Critical Perspectives on Accounting 20 (2009) 855–869

Contents lists available at ScienceDirect

Critical Perspectives on Accounting

journal homepage: www.elsevier.com/locate/cpa

Accounting for People: A real step forward or more a case of wishing and hoping?

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ARTICLE INFO

Article history:
Received 18 August 2005
Received in revised form 2 January 2007
Accepted 18 February 2007

ABSTRACT

In principle, the *Accounting for People* initiative announced by the UK government in January 2003 held out the possibility of a real step forward in promoting the interests of employees. Despite its distinctly managerialist discourse, the initiative acknowledged that having now recognised that 'people are our greatest asset', employers should begin to consider how to report on their people management activities in financial statements. After more than three and a half years of consultation, debate and deliberation, larger UK quoted companies are now charged with providing only a minimal level of general information on their employees. Whatever promise may have been evident to wishful thinkers in the early months of the initiative, this outcome confirms that there is little possibility for progressively 'accounting for people' as long as such practices are shaped by powerful sectional interests. The purpose of this paper is to subject the initiative to critical scrutiny. The paper seeks to document how the *Accounting for People* initiative was quickly and effectively emasculated as a consequence of the power and influence wielded by the UK accountancy profession, identified as a key agent of capital. Additionally, attention is drawn to a number of contemporary developments, largely and perhaps knowingly ignored in the course of the *Accounting for People* debate, that may yet inform and energise a more radical approach to accounting for people.

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1. Introduction

In January 2003 the UK government announced the formation of a Task Force on Human Capital Management, charged with considering how it might be possible to 'account for people'. Following a 10-month period of consultation and deliberation, the government published the Task Force's *Accounting for People* Report in November 2003 (DTI, 2003a). A principal recommendation was that information on human capital management (HCM) should be included in any expanded operating and financial review (OFR) that might become mandatory for UK companies. As well as contributing to increased transparency in financial reporting, previously commended in the 2001 *Company Law Review*, mandatory reporting on HCM affords considerable support to those individuals and organisations who believed that people are now the most valuable asset available to management. In May 2004 the UK government affirmed that its proposals for expanding the OFR would take cognisance of the Task Force's report. Draft legislation on changes to company reporting laid before Parliament in January 2005 proposed that an OFR must include "information about the company's employees". These proposals passed into

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doi:10.1016/j.cpa.2007.02.003

law on 22 March 2005, the provision of such information becoming a statutory requirement for large UK quoted companies whose financial year commenced on or after 1 April 2005 (HMSO, 2005). As a consequence of a surprise intervention by the Chancellor of the Exchequer on 28 November 2005, the OFR requirement was abandoned and with it, the legal obligation for UK companies to account for their people. The enhanced business review requirement that subsequently replaced a mandatory OFR effectively reinstates the status quo as far as (minimal) HCM reporting is concerned.

The purpose of this paper is to subject the *Accounting for People* (*AfP*) initiative to critical scrutiny. More specifically, the paper seeks to document how a potentially progressive (if not radical) development was emasculated, principally as a consequence of the power wielded by the UK accountancy profession. Of particular interest is the disregard for a number of contemporary developments in the intellectual capital field that promise to provide a more robust basis for attempts to account for people than those underpinning earlier initiatives designed to account for the human factor. The theoretical perspective underpinning the paper indicates that the enervation of the *AfP* initiative comes as no surprise, for as long as the existing accounting calculus prevails, there can be no meaningful accounting for people. The structure of the paper is as follows. In the next section we briefly outline a history of accounting for people, drawing attention to recent developments that, in our view, promise to progress such practices. This provides the background for the remainder of the paper. Section 3 details the *AfP* initiative from its inception in January 2003, through the passing into law in March 2005 of the requirement for UK quoted companies to provide employee information in the OFR, to the abandonment of this requirement. In the Section 4 the suitability of the OFR as a germane approach to accounting for people is assessed, while Section 5 offers an overview of the debate about the appropriate audit requirement for an OFR. The latter two sections attest to the power wielded by the UK accountancy profession, a conclusion explored further in the context of the competition between the UK accountancy and human resource management professions to shape the *AfP* initiative in Section 6. In Section 7 we consider the limited prospects of progressing accounting for people as long as the accountancy profession continues to promote prevailing sectional interests. The paper concludes with an invitation to critical accountants to embrace the challenge of accounting for people as an element of the mode of enabling accounting.

2. Step one: recognising people are assets not costs

It would be disingenuous to suggest that people are absent from financial statements. In the guise of 'labour', people have long been incorporated within the income statement as an expense, i.e. a cost to be set against revenue. It follows from this that profit can be increased by managing, i.e. reducing, labour costs. The simplest means to accomplish this is to make people work harder for the same payment (Hopper and Armstrong, 1991). Alternatively, offer greater rewards in exchange for proportionately greater effort. Replacing labour with less costly machinery delivers the same result as does the deskilling of labour (Braverman, 1974). Exporting jobs to 'low cost' economies continues to be an attractive further option (Yuthas and Tinker, 1994). In a similar vein, within the management accounting literature investments in people such as training, upgrading skills, funding educational courses or redeployment expenses are designated discretionary costs. These are invariably represented as being amongst the most susceptible to reduction in times of declining financial fortunes, with the result that labour's long-term interests are sacrificed in the pursuit of continued short-term profitability.

The recognition that it might be desirable to view people as assets, as well as costs, to the enterprise, is evident in the accounting literature long before the newly resurgent personnel profession, now rebranded human resource management, embraced the aphorism that 'our people are our greatest asset'. In 1922 Paton observed that "a well-organised and loyal personnel may be a more important 'asset' than a stock of merchandise" (p. 486). The problem was how it might be possible to account for them within the balance sheet. Four decades later Hermanson (1963, 1964) commended the approach he designated human asset accounting, which provided a means of accounting for people as assets in the balance sheet as well as costs in the income statement. Hermanson dismissed the objection that since businesses did not own employees, they could not be accounted for alongside the other owned assets. He designated human assets as operational assets, asserting that in common with the various categories of owned assets they possessed a potential value to the business and should therefore be accounted for together with them. The problem remained, however, of how to accomplish this? In principle, Hermanson argued, it was simple: identify a robust valuation methodology that would furnish the requisite numbers. Two possible approaches were outlined, the unpurchased goodwill method and the adjusted present value method. Much of the subsequent history of accounting for people has been shaped by debates about merits of a succession of such valuation methodologies.

In a second early contribution to the literature, Hekimian and Jones (1967) linked accounting for people (human asset accounting) with 'putting people on the balance sheet'. This is how many people continue to identify the challenge of accounting for people, despite the repeated protestations of the most enduring figure in the field, Eric Flamholtz. From the outset, Flamholtz argued that it was more appropriate to embed accounting for people within the traditions of managerial accounting rather than financial accounting and reporting (Brummet et al., 1968). In order to distinguish such an approach from putting people on the balance sheet, he designated it as human *resource* accounting. In 1974 Flamholtz identified human resource accounting as having three objectives: to develop methods of measuring human resource cost and value in order to provide a quantitative basis for decision making by managers and investors; to develop methods of measuring human resource cost and value necessary to monitor the effectiveness of management's utilisation of human resources; and to develop a theory explaining the nature and determinants of the value of people to formal organisations (Flamholtz, 1974a). Flamholtz views the last objective to be the most critical, being firmly wedded to the axiom that people are a scarce

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