

HOLISTIC ACCOUNTING AND CAPITALIZATION

- Company accounts in the Knowledge Era
- Accounting indicators for value-based management
- Statements of intellectual and symbolic capital
- Holistic capitalization of companies

Preface

This publication describes the basis for and purpose of *holistic accounts* and constitutes the last of three publications describing the internal development project, *Holistic Operation* [3], on which RAMBØLL has been working since 1991.

We believe that the publication may be of interest to other companies seeking to create long-term results, to administrations and institutions seeking to make optimum use of public funds, and to many others looking after a wide variety of interests with limited resources.

We have not yet finished developing the indicators, concepts and tools relating to the method of organizing and managing a company described in our holistic operation model. However, we have developed the particulars of the model to a level at which the model provides a real and usable basis for our daily work towards our goal: continuous improvement of the holistic cooperation between all the company's stakeholders.

We are convinced that with the coming of the new millennium we will experience the clear transition from the industrial society to the knowledge society. As a consequence of the growing need for companies, institutions and organizations to focus on people and knowledge management, we shall see in the years ahead a rapid development and spread of holistic accounts and intellectual capital accounts. We are already seeing a growing number of organizations, institutions of higher education and companies involving themselves in the development of value-based management models and of intellectual capital accounts based on statements of for instance intellectual and symbolic capital.

Therefore, the further development of our operation model and the associated presentation of accounts form part of this greater whole.

I take this opportunity to thank Lisbet Thyge Frandsen and Jørgen Skou for their contributions to this publication.

Virum, October 1999

Flemming Bligaard Pedersen

Introduction

The annual accounts are primarily a management tool ensuring overview and control of the continuous process of developing and improving a company. Consequently, they are also the primary source of information for the company's stakeholders: its customers, employees and owners (investors) and the surrounding society. In this context we define accounts as both the historic reporting, the profit and loss statement, etc. as well as the future-oriented budgets and operational plans.

As human beings we regard what is *done* as more important than what is *said*. The indicators that are defined and recorded as the basis for a set of accounts are therefore, by definition, what is important and of interest to a company's management. The consequence is the well known from the quantum mechanics: the measuring systems change what is measured, and the measurements in the company thus clearly guide the employees' attitudes and conduct and the development of the company's values in the broad sense of the word. The point is that the accounts are an integrated part of the company's management model.

We therefore found it necessary some years ago to develop holistically based accounts [3] that clearly and unambiguously signal the focus there must be in the management of a company on *all* the company's values *simultaneously*. It was also our intention to develop these accounts in such a way that the accounting indicators in question could be used by all units of the organization as the basis for day-to-day management and for the dialogue on the development of the company.

The following description of RAMBØLL's accounting model is therefore based primarily on a perception of accounts as internal management tools and as the basis for the dialogue with *all* the company's stakeholders. It must also be stressed that we have used this accounting model to create focus, overview and transparency in our firm. The aim is thus to describe an accounting model that supports and promotes sound business practice together with competence building, loyalty and commitment among employees and customers – both present and future.

Time will show that much can be done better. We take the view, however, that it is better to get started on what points in the right direction than continue with something that is totally inadequate.

RAMBØLL as „Holistic Case“

With B.J. Rambøll's final formulation and recording of the firm's traditional ethical values in "The RAMBØLL Philosophy" [1] in 1986, the management and the employees were provided with a solid basis for the dialogue on employee satisfaction in the daily work of the company.

Many people – both in the company and outside it – found the Philosophy's primary goal: "satisfied employees" slightly surprising. Why, for example, was it not "satisfied customers"? However, the answer is obvious, since the reasoning was – and is – that the company must start with what is nearest and what it can do something about in the day-to-day work, namely the company itself (in other words, the employees). The view is thus that if the company has satisfied (= happy and committed) employees, satisfied customers and "a good business" will follow from that.

At first, the written formulation of the Philosophy led to some uncertainty and dissatisfaction among the company's employees – including the management. It suddenly became clear that the actual conditions in the company were not (are not) everywhere entirely in accordance with the good intentions set out in the Philosophy. And now the employees could compare the actual situation with the embodied objectives and thus document the deviations. The managers felt hunted and had difficulty in implementing a complicated ethical dialogue for which they were not trained.

Thus we have experienced that the written company ethic led to greater awareness and discussion of the things that were working badly in the daily life of the company. Because of the written objectives, the discussion became more qualified than it used to be and from that followed the management's need to measure – to take stock. For what exactly was the situation among the employees as regards the Philosophy? And how was the situation developing over time?

Some years previously – at the end of the 1970s – we had, in a quality assurance context, introduced "the Quality Ratio", defined as the ratio in a given project between achieved results and the customer's expectations. With this, we began measuring in subjective areas that were not directly measurable in the common and traditional sense of the word. At a congress in Copenhagen in 1982 we presented a further development of the quality ratio in the form of "the Evaluation Profile", which we thought could become a useful tool for management of the quality processes in a company. An evaluation profile offers the possibility of obtaining a quick picture of the present situation and development in a number of more intangible areas, and – as will be seen later – it is therefore also an important element of holistic accounting.

The entire problem of measuring the traditionally "immeasurable" thus requires broad acceptance in the company of objectivity in measurements of a different kind than traditional, scientifically based measurements. For example, acceptance of the fact that measurements based on people's statements and feelings in given contexts are just as valid and usable as traditional financial records and summations.

Inspired by Professor Peter Pruzan's ideas and his cooperation with the bank Spar Nord on ethical accounts, the idea for RAMBØLL's "Philosophy balance sheet" was developed in autumn 1991. This balance sheet comprised both a measurement of employee satisfaction and a management evaluation, based on a relatively extensive questionnaire survey among all

employees. The idea was for this balance sheet to be prepared biannually as a supplement to the traditional, financial annual accounts.

The interest this aroused in the company's ethical values once again led to the previous problem: with the almost one-sided focus on the question of employee satisfaction, the individual managers in the company found themselves facing a gap between the ethical objectives and the hard daily realities with requirements concerning good business results. RAMBØLL found itself in the classic dilemma: the Stock Exchange *or* the Cathedral!

However, it is precisely not a question of *either or*. In a company that is to be operated as a business, it is naturally a case of *both and*. It was the need to solve this problem that really inspired us to investigate the advantages and disadvantages of the known management systems and methods of presenting accounts.

We did not find one suitable system but chose instead to try to combine some of the current thinking. At the beginning of 1994 we thus chose the Business Excellence model [5] as reference model, added an important element of value-based management and developed the holistic operation model and the holistic accounts [3].

The solution was based on two fundamental perceptions. Firstly, that in view of a company's always limited resources it is absolutely essential to balance and prioritize between the requirements from *all* the company's stakeholders. Secondly, for continuous management of a company it is necessary to establish knowledge of and keep account of *all* values, howsoever defined in the company in question.

Since the publication of RAMBØLL's first holistic accounts in 1995, we have continued developing accounting indicators and implementing the model widely in the company. This process also caused problems for the employees, including the management. It soon emerged that although the company's top management understood and accepted the holistic philosophy, there was a widespread need for information and "coaching" about the new ideas in most of the company's departments.

In 1997 we appointed a holistic manager, a large part of whose task was to create coherence, plan the implementation and coach the company's business units in the process. Our main assumptions and experience with the implementation process are described in "Holistic Operation in Practice" [4]. Now the implementation process is progressing well although there is still some way to go before we can declare it completed in all departments and business units and in the support structures and administrative systems. A long, hard pull is thus still needed to produce the management attitudes that we wanted to support and encourage with our operation model and holistic accounts.

Management and accounting models – then and now

Traditional annual accounts and their presentation have developed over a period of 150 years. Their history coincides and is closely connected with the era we call “the industrial society” – the era that has seen the industrialization of most of the world.

The operation model belonging to the industrial society lies deeply embedded in all of us because we were, of course, almost brought up on the way of looking at things defined by that model. The annual accounts have thus entirely determined companies’ perception of themselves and their form of management up to the present time. We have therefore also lived for a long time with the fact that the lists of share prices in newspapers show very big differences between companies’ “net asset value” – book value – and their actual market capitalization.

The ratio between the valuation arrived at in the annual accounts and the actual value of a company can go right up to a factor of 10 or more but in Denmark it is typically around 3 to 4. That is, of course, totally unsatisfactory – and at any rate shows that traditional accounts describe only a relatively limited part of a company’s reality – considering the care with which every last penny is otherwise calculated.

An amputated and inadequate operation model leaves a company’s management in the lurch. The management’s task is continuous improvement. But what “buttons and handles” does the accounting model contain that can create change and improvement? Depicting the model’s elements graphically, we arrive at the following simple figure:



The industrial society’s management and accounting model

In this model, investments in development, training and software, for example, are usually calculated as costs. And how do we book “branding” or ownership of “branded products”, which today totally dominate the valuation of companies.

The conclusion is clear: the industrial society’s operation and accounting model no longer provides an adequate means of describing what is important and of interest in the knowledge economy. It does not describe a company’s true values in a complete manner; nor is it suitable as a management instrument in a world in which companies’ operating assumptions and market conditions are totally different from those applying in the industrial society.

The difference between the accounting model of the industrial society and the knowledge society can be illustrated simply as follows:

For a house, the industrial society's accounting model would correspond to the value of the house being put at the costs for land, bricks and mortar, windows, stairs, walls, floors, ceiling, sanitary installations and costs for the engineer, architect and building tradesmen.

For a house, the knowledge society's accounting model would correspond to the same valuation as above – with a supplement or deduction for the architectural and technological level, experience of quality, promotion of welfare, etc.

As the term indicates, human knowledge is the defining indicator in the knowledge society. In the accounting model of the future there is a need to include and describe a wider range of different values than purely monetary values. First and foremost, one must recognize that the annual accounts ought to include intangible capital, comprising concepts as *intellectual capital* and *symbolic capital* besides physical capital.

Intellectual capital comprises the employees' and the company's knowledge and learning processes (the learning organization) as well as competence and experiences. Symbolic capital is even less tangible. It exists nowhere and everywhere, namely as perceptions in people's minds. It includes, for example, the company's identity, image and reputation.

One can approach the question of a company's values from many different angles, and the current debate is full of different value concepts: process capital, innovation capital, customer capital, structural capital and human capital. However, in the establishment of a new operation and accounting model, the vital thing to determine in the individual company is what is really of importance for precisely that company's development and future.

Alternatively, the requirement in the knowledge economy can be expressed thus: the basis for the knowledge society's operation and accounting model must be this new society's perception of organization. Here, it is characteristic that knowledge organizations can no longer be described satisfactorily by the industrial society's "engineered" hierarchies; a better and more correct description of the reality is achieved with "biologically" based models – organic models based on interaction and mutual balancing of the organism's (= the organization's) various organs (= units).

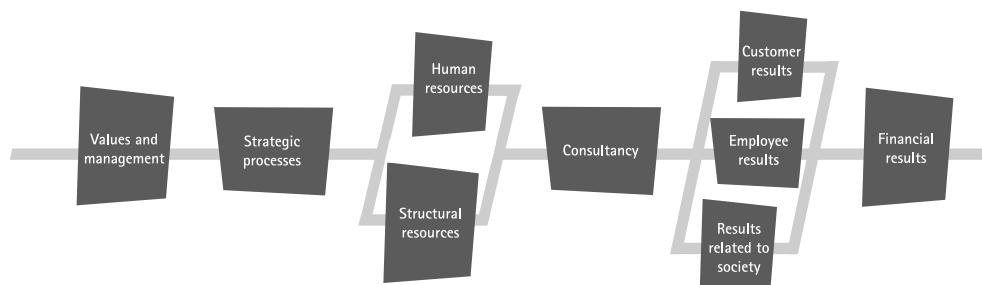
The knowledge society's (the future's?) non-hierarchical organization models will also change the task of the company management from the industrial society's "production management". Pricing, costs, time management and product quality are still important and necessary concepts in a company, but they are not enough to run a company successfully in the future. It is necessary to be more holistically minded and forward-looking. The manager must shift from management and administration to real leadership – i.e. to carry the company vision.

In a period of meteoric technological development and one in which the “soft” values are highly prized by employees and customers, the company must create an internal culture of change and promote ability to focus on the right and necessary changes. That can only be done provided the vital data are used in the company’s records and daily management tools.

Lastly, it must, as mentioned, be recognized that a company’s symbolic capital – its reputation – is fast becoming of crucial importance. For this reason, the company’s communication with its stakeholders is absolutely decisive for its valuation. Some see this as a shift from *branded products* to *brand name*. It is no longer a company’s products that define the company but the company’s presentation of itself as its own brand name that is the pivotal factor for success.

Holistic reporting and accounting indicators

In “Holistic Operation” [3], we have described the values and principles on which RAMBØLL’s choice of model for future accounts is based. With the terminology from the current debate on new accounting models, our model can probably best be described as „Stakeholder accounts“. The essential characteristics are that the model seeks to describe and keep track of accounting indicators that cover all the company’s values and that the result side of the accounts includes results for all the company’s stakeholders. The accounting model is illustrated in the figure below.



RAMBØLL’s operation and accounting model.

The model is based on nine key areas and a planning “flow” from left to right. First, the company’s mission and vision are defined and built up on the identified fundamental values and on the leadership elements. This is then used to establish the company’s planning basis and planning processes. The company’s entire resources are then set in on the strategic platform thereby established. The principal assets are the company’s employees, followed by the technological, financial, physical and organizational assets. Lastly, the entire basis and the company’s resources are used in the production process – in our case, in the knowledge company’s production of consulting and knowledge services. The company’s results are, as mentioned, calculated separately for each group of stakeholders.

To make the model usable as a daily management tool, the model’s key areas must contain a number of focal points, accounting indicators and accounting indices, to which we can assign goals and budgets and which we can report.

The purpose of the accounting indicators and accounting indices is to be able to monitor the development of the company's holistic capital – divided into the nine key areas – from accounting period to accounting period. The holistic capital is an expression of the situation with respect to achieved satisfaction results (customers, employees and society), achieved financial results (investors) and the ability to create results in the future (the action areas) – or the criteria for creating them.

There are different types of indicators, which we characterize as follows:

“What we have”, typically automatic recordings of for example number of employees, costs for building up competence, costs for IT, etc.

“What we do”, typically an evaluation of whether we have carried out the planned activities – as for instance a planned sales activity, the annual appraisal reviews of the individual employees or the development of an IT-tool. The method of measurement is normally a management evaluation building on internal audits.

“What we achieve”, which we define as the degree of stakeholder satisfaction, for example customer satisfaction; or the measured effect of the performed activities, for instance the effect of management development, the effect of competence development, and image development. The method of measurement for this type of indicator will typically be responses to questionnaires to customers, employees and other stakeholders.

The criteria for selecting indicators in RAMBØLL's accounts are as follows:

The indicators are clearly linked to the firm's values

The company's values are an expression of the conditions, attitudes and conduct we believe in as the basis for the company's existence in the future. The holistic accounts must therefore be able to give indications of whether we have the desired conditions, attitudes and conduct. Example: Once every three months the employees are asked to participate in an evaluation of employee satisfaction. The evaluation includes questions regarding the credibility of the management, i.e. "do we do what we say we will do? – do our actions reflect our common set of values?"

The indicators are clearly linked to the firm's strategies and goals

The firm's strategies are an expression of the paths we want to follow and the actions we want to take to achieve the desired results and goals. The holistic accounts must give indications that tell us something about the development and movement in relation to our goals. For example, we measure the ratio of employees embarking on one of our three career paths to see whether the implementation of the new career paths as defined in our strategic plans is progressing.

The indicators increase the firm's self-understanding

The indicators must reflect matters that are relevant and important to RAMBØLL. The indicators must be selected to give increased insight into important relationships and mechanisms in the firm. Through intelligent combinations of indicators, we must be able to see other perspectives than those provided by simple calculations. An intelligent combination of the measurements on the indicators "Development costs for professional development/turnover"

and "Turnover for new services/total turnover" indicates the effect of the company's efforts in R&D compared to the resources used. If we furthermore combine the measurements from the indicator "Contribution margin for new services" with this we will get an even better idea of our innovation efficiency. These combinations provide us with a deeper understanding of the company than measurements on the individual indicators.

The indicators form the basis for improvements

We must be able to set development targets for the individual indicators and follow the development from accounting period to accounting period. We must know what we want to achieve in relation to the individual indicators and we must be able to use the measurements as a platform for improvement activities. We must avoid measurements where we do not know if the result of the measurements expresses something good or something bad. Example: The indicator "Employee turnover" does not make much sense if we do not know what the optimum employee turnover is at a given time in a given business unit. When we have a target and a measurement we are in a far better situation to act appropriately.

The indicators are easy to generate

It must be possible to generate indicators continuously and "automatically" through RAMBØLL's administrative systems. The resources used to procure measurements for indicators must stand in reasonable relationship to their information value. Example: Measurements are normally automatically generated from the company's reporting system, internal audits, and customer/employee surveys.

The indicators can be consolidated and used at all relevant levels

It must be possible for indicators to be related directly to RAMBØLL's primary business units – the departments – and from there be consolidated up to division and Group level. However, some extremely relevant indicators cannot be related to an individual department – for example, measurements concerning the company's image. Measurements on the indicators must enable us to report at different levels, i.e. the individual department, a division or at Group level, facilitating proactive management at all levels.

The indicators have a high topicality value

It must be possible for measurements on indicators to be generated at short intervals and be retrieved from the administrative systems so quickly that they are highly topical. Example: If the measurements on "Total employee satisfaction" is to be useful the company must be able to act quickly, focusing on improvements. It is important that results are quickly available to the departments where they form the basis for dialogue on improvements, before dissatisfaction manifests itself in a decline in productivity or customer satisfaction.

The indicators must be standardized

Where there are relevant international or national standards, they must be used. Indicators must enable benchmarking. Example: Today there are several definitions of the indicator "Employee turnover", which make it difficult to benchmark with other companies. When a standard definition has been found, RAMBØLL will use it.

On the basis of the experience we have gathered so far and the inspiration we have gained in development projects outside the firm, we have built up a list of indicators, exemplified in annex 1.

As mentioned, the collection and use of the indicators are built into the firm's administrative systems and into the daily management reporting. The indicators' current values are compared with the budgets following from the firm's annual strategic planning and budgeting process. The strategic planning and budgeting process is built up around a number of dialogue processes at all organizational levels on the basis of the focal points in the nine key areas.

The result of the dialogue is ideally common attitudes, new goals and budgets and the initiation of various forms of improvement activities. The result appears primarily in the form of a common "map of the world" in the minds of the employees and thus as an anchor for attitudes, goals and budgets in the organization. The secondary result is written plans and budgets for the firm's various management levels in the form of a framework plan for the Group, strategies for the divisions and action plans for the departments, with related budgets. This result is generated from a "top-down/bottom-up" dialogue process in the organization.

The plans are used together with the regular measurements of the indicators as a basis for the subsequent follow-up. The annual holistic accounts are used to show the overall situation with respect to the actions taken and the results achieved.

Holistic accounts

In principle, there must be a rational relationship between the development of the firm's nine key areas and the growth in the firm's market value since the market value is essentially connected with expectations concerning future earning capacity and thus with holistic values.

We have therefore assigned an index with a scale of 0 to 1 to each key area. The indices show the firm's situation on the statement date and, compared with earlier periods' indices, show what progress we have made (or whether there has been deterioration). These indices are established on the basis of selected indicators as mentioned above, as several indicators are weighed together.

An accounting index is established with a view to creating a complete balance sheet for a whole key area in the operation model. Our indices are thus also of great importance for our possibility of carrying out simple, clear benchmarking with other companies.

An index is an expression of a relative state that we can compare from accounting period to accounting period.

Together, the indices constitute the firm's holistic evaluation profile, which is used partly as a basis for the dialogue on improvements and partly – when capitalized – as a measure of the firm's objective market value. It must be emphasized here that the question of a company's valuation often involves factors to which it is hard to assign an objective valuation, since they are a consequence of "stock market psychology". Here, we refer only to the "objective" part of the valuation, which means the long-term valuation based on the market conditions.

For each key area we have selected the focal points and indicators that we find most important for the firm's long-term success. A summarised version of RAMBØLL's focal points is given below, while a more complete list of examples of focal points with related indicators is provided in annex 1.

Key areas:

1. Values and management
2. Strategic processes
3. Human resources
4. Structural resources
5. Consultancy
6. Customer results
7. Employee results
8. Results related to society
9. Financial results

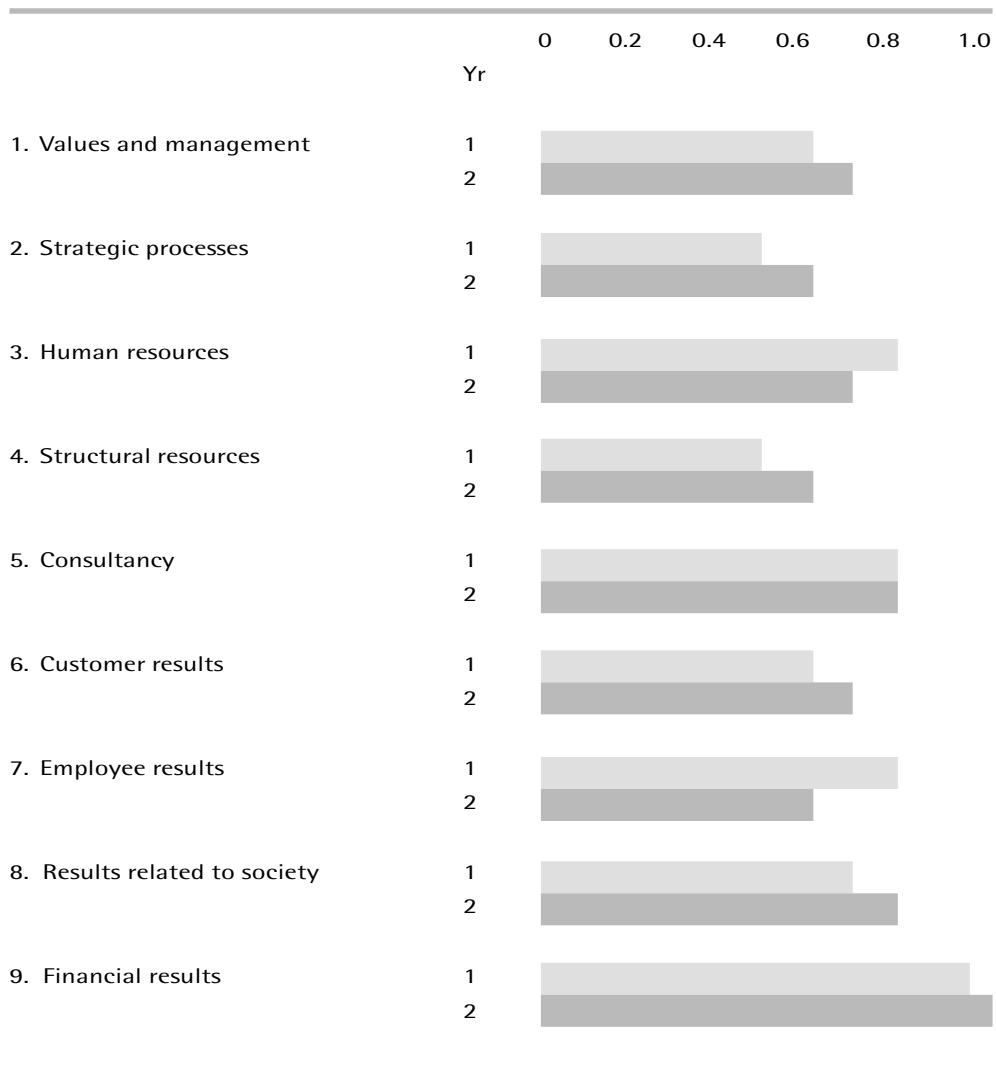
Focal points:

- Values, credibility, leadership
 - Organizational development
 - Management development
 - Communication skills
 - Goal fulfilment
 - Competence building
 - Career development
 - Innovation
 - Sharing of knowledge
 - Consulting processes
 - Project evaluation
 - Customer satisfaction
 - Employee satisfaction
 - Image
 - Alliances/partnerships
 - Earning capacity
 - Generation of cash flow
 - Financial key figures
-

RAMBØLL's key areas and focal points

On this basis we thus establish, as described, indices for fulfilment of goals in the holistic model’s key areas, prioritize improvement measures and assess the relative progress in each area. This is illustrated at company level, for the business units, and for each department, by means of evaluation profiles with on-line access to “real-time” data. In its simplest form an evaluation profile looks as shown in the table beneath but can be amplified as needed. A click on “Values and management” opens a screen picture with information on credibility, leadership, etc.

Evaluation profile for Year 1 compared with Year 2:



Comparison of evaluation profiles.

Holistic capitalization

Many people have pondered and have been uncertain whether the intangible assets, which are included in intellectual capital accounts or holistic accounts, can be capitalized. If we once again take our starting point in an "objective" valuation, a company's market value and capitalized increase in value are closely related to expectations concerning future earning capacity and return on investment. Capitalization is perhaps of slightly less importance for a foundation-owned company like RAMBØLL, where it is the long-term perspective that counts most. Even so, a capitalization is of great interest both to us and to most other companies - in any case for the company's self-understanding. So in the following we present a method that we have been able to use, despite its simplicity - or because of it - and that can be used by others. The method can be elaborated and sophisticated as required.

For a capitalization of the different indices for the nine key areas to give a true and fair picture, there must be correct mutual weighting of the effect of the sub-results on the firm's total market value. We have chosen to base the capitalization method on the weightings of the Business Excellence model. This model is basically intended for evaluation of a firm's "Excellence", which is also a measure of its viability or - when capitalized - of its market value.

The Excellence model weights the nine key areas mutually, so, for example, Customer result figures at 20% of the total result, Financial result at 15%, and so on. One can thereby calculate a company's "Excellence index" when one knows the evaluation of the individual key areas. Conversely, if one knows the financial equity shares, the weightings can provide the indication of the value of the other key areas and the total market value. This is illustrated in the following figure for a company with a financial capital of DKK 150 million.

It is initially assumed that the EFQM weightings relate to an ideal company - one in which all evaluations result in maximum (utopian) indices. This assumption can be modified and then the figures will naturally change, but the general principle will be the same

	Equity shares	EFQM weighting	Utopian index	Utopian value mill. DKK
1.	Values and management	10%	1.0	100
2.	Strategic processes	9%	1.0	90
3.	Human resources	8%	1.0	80
4.	Structural resources	9%	1.0	90
5.	Consultancy	14%	1.0	140
6.	Customer results	20%	1.0	200
7.	Employee results	9%	1.0	90
8.	Results related to society	6%	1.0	60
Sub-sum: <i>Non-financial capital</i>				850
9.	<i>Equity</i>	15%		150
Sum:	Market value			1000
	Value factor			6.67

The equation looks like this: $MV = \frac{K}{0.15}$ where MV is the market value and K is the financial capital.

Capitalization table for weighted whole capital, I = 1.0.

It will be seen that if a utopian company has a financial capital of DKK 150 million and maximum evaluation index, the market value can be calculated to be DKK 1000 million with the stated distribution between the key areas. That corresponds to increasing the equity shares by a holistic value factor of 6.7.

In the table below we present another example, showing the market value for a company with an evaluation index at the more modest end of the scale and with values of the key areas that are reduced correspondingly by simple proportioning. An index of 0.5 corresponds to the neutral “neither/nor” in most questionnaire-based surveys.

	Equity shares	EFQM- weighting	Utopian index	Utopian value mill. DKK	Eval. index	Market value mill. DKK
1.	Values and management	10%	1.0	100	0.5	50
2.	Strategic processes	9%	1.0	90	0.5	45
3.	Human resources	8%	1.0	80	0.5	40
4.	Structural resources	9%	1.0	90	0.5	45
5.	Consultancy	14%	1.0	140	0.5	70
6.	Customer results	20%	1.0	200	0.5	100
7.	Employee results	9%	1.0	90	0.5	45
8.	Results related to society	6%	1.0	60	0.5	30
	Sub-sum <i>Non-financial capital</i>			850		425
9.	<i>Equity</i>	15%		150		150
Sum:	Market value			1000		575
	Value factor					3.83

$$MV = K \left(1 + \frac{0.85}{0.15} \times I \right) \text{ where } MV \text{ is the market value, } K \text{ is the financial capital and } I \text{ is the evaluation index.}$$

Capitalization table for weighted whole capital, I = 0.5.

In this example the DKK 150 million must be seen in relation to a total market value of DKK 575 million, i.e. corresponding to a value factor of 3.8.

In a comparison of the two situations in which the evaluation index lies between 0.5 and 1.0, the limits for the size of the value factor are 3.8 and 6.7, respectively, and that – bearing in mind the nature of the case – is reasonably precise and adequate in relation to the comments on the actual relationship between stock market value and net asset value.

RAMBØLL’s holistic accounts are thus supplemented compared to normal accounts in two ways. Firstly, some items have been added in the profit and loss account and the balance sheet and, secondly, the accounts have been supplemented with an illustrated description of activities and results within the nine key areas.

In the profit and loss account the costs incurred for development of the company's competence are gathered together in a single item, and a new item has been added showing the capitalized, non-financial annual result.

Profit and loss account	This year	Earlier years
Turnover		
Personnel costs, project costs, etc.		
<i>Costs for competence building</i>		
Depreciation		
Result before tax		
Tax		
The year's financial result		
<i>The year's non-financial result</i>		

In the balance sheet a non-financial capital is added to the liabilities, which, together with the equity, represents the company's debt to its owners. The current assets are correspondingly supplemented with an item covering the company's business competence.

Assets	This year	Earlier years
Fixed assets		
Current assets		
<i>Business competence</i>		
Assets, total		

Liabilities	This year	Earlier years
Equity		
<i>Non-financial capital</i>		
Capital, total		
Provisions		
Debts		
Liabilities, total		

Together with the descriptions of activities and results for each key area, we are thus able to draw a more varied and precise picture of the company's accounts, capital and ability to continue developing than can be provided with traditional accounts.

Future perspectives

With the description of the holistic operation model in [3] and the proposal for capitalized holistic accounts in this booklet we have taken a major step towards fuller understanding of the holistic form of operation and holistic accounting that are going to replace the industrial society's management and accounting models in the years ahead.

We are aware that our assumptions will be the subject of debate. Some will be rejected and replaced by better assumptions, but that is precisely the intention with this little description. For we think it would be useful if companies – especially knowledge-based companies – could to some extent agree to organize their reporting systems within a common framework. That would considerably facilitate comparisons, discussions, benchmarking, etc.

We are aware of the simplicity (and inadequacy) of the proposed capitalization method. And, in the foregoing, we have also sent the ball up for a discussion of the basic assumptions, including the mutual weighting of the key areas.

However, with our model, we have come close to a fundamental understanding of the factors that, in a knowledge society, influence evaluation of a company's future earning capacity and thus its market value. With that we have built up a highly usable tool for the management, development and self-understanding of companies.

Nothing is constant

- except change.

Greek proverb

References

- 1 "The RAMBØLL Philosophy" by B.J. Rambøll. First edition May 1986. RAMBØLL publication.
- 2 "The RAMBØLL Vision" by Flemming Bligaard Pedersen. First edition January 1995. RAMBØLL publication.
- 3 "Holistic Operation" by Flemming Bligaard Pedersen. First edition July 1997. RAMBØLL publication.
- 4 "Holistic Operation in Practice" by Lisbet Thyge Frandsen. First edition September 1998. RAMBØLL publication.

(All publications are available on www.ramboll.com)

- 5 "Business Excellence Model", www.efqm.org

Annex 1: Examples of focal points and indicators

The examples given below are based on the operation model set up in [3] and are an amplification of the list shown on page 14 of this booklet. In the table, ESS stands for “Employee Satisfaction Survey” and CSS for “Customer Satisfaction Survey”.

Key area	Focal points	Indicators
1. Values and management	<ul style="list-style-type: none"> • Values/The Philosophy • Company mission • Vision • Credibility 	<ul style="list-style-type: none"> - Replies to the question “Does the Philosophy make a difference?” (ESS) - Replies to questions concerning credibility (ESS)
	<ul style="list-style-type: none"> • Organizational development • The operation model 	<ul style="list-style-type: none"> - Replies to questions concerning transparency, dynamism and dialogue in the organization (ESS)
	<ul style="list-style-type: none"> • Leadership • Management development • Communication skills • Employeeship 	<ul style="list-style-type: none"> - % of managers that have participated in general management development courses in the past 3 years - % of managers that have participated in Responsibility 2000 (in the short term. In the longer term, the principles of Responsibility 2000 will be incorporated in the general management development process) - Replies to questions concerning leadership (ESS) - Replies to questions concerning employeeship (ESS)
2. Strategic processes	<ul style="list-style-type: none"> • Goal fulfilment • Planning and budgeting process • Follow-up 	<ul style="list-style-type: none"> - Involvement, dialogue and knowledge of goals and strategies (part of Audit 2000) - Degree of achievement of action objectives (part of Audit 2000)
3. Human resources	<ul style="list-style-type: none"> • Recruitment • Staff composition • Career paths • Employee turnover • Retirement/resignation 	<ul style="list-style-type: none"> - Number of employees, year-end - Full-time equivalents (number) - % engineers, total - % other graduate staff, total - % intermediate technicians, total - % others, total - % men, total - % women, total - Average age (years) - % distribution in the three career paths, breakdown by gender and level - Recruitment success rate: % of new employees still in the company one year after joining it - Replies to questions concerning introduction of new employees (ESS) - Employee turnover (%) - Degree of loyalty among ex-employees
	<ul style="list-style-type: none"> • Competence building • Development plans • Emotional intelligence 	<ul style="list-style-type: none"> - Costs for supplementary training, excl. pay, per employee (DKK) - % of employees that have received supplementary training in the past year - Effect of individual competence building (Audit 2000) - Replies to questions concerning holistic use of the employees' different abilities and competence (ESS)
	<ul style="list-style-type: none"> • Degree of authority 	<ul style="list-style-type: none"> - Number of managers and authorized project managers with permanent powers of procurement or project powers of procurement/number of employees in all
	<ul style="list-style-type: none"> • Appraisal review interviews 	<ul style="list-style-type: none"> - Appraisal review interviews held (%)

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4. Structural resources	<ul style="list-style-type: none"> • Strategic alliance partners 	
	<ul style="list-style-type: none"> • Equity ratio • Debt-equity ratio • Financial resources 	<ul style="list-style-type: none"> - Solvency ratio - Financial instruments and facilities - Tied-up capital
	<ul style="list-style-type: none"> • Production plant's environmental situation • Home workplaces 	<ul style="list-style-type: none"> - Working environment
	<ul style="list-style-type: none"> • IT platform • IT use • Operating efficiency • Administrative systems • Communication systems • Production-support systems • QM/EM system 	<ul style="list-style-type: none"> - IT cost per employee (DKK) - The time systems are "up"/on-line time (%) - Administrative costs/turnover - Administrative costs/result
	<ul style="list-style-type: none"> • Innovation • Knowledge-sharing 	<ul style="list-style-type: none"> - Development costs, professional development/turnover - Turnover on new services/turnover, total - Contribution margin for new services - Development costs, company development/administrative costs
5. Consultancy	<ul style="list-style-type: none"> • Sales and marketing • Turnover • Market share • Precalculating and contracting • The consulting process • Efficiency • Project evaluation 	<ul style="list-style-type: none"> - Tenders/bids submitted (DKK) - Success rate for tenders/bids (DKK) - Costs for sales and marketing/turnover - Market share (%) - Distribution of turnover between public and private sector in % - Distribution of turnover between the market segments in % - Distribution of turnover between Danish and foreign projects in % - Turnover on 10 largest customers - Turnover on new customers/turnover, total (%) - Evaluation of the consulting process, incl. QM/EM (Audit 2000) - Efficiency of the new reporting system (ESS) - Debiting percentage
	<ul style="list-style-type: none"> • Partnerships with customers • Project evaluation with the customer 	<ul style="list-style-type: none"> - % of completed projects where a project evaluation has been carried out with the customer - Result of project evaluation with the customer
6. Customer results	<ul style="list-style-type: none"> • Customer satisfaction 	<ul style="list-style-type: none"> - Total customer satisfaction index (number)
	<ul style="list-style-type: none"> • Repurchase • Problem cases • Customer loyalty 	<ul style="list-style-type: none"> - Provisions/turnover - Repurchase turnover/turnover (%) - Replies to questions concerning repurchase
7. Employee results	<ul style="list-style-type: none"> • Employee satisfaction 	<ul style="list-style-type: none"> - Total employee satisfaction index (number)
	<ul style="list-style-type: none"> • Absenteeism • Employee loyalty 	<ul style="list-style-type: none"> - Absenteeism (adjusted for maternity leave) - Replies to the question: Would you advise a good friend to apply for a job with the firm? (ESS)

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8. Results related to society	<ul style="list-style-type: none">• Image	<ul style="list-style-type: none">- Image index (annual image survey)
	<ul style="list-style-type: none">• Environment• Attracting new employees	<ul style="list-style-type: none">- Consumption compared with official experiential figures, consumption of electricity (kWh), heat (kWh), water (cubic metre), paper (kg), transport (km) per employee- Number of uninvited job applications per year- Rating in the survey "Young people's favourite companies"- Number of user on RAMBØLL's website
9. Financial results	<ul style="list-style-type: none">• Earning capacity	<ul style="list-style-type: none">- Profit and loss account, Group- Profit and loss account, the business units- Cash flow, the Group- Cash flow, the business units- Net profit ratio, the Group- Profit per employee, the business units
	<ul style="list-style-type: none">• Key figures	<ul style="list-style-type: none">- Return on net assets- Return on equity



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