Employee wellness as intellectual capital: an accounting perspective

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1. Introduction

In its 2005 survey of absence management in the United Kingdom, the Chartered Institute of Personnel and Development reports that an average of 8.4 days per year are lost to sickness absence at a cost of £601 per employee. While there had been a small fall in the average days lost compared with 2004, the cost had increased by £13 per employee over the previous twelve months. The position in public sector organisations is rather worse, at 10.3 days lost per year and costing £645 per employee. Minor illnesses are the most significant cause of short term absence, with respondents indicating that they believe 14% of absence is not genuine. Stress-related absence continues to increase, with stress and mental ill health being the two top causes of long-term absence among non-manual employees. The most effective means of managing short term absence is return-to-work interviews, while in the case of long term absence involving occupational health professionals is seen as the most effective means of managing the problem. Only 62% of organisations use occupational health professionals in this way, however, with 30% of employers indicating that they make use of coordinated rehabilitation initiatives.

These findings demonstrate that employee wellness, or more correctly a lack of it, is a growing problem facing UK organisations, one which they appear not to be managing too well at this time. Evidence suggests that the UK situation is typical of many of the advanced societies (Zwetsloot and Pot, 2004; Ahonen and Grojer, 2005). It is also a costly problem, the level of which will be amplified in the short to medium term as a consequence of installing the necessary comprehensive management processes. At the same time, however, many organisations are ever more reliant on their existing workforces and, in particular, their value creation capacities. In the Information Economy, employees are the source of the stocks of intellectual capital that organisations require to deliver value to their customers. Consequently, employee wellness is something senior management are advised to actively promote in order to ensure that they are able to reap the greatest benefits from intellectual capital. Viewing wellness and its management solely in cost terms is inconsistent with such a perspective.

The purpose of this paper is to identify employee wellness itself as a component of intellectual capital and to illustrate how it is now possible to account for it in ways that depart from accounting’s traditional focus on costs and valuations. The paper is structured as follows. Section 2 offers a brief overview of the wellness concept. In section 3 we briefly discuss the early, failed attempts to account for employees, while recent developments associated with the intellectual capital concept are considered in greater detail in sections 4 and 5. In the sixth section we make the case for recognising employee wellness as a further component of an organisation’s stock of intellectual capital. The concluding section 7 offers some thoughts on how it might be possible to account for employee wellness from such a perspective.
2. Understanding wellness

In the first instance health is an individual matter. As individuals we all have responsibility for our own health. There are some obvious exceptions to this of course. A section of any population is born with chronic illnesses and, consequently, never in the position of having a good level of health to be responsible for. Children are not in a position to properly understand health and illness until later in their lives, so as a consequence responsibility lies with their parents. At the other end of the age continuum, a proportion of the elderly is not in a position to exercise responsibility, again through no fault of their own. The vast majority of adult members of the population are, however, guardians of their own health as well as the health of their families including both young and old people. The success with which individuals can exercise this responsibility is subject to a range of factors. Health is now widely recognised to be determined by social position and circumstances, with those enjoying privilege in the case of the latter more likely to enjoy better health. Although it is true to say that illness is no respecter of class, its incidence continues to vary in accordance with it (DHSS, 1980; Macintyre, 1997).

While individuals are responsible for their health, in most societies they are involved in a partnership with the state in pursuit of good health. Because illness is very costly to society, costs to be borne largely by the taxpayer, high levels of public health are desirable. Since the 1970s the strategy for increasing public health has been based on combining the traditional curative medicine approach with preventive medicine. In the case of curative medicine, the medical professions are engaged in the process of restoring health to those who fall ill for whatever reason. Where this is not possible, they engage in palliative action designed to help individuals cope with illness and its consequences. The objective in both cases is to return individuals to levels of wellness that will allow them to enjoy as full a life as possible. In recent times there has been a greater emphasis on preventive medicine. As the term indicates, this approach to medicine seeks to reduce the necessity for curative medicine by encouraging, through health education, individuals to adopt a healthier lifestyle. Preventive medicine is consistent with the aim of promoting greater individual responsibility for health, health education being targeted at individuals, particularly those considered to be at greatest risk, as identified in ongoing research enquiries. A further attraction of a preventive approach to medical practice is that it promises to be less expensive than interventionist medicine. While by no means costless, both health education and research (not to mention training medical practitioners) being expensive to deliver, preventive medicine is perceived to be consistent with the ‘value for money’ mantra.

