (the *Accounts Modernisation Directive*), to be implemented in the UK in 2005, forced the government to move quickly with its own plans for the OFR ahead of a new Companies Bill being finalised. This was because the new Directive made amendments to the directors' report which overlapped with UK proposals for the OFR. Statutory Instrument 2005 No.1011 brought *The Companies Act 1985 (Operating and Financial Review and Directors' Report etc.) Regulations 2005* into force on 22 March 2005 (hereafter *Regulations 2005*) and ensured that UK companies that complied with them would also satisfy the EU requirements for the directors' report. Ironically, the CLRSG had envisaged scrapping Directors' Reports once the new OFR was in place. The government's haste to get the OFR off the ground from April 2005 had been criticised (ICAS, 2004), not only because it gave little time for careful consideration of its proposals, but also because it coincided with the implementation of International Financial Reporting Standards for all listed companies in the EU, a time-consuming and costly burden for most entities to have to deal with. In November 2004 the government delayed the original proposed OFR implementation date (i.e. financial years beginning on or after) of 1 January to 1 April 2005, to give more time to companies.

The extent of HCM reporting required by the *Regulations 2005* was as follows: in order to meet the overall review objective (para 1) and four general requirements, namely:

> a statement of the business, objectives and strategies of the company; a description of the resources available to the company; a description of the principal risks and uncertainties facing the company; and a description of the capital structure, the treasury policies and objectives and the liquidity of the company (SI 2005 No.1011, schedule 7ZA paragraph 2),

the directors must “to the extent necessary” include information on three specific issues: environmental, employee, and social and community (paragraph 4(1)). For all three areas, directors should provide ‘information about the policies of the company and the extent to which those policies have been successfully implemented’ (paragraph 4(2)). Paragraph 6 requires ”analysis using financial and, where appropriate, other key performance indicators, including information relating to environmental matters and employee matters.”.

Given that a legal requirement for basic employee-related disclosures in directors’ reports has existed for over twenty years, it is hard to see how the above obligations would have led to any real transformation in HCM reporting. Indeed, the lack of specifics and the get-out clause “to the extent necessary” arguably rendered the OFR totally unfit for purpose when one considers the ambitious recommendations made by the AfP Task Force.

Users of annual reports are being provided with an increasing range of narratives. Traditionally, narrative sections have included the Directors' Report and the Chairman's or Chief Executive's Statement; with the advent of the non-mandatory OFR Statement (ASB, 1993), and the corporate governance initiatives (from Cadbury, 1992 to the most recent, The Combined Code, 2003), the extent of UK narrative reporting has grown impressively in recent years. A recent survey of listed companies found that narrative content formed, on average, 57% of the annual report, an increase of more than 10% since 1996 (Deloitte 2005). Bartlett and Chandler (1997) reported strong private shareholder preference for the narrative sections of annual reports with 84% reading the chairman's statement, 83% the financial summary, 67% the chief executive's review, and between 62% and 67% the review of operations and financial review sections of the directors' report. These figures compare with 68% reading the profit and loss account and 59% the balance sheet. Some business insiders have argued that narrative reporting has increased relevance and significance for investors, given the technical complexities of International Financial Reporting Standards which make the accounts less understandable (Accountancy Age, 2006, p6). Financial reporting conditions would therefore appear to favour the development of HCM reporting, and with political and business willpower and cooperation, the OFR could perhaps have fulfilled the Task Force's hopes for an appropriate HCM reporting vehicle.

The Chancellor's announcement in November 2005 that he was repealing the OFR element of the *Regulations 2005* genuinely shocked interested parties (including the DTI) and led to widespread criticism. The charitable organisation Friends of the Earth threatened legal action over the U-turn as a result of which the Government rather lamely offered an extended consultation period on narrative reporting. Currently, the Directors' Report element of the *Regulations 2005* remains, requiring all companies, except those that qualify as small, to produce an enhanced business review in order to comply with EU law. The business review is even less explicit on disclosures than the displaced OFR, stating:

> The review must, to the extent necessary for an understanding of the development, performance or position of the business of the company include (a) analysis using financial key performance indicators, and (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters. (Company Law Reform Bill [HL], part 16, chapter 5, section 423, 6(a)(b)).

