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Damned if you do, damned if you don't: Conflicting perspectives on the virtues of accounting for people

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ABSTRACT

It is no surprise to learn that to date accounting for people has attracted very little attention from critical accounting researchers. From their standpoint there is little in the history of accounting theory and practice that has served the interests of labour well. A worrying consequence of this lack of engagement with accounting for people is that potentially valuable insights may be disregarded by fiat. The recent emergence of human capital accounting as an element of the broader intellectual capital field is identified here as meriting closer scrutiny and debate. Informed by a wide ranging literature review, together with some of the findings of a study of the issues associated with accounting for employee health and wellbeing, viewed as a further key constituent of human capital, the paper argues that a virtuous accounting intervention, in the form of a critical accounting for people, might now be pursued to the benefit of both people and the broader society.

1. Introduction

The challenge of accounting for people has been engaged in the mainstream accounting literature for many decades. Its most recent generic approach, human capital accounting (HCA), demonstrates that advocates no longer seek to identify a robust means of including labour (employees) within financial statements, ideally 'putting people on the balance sheet'. From a critical accounting perspective there is a variety of reasons why extending the accounting calculus in these ways might be rejected with little hesitation; there is little in the history of accounting technologies to commend them to people in their guise as labour. Such a summary rejection of the challenge of accounting for people disregards the sincerity that has motivated many of those who have contributed to this project, in some cases in the full knowledge that their ideas will invariably be subject to distortion and misappropriation. It also denies the possibility that it may be possible for an enabling approach to the task, one which will advance the interests of people *qua* labour rather than capital, in the first instance, to emerge out of a process of scrutiny of previous developments within this field.

The purpose of the present paper is to catalyse a much needed process of critique. It is based on the premise that despite the disdain with which many critical accounting researchers might view extant attempts to account for people, the continuing absence of a systematic scrutiny of such activities remains a damaging oversight. The paper is also motivated by the lack of critical engagement with the broader intellectual capital field, from whence the HCA approach to accounting for

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people has emerged. Despite a recent attempt to elicit contributions to such a critique within the pages of this journal (Mouritsen and Roslender, 2009), and with due acknowledgement of the work of O'Donnell (2004; see also O'Donnell et al., 2006a,b) and Dumay (2009, 2010), the early contributions of Yakhlef and Salzer-Morling (2000) and Roslender and Fincham (2001, 2004), remain largely unextended. The paper therefore provides an opportunity to debate the case for and against continuing to advocate the pursuit of accounting for people in the light of a range of objections that can be raised against such initiatives. On balance it is concluded that it is preferable to be damned because one seeks to continue along this pathway than to be damned for failing to do so.

The paper is organised as follows. In the following section HCA is situated within a continuing tradition of attempting to account for people, as well as a promising development within the broader intellectual capital field that could serve the interests of labour. Section three then identifies a number of arguments to the effect that critical accounting researchers should continue to remain sceptical about attempts to take people into account. In the fourth section we report some of the findings of a recent study of employee health and wellbeing viewed as a key constituent of human capital. These findings suggest that there is much interesting work to be done by the accountancy profession in making a positive contribution to the promotion of greater levels of employee health and wellbeing. The paper continues by debating the merits of progressing accounting for people as an aspect of social accounting rather than within the corporate accounting framework, and identifies recent interest in human rights reporting as displaying a number of interesting resonances that might now be explored. A brief reflective/reflexive conclusion affirms the case for progressing the task of taking people *qua* labour into account as a virtuous constituent of the critical accounting project.

2. Human capital accounting

The term HCA is a relatively recent addition to the lexicon of accountancy. It entered the literature as an aspect of the broader intellectual capital field that emerged in the mid 1990s. A number of popular management texts including Brooking (1996), Edvinsson and Malone (1997), Roos et al. (1997), Stewart (1997) and Sveiby (1997a) had identified the growing importance of stocks of intellectual capital, rather than physical and financial capital, for sustained value creation within the new knowledge economy as a further phase in the evolution of the post-industrial society. From a financial accounting and reporting perspective the emergence of the intellectual capital concept promised to furnish an explanation for the rapidly growing disparity between the accounting-based book values of listed companies and their market values. The resultant "hidden value" (Edvinsson, 1997), which had characterised financial markets since the late 1980s, had become increasingly worrisome to transnational agencies such as the World Bank and the Organisation for Economic Cooperation and Development, who viewed it as potentially disruptive to the efficient operation of the global capital market and the future of capitalism itself (OECD, 1999; Johanson and Henningsson, 2007). Within the accountancy literature intellectual capital is also widely referred to as "intangibles", suggesting some continuity with previous sources of hidden value in the form of intangible assets, although normally on a much more modest scale.

Human capital was identified as one of three principal components of intellectual capital, alongside relational or customer capital and structural or organisational capital. Within each of these three components a lengthy list of constituents is identifiable. Some taxonomies highlighted considerable overlap with intangible assets, although fortunately this was accompanied by the abandonment of the traditional catch-all goodwill intangible asset. Equally, some of the assets identified as intellectual capital were (near) tangible in nature, and as a result problematised the intangibles designation itself. For the most part, many of the constituents of human intellectual capital were fairly familiar within the accounting literature. These included experience and expertise, qualifications, training and capacities, newer soft skills, the ability to be innovative and flexible, etc., the various attributes that employees exhibit and which result in their utilisation within the value creation and delivery process and/or key contributors to sustained competitive advantage in the market place.

The objective of HCA is self-explanatory – to take human capital into account. The commonsense meaning of this objective would be 'putting people on the balance sheet', using hard number financial valuations. Nowadays this is regarded as a technical impossibility and, more importantly, a misguided project that has now been largely abandoned. Conversely the comparatively brief history of accounting for intellectual capital has provided some valuable insights into how it might be possible to take human capital, in the form of the stock of attributes of a workforce, into account alongside the other constituents of an organisation's stocks of intellectual capital. We will return to this below.

2.1. 'Accounting for people': a brief history

HCA can justifiably be regarded as the twenty-first century counterpart to human asset accounting, the first approach to accounting for people that emerged in the mid 1960s, and which is forever associated with Hermanson (1963, 1964). Although he did not coin the phrase 'putting people on the balance sheet' – this can be attributed to Hekemian and Jones (1967) – Hermanson believed that it was desirable to incorporate employees, as operational assets, alongside stocks of fixed assets, as owned assets, within the balance sheet, reflecting their complementary roles within the business enterprise. In this regard he was responding to Paton's (1922) observation about the limited credibility of any balance sheet from which "a loyal and well-organised workforce" was absent. The challenge was to identify a robust means of determining the value of employees that would allow them to take their place alongside the organisation's other assets. The problem lay in the subjective nature of any and all valuation methodologies.