In the specific context of employment, health has traditionally been closely associated with safety. The two are linked through the phenomenon of the accident. Moderately severe accidents commonly result in the need for individuals to avail themselves of medical services of a curative type. Without wishing to downplay the distress and suffering accidents cause those individuals who experience them, from an employer’s perspective accidents can be expensive occurrences. While the costs involved in remunerating employees who are absent may be borne by the state in many cases, employers have to accommodate to the loss of the services of those who are injured as well as reduced levels of efficiency. In more serious cases, employers can find themselves subject to expensive financial settlements as well as fines imposed by the state. It is therefore in the interests of employers to ensure that they create a safe
working environment for their workforces, and have in place the necessary insurance in the event of accidents. In this regard, employers are guided by a weighty portfolio of statutory requirements and subject to the attention of an inspectorate such as the UK Health and Safety Executive. Once again in recent times employers have recognised that it is necessary for their workforces to take some responsibility for their own actions vis a vis workplace accidents. Preventing accidents is in everyone’s interests and therefore to be promoted at every opportunity.

Workplace accidents, like workplace illnesses such as asbestosis, silicosis or pneumoniconiosis, give rise, in the first instance at least, to physical ill-health. In the second half of the twentieth century it is mental rather than physical ill-health that has become more widespread, with attention being focused on workplace stress as a (the) major challenge to the wellness of workforces. Stress, itself a generic term for a wide range of damaging processes that individuals can experience in the workplace and beyond, gives rise to both physical and mental conditions. In the former case hypertension and heart disease are the most commonly known, while breakdowns, phobias, fixations, etc, have become increasingly commonplace. Stress is also recognised to lead to a number of individual activities that in turn can result in significant levels of ill-health, again both physical and mental: overeating; excessive alcohol consumption; substance abuse; gambling; etc. In the same way that employers recognise that they must endeavour to maintain a safe, and thereby a healthy working environment, it is desirable that they minimise the levels of stress their employees are subject to. Employees have their part to play too, not least by behaving in ways that minimise the stress experienced by their colleagues, particularly those in subordinate positions, who should not be subject to bullying and harassment.

Perhaps the single most important practice that employers can put in place to minimise employee stress is to ensure that there are sufficient numbers of employees to perform the work that needs to be done. For most people, being consistently overworked is a profoundly distressing experience, one for which generous financial rewards are not always sufficient compensation. In the same vein, ensuring employees are suitably equipped to perform their tasks, and continue to be so, is an important consideration. Training and upgrading competences is therefore of critical importance to the well-being of any workforce. Similarly, ensuring that employees are aware of any changes in their employments, and how these will affect them as individuals, is recognised as contributing to lowering stress levels within organisations. Practices such as these might be complemented by initiatives designed to promote good general health. Included among these might be the promotion of a good diet; greater exercise; programmes designed to assist individuals stop smoking; information on alcohol and substance abuse; and assistance in promoting a beneficial work-life balance. Such initiatives will have the consequence of assisting individuals to take more responsibility for their own wellness while demonstrating that as an employer, interest is with the whole person and not simply with the individual contracted to provide her/his labour.

### 3. Accounting for employees

Axiomatic to this paper is the belief that there is much to be gained from regarding employees in general, and their wellness in particular, as more than simply a cost to
the enterprise. This is the traditional way in which profit seeking businesses in particular have viewed their employees. They are viewed to constitute a cost to the business that must be controlled, i.e. kept within budget, or managed, i.e. deliver the maximum value for money. Such ideas are largely inconsistent with implementing comprehensive programmes designed to provide a safe, low stress working environment in which employees are provided with helpful information on how they can simultaneously improve their own wellness for the benefit of themselves and those close to them, and their employers. Interventions of this sort cost money and consume valuable organisational resources. They are more consistent with the idea of employees being viewed as organisational assets rather as costs that an organisation must bear.