Narrative reporting developments internationally suggest that the UK OFR will be resurrected in one form or another in due course. In October 2005 the International Accounting Standards Board issued a discussion paper entitled *Management Commentary* (IASB, 2005), which was the culmination of a 4 year project to investigate the importance of narrative reporting internationally. The project team concluded that a narrative report (or management commentary (MC)) should be a future IASB requirement as a means of improving the overall quality of financial reporting. It is therefore likely that once the consultation is complete, a MC international financial reporting standard will be forthcoming. Currently, various forms of MC are required in Australia, Canada, Germany, New Zealand and the US. Within the EU, the aforementioned Accounts Modernisation Directive now requires all listed companies to include a Directors' Report with an enhanced business review section. With such diverse practice internationally, the IASB proposals are inevitably cautious and unambitious, an attempt to compromise and encourage rather than specify and mandate. There is a passing mention of the *AfP* initiative (p18, para 29) and some suggestions in appendix E as to what might be reported by those entities that consider their employee workforce as a key resource, risk or relationship (para E15), but little else at this juncture to suggest that an IASB MC will provide a suitable future home for HCM reporting.

5. The diminishing OFR audit requirement

As we observed in section 3, the *AfP* Final Report had recommended that HCM disclosures ought to be susceptible to review by audit. The repealed *OFR Regulations 2005* had inserted a new audit requirement into the Companies Act 1985 at section 235:

> If the company is a quoted company, the auditors must state in their report-
> (a) whether in their opinion the information given in the operating and financial review for the financial year for which the annual accounts are prepared is consistent with those accounts; and
> (b) whether any matters have come to their attention, in the performance of their functions as auditors of the company, which in their opinion are inconsistent with the information given in the operating and financial review.

This presented the auditing profession with an additional remit as the non-mandatory OFR had not been part of the audited content of company financial statements. Part (a) would not have posed any obvious problems for auditors since under the Companies Act 1985, they already have to read the Directors' Report for consistency with the financial statements. This long-standing requirement will now extend to the new Directors' Report with its business review section. The additional requirement in part (b) above has, however, been abandoned altogether; this would have clearly required a more critical and personal appraisal of the contents of the OFR by the auditors.

In addition to (a) and (b) above, the DTI's May 2004 *Draft Regulations* had proposed a more challenging role for the auditors, asking them to give an opinion on whether the directors had prepared the OFR *after due and careful enquiry.* This was seen as a controversial requirement as the auditors were being expected to audit the *process* involved in preparing the OFR, a role that seemed inconsistent with their main function, which is to express an opinion on the truth and fairness of the financial statements as prepared and presented to them by the directors. The DTI expected auditors to examine each statement made in the OFR and investigate how the directors

> ……..have satisfied themselves that adequate, supportable information was considered in making their decisions as to inclusion of information, and how they have satisfied themselves that there is an adequate, supportable basis for statements made, whether factual or judgmental. (CLRSG, 2001, para.8.63).

There were many practical problems envisaged with an audit of the preparation process, the first being that the OFR might have multiple authorship so that responsibility for statements made could be fragmented and thereby difficult to trace and audit. A second problem was the risk of omission; auditors would simply not be able to perform a completeness check on the totality of the OFR due to its boundaries being blurred with other sections of the annual report and the considerable degree of subjective judgment given to directors in determining OFR content. It was unlikely that auditors would feel comfortable about challenging directors over judgments as to what should/should not be included. As the DTI itself commented: "The OFR should cover only those matters that are necessary for an understanding of the business." (DTI, 2004, para.3.29).

The fact that much of the OFR was based on the directors' judgment posed a further problem. Currently, when auditors are faced with having to verify significant disclosures or data for which there is no satisfactory supporting evidence, they are expected (APB, 2004) to obtain management representation letters, a written and signed (by the directors) record of significant management assertions. The value that such documents add to the body of audit evidence gathered is debatable; indeed, professional guidelines warn auditors that these letters do not absolve them from seeking additional evidence. There was therefore a clear risk that auditors may have had to resort to these letters, and possibly over-rely on them, in order to meet their OFR reporting objective.

As a result of these practical problems, the profession reacted with its customary hesitance to the audit proposals. ICAS (2004), for instance, argued that the role of the auditors should be limited to a consistency check because:

> [T]he type of work required to make any judgment on the adequacy of the OFR is of quite a different type to that normally carried out retrospectively in an audit …it is also aiming at a much wider set of inputs to the process.. some of which may well lie outside the auditors' competence to comment upon.

