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Accounting For People

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The emergence of intellectual capital (IC) as an exciting new field for study in the mid-1990s has resulted in a growing range of insights, many of which are documented in the various contributions to this collection. Among these are included a number that have had the consequence of progressing the challenge of accounting for people, a project that long predates the recognition of the significance of IC but which had largely become becalmed by that time. All too conscious of the naivety of identifying a single aspect of the IC field as being the most significant, this chapter is founded on the premise that in its contribution to ‘taking people into account’, we can readily recognize the importance of devoting further resources to the continued exploration of the IC field. And when doing so, it is desirable to ensure that people, from whom all IC emanates, are accorded the attention they clearly merit.

The first part of this chapter provides an overview of the history of accounting for people, from its identification as a major challenge to the accountancy profession almost a century ago, through a series of generic approaches to the task, and concluding with a discussion of human capital accounting envisaged as combining numbers and narratives to visualize the growth of an enterprise’s stock of employee attributes. The second part of the chapter provides a number of insights on three pathways that IC researchers interested in progressing accounting for people might pursue: employee health and wellbeing; a broader range of human rights issues; and the role for human capital self-accounting.

**So why would we wish to account for people?**

As on previous occasions, the point of departure is evident in the assertion of Paton (1922, pp. 487–488), one of accounting’s earliest theorists, that:

> In the business enterprise, a well-organized and loyal personnel may be a more important “asset” than a stock of merchandise … At the present, there seems to be no way of measuring such factors in terms of the dollar; hence they cannot be recognized as specific economic assets. But let us, accordingly, admit the serious limitation of the conventional balance sheet as a statement of financial condition.
Paton believed that employees must be recognized as being as important to the pursuit of profit within the enterprise as its various other assets, not least stocks of raw materials and finished goods. In so doing, Paton would seem to have eschewed the popular notion that although labour had long been recognized as one of the three factors of production, it was now important to ensure it was not regarded as having an equivalent status to that presently accorded to either land or capital. Accounting for labour within the profit and loss (now income) statement, which was how the accountancy profession had traditionally taken people into account, in effect ensured a diminution of labour’s importance. Labour was not to be viewed as an asset, to be cared for, even enhanced in some cases, but as a cost, an expense to be minimized in the pursuit of greater profitability. The cheaper the cost of labour, the more attractive an enterprise was represented to be for those who sought a return on their willingness to commit their financial capital through investment. Even at the time that Paton was writing there was a recognition that, in some instances, it might be possible to expel sections of labour from the enterprise, replacing it with machinery or physical capital as it was designated within the evolving accounting and finance literature. Physical capital is readily accommodated within the balance sheet.

It was clear to Paton that if accountants were to take employees into account in the guise of assets then, as the above quotation indicates, some means had to be found to ‘put people on the balance sheet’. As a result, the critical role played by labour would be acknowledged. Almost a century later, most accounting practitioners would still identify the challenge of accounting for people in this way, reflecting both how many of them had become familiar with the issue in the course of their own training and how assets are normally taken into account. Whether they actually view employees as assets rather than costs is a different issue, however.

**From theory to practice**

It was some time before accounting scholars got round to seeking to enact Paton’s suggestion. The first robust contribution to this exercise is identified with Hermanson some 40 years later, in the form of human asset accounting. Hermanson chose the topic as his doctoral work, producing a relatively short dissertation in 1963 (see also, Hermanson, 1964). The observation that he engaged with the issue of employees not being owned by enterprises, (i.e. not being slaves), suggests that some within the academy had already begun to think through the challenge. Hermanson’s solution to the problem, identifying employees as operational assets as opposed to owned assets, still remains a useful response to those who might raise the slave issue in seminars and at conferences. This was the easy part of the challenge, however.

What Hermanson quickly recognized was that if you want to put human assets on the balance sheet alongside other assets, then you need to identify their financial value. As with a whole range of intangible assets before them, and the much greater number of constituents of IC in the 21st century, this remains a major problem.

The general difficulty with valuing intangible assets is that such valuations attract the blanket criticism of being subjective in nature. The reason for this is that unlike tangible assets, many intangible assets are not initially purchased and therefore have no historical cost that might be identified via a transaction. When an enterprise purchases a piece of machinery, it can be incorporated into the balance sheet at its purchase price, its balance sheet value being reduced over time by means of the application of systematic depreciation charges. However, since the 1960s, there has been a reasonable degree of variation from this process. In some
cases, it is accepted that certain assets actually appreciate in value after purchase, with land and buildings the most well-known examples. Their enhanced values are reported within the balance sheet accompanied by revaluation reserves designed to ensure that any increase in the value of an enterprise due to asset appreciation is not removed from the enterprise in the form of liquid assets. Only when the enterprise is sold is it possible to realize these enhancements in financial value. The price at which the enterprise is purchased then translates to being the new historical cost in the balance sheet of the purchaser.