In accounting, the belief that employees are (valuable) organisational assets dates back to at least the early 1960s, when Hermanson identified the need to develop human asset accounting as a means of accounting for employees alongside more conventional categories of organisational asset. Hermanson (1963, 1964) was unconcerned by the objection that unlike the latter assets, human assets are not owned by organisations. Acknowledging this to be the case, Hermanson designated human assets operational assets, distinguishing them from the owned assets that were the focus for financial accounting and reporting practice. Hermanson also recognised that accounting for these human assets was unlikely to be a straightforward exercise because of the inevitable disagreements that accountants would have about valuing them. In the first instance, as assets that were not purchased in the normal way, there was no historical cost that could be identified and written down (amortised) over their useful lives. This was above and beyond the charge for labour power that was already made in the income statement. The practice of valuing employees, or more strictly their continuing association with a business, was therefore a subjective activity, something that the profession had long been uncomfortable with.

The latter ‘technical’ difficulties were useful to the accountancy profession in its role as promoter of the interests of those for whom accounting and reporting practices had been developed, shareholders. The view that employees are organisational assets is closely related to the contention advanced by Marx in the mid nineteenth century that labour (employees) is the sole source of value, and that the social organisation of production evident within capitalist societies had successfully disguised this. Any development that promised to enhance of the status of employees would be widely viewed as threatening to shareholder interests. To represent employees as assets, in the manner of human asset accounting, ran the risk of drawing attention to their importance within the business entity, which in turn could be enrolled by those seeking to improve the level of rewards dispersed to employees. Although of itself the development of such an approach did not pose a direct threat to the bottom line, there was good reason to find technical reasons why such excursions might not be implemented.

Human asset accounting was principally concerned with the task of ‘putting people on the balance sheet’ (cf Hekimian and Jones, 1967), a challenge soon recognised to be insurmountable, at least in the short term. In 1968, Brummet, Flamholtz and Pyle published their seminal paper identifying human resource accounting as a more fruitful way to progress accounting for employees. Rather than restricting this task to searching for a definitive mechanism for valuing human assets as a precursor for
reporting such valuations alongside those for other assets, Brummet and his colleagues argued that the most useful way to proceed was to develop information for internal rather than external reporting purposes, particularly the budgetary control process. In this way, it was from management accounting rather than financial accounting that Brummet and his colleagues believed accounting for employees might derive more insights. Although they continued to explore the various bases for human resource valuation, as well as cost, it is clear that the resulting information was not intended for incorporation within the balance sheet (see also Flamholtz, 1971,1972).

In due course Flamholtz became the principal figure within human resource accounting, contributing its most authoritative textbook (Flamholtz, 1974, 1985, 1999). Flamholtz (1985) identifies the purpose of human resource accounting as follows: to provide a framework for human resource decision–making; to provide numerical information about the cost and value of people as organisational resources; and to motivate line managers to adopt a human resource perspective in their decision-making. This description affirms that human resource accounting is understood to exhibit a fundamental affinity with the personnel (soon to be renamed the human resource) management function. As a consequence, it promised to broaden the horizons of accounting practitioners. In isolation this might be seen as a welcome development but given the underlying objectives of human resource management, like the management accounting sub discipline in general, human resource accounting remains at best a managerialist initiative. Consequently, like human asset accounting before it, human resource accounting was unlikely to be of major benefit to employees, rather those charged with the task of managing them, and in the context of the business enterprise ultimately to shareholders.

For the greater part of the 1970s, human resource accounting was one of the most popular fields of accounting research, reflecting both the intellectual (if not practical appeal) of the topic and the growing maturity of the discipline. By the end of the decade, however, the field was in rapid decline. Despite the input of considerable resources and some highly sophisticated output, it is fair to say that human resource accounting had failed make much impact on accounting practice. Some of the problems encountered by Hermanson in relation to human asset accounting carried over to human resource accounting as a consequence of it continuing to be identified with putting people on the balance sheet. Although Flamholtz himself tirelessly rejected this view, his failure to move away from the cost and valuation emphases of financial accounting and reporting played a major role in this. In mitigation, however, it should be recalled that the 1970s were arguably the decade during which the subordination of management accounting to financial accounting, soon to be identified by Kaplan and Johnson, was at its most pronounced (Kaplan, 1983, 1984; Johnson and Kaplan, 1987). A potentially threatening initiative, accounting for employees, had been emasculated.