The ICAEW (2004), on the other hand, wanted an audit of consistency *and* process, based on clear reporting guidelines, but not an audit of content as this was seen as "not .. practicable given the judgmental and future-oriented nature of much of the information required under the draft Regulations".

Professional reservations about auditors providing assurance on narrative reporting have re-surfaced in many of the responses to IASB's Management Commentary proposals; Deloitte argues (IASB, 2006: Deloitte p4) that MC information is likely to "be so subjective as to require auditors to modify their reports on the grounds of fundamental uncertainty or limitation of scope…. We believe this would result in the audit being undervalued.".

There were two particular changes made to the OFR during its development that could be interpreted as an attempt to placate a concerned (and very powerful) audit profession. The CLRSG had wanted the directors “to provide a discussion and analysis” (CLRSG, 2001, paragraph 8.32); by the time the *Regulations 2005* were issued, the word “discussion” had been dropped in favour of a requirement for analysis, statements and description. A second change was the intended audience for the OFR. This was users according to the CLRSG but subsequently became, more narrowly, the company’s members. The ASB claimed that proposals to direct the OFR at a wider stakeholder audience led to liability concerns being voiced by directors. There was a general concern that fear of legal exposure could lead to a ‘boilerplate’ approach to OFR disclosure by the directors (ASB, 2005, para C21.) These changes represented a departure from the ASB's original thinking on the purpose of the OFR:

> The OFR is a framework for directors to discuss and analyse the business's performance and the factors underlying its results and financial position, in order to assist users to assess for themselves the future potential of the business (ASB, 1993, para.1)

Arguably, less discussion of the results and performance of the company in favour of a more factual analysis of the figures would inevitably have led to a dilution of the (usually more interesting) narrative character of the OFR, and a move to the sort of boilerplate approach which the ASB and the government had all along sought to avoid. The targeting of the OFR at the company's members would narrow its scope to focus on shareholders and thereby reduce the range of issues that directors would include in the OFR, in particular, information on employee, environmental, social and community issues.

The traditional financial statement audit focuses on factual information that can be supported by evidence. In addition, auditor liability has been tightly ring-fenced, through decades of case law, to shareholders as a body (*Caparo Industries plc v Dickman and others*, 1990). Thus, by making the OFR less discursive and more factual, and addressing it to the shareholders, auditing it became more palatable to the auditing profession. Whether shareholders and other users of the OFR would have perceived any real benefit from what was in effect an arms' length appraisal of its contents is open to question. Presumably shareholders would prefer to see full and frank OFR reporting, together with the added assurance of an audit opinion as to it being true and fair (in line with the rest of the financial statements). A bland audit statement that the information is consistent with the financial statements does not seem to fulfil the aim of "providing quality assurance" (DTI, 2004, para.3.56).

In spite of the limited audit requirement, the Auditing Practices Board estimated that the average listed company could expect one-off audit fees of £4,000 plus ongoing fees of £7,100 (a 2.5% increase) as a result of the OFR audit work (Accountancy, 2005, p18). This is one reason why the Confederation of British Industry (CBI) protested against a compulsory audited OFR (in addition to director liability concerns) and why it continues to resist the IASB's MC proposals (Accountancy, 2004**,** p33; IASB, 2006: CBI, p3).

Some countries do currently have an audit requirement for MC-type reports, for instance in Germany, but the audit remit is merely to assess whether the narrative information is consistent with the financial statements. The US equivalent of the OFR is the MD&A**,** a long-standing Securities and Exchange Commission (SEC) requirement (Regulation S-

K (Item 303)). The MD&A is not part of the *audited* financial statements, but US accountants may be asked by clients to perform either an *examination* or a *review* of a MD&A as a separate exercise, the purpose being to conduct a regulatory and compliance check on the content of the MD&A and a reasonableness check on its disclosures. US shareholder surveys such as that by Epstein and Pava (1993) report that the MD&A is not perceived as being particularly useful, while Collins et al (1993) conclude that US disclosures are dull and limited. Ernst & Young report an almost total lack of demand by clients for such an attestation (IASB, 2005, para 191) and the majority of the responses to the IASB's MC discussion paper reject any mandatory audit requirement on the grounds of cost, feasibility or the risk that it would result in a boilerplate exercise.

In spite of a lengthy development process which began in 1993, and by 2005 had most interested parties won over, the government's plans for a mandatory audited OFR have now been shelved. Some commentators see this as a missed opportunity (see for example, Accountancy, 2006, p28) to improve the quality of financial reporting in the UK. Others argue that the audit profession does damage to its long term viability by not being more receptive to opportunities for adding value to new forms of business reporting (Collins et al, 2006). Certainly, from the point of view of narrative reporting generally and HCM reporting specifically, the OFR experience highlights the challenges facing regulators looking for a meaningful audit input as a means of lending credibility to disclosures outwith the traditional annual report.

6. Courting favour(ite)s

To those of an optimistic disposition, the November 2003 recommendations of the HCM Task Force indicated that, at that juncture, there were signs of modest support for encouraging organisations to explore the potentialities of accounting for people in the short to medium term. With the benefit of hindsight, however, it is possible to identify *AfP* as an inherently flawed initiative. The Task Force was very skilful at disregarding the lack of a foundation for such exercises in the UK context, soon to be corroborated by the findings of research by Fincham and Roslender (2003, 2004b; Roslender and Fincham, 2004) and Verma and Dewe (2004). At the same time, however, the Task Force was largely silent on the emergence of scorecard and narrative approaches for accounting for intellectual capital, including people, outlined in section two. Mention is made of the Balanced Scorecard, Skandia Navigator, EFQM Excellence Model and Economic Value Added in the report. Their relevance to the issue at hand is never fully explored.

The decision to embrace the OFR approach was of crucial significance to the outcome of the entire initiative. Combining the *AfP* initiative with the expanded OFR proposals was rather convenient, providing a means for the Government to progress two elements of policy simultaneously. That it was ultimately an inappropriate pairing, as argued above, as well as one that was politically vulnerable, is only part of the story. A key question remains: why was there no interest on the part of the Task Force in linking its commitment to accounting for people with alternative, demonstrably relevant approaches, which combined both measurement and reporting dimensions, that were gaining support elsewhere, and in the case of the Intellectual Capital Statement approach funded by the DTI's Danish counterpart? In the light of Gordon Brown's intervention in the debate, it is seems unlikely that any alternative coupling could have survived. Nevertheless, it is possible that accounting for people might have become a more credible prospect than it presently is.

The phrase 'accounting for people' conveys the existence of two agendas within the initiative: an accounting agenda and a people agenda. Armstrong (1985, 1986) documents how the accounting and personnel functions, among others, have been involved in a process of inter-professional competition for organisational dominance, with the former traditionally enjoying greater success. The passage of time, and the emergence of the (strategic) human resource management profession, has done little to change this situation in the UK, despite the acknowledgement that 'our people are our greatest asset'. Nevertheless, within the context of the *AfP* initiative at least, there are some grounds for believing that the two professions met as equal partners. 'Human capital management' is a finely balanced designation, one from which the human resource management profession can take some comfort, as in the wording used in the *AfP* Consultation Paper definition:

> [A]n approach to people management that treats it as a high level strategic issue and seeks systematically to analyse, measure and evaluate how people policies and practices create value (DTI, 2003b, p1).

Throughout this document the ideas and research findings from the human resource management literature are to the fore, particularly in the pages of two of the studies commissioned by the Task Force (Stiles and Kulvsaechana, 2003; Foong et al, 2003).

By comparison, the accountancy profession's agenda appears less visible in the two *AfP* documents. This may be understandable given the observation that progress in accounting for people has been rather limited during the past forty years or so, recent developments in the Scandinavian context notwithstanding. Indeed, for the greater part, accounting for people has been principally an academic preoccupation, attracting very little interest in the UK. Taken together, this suggests that regardless of the importance of human capital assets, accounting for people may not be a key priority for the UK accountancy profession. Consequently, the *AfP* initiative evidences a strong sense of the accountancy profession being *invited* to consider how it *might* be possible to account for this increasingly valuable organisational asset. There is little to suggest that the profession is being challenged to identify a solution to what is portrayed as key issue exercising senior management within organisations. The tone of the documentation is extremely cordial towards the accountancy profession, suggesting a conscious effort to ensure that the profession is successfully brought on side.

Underpinning this courtship process, there are many indications of the awe in which the accountancy profession is held by senior management in the UK. For example, in the second paragraph of the *AfP* Consultation Paper, having intoned that 'our people are our greatest asset', the Task Force continues:

> Some employers….have taken on these points, and have well-thought-through and well-developed people practices. They accept that what is not measured is not properly valued and cannot be effectively managed. (DTI, 2003b, p1).

The second sentence attributes to the accountancy profession the ultimate jurisdiction over measurement, the perceived key to 'effective' management. Within the measurement canon itself, valuation affords the ‘proper’ perspective required to ensure that extant people practices realise their fullest potential. The accountancy profession alone is deemed capable of providing the necessary measurement metrics. It also possesses the authority to provide the legally sanctioned external report of organisational performance. The latter reports have traditionally been reliant on financial valuations in the balance sheet, while those measurements regarded as providing the best means of managing the business incorporate cost and revenue calculations, as in the income statement, with their fundamental valuation foundations. Such measurement approaches instantiate the mode of financial management that has been dominant in all types of organisation, to great effect, for generations. Consequently, with who else but the accountancy profession should human resource management professionals, and their senior management counterparts, seek to forge an alliance?

While a human resource management discourse initially appears to predominate with the *AfP* documentation, on closer inspection, a range of ideas central to the accountancy profession’s discourse provides the underlying vocabulary for the entire initiative. The information to be made available on people must be ‘balanced and objective’. To be credible such information must be ‘trusted’ by users as well as being ‘material’ in nature. Information must be both ‘relevant’ and ‘reliable’, passing the tests of ‘comparability’ and ‘consistency’. Any reporting process will need to be ‘robust’ in nature and should contribute to increased ‘transparency’. At the same time there is a pressing necessity to recognise the demands of ‘commercial confidentiality’ and the many issues associated with ‘good governance’. Beyond this litany of terms, the pages of the *AfP* documentation are liberally sprinkled with popular accountingese such as ‘stakeholders’, ‘the market’, ‘key indicators’, ‘reporting standards’, etc. As a consequence, although people are the manifest focus for the *AfP* initiative, it is the unchallenged capacity of accounting, as the stock of knowledge and practices developed by the accountancy profession, to furnish the insights required for effective human capital management that prevails.

The capacity of the accountancy profession to colonise ever-wider parts of the broader management agenda has been identified within the critical accounting literature (Broadbent et al, 1991; Power et al, 2003). The argument is that the profession has *actively* sought to extend its jurisdiction by successfully demonstrating a capacity for applying its knowledge base and associated practices to solve the problems facing management. In the case of the *AfP* initiative, however, there are strong indications that the colonisation process has moved into a second phase, which sees the accountancy profession being invited to fashion its own approach to accounting for people. It no longer has to argue that its approach to management control is preferable to the alternatives on offer, in this instance from a seemingly ascendant human resource management profession. Its reputation precedes it, suggesting that it will take far more than the momentous scandals associated with Enron, Worldcom, Paramalat, etc, to undermine senior management’s faith in its portfolio of solutions.

An indication of just how little the UK’s human resource management profession believes it was finally allowed to contribute to the proposed implementation of accounting for people, after what on the surface at least was a very promising point of departure in January 2003, can be gleaned from the following extract from the UK

Chartered Institute for Personnel and Development (CIPD)'s response to Patricia Hewitt's May 2004 statement:

> [I]n our view, the DTI consultation document represents a significant weakening of the recommended requirements to report on human capital management contained in the Accounting for People report. Although in Schedule 7ZA it proposes that there would be the legal requirement in the OFR to "include information about the employees of the company and its subsidiary undertakings" or explain the particulars of and reasons for omission, a requirement which the CIPD's members endorse, the current consultation document represents a significant weakening of the Accounting for People Task Force proposals and what the CIPD believes is required….
>
> [T]he language of human capital management and strategy…..has been totally abandoned in favour of "information on employees", "employment" and "employee relations" in this document.

The subsequent statutory requirement that an OFR should include only a limited set of "information about the company's employees" was never likely to prove attractive to the CIPD, whose disgust with the whole episode is conveyed in its submission to the DTI's consultation process on increased narrative business reporting (CIPD, 2006).

7. Accounting and the (continuing) promotion of sectional interests

The previous three sections have documented the UK accountancy profession's success in emasculating an initiative designed to introduce a modest extent of accounting for people within financial statements in the pursuit of improved HCM. Of critical significance in this process was the accountancy profession's obfuscation of a number of recent developments in the intellectual capital field that may hold out the prospect of progressing any such initiative. It might be argued that many parties with an interest in the *AfP* initiative, including some members of the Task Force itself, would not necessarily be aware of these developments. It seems unlikely, however, that this would be the case for the two Task Force members drawn from the UK accountancy profession. On the assumption that they were either aware or well-positioned to be aware of such developments, the question arises as to why they appeared to be comfortable to see a detailed consideration of their potential value to the initiative absent from the published documentation? Having successfully convinced their counterparts of the superior value of their own particular solution to accounting for people, why was the UK accountancy profession prepared to run the risk of being accused of stifling a well-informed debate?

In section two we argued that early attempts at accounting for people, initially in the form of human asset accounting and subsequently human resource accounting, failed to deliver substantive insights, resulting in a waning of interest in such developments from the later 1970s. The principal obstacle was a lack of agreement on how to value a stock of assets over which management has only limited control, as identified in the employment contract. The ability to place monetary valuations on assets has always been central to the accountancy profession's jurisdiction, as generously acknowledged in the *AfP* documentation. It follows that not being able to account for people suggests a weakness in that jurisdiction, perhaps explaining why accounting scholars such as Paton, Hermanson and Flamholtz were originally drawn to the field. History suggests, however, that their work (among others) in identifying the difficulties involved in progressing the valuation of human assets has, in truth, served to *reassure* third parties that the accountancy profession's jurisdiction is generally extremely robust. Accounting for people was resultantly represented as a largely 'technical' problem, a solution to which might eventually be found within the prevailing conceptual framework of financial accounting and reporting.

The great attraction of this situation is that as long as it persists, it provides senior management with a rationale for continuing to account for people as costs to the enterprise rather than as assets. What Flamholtz briefly threatened in the early 1970s was to introduce an alternative perspective on accounting for people. His objective was to demonstrate the value of human resources to businesses rather than their valuation. Once apprised of the value of people, Flamholtz believed that senior management might be persuaded to make better use of their talents. His was an example of the sort of enlightened managerialism then current, underpinned by the belief that it was possible to develop better accounting practices that would serve the interests of all stakeholders. He faced two difficulties, however. First, he was the heir to a managerial accounting paradigm that was increasingly shaped by the precepts of the dominant mode of financial accounting and reporting. As a consequence, the terms in which he set about fashioning a new and progressive accounting for people perspective meant that it was destined to remain within the prevailing thinking, *inter alia* ‘putting people on the balance sheet’, his own disavowals of this objective notwithstanding. Second, and more importantly, in the mid 1970s very few within the realms of senior management were persuaded of the necessity to contemplate whether ‘our people are our greatest asset’.

One of the founding themes of the critical accounting project, as it was enunciated by those contributors informed by Marxist theory, was that as a set of socially constructed practices, accounting will accord with capitalist society's prevailing belief system (Tinker, 1980, 1985; Tinker et al, 1982; Cooper, 1980; Cooper and Sherer, 1984; Roslender and Dillard, 2003). Accounting is designed to ensure that the social arrangements consequent upon this belief system remain in place and, over time, are successfully reproduced. Any disjunction between accounting practice and the prevailing belief system therefore potentially poses a problem to the continued existence of these social arrangements. Within capitalist society the interests of capital have consistently been privileged over those of labour. This is reflected in the fact that financial statements have traditionally been formulated to meet the needs of capital rather than labour, irrespective of the observation that it is the latter who are the sole source of value (Marx, 1954, 1971). To the extent that the current belief system of capitalist societies has not changed in any fundamental way, it remains unlikely that initiatives designed to promote the interests of labour, or indeed to make their contribution to the value creation process more transparent, are likely to prove compelling to capital. The discourse of accounting practice promotes the visibilities that advance the interests of those whom it privileges.

As the agency responsible for developing and implementing accounting practices, the accountancy profession occupies a powerful position within organisations. To retain this position, the profession must ensure that it continues to match three expectations. First, it must continue to develop practices that serve the interests of capital. Second, it must ensure that its solutions to managerial problems are more positively regarded than those of competing professional groups. Third, it is vital that all those responsible for implementing these practices can be relied upon to do so. They should deploy a technical mastery of their knowledge base and do so in an unquestioning manner, following the largely unwritten rules of their profession. Although this description of the accountant fits more readily with the image of the employment in large organisations, it is unlikely that a independent practitioner will enjoy a continuing demand for her/his services if s/he elects to disregard the interests of clients. The rewards for those who comply with such expectations remain impressive. Consistent with the broader social arrangements of capitalist society, the accountancy profession exhibits a hierarchical structure, with those occupying its most senior positions being part (a fraction) of capital itself (Poulantzas, 1975; Carchedi, 1977; Roslender, 1990, 1996). This sometimes affords them the opportunity to take an *active* role in the making and remaking of accounting practices and their underlying knowledges, by virtue of involvement with bodies such as the UK Accounting Standards Board and the International Accounting Standards Board, or as members of government bodies such as the Task Force on Human Capital Management.

The answer to the earlier question about why the two representatives of the UK accountancy profession on the HCM Task Force were seemingly prepared to disregard recent developments that might be of positive benefit to progressing any accounting for people initiative, thereby running the risk of undermining the credibility of their profession, should now be apparent. In principle, any development that threatens to promote the interests of labour (people) within the prevailing social arrangements poses a problem to capital (senior management). By comparison with human resource accounting, the prospect of accounting for people using a combination of relevant metrics and accompanying narratives *is* radical, not least because it promises to free accounting from its ‘counting’ foundations. This said, the UK accountancy profession seemed to have satisfied itself that the OFR model offer was sufficiently close to its established *modus operandi* and, probably more significantly, unlikely to encourage an excessive zeal for people information on the part of those responsible for preparing such reports. Evidence that the profession was secure in its own control of the situation was subsequently furnished in the May 2005 ASB Reporting Standard, in which such information appears a relatively minor consideration.

The promotion of potentially more progressive approaches to reporting such as the Danish Intellectual Capital Statement is a more risky business. Such an approach is more about ‘recounting’ than counting, in that it demonstrates the potential of a narrative approach to the task of reporting. In addition, such an approach is more inclusive in nature than traditional financial statements, drawing on insights from the other management functions to provide a richer picture. Intellectual Capital Statements also lend themselves to a greater extent of reflection than the factual approach hitherto favoured by the accountancy profession. Not only do such approaches abandon the valuation model, they promote greater levels of subjectivity rather than objectivity. Most crucially of all, however, such approaches, with their emphases on knowledge and the value creation process, threaten to highlight the (continuing) role of labour within organisation, as the repositories of knowledge and, again, as the sole source of value (creation).

It is unthinkable that the UK accountancy profession would commend such potentially disruptive developments within the context of the *AfP* initiative, given its role as a key force in reproducing prevailing social arrangements. It would be counterproductive to place such developments on the agenda, suggesting a willingness to see itself removed from the cadre of trusted protectors of the interest of capital. While it might be distressed at being out-manoeuvred by the accountancy profession, the human resource management profession also has little to gain by embracing developments within the intellectual capital field, beyond the lesson that it now seems valuable to identify a relatively small number of people-oriented metrics that might be incorporated within the narrative sections of financial statements, where such practices are regarded as serving the interests of capital. For the foreseeable future, therefore, there seems little possibility of radically promoting the interests of labour (people) to the detriment of those of capital.

8. Concluding observations

Although the emasculation of the *AfP* initiative comes as no surprise, the existence of renewed interest in accounting for people through a focus on intellectual capital ultimately provides critical accounting with grounds for a degree of optimism. In the same way that the debate surrounding *AfP* was not rehearsed in a vacuum, something that the upper echelons of the UK accountancy profession were very successful in obfuscating, research in the intellectual capital field is being pursued against a background of growing interest in developing a strong critical orientation across the whole spectrum of management studies. Increasing numbers of scholars may therefore be more likely to be receptive to arguments that promote the interests of those who are managed, designated “human capital” in the intellectual capital field. In the case of critical accounting, this entails returning to a field that for much of the past forty years has evidenced strongly managerialist emphases, endowed with a prospectus of insights concerning the conditions and consequences of accounting rather than simply its technical dimensions. The theoretical perspective informing these pages takes as axiomatic the limited possibility of progressively accounting for people as long as such practices are fashioned by sectional interests that do not serve the interests of labour. As critical accountants our objective must be to develop an emancipatory approach to accounting for people within the broader mode of accounting designed to enable rather than control them.

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