For generations, it has been commonplace for acquiring enterprises to overpay when purchasing the assets (and liabilities) of another enterprise. This is understood to be the purchase of goodwill, arguably the quintessential intangible asset. Goodwill encompasses a whole range of different assets, including a workforce viewed as a collective asset that is recognized to gift a stock of attributes to an enterprise in excess, and often far in excess, of the cost of their contractual labour. Until relatively recently, convention was that an enterprise wrote off any purchased goodwill against its reserves, in pursuit of the prudence concept, leaving only acquired tangible assets on the balance sheet, to be depreciated over time. Nowadays the accounting treatment of goodwill is more enlightened, with provision for its systematic impairment or even its continued presence on the balance sheet at its purchase price. What is not permitted is any enhancement of financial value, even though in many enterprises the value of goodwill is recognized to appreciate over time. This state of affairs is arguably best understood in the context of brands, which for the past 30 years have been discussed as a critical standalone element of goodwill (and IC). During this time, the great majority of successful brands has appreciated in value but financial reporting regulations do not allow this to be reported on the balance sheet, even accompanied by the creation of a brand revaluation reserve. However, once a brand is sold, the acquiring enterprise can include it in its balance sheet at its new purchase price. What is particularly fascinating about this process is that for the past 30 years a growing number of brand consultancies have been able to determine financial valuations for brands, informing would-be buyers (and sellers) on an on-going basis. Unfortunately, the global accountancy profession’s subjectivity argument continues to prevail.

Understanding the value of the workforce as an element of goodwill was a situation in which Hermanson found himself. In any enterprise, such value is built up over time, as a consequence of which it might not readily be attributed to the individual workers currently employed in the enterprise. This before the issue of how different individuals might place a financial value on individual employees at different times as a result of inevitable personal preferences. And besides, there were no obvious signs of any objective valuations, since employees are not slaves! Hermanson’s response to this situation was fundamentally academic in nature – to explore relevant financial valuation methodologies, which exercise accounted for the greater part of his dissertation. He identifies two that he regarded as being especially compelling: the unpurchased goodwill method and the adjusted present value method, although he must have recognized that it was extremely unlikely that either would be widely embraced in practice.

Hermanson was not the only person to advocate the development of some form of human asset accounting approach. The phrase ‘putting people on the balance sheet’ was coined in 1967 in a *Harvard Business Review* article by Hekemian and Jones, who seemed less concerned about the problem of identifying a subjective valuation methodology in order to do so, embracing something akin to an opportunity cost approach. Likert (1967) entitled one of the chapters of his text *The Human Organization* ‘Human asset accounting’, in which he identified a number of employee attributes that needed to be considered in any such exercise, and concluded with the confident assertion that accounting practitioners would be able to find a way to translate these attributes into robust financial numbers (for the balance sheet?). Thereafter the
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term ‘human asset accounting’ largely disappeared from the field, to be replaced by ‘human resource accounting’. While the name change occurred, a continuing feature of the literature that accumulated over the next decade or so, after which the field went into steep decline, was focused around the pursuit of a silver bullet financial valuation methodology that would permit the incorporation of people on the balance sheet.

How about we try a different approach?

The term human resource accounting was coined by Brummet et al. (1968) in a seminal paper published in the Accounting Review. Flamholtz was to become the dominant presence within the accounting for people field quite soon thereafter, shifting the emphasis from one of identifying financial valuations for balance sheet purposes, although he did some of this in the early days in relation to service rewards (Flamholtz, 1971), to providing accounting information to managers for internal decision-making purposes. As a consequence, accounting for people was to be more usefully understood as a managerial accounting focus rather than a financial reporting focus. There is no dispute that Flamholtz viewed employees as assets but believed that the best way to take people into account was by means of a focus on the costs of human resource utilization. Putting people on the balance sheet held little attraction for Flamholtz.

Although Flamholtz commended a cost focus for his human resource accounting approach, he firmly rejected the conventional cost reduction emphases of such a perspective. His was a more nuanced position, one of drawing management’s attention to the outlays they made on employees with the objective of promoting a greater level of efficiency in respect of the utilization of valuable human resources. Flamholtz was not interested in reducing labour costs by reducing the size of the workforce or the levels of its remuneration. Instead he sought to enable management to identify how it might better utilize its human resources, resources that he regarded as being crucial to successful enterprise performance. In a powerful articulation of his underlying philosophy published in 1974, Flamholtz identified three objectives of human resource accounting. The key objective was that of persuading management to “think people” at all times. It is possible to recognize Flamholtz as being one of the earliest advocates of what was later to be understood as strategic human resource management, as a development in human resource management, itself the successor to the long-established personnel management function.

For the greater part of the 1970s, human resource accounting and Flamholtz’s perspective on it was a highly fashionable research field within accounting. It was also regarded as an aspect of behavioural accounting, itself similarly fashionable and in retrospect an important precursor to the emergence of organizational accounting as this was popularized in the early days of the journal Accounting, Organizations and Society (see Flamholtz, 1976). Despite a considerable emphasis on technical issues, including a continuing fascination with identifying a credible (financial) valuation model, by the beginning of the 1980s, human resource accounting was something of a spent force. A failure to contribute much in the way of a practical approach to accounting for people would seem to be the basic explanation of its passing. While ‘putting people on the balance sheet’ had an enduring popular appeal, it had made little or no progress in 20 years, with Flamholtz’s enlightened managerialism probably being too radical for the vast majority of a profession that equated the management of labour costs with their reduction. Equally, there were other more important challenges in which to engage at this time, not least the perceived need to identify a conceptual framework for financial reporting (FASB, 1976) and the continuing presence of inflation within many advanced economies (Whittington, 1983).
The underlying thinking of Flamholtz’s human resource accounting approach was embraced by a group of academics at Stockholm Business School’s Personnel Economics Institute founded in 1988. As its name indicates, this was an interdisciplinary initiative that worked at the interface between several disciplines, including both accounting and finance. Human resource costing and accounting was identified as a potential successor to human resource accounting by two of the senior figures in the Institute, Gröjer and Johanson, most influentially in a 1991 pamphlet published by the Swedish Joint Industrial Safety Council. As with human resource accounting the balance sheet nexus was eschewed, human resource costing and accounting being promoted as a managerial development (Gröjer and Johanson, 1998). However, given Sweden’s traditional social democratic inclinations it was inevitable that this was a largely progressive managerialism that took as axiomatic the need to ensure that any accounting for people be of benefit to all stakeholders. Johanson and Backlund (2006) provide evidence of Swedish enterprises promoting greater employee visibility within an expanded profit and loss statement. Human resource costing and accounting also identified utility analysis as a potentially insightful way of providing information on the outcomes of human resource investments, thereby complementing an accounting emphasis with one more akin to finance. The Personnel Economics Institute established the Journal of Human Resource Costing and Accounting in 1996, thereby providing an outlet for researchers who continued to be attracted to the idea of accounting for people, and within a few years the IC field.

Also strongly influenced by Flamholtz, Roslender and Dyson (1992) identified human worth accounting as a possible refinement of human resource accounting. Like Flamholtz, they were committed to the idea of taking employees into account as a managerial accounting development, with *worth* as the central focus. While accounting for the worth of employees was clearly an anathema to those who would seek to put people on the balance sheet, Roslender and Dyson took the view that recent developments with managerial accounting that had emerged in response to Kaplan’s relevance critique (Kaplan, 1983, 1984; Johnson and Kaplan, 1987), meant that such a subjective notion as (employee) worth was no longer as forbidding as previously. It was now necessary to understand what attributes management valued in a workforce and which translated into their worth. Unfortunately, despite a number of interesting insights into what in principle was a radical approach to the challenge of accounting for people, Roslender and Dyson (1992) found themselves unable to fully escape the pursuit of some form of financial valuation perspective, albeit not for conventional balance sheet purposes.

**Enter human capital**

The identification of human capital as one of the three key components of IC, now recognized as an increasingly important foundation for competitive advantage, came as no surprise to anyone interested in accounting for people. Edvinsson (1997) strongly implies that human capital is in truth the more important component in his human capital/structural capital distinction, while Roslender and Fincham (2001) advance this view in a very explicit way, identifying human capital as primary intellectual capital and the origin of secondary intellectual capital, by which they mean many, although not all, of IC’s various constituents. Human capital’s (in the guise of employees’) ‘promotion’ to the status of the key asset of any enterprise was the initial advance that the emergence of the IC field in the middle 1990s gifted anyone who retained a fascination with the challenge that had presented itself to Paton close to three quarters of a century earlier and that had consumed a significant extent of research effort during the 1970s. In this regard, it is not too surprising that among the influential contributions to the early growth
of the IC literature we find a paper by Gröjer and Johanson (1998) in which they call for a renewal of research effort designed to take people into account.

The term human capital was by no means novel, however. In parallel with Hermanson’s forays into human asset accounting, a number of labour economists had embraced the term (Schultz, 1961; Becker, 1964), drawing attention to many of the same attributes that the newly emergent IC literature focused on 30 years later. In the interim the human capital emphasis within labour economics had resulted in the accumulation of a sizeable literature that, perhaps inevitably, was quickly discovered by some IC writers. Fortunately, however, this literature did not have the consequence of smothering the embryonic IC field that quickly expanded in a number of directions in the next few years.

The introduction of IC into the accounting literature occurred at a time when the managerial accounting sub-discipline was beginning to demonstrate its new credentials as a source of relevant information for managers, following a decade of rapid, and at times iconoclastic, change. In the previous section the point has been made that Flamholtz, Gröjer and Johanson, and Roslander and Dyson were more attracted to the development of a managerial accounting perspective on accounting for people. For the most part, however, they remained locked into the traditional cost and value calculus that had characterized accounting for many decades.

By the closing years of the 20th century some radical new thinking had begun to impact on accounting to management, which promised to make accounting for IC, including for human capital, more feasible.

Even before Kaplan (1983, 1984) began to question the relevance of contemporary management accounting theory and practice in the mid-1980s, a number of management accounting academics had identified the contribution of some new management accounting metrics. An interesting example of this is Simmonds’ work on strategic management accounting in which he advocated a more outward-looking (strategic) approach to providing information to management in increasingly competitive markets (Simmonds 1981, 1982, 1986). Simmonds suggested the need to explore how it might be possible to collect information on competitors that managers might use to enhance and leverage their own competitiveness. From the outset, he questioned the wisdom of restricting such exercises to the development of accurate numbers, preferring to argue the case for more ballpark insights. This was something of a heresy to generations of accounting practitioners who had prided themselves on their calculative precision rather than their commercial acumen. Even more contentious was the observation that management accountants might make use of the numbers that were more normally associated with other management functions, including marketing management, Simmonds playfully warning that there was a danger that the latter function might soon pursue some reverse borrowing in their pursuit of greater influence in the enterprise. Several years later Bromwich and Bhimani made a strong case for the development of an even more progressive strategic management accounting oeuvre, premised on a perceived need to remove managerial accounting from the factory floor and refocused on the markets, products, and customers (Bromwich and Bhimani, 1989, 1994; see also Bromwich, 1990). By this time the idea of accounting for quality, time, product commonality, bottlenecks, value chains, and so on, using the most appropriate metrics available, was widely accepted.

Within the context of a rapidly evolving new management accounting discipline, termed accounting for strategic positioning by Roslander (1995), the balanced scorecard was quickly recognized as a complementary new direction to pursue (Kaplan and Norton, 1992, 1993; Maisel, 1992). What this new reporting framework permitted was the presentation of a set of key performance indicators that reflected an enterprise’s chosen critical success factors, internally in the first instance but in principle externally also. Performance was to be considered
in a balanced way (i.e. more comprehensively or inclusively), by complementing traditional accounting (and finance) numbers with those more relevant to reporting on customer interactions, internal resource consumption, future preparedness, and human capital issues. Beyond the suggestion of a generic four perspective scorecard architecture to be populated by relevant numbers, there were no normative prescriptions, the opposite of the stock-in-trade of the global financial reporting profession.

The various accomplishments of the new management accounting were not lost on Edvinsson, sometime self-proclaimed father of the IC field. In his seminal *Long Range Planning* paper, Edvinsson (1997) identifies the Skandia Navigator as the means of reporting the growth of an enterprise’s key IC constituents on a periodic basis, using customized metrics selected to ensure the most favourable account of performance was presented. Such a scoreboard was deemed by Edvinsson to be a superior approach to any facile attempt to somehow determine IC values, perhaps derived using his own Skandia Value Scheme that is also discussed in the paper. Alternative scoreboards soon followed, most notably the Intangible Assets Monitor (Sveiby, 1997), the Eriksson Cockpit Communicator (Lovingsson *et al.*, 2000), and the Value Chain Scoreboard (Lev, 2001) (see also Starovic and Marr, 2003).

**Human capital accounting**

The basic lesson for accounting for people provided by the emergence of the new management accounting in general, and the balanced scorecard in particular, was that a human capital account should set out the key information on the stock of human capital (attributes) available to an enterprise, ideally emphasizing its continued growth. Such an account might be understood as an expanded human capital (people) perspective as in an IC scoreboard such as the Navigator or Intangible Assets Monitor. Equally, the HR Scorecard identified by Becker *et al.* (2001) or the Human Capital Scorecard developed by Fitz-enz (2000) would qualify as human capital accounts. Both would seem to affirm Simmonds’ warning 20 years earlier in relation to the need to develop a strategic management accounting approach – that other professions are capable of incursions into accountancy’s traditional jurisdiction.

To the purist, and irrespective of their merits and utility to managers, such innovations are not accountings. Underpinning such a stance is the belief that (true) accounting manifests itself in the traditions of financial accounting and reporting, in which the balance sheet and profit and loss account are of paramount importance. This explains why the enduring popular understanding of accounting for people equates it with ‘putting people on the balance sheet’, making use of reliable ‘objective’ financial valuations. The observation that the latter exercise has long been recognized by academics to be impossible actually provides ammunition to those more conservative elements of the accountancy profession who consider employees, among a number of admittedly valuable assets, do not belong on the balance sheet irrespective of Paton’s assertion. Their place is within the profit and loss account, as costs, the magnitude of which necessarily impacts on levels of profitability. Given the objective of profit maximization, whether in small private enterprises or agency-managed large corporations, the role of the accountancy profession is to facilitate the processes necessary to deliver continued, and ideally increased, levels of profitability. In the last analysis, it is management who insist on labour cost reductions. A critical merit of Flamholtz’s human resource accounting approach is that he signposted the way to (employee) cost management, almost 20 years before Kaplan recognized the fullest significance of the activity-based cost approach (Cooper and Kaplan, 1991) but ultimately lacked the tools to finish the job.

A human capital account identifies the key insights on how the enterprise has grown its stocks of human capital within a specified period. At base, this will reflect the many attributes
that a workforce gifts to the enterprise, including their education and training, experience and expertise, a range of desirable qualities including capacity for teamwork, initiative and ingenuity, together with their health and wellbeing. In addition, there are many factual attributes such as age and gender profile, longevity of service, retention levels, and so on, all of which are again well understood by human resource professionals. Those with responsibility for the production of such an account are challenged to identify the most important attributes that need to be disclosed, the enterprise’s critical success factors, together with the most powerful metrics for that purpose in order to communicate the enterprise’s commercial health going forward. As with the second generation balanced scorecard (Kaplan and Norton, 1996), there is merit in incorporating a set of human capital growth targets that are revisited on a continuing basis. Equally, the inherently dynamic nature of human capital means that careful consideration needs to be given to how the bundle of attributes incorporated within the account evolves over time. While there is an imperative to tell the most persuasive human capital story, it is also important that such stories exhibit a continuity over time.