4. Intellectual capital

Throughout the 1980s and well into the 1990s, little attention was paid to accounting for employees although there were always some who continued to view this task as interesting. By the mid 1990s a number of writers had begun to talk of intellectual capital as a key determinant of ongoing wealth creation within organisations...
Their argument was that in the Information Economy or Knowledge Society a new type of asset was increasingly becoming the basis for sustained wealth creation. Organisations were therefore required to acquire, enhance and retain this asset if they wished to be successful in the wealth creation stakes. As the term intellectual capital itself indicates, this asset has its origins in employees, who are responsible for gifting it to their employing organisations. Edvinsson (1997) observes that although employees exit the organisation at night, what they leave behind when they go home has become increasingly crucial to the continuing fortunes of any business. Equally, although some of this intellectual capital may be retained within a business on the occasion of individual employees deciding to leave their employments, much of it will still be lost when individual employees the business.

Although there are many perspectives on the intellectual capital phenomenon, it is the accounting perspective that most interests us in this paper. More specifically, how might it be possible to account for intellectual capital? Arguably the simplest way to do so is by including intellectual capital in the financial statements that businesses (or indeed any organisations) draw up on a periodic basis in order to report their recent performance. Since intellectual capital was identified as a new category of asset capable of providing long term benefit to the enterprise, some means of including its value alongside the valuations of fixed assets seems the most appropriate way to proceed. Some components of intellectual capital, especially intellectual property, were quickly recognised to be relatively amenable to such treatment. The majority could not be accommodated so easily, however. Those associated with the human factor were particularly problematic, something that the early advocates of human asset accounting had recognised thirty years earlier (Roslender and Fincham, 2001). In line with Edvinsson’s early description of intellectual capital as what is left behind when the employees leave the organisation for the night, the issue of (non) ownership of intellectual capital also reared its head. Although significant extents of intellectual property might be owned by businesses, such assets were often only a minor component of the totality of the intellectual capital that might be identified with an enterprise. Any hope that the accounting treatment of intellectual property might be extend to encompass the latter totality was clearly unrealistic.

In his role as Director of Intellectual Capital at Skandia AFS, Edvinsson had grappled with the problem of accounting for intellectual capital. Documenting some of his experiences, Edvinsson (1997) initially offers a means of accommodating to the difficulties of generating intellectual capital valuations by adopting simple accounting principles. Taking as axiomatic that the value of a business’s intellectual capital can be determined by subtracting the book value of its assets from its market value, an aggregate value for intellectual capital is identifiable. The Skandia value scheme is then be used to identify the various components of a business’s intellectual capital. Once these are recognised, the next step is to derive a series of incremental valuations of the different elements, up to the total value already determined. Conscious of the limitations of such an approach, Edvinsson does not claim that the resultant valuations might then be simply slotted into the existing financial statements. While this would appeal to accounting practitioners seeking a neat and tidy solution to the intellectual capital problem (like the human asset problem before it), at best it might be possible to construct an alternative balance sheet.
In the same paper Edvinsson sketches out a more radical approach to accounting for intellectual capital in the form of the Skandia Navigator. Rather than seek to import intellectual capital (valuations) into a balance sheet, the Navigator provides an alternative means of reporting the success that management has had in growing a business’s stock of intellectual capital. The choice of what to report is now left to management itself, although they must be constantly mindful of the expectations of external stakeholders, inter alia the capital market, and the role played by critical success factors. Similarly it is management who will choose how to measure what they seek to report, i.e. their key performance indicators. Consequently, there can be no simple solution to the challenge of intellectual capital accounting and reporting, no template that can be taken down from the shelf and used to slot numbers into. Equally, comparability between enterprises is no longer assured, as relevance rather than reliability becomes the motive force in accounting for intellectual capital.

The Skandia Navigator and the philosophy underpinning it owes more to management accounting than financial accounting. In the same way that Flamholtz thirty years earlier had suggested accounting for the human factor might be better served by an orientation towards internal reporting, Edvinsson’s Skandia Navigator approach is very similar to one that was becoming increasingly central in management accounting, that of the Balanced Scorecard (Kaplan and Norton, 1992, 1993, 1996). Like the Navigator, the Balanced Scorecard incorporates multiple foci, on customers, internal processes and learning and growth as well as a financial focus. It is also informed by the critical success factor/key performance indicator couple, and makes a virtue out of providing relevant information rather than the standard ‘hard’ accounting numbers. The parallel Intangible Assets Monitor, developed by Sveiby is a third alternative (Sveiby, 1997a,b), as is the later Value Chain Scoreboard approach suggested by Lev (2001). Fincham and Roslander (2003) distinguish such scorecard approaches from the narrative-based models subsequently commended by researchers associated with the DATI/DMSTI (1999, 2001, 2003) and Meritum (2002) projects. Here a greater reliance is placed upon ‘soft’ narratives than in the case of the scorecard approaches, although by no means to the exclusion of key performance indicator-type information.

What both intellectual capital scorecards and intellectual capital narrative statements promise is a means of accounting for employees that had eluded advocates of both human asset accounting and human resource accounting. In large part it has accomplished this by releasing itself from the constraints that the financial accounting and reporting paradigm imposes upon such initiatives. Although Flamholtz and other advocates of human resource accounting had previously recognised that management accounting might provide a better prospect for progressing the challenge, as Kaplan has observed, management accounting was at that time largely subordinate to the financial accounting and reporting paradigm. By the time Edvinsson and his successors such as Mouritsen and Bukh entered the field, some within financial accounting and reporting were also actively beginning to question the long term sustainability of the prevailing paradigm (AICPA, 1994; Wallman, 1995,1996; ICAS, 1999; Upton, 2001, Nielsen, 2005). We will return to this later in the paper.
5. The core significance of human capital

We have already acknowledged that what is now termed intellectual capital has many components. Consistent with his underlying thesis on what constitutes intellectual capital, Edvinsson (1997) initially distinguishes between two types: human capital and structural capital. The latter is then subdivided into customer capital and organisational capital. Customer capital includes such assets as customer databases and distribution channels, together with the goodwill that employees have built up with customers over time. Organisational capital is subdivided into innovation capital, which includes intellectual capital and intangible assets, and process capital, which includes organisational structures and operating procedures. It is this topography of intellectual capital that forms the Skandia value scheme, which in turn is used to identify the various elements of a business’s intellectual capital that might be valued in an attempt to bridge the gap between its market value and its accounting-based book value.

The more familiar categorisation of the different types of intellectual capital distinguishes between three types: human capital; relational or customer capital; and organisational or structural capital. Adapting Brooking’s 1996 typology, Lynn (1998a) includes within the human capital designation familiar elements such as employee know-how, education and vocational qualifications and work-related knowledge and competencies, together with occupational and psychometric assessments, models and frameworks and cultural diversity. What all of these examples share in common is that they are all things that a workforce brings to an organisation. While some are consistent with the labour power concept, i.e. that which is purchased by employers and constitutes a cost to the organisation, other elements are much less akin to the commodity that is purchased labour power. Equally, these latter forms of human capital are characteristically intangible in nature and as such unlikely to be amenable to objective valuation.

