VALUING YOUR TALENT

Reporting Human Capital

Accounting for employee health and well-being

Robin Roslender, University of Dundee
Edward Houghton, CIPD

About the authors

Professor Roslender holds the Chair in Accounting and Finance in the School of Social Sciences at the University of Dundee, joining in 2011 from Heriot-Watt University, Edinburgh, where he held the Chair in Accountancy for six years. He has an undergraduate degree in sociology, together with a doctorate, both from the University of Leeds, and successfully completed the formal examination programme of the Association of Chartered Certified Accountants soon after taking up a lectureship in accounting at the University of Stirling, having begun his academic career teaching sociology and organisational behaviour at Napier University, Edinburgh. Professor Roslender has been researching and writing about accounting for people for the past 25 years. He is an Associate Editor of the Accounting Forum, and previously Editor in Chief of the Journal of Human Resource Costing and Accounting.

Edward Houghton is the CIPD's Research Adviser for Human Capital Metrics and Standards. He is responsible for leading the organisation's human capital research work stream exploring various aspects of human capital management, theory and practice, including the measurement and evaluation of the skills and knowledge of the workforce. Prior to joining the CIPD he completed a three-year knowledge transfer partnership with the University of Bristol and Barclays, where he specialised in programme evaluation. Prior to that Edward worked in various research roles in the civil service.

Health and well-being as human capital

When we consider what constitutes human capital we immediately recall the main attributes of knowledge, skills and abilities. A broader range of such attributes will also be fairly familiar to readers, albeit sometimes in different guises. Health and well-being is a rather novel addition to any such list, however, particularly for the accountancy profession. Its inclusion might initially seem contentious, although nowadays its exclusion from the human capital accounting space is even more contentious. A moment's reflection confirms that any compromise of an employee's health and well-being threatens to reduce their capacity to contribute to the value-creation, delivery and capture processes that are now recognised 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 considerable evidence to demonstrate that many employees become unwell because of their work. Musculoskeletal problems, for example, are 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 can be effective at reducing work-health problems. For the past generation, however, evidence regarding well-being and sickness absence, such as that provided annually by the CIPD, demonstrates that mental illness is now the most pressing work health challenge faced by enterprises and is reflected in escalating costs. Indeed, the CIPD's Employee Outlook series, which focused on mental health in the workplace, found that just under one third (31%) of employees had experienced a period of low mental health during their career (CIPD

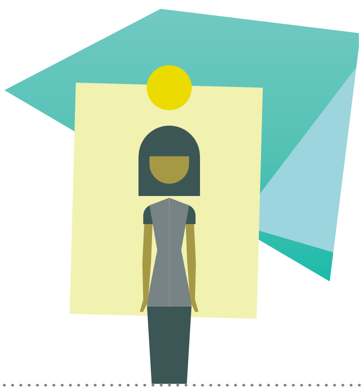
2016). Again, there is no suggestion that all mental ill-health is due to workplace factors, nor that contemporary lifestyle choices do not impact sickness absence statistics. Nevertheless, the continued growth of long-term sickness absence among non-manual employees in particular, those whose role in the knowledge society is regarded as being so crucial, would seem to be a worrying trend that demands to be taken into account in some way, in tandem with the modern-day presenteeism and 'leavism' phenomena (the latter being the use of annual leave, banked flexi-time to work when they are in fact ill, have the consequence of disguising the extent of well-being challenge.

Human capital and the healthy organisation

Some aspects of twenty-first century work seems to impact on many people's health, despite the observation that most of its causal factors are well known. Concerns about staffing levels are a major consideration. Changing business models and practices, economic uncertainty and the generic business process re-engineering philosophy in the following decade (Champy 1995, Hammer and Champy 1993), have left many employees with workloads that they struggle to fulfil on a daily basis. This has resulted in increased unpaid overtime, fatigue and worry. In parallel, a seeming obsession with continual organisational change has the same consequence for many employees. While change and the pace of change are now recognised to be a necessary feature of the enterprise by most employees, the problem would seem 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 – sometimes exacerbated unintentionally by ineffective communications. As if this is not enough, some managers also bully and cause distress to their subordinates and are not subject to management controls 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 concepts has a greater likelihood of experiencing high levels of sickness absence due to the incidence of mental ill-health, now recognised as the most prominent challenge to work health. Such an enterprise would not seem to merit the designation of a healthy organisation. For accountants and their stakeholders, the balance sheet is usually recognised as an indicator of the financial health of an enterprise, although 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.

Given the importance of employees to all enterprises, an unhealthy workforce would seem to merit being recognised as a cause for concern. Given that information on health and well-being, such as sickness absence levels, 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 organisation is powerful and holds out the same beneficial consequences as more conventional financial disclosures. It would involve selecting a set of the most instructive indicators and then combining these with a narrative that explains how the enterprise accomplishes being a healthy organisation. It is only feasible to tell the story of the healthy organisation if such an organisation exists. Those enterprises that are in a position to make favourable disclosures of this sort can only enhance their credibility if they are also prepared to undergo some form of assurance process.

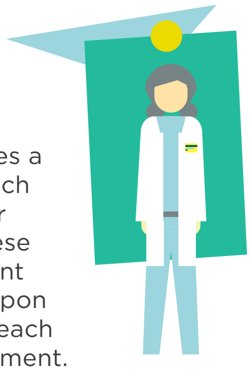


Widening the canvas

Many readers might regard accounting for health and well-being, as envisaged here, as a radical departure from mainstream accounting and reporting but like human capital accounting in general, it remains fairly conventional. What is being suggested is that employees, understood to be a key presence in the enterprise, are accounted for using a combination of numbers and narratives incorporated into a scoreboard framework that rejects the traditional cost and value calculus evident throughout the history of accounting theory and practice. In this context, there is a sense in which early attempts at accounting for people had more in common with social accounting rather 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 early iconic attempts to account to society in this way were the work of groups and organisations such as Social Audit Ltd or Counter Information Services, who were far removed from the accounting mainstream, and often politically motivated (Gray et al 1987). At base these alternative accounts sought 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 and making it less threatening to enterprises seeking to extend their accounting information set. 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 accounting for people had slipped down the research agenda, while corporate social reporting was beginning to become increasingly oriented to environmental concerns, in place of an arguably more radical ecological emphasis. 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 organisation 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 well-being, 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 greater extent of interdisciplinary thinking into both their disclosure practices and the activities that they seek to represent.



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 G3 Guidelines identify seven generic categories of human rights that enterprises might report upon. These include: non-discrimination; child labour; security; and respect for the rights of indigenous people. An extended accounting for people project should focus on what enterprises are doing to protect and promote human rights, and to report on this to 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 trivialisation 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 consideration (see Roslender et al 2015 for a fuller discussion).

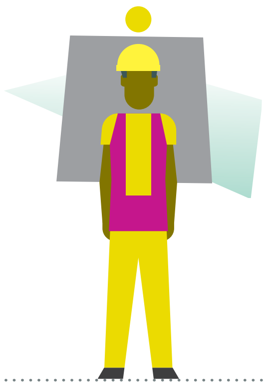
Accounting by people: the value of self-narratives

The latter reference to scoreboard approaches to human rights disclosure returns us to the role that narratives might play in the continued development of accounting for people. The case for the use of narratives in intellectual capital reporting was promoted in the Danish Guideline Project and, in particular, in its principal output, the Intellectual Capital Statement. Despite the very modest success of this project, the appeal of a combination of narratives and numbers remains undiminished. Narratives also continue to be viewed 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).

While broadly welcoming the Intellectual Capital Statement approach, Roslender and Fincham (2001, 2004) observe that the narratives it incorporates 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 inconsistent with their identification of human capital as primary intellectual capital, even if this designation is expanded to include the greater part of management itself. However well-meaning they may claim 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 more progressive narratives that can promote the position of employees within the enterprise, employees must be able to devise and disseminate their own narratives, which must be independent of the control of their jailers. Roslender and Fincham 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 human capital attributes they gift to the enterprise are utilised. Health and well-being self-accounts in particular suggest themselves as being particularly valuable. In them individuals would be able to take the opportunity to document their journeys to improved health and well-being, possibly placing particular emphasis on the importance of engaging in sporting activities, whether in isolation or on a team basis. The benefits of greater exercise are now widely commended by the medical profession and include improving the relationships of individuals with fellow employees and friendship groups, and an appreciation of their place in wider society. Similarly, stories about tackling substance abuse, surviving smoking cessation, switching to healthier diets or embracing novel interventions designed to counter negative pressures within the workplace. Self-narratives hold out the promise of providing a depth and a richness to any metrics-based account of an enterprise's success in tackling avoidable workplace sickness absence (Roslender et al 2006).

There are many reasons to question whether the accountancy profession should pursue the challenge of valuing an enterprise's workforce or contribute to the task of accurately determining the financial costs and consequences of poor health and low degrees of well-being. While these practices may be the recognised stock-in-trade of the profession, they no longer exhaust the capacities of its practitioners. The reporting of information on how an enterprise's stocks of human capital assets continue to enhance well-being reflects the imperative of valuing your talent. This should be extended to insights on improved employee health and well-being, within which those provided in the self-accounts of employees would seem particularly valuable.



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