From even this brief description of what a human capital account might look like, a couple of affinities with a conventional balance sheet can be identified. First, the objective is the same: to present a visualization of the position of the enterprise at a particular time, thereby communicating its commercial health as compared with the same at some earlier time, together with an indication of the future prospects of the enterprise, an attribute of the balance sheet that is too often overlooked. Second, and equally important: the requirement to provide largely the same set of information over time, thereby offering the means to identify the enterprise’s improving position and reinforcing perceptions of commercial health. The differences are probably more significant, however. The initial difference is the truism that a human capital account is a highly focused account in contrast to a balance sheet, which in respect of assets alone is invariably much more wide ranging. Unlike a balance sheet, a human capital account is not composed of financial balances, principally valuations, and indeed may exclude such valuations on the grounds that in the case of employees these do not offer a useful way of representing the worth of a workforce (cf. Roslender and Dyson, 1992). The purposeful decoupling of the worth from financial value circumvents concerns about admitting subjectivity into the balance sheet. Because worth is at base a subjective notion, albeit in the case of a workforce subject to a measure of verification within the operations of the market, the use of frameworks that do not have any pretensions of objectivity is a commensurate practice. One consequence of this is that comparing human capital accounts between enterprises becomes a difficult exercise to pursue, an observation that applies equally to any scoreboard approach to accounting. Financial reporting has traditionally identified such comparability as a major strength of stock-in-trade, and perhaps understandably views departures from it with some concern, if not trepidation.

In principle, there is no reason why an enterprise might not incorporate a human capital account within its annual report package, although it needs to be acknowledged that suggesting even more content be included within this document invariably provokes the knee jerk ‘information overload’ response from many within the accountancy profession. Nowadays annual reports commonly run to three figures in terms of the number of pages. In many cases, however, a growing part of the document takes the form of pictures that are designed to reinforce some of the key messages the enterprise is seeking to communicate to its stakeholders. At the very least there seems to be a strong case for providing enterprise human capital account information on enterprises’ websites. This would have the benefit of permitting a fuller treatment of the issues, a feature that stakeholders with a particular interest in human capital and its promotion within the enterprise would appreciate.
It would be wrong at this point to move on to a number of further considerations in relation to the challenge of accounting for people without offering some observations on the contribution that narrative approaches to IC reporting could make to this task. In 1997 the Danish government initiated a project on IC that would identify the Intellectual Capital Statement as an alternative approach to IC reporting that was more reliant on narrative than numbers, as in the case of scoreboards or the financial indexes (e.g. Mouritsen, 1998; Mouritsen et al., 2001a, 2001b). The first phase of the Danish Guideline Project resulted in the identification of a set of guidelines for IC reporting that was heavily informed by knowledge management thinking (DATI, 2001). The second phase was more extensive and involved working with 100 companies to refine these guidelines into “The New Guidelines” (Mouritsen et al., 2003). While the Intellectual Capital Statement incorporated a scoreboard in its fourth section, the knowledge narrative, management challenges, and initiatives sections were predominantly narrative in nature, as well as being strongly reflexive in emphasis. Management was encouraged to carefully consider how it might best use its scarce IC resources, including human capital, to maximize the value created for and delivered to customers, as well as captured for shareholders (see also the Meritum Report (2002) for an alternative narrative-based approach to IC reporting).

While the Danish Guideline Project and the Intellectual Capital Statement have recently been documented to have been only moderately successful (Nielsen et al., 2016, 2017), the benefits of adopting a narrative focus within human capital accounting remain very evident. Merely exchanging financial valuations for softer metrics, as in the case of scoreboard approaches, does not provide the panacea that those seeking to take people into account had sought for several decades. By combining numbers with narratives and other visualization, and as many of the examples from the Danish Guideline demonstrated, it becomes possible to produce a more nuanced story of human capital growth. This is not too surprising if one explores much of the content of 21st-century financial reports. Words are commonly used to explain and amplify the accounting numbers in the attempt to convince stakeholders of the soundness of particular discussions and/or their accounting representation. In this light, what is good for the mainstream is also good for those with more radical agendas. On the other hand, human capital accounting is likely to precipitate a considerable extent of complementary narrative, provoking further concerns about information overload.

Having provided an overview of the development of accounting for people to date, the second part of the chapter identifies and discusses three important pathways that researchers interested in developing human capital accounting could consider pursuing. These pathways are: health and wellbeing as human capital; the social accounting interface; and accounting by people.

**Health and wellbeing as human capital**

The list of generic human capital attributes identified earlier, the growth of which might be incorporated into a human capital account via a combination of numbers and narrative, included health and wellbeing. While all of the other attributes identified will be fairly familiar to readers, albeit sometimes in different guises, health and wellbeing is a rather novel attribute. Its inclusion might initially seem contentious, although nowadays its exclusion from the human capital accounting space is probably even more contentious. A moment’s reflection demonstrates that any compromise of an employee’s health and wellbeing threatens to reduce his or her capacity to contribute to the value creation, delivery, and capture processes now recognized to provide the rationale for all enterprise activities. Or put more simply: if an employee is unwell in some way, they are unable to perform at their best in the workplace.
While it would be disingenuous to suggest that all ill-health is caused by working, there is now considerable evidence to demonstrate that many employees are unwell because of their work. Traditionally musculo-skeletal problems were understood to be the cause of many lost working days. As both employees and employers have come to understand, a preventative approach to working activities, as an element of a broader health and safety culture, has resulted in many fewer days lost to musculo-skeletal problems in the workforce. For the past generation, however, evidence regarding sickness absence, such as that provided annually by the UK Chartered Institute of Personnel and Development in their absence management surveys, demonstrates that mental illness is now the most pressing work health challenge faced by enterprises and is reflected in an escalating charge to be set against both local profitability and national financial resources. Again, there is no suggestion that all mental ill-health is consequent on workplace factors, or that contemporary lifestyle choices do not contribute significantly to sickness absence statistics. Nevertheless, the continued growth of long-term sickness absence among non-manual employees, those whose role in the knowledge society is otherwise trumpeted as being so crucial, would seem to be a worrying process that demands to be taken into account in some way, in tandem with the modern day presenteeism and leavism phenomena that have the consequence of disguising the extent of the actual problem to some degree.

Twenty-first century work seems to impact on many people’s health, despite the observation that these causal factors are well known. Concerns about staffing levels are a major consideration. The downsizing and rightsizing initiatives of the 1980s, subsequently reinforced by the generic business process re-engineering philosophy in the following decade (e.g. Hammer and Champy, 1993; Champy, 1995), have left many employees with workloads that they struggle to fulfil on a daily basis, resulting in increased unpaid overtime, fatigue and worry. In parallel a seeming obsession with continual organizational change has the same consequence for many employees. While change and the pace of change are now recognized to be a necessary feature of the enterprise by most employees, the problem seems to be that there is often too much change evident and for no clear reason, both of which have the effect of placing further pressure on employees. The observation that change management thinking consistently emphasizes the necessity for a continuing dialogue with those who experience its effects, at every level within the organization, coupled with extensive involvement and participation in such initiatives, is belied by practice in many instances, promoting even greater uncertainty and confusion that reinforces distress and dismay. As if this was not enough, many managers are regarded by their subordinates as engaging in bullying and kindred behaviours that regularly go unchallenged by their own superiors. A growth in employee on employee bullying is both a symptom and a cause of greater levels of workplace dissatisfaction, and at the extreme, fear, which simply exacerbates the negative responses that for many employees result in stress-related sickness absence.

In the present era, an enterprise that manifests these well-understood processes has a greater likelihood of experiencing high levels of sickness absence due to the incidence of mental ill-health, now recognized as a prominent challenge to work health. Such an enterprise would seem not to merit the designation of a ‘healthy organization’, one that despite its seeming ‘unaccounting’ resonances in fact takes us squarely back to the accounting space. The balance sheet is usually recognized as an indicator of the financial health of an enterprise, although certainly not the sole indicator. A balance sheet that communicates an upward trend in financial health is therefore likely to also convey the likelihood of future success for the enterprise. Conversely, any reversal in such a trend seems likely to promote caution among those who seek a sustained return of their willingness to invest their resources in the enterprise.
As an enterprise’s most valuable asset, an unhealthy workforce would be recognized as a cause for concern. Given that such information is only rarely disclosed to anyone outside of the enterprise, it is possible for management to ignore these concerns and focus their attention on what must be disclosed, although they do so at their peril. Conversely, however, the lure of reporting a highly positive story about a healthy organization is powerful and holds out the same beneficial consequences as more conventional financial disclosures. It would involve selecting a set of insightful indicators and then combining these with a narrative that explains how the enterprise accomplishes being a healthy organization. In the light of what has already been outlined, the ability to be able to report a downward trend in long-term sickness absences due to stress and stress-related conditions would seem crucial, possibly by category of employee or length of employment. Some indication of what are regarded as successful attempts to promote high levels of employee engagement would also seem to be beneficial, together with complementary interventions such as the promotion of healthy eating, the pursuit of exercise, aromatherapy or yoga sessions, substance abuse initiatives, smoking cessation, and so on, many of which are already embraced by enterprises (see, Roslender et al., 2010, chapter 4). It is only feasible to tell the story of the healthy organization if such an organization exists. Those enterprises in a position to make favourable disclosures of this sort can only enhance their credibility if they are also prepared to undergo an assurance process.

An attempt to develop this particular approach to human capital accounting was evident in Sweden a decade ago in the form of the health statement. Sweden had the unfortunate distinction of being in the vanguard of an excessive sickness absence phenomenon around the millennium, albeit in some part as a consequence of its relatively relaxed social security provisions (Johanson et al., 2007). This was more pronounced in the state sector, which is where experimentation with health statements was focused (e.g. Mouritsen and Johanson, 2005; Almqvist et al., 2007; Holmgren Caicedo and Martensson, 2010). Once sickness absence levels began to (appear to) reduce significantly, interest in health statements tailed off, although in fairness many initiatives had proved unsuccessful despite their good intentions. The desirability of revisiting such initiatives in the face of continued high levels of sickness absence, wherever these may be evident, is surely self-evident.