The examples of relational or customer capital listed by Lynn are similarly diverse. Some, such as licensing and franchising agreements and customer names and purchase histories, often have a financial value associated with them as result of being subject to purchase at some earlier time. They share this characteristic with brands and company names that may also have been purchased, although in the case of ‘home grown’ brands or company names, valuation continues to be hotly contested. Some of the other examples sit less easily with a valuation emphasis. How, for example, is it possible to provide a value for customer loyalty or customer penetration, a business combination or favourable contracts or distribution channels? In the case of organisational or structural capital, Lynn initially differentiates two sub groupings. Intellectual property, including patents, copyrights, design rights and trademarks, is generally amenable to valuation, whereas the great majority of examples of infrastructure capital identified by Lynn are extremely problematic. How is it possible to value a corporate culture, corporate strategies, expert networks and teams, a management philosophy or knowledge bases? While it might be possible to place some value on such elements as information systems or networking systems, considered in their formal or technical guise, it is clear that it is their informal and/or non technical aspects that are regarded as being of greater importance to an organisation.
The term *intangibles* is often used interchangeably with intellectual capital. This is an interesting use of terminology as it acknowledges a degree of overlap between intellectual capital and the much older idea of *intangible assets*. Many of the more readily valued elements of intellectual capital identified in the previous paragraph were previously recognised as examples of intangible assets. At an earlier time, such assets had been also regarded as posing problems of valuation because of their less tangible (or intangible) nature. They have also often been associated with the most widely recognised example of an intangible asset, goodwill, which in its internally generated guise continues to trouble financial accounting. Over time, however, a number of intangible assets, *inter alia* those now designated intellectual property, have been brought within the valuation calculus. As we have seen above, with the emergence of the intellectual capital/intangibles couple, the range of assets not readily amenable, and indeed unlikely to be amenable to such valuations has increased rapidly. As a consequence, the use of the term intangibles as an alternative to intellectual capital can usefully be seen to signify that while all intangible assets are intangible(s), not all such assets can be brought within the valuation calculus. In other words, although intangible assets can properly be regarded as elements of intellectual capital, the intellectual capital and intangible assets designations are quite distinct (cf Meritum, 2002). More crucially, because it is possible to value the intangible asset subset of intellectual capital/intangibles, it should not be imagined that all elements of intellectual capital are amenable of such treatment.

Although there is significant merit in developing discriminating taxonomies or typologies such as Brooking’s, there is also some value in returning to Edvinsson’s initial distinction between human capital and structural capital. Human capital encompasses the many human attributes that people or employees actually bring to their employments. As we have seen above, they bring their experience and expertise, their capacities to be inventive or creative, their abilities to work as part of teams, accommodate to change, assume leadership roles, mentor new recruits to the organisation, etc. It is these and similar attributes that employers seek to avail themselves of when they purchase the labour power of their workforces. Having done so, it the employer’s task to put this labour power to whatever beneficial use s/he chooses, subject to the normal social and moral constraints. In the case of a profit seeking business enterprise, the aim is to produce goods or services that will generate a surplus of income over expenditure, preferably increasing over time. In the not for profit sector the objective will be to deliver a level of benefit that is judged to provide ‘value for money’, something that is difficult to determine in any situation. Interest in developing cost-benefit analysis in the 1960s was largely a result of the perceived necessity to place such determinations on a rigorous footing, subsequently to be enhanced by models and metrics increasingly derived from the management accounting subdiscipline twenty years later.

Irrespective of whether they are engaged in delivering either profit or value, employees also create a stock of structural capital within organisations. Structural capital is again to be understood here to encompass both relational or customer capital and organizational or structural capital in the Brooking/Lynn schema. It is employees who create brands and positive company reputations, develop distribution channels, forge valuable business collaborations and obtain favourable contracts. These in turn give rise to customer penetration or market share as well as customer loyalty. Although Lynn (1998b) is correct to observe that much of relational capital is
transitory, and consequently can be lost to the organisation should customers change their minds, it is important to recognise that its origins lie with employees and exist because of their various qualities, i.e. human capital. Similarly many elements of organisational capital. Who is responsible for the creation of a corporate culture or expert networks and teams or accumulated knowledge bases? Equally, although management philosophies, management processes, corporate strategies and methods and corporate values would seem to have a management as opposed to an employee foundation, many who are designated management are themselves members of a different employee subgroup. It is the workforce as a whole that creates any organisation’s stock of organisational capital, in parallel to its stock of relational or customer capital, through the exercise of its intellectual capital. In both instances, when employees leave an organisation, its stocks of relational and organisational capital are potentially under threat, although new recruits always bring with them the capacity to renew this stock, for better or worse.

It is for these reasons that Roslender and Fincham (2004) suggests the simple distinction between primary and secondary intellectual capital. This distinction is similar to that advanced in Ahonen (2000) between generative and commercially exploitable intangible assets. Primary intellectual capital is that category of intellectual capital presently designated human capