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## In Our Humble Opinion: There's No Accounting for It

*Commentary by Charlie Grantham and Jim Ware*

Okay, what got us going on this one? The boyz is off on the primary trail again and we're left to our own devices. Hope we meet your expectations.

Actually, we've got a slight change of pace this month. We've been beating up on you poor readers with tales of gloom and doom for a couple of months now. It's time for some "What do we do?" advice. There's a lot that could use some changin' out there, but we're going to focus down on a critical behavior feedback system that, In Our Humble Opinion, is really outta whack (got that in early this time). That's academic talk for somethin' ain't workin' right.

As happens all too often, we sort of rolled up to mid-month without a clue as to what Our Humble Opinion would be this time. Seems like we've spent too much time trying to travel lately So, there we were, sitting on an airplane at 34,000 feet moving at 350 mph and asking, "How much does this cost?" The price of that \$200 ticket?

Not really, it's much more. And by the way, just who is paying us for our time sitting here when we could be elsewhere doing something much more constructive, like helping little ol' ladies across the freeway?

May we suggest that something is really, really wrong with this picture. Yeah, we keep ranting about how it's better (faster, cheaper, greener) to be moving butts than bits, but now it's getting personal.

And why, while we're at it, are tomatoes \$3.00/lb. when the farmer gets maybe \$0.60/lb (what, you didn't know that's what we're at?? Truth in pricing, hardly. Maybe a label with **all** the costs listed would change our habits, or at least make most of us more conscious of what we're doing. (We really do think about questions like this—and often at the strangest times). Seems there is just no accounting for it.

And we think it's actually a whole lot deeper than that..

What's the problem? Well, just think with us fer a minnit er two.

We (all of us, together) have moved into an economy where (outside of manufactured goods) our accounting systems don't begin to capture the true **total** cost of doing things and delivering services. We've come up with all kinds of convoluted ways to fool ourselves into thinking we really know what's going on. And, In Our Humble Opinion, we are planning and managing our economy (and our lives) without having a clue about what the hell is going on.

In short, as a society we're flying blind into a global storm brought on by the Conceptual Age, as our buddy Dan Pink calls it; see:

[http://en.wikipedia.org/wiki/Conceptual\\_economy](http://en.wikipedia.org/wiki/Conceptual_economy)

and

<http://www.danpink.com/>

This new world we're already living in is as complex as a bowl of spaghetti with each noodle twisted around several others, and we've only got a little space here to make sense out of it (the editorial police, you know).

So we're going to focus down on two cogent unmeasurables: the environment and human capital. Maybe we can come back to other issues like the myth of the free market later (talk about a fairy tale. Okay, okay . . .).

### **Environmental issues: Environmental Cost Accounting**

From a not so humble web site (<http://www.golder.com>):

*"In the post-dot.com, post-Enron world, terms like disclosure, transparency, and materiality go hand-in-hand with auditing and accounting. Corporate governance reform efforts are focused around translating the concept of corporate responsibility into practice. This means enlarging the scope of conventional financial reporting to include non-financial information such as that relating to environmental and social issues. Traditionally trained accountants and financial analysts generally have a **poor understanding** of such issues, especially when they relate to intangible assets."*  
(emphasis ours).

Need we say more?

The simple fact is that we don't know how to account for pollution, toxic waste, clean-up costs, long-term environmental deterioration and a gazillion others things. Entire books are being written on the topic (such as *Environmental Cost Accounting: An Introduction and Practical Guide* by Rupert Howes).

There is also the whole idea of the "Triple Bottom Line" that focuses attention on economic, social, and environmental impacts (see [http://en.wikipedia.org/wiki/Triple\\_bottom\\_line](http://en.wikipedia.org/wiki/Triple_bottom_line)). Unfortunately, like so many similar well-intended efforts, this one has made much more progress in Europe than it has here in the good ol' US of ever-loving A. As a British architect commented at a recent meeting on "green" buildings, "In the United States you have LEEDS; in the UK we have laws."

Our point here is that In Our Humble Opinion (we're doing a lot of "opining" this month – that's a fancy-schmancy legal term that Jim learned recently), we have to do much more work in this area of accountancy, starting by bringing **all** of the facts into the pricing equation. If we included the complete environmental cost of the goods and services we consume, do you think people would change their buying behavior?

Well, duh, what if a Hummer cost twice, no three times, what it does today? What if you, or at least your employer, had to pay the true full cost of your air travel across the country or overseas? What if that beef you bought included *all* the economic *and environmental* costs of the land the cattle were raised on, the feed they consumed, and fuel it took to get that beef into your neighborhood supermarket? Is it just possible that our purchasing, consuming, and traveling habits might change a bit?

It's trite but true: if we can't measure it, we can't manage it.

### **Valuation of Intellectual/Human Capital**

Warning: we're gettin' a bit heavy and serious in what follows.

Economists use an equation called "Tobin's Q" to assess the difference between a company's market valuation and its hard asset value (see [http://en.wikipedia.org/wiki/Tobin's\\_q](http://en.wikipedia.org/wiki/Tobin's_q)). It's one way to begin to understand why a software company like Microsoft or – even better – Google can have such a high market value when it hardly owns anything in the way of tangible things. Those are just two very obvious examples of companies whose "assets" are the minds of their employees and the processes they have developed for turning ideas into products and services.

Okay, Tobin's Q isn't a bad start **but** (and this is a big "but"), the accounting profession, through the Financial Accounting Standards Board (FASB) is struggling with this issue right now. How do you reliably measure the value of a firm's intellectual capital and innovative capability, and reflect those intangibles on the balance sheet? In short, currently there's just "no accounting for it."

Scandia Corporation in Sweden has come the closest by doing a detailed annual accounting of all of its intellectual capital. What we need are reliable metrics that can be used to benchmark performance and perform comparative valuations of companies in similar financial or industrial sectors of the economy. Some organizations are beginning to measure levels of employee education, and the amount of intellectual property such as patents, as indicators of their corporate "health"; but we are not there yet by any means.

Just think how different the world would be if we treated people (human "assets") the way we treat machines.

What? Treat people like machines? Well, consider this perspective. When a company makes a capital investment in a piece of equipment or builds a factory (like a printing press, an oil refinery, an office building, or an automobile assembly line), it also commits to spend money maintaining the equipment over time, and takes "depreciation" on the balance sheet to recognize the ongoing costs of keeping that equipment up to date and efficient. What if we treated human "maintenance" like training and development as a capital expense? Or what if we viewed economic downturns as opportunities to "refresh and renovate" our human capital, instead of just laying people off?

Full disclosure here. We are **very** interested personally and professionally in this topic and have actually conducted some formal research on it. In fact, we will be presenting some of

our ideas at the [Conference Board's annual Human Metrics Conference in April](#) that will be hosted by our good friend and favorite human capital metrics guru, Dr. Jac Fritz-Enz (see <http://www.humancapitalsource.com/>).

Look, these hidden, unrecognized human capital and environmental costs (and values) clearly distort both investment and operating decisions. Would you want to invest in a company with high long-term environmental costs and low (or sinking) intellectual capital assets? We don't think so, but how would you know what to do by looking at currently available data? It would be very, very hard. And now, once again, the refrain: "There's no accounting for it."

### **Some Background**

Accountancy is a rather recent human invention (as are corporations, by the way). It probably started in the 12<sup>th</sup> century AD, but came to the fore in 1458, authored by a Croatian merchant. Seems there was a whole lot going on around then. It was about the same time that a guy named Gutenberg invented the printing press, but, well, that's another story. What we have here is another Agricultural/Industrial-Age legacy system that really hasn't changed much since those very early times. Why do you think corporate types deridingly call those accounting folks "bean counters"?

Don't you think we need a new system of accounting for a time – and an economy – where a lot of value is measured by the individual in terms of "experience" and we make "sustainability" the mantra for everything from cars to communities? We do. And then maybe we'd know what the true price of that plane ticket was and the true value of spending 12 hours to move our butts 1700 miles just to sit down face-to-face with someone else. Admittedly, it's harder than counting beans, but infinitely more important.

We think there is a Very Big shift in thinking coming just around the corner. Get a grip; just watch the wild gyrations of the equity markets right now: the panic of central bankers (if it didn't affect every one of us in the pocketbook it might actually be fun to watch bankers in panic, but then again . . .); the volatility of the housing market in the United States; and the way the US uncertainty ripples throughout the global financial markets. It's about emotion, not logic, and emotion cannot be accounted for. Again, it might humorous if it weren't so darned serious.

Hold the presses! Lordy, lordy, looky here. Just as we are putting this to bed we've gotten a news flash. Even the Commerce Department is onto us.

Just released on January 18, 2008: "Innovation Measurement: Tracking the State of Innovation in the American Economy". We'll let you read the whole thing yourself, but the bottom line is that they admit (all together, now) that there "is no accounting for it." The report is rather general in nature, with no magic bullets, but at least someone is waking up. See:

<http://www.innovationmetrics.gov/Innovation%20Measurement%2001-08.pdf>

We believe that people are going to start figuring out how to invest in these kinds of intangibles. The people who do it first will reap tremendous gains and be called geniuses. But we think they'll probably just stumble into the right answers.

A good place to start (if you're interested) is groups promoting "socially responsible" investments. Try the social investment forum (<http://www.socialinvest.org>) and <http://www.socialfunds.com> for a personal investment perspective.

Please direct your comments to [comments@thefutureofwork.net](mailto:comments@thefutureofwork.net). We'd love to publish your reactions and suggestions. And thanks for listening.

### **About the Work Design Collaborative and *Future of Work Agenda***

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