The social accounting interface

Despite what many readers might regard as a radical departure from mainstream accounting and reporting, accounting for health and wellbeing, as envisaged above, like human capital accounting in general, remains fairly conventional. What is being suggested is that employees, understood to be the most valuable asset within the enterprise, are accounted for using a combination of numbers and narratives incorporated into a scoreboard framework that largely eschews the traditional cost and value calculus evident throughout the history of financial accounting theory and practice. In the last analysis, however, the resulting information might be recognized as being designed principally to meet the needs of shareholders, senior managers, and the analyst community. This group might extend to include employees themselves, although as with previous attempts to deliver such insights it is unlikely that the vehicles for doing so will vary much from more established practices.

It is easy to overlook the observation that some early attempts at accounting for people had more in common with social accounting than either financial accounting or managerial accounting. Accounting to society, viewed as a complement to financial and managerial accounting, was conceived of as an attempt to provide the broader society with information that those who sought to fashion such accounts believed it had an interest in. Some of the early iconic
Attempts to account to society in this way were the work of groups and organizations such as Social Audit Ltd or Counter Information Services, who were far removed from the accounting mainstream, and were often politically motivated (Gray et al., 1987). At base, these alternative accounts aimed to inform society about issues that enterprises excluded from their financial statements, often in a vivid way but equally in the measured way that was necessary to command attention. Over time this genre of radical social accounting evolved into corporate social reporting, arguably losing much of its cutting edge in the process, making it less threatening to enterprises that sought to extend their accounting information set in this way. Providing information on employees and employment issues through such mechanisms offered a third way of accounting for people, a programme that Flamholtz flirted with in the second edition of his seminal overview of the field (Flamholtz, 1985). By this time, however, accounting for people had largely disappeared from the research agenda, while corporate social reporting was beginning to become more oriented to environmental concerns, in place of an arguably more radical ecological emphasis (Gray et al., 2017). The subsequent history of corporate social reporting has seen it become ever more palatable to the accounting mainstream, to such an extent that some formulations of Integrated Reporting barely countenance the idea that there is any real distinction between corporate reporting and corporate social reporting (Flower, 2015).

A return to a more radical social accounting model promises to facilitate the broadening of the accounting for people focus. Implicit in the story of the healthy organization identified above is the assumption that there is a positive story to tell, essentially of employees working within enterprises that do not compromise their health and wellbeing, and ideally adding to it in some discernible way. It would seem reasonable to observe that presently many enterprises are not in a position to provide positive accounts of this sort, as a result of which a strong imperative exists to engage in improvement projects and to do so in a transparent way. In so doing, enterprises may begin to incorporate a measure of critical accounting thinking into both their disclosure practices and the activities that they seek to represent (Roslender and Dillard, 2003). In this regard, critical accounting is understood to entail the attempt to document the conditions and the consequences of the many practices that enterprises and their management pursue in a reflexive way that is ultimately designed to produce social betterment. In other words, informing society about how the enterprise is striving for the creation of a better world, a project that is self-evidently more radical than the vast part of the corporate social reporting tradition.

One extension of accounting for people in this direction overlaps with recent interest in accounting for human rights. The concept of human rights embraces a wide range of attributes that attach to people as human beings rather than as employees. Over time these rights have become more apparent as society has sought to reflect upon how human beings impact upon each other as well as upon the environment. The Global Reporting Initiative’s G4: Sustainability Reporting Guidelines identifies a range of generic categories of human rights upon which enterprises are encouraged to report (GRI, 2013). These include: nondiscrimination, child labour, security, and respect for the rights of indigenous people. An extended account for people project should focus on what enterprises are doing to protect and promote human rights, and to report this to the broader society. It is of equal importance that enterprises acknowledge how their activities impact negatively on human rights, and their plans to reduce that impact over time. Although it might initially seem to be something of a trivialization of the pursuit of greater levels of human rights, the development of a scoreboard approach to crucial issues such as safety, security, equality, and so on, complete with improvement targets, certainly merits a second look (see, Roslender et al., 2015 for a fuller discussion).
Accounting by people

The latter reference to scoreboard approaches to human rights disclosure also returns us to the role that narratives should play in the continued development of accounting for people. The case for the use of narratives in IC reporting was convincingly advanced in the many outputs from the Danish Guideline Project and its complementary literature (which are discussed elsewhere in this collection). Despite its modest success, the appeal of a combination of narratives and numbers remains undiminished. Narratives also exist as a major challenge to many within the global financial reporting community, as a consequence of which it is important not to lose sight of the many difficulties that its many enthusiastic advocates face in increasing their role in the coming years (Roslender and Nielsen, 2016).

In Roslender and Fincham (2001) the case was made for a further development of narratives, again heavily informed by a critical accounting perspective (see also, Roslender and Fincham, 2004). Despite their promise, Roslender and Fincham observe that the narratives envisaged within the Intellectual Capital Statement and the Intellectual Capital Reporting framework identified in parallel in the 2002 Meritum Report, remain management’s narratives in the same way that both scoreboards and more conventional financial statements are the work of the accounting and finance function. As such, they are fundamentally inconsistent with the identification of human capital as primary IC, even if this designation is expanded to include the greater part of management itself. However well-meaning they may be claimed to be, management’s narratives about human capital and its growth still have the effect of imprisoning people within other people’s accounts, ensuring their continued control within the enterprise. In order to develop a radical, emancipatory narrative that can promote the position of employees within the enterprise, they must be able to devise and disseminate their own narratives, which must be independent of the control of their jailers. Roslender and Fincham (2001, 2004) commend the practice of self-accounting as the means to ensure that narratives can serve the interests of employees.

Self-narratives would entail employees talking about how they experience the many aspects of their employments and how the various attributes they gift to the enterprise are utilized. Roslender and Fincham advance a fundamentally positive view of self-accounting, although they should not be interpreted as being completely wide-eyed idealists about how most people experience work. Self-accounting’s intellectual roots in the traditions of Marxist theory necessitate that it entails an exercise in self-reflection. In the course of thinking about and fabricating their individual self-accounts, employees are simultaneously challenged to consider how they might improve the situation so as to achieve personal growth whenever possible. The counter-argument that this is something to be resisted at every turn by those charged with managing the enterprise is something of a truism, but the very idea of a critical accounting for people, as a modernist project, takes it as axiomatic that widespread social betterment remains a realistic prospect in the years and decades to come (Roslender et al., 2015). So while it is desirable to remain fully sceptical about the rhetorical emphases of the assertion that ‘our people are our greatest asset’, many enterprises are becoming aware of the necessity of successfully participating in the increasingly competitive ‘war for talent’.

Health and wellbeing self-accounts suggest themselves as being particularly interesting. Individuals would be able to take the opportunity to document their journeys to improved health and wellbeing, possibly placing particular emphasis on the importance of engaging in sporting activities, whether in isolation or on a team basis. The benefits of greater participation in sport are now widely publicized by the medical profession, but being able to access the experiences of one’s own fellow employees on the one hand, or one’s friendship group on the

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other, as well as the broader society via the various communications technologies and social media, promises a wealth of concrete lessons that might be emulated. Similarly, stories about tackling substance abuse, smoking cessation, reducing alcohol intake, healthier cooking as well as healthier eating, or beginning to pursue yoga classes, pilates, aromatherapy or similar initiatives, have the capacity to encourage anyone to embrace activities that are understood to counter negative pressures within the workplace. Insights on the utility of the vast array of legal pharmaceuticals can be derived from similar sources, together with lessons on how it has been possible to reduce dependency on the same. While it was previously emphasized that 21st-century work would appear to have developed the capacity to increase levels of long-term sickness absence, it would be wrong to believe that it is possible to eradicate such effects from the workplace. As a consequence, many of the above activities might be better understood to constitute valuable means of mitigating threats to health and wellbeing, both in the workplace and beyond (see Roslender et al., 2006 for a fuller discussion).

To conclude

Taking people into account has two different meanings, reflecting the fundamentally interdisciplinary nature of the challenge it encompasses. From an accounting perspective, it brings to mind the search for some means to incorporate people within accounts, most obviously by putting people on the balance sheet. By implication this will be accomplished via the mechanism of determining reliable financial valuations for employees, perhaps individually or more likely in aggregate. As we have indicated earlier, this option has been rejected by the majority of accounting academics who have had an interest in accounting for people for close to half a century. It would be difficult to identify many financial accounting and reporting researchers who would readily admit to being interested in identifying financial valuations for employees in this way nowadays. Unfortunately, this appears not to be a position shared by their practitioner counterparts, who in large part remain disinterested in any such adventures. As a consequence, the various alternatives informed by over 20 years of research on IC reporting continue to be largely undiscovered.

The second meaning is of a much more commonsense nature, at least to anyone with a genuine interest in people and what they bring to the workplace. This meaning of taking people into account translates into a commitment to demonstrate the scale and scope of what people gift to society, including as employees. Flamholtz recognized this in his imperative to ‘think people’, a decade or so prior to the ‘our people are our greatest asset’ axiom of the emergent human resource management function. Leaving aside the debate as to whether the latter assertion has really had much more than a rhetorical purchase, for us ‘people thinking’, as the underlying objective of accounting for people, merits as much attention as it did when Paton drew the accountancy profession’s attention to the importance of employees to the business enterprise. As we observed at the outset, human capital is, by definition, the source of all IC, as a consequence of which it demands to be taken into account more than ever, to ensure that its contribution to society is the most it can be, at all times and in all spaces. And to answer the question posed at the beginning of the chapter: ‘why account for people?’ Quite simply because people matter, arguably now more than ever.

Further reading


Special issue of Accounting, Auditing & Accountability Journal on “Accounting for human rights” (2016), Vol. 29, No. 4.

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Accounting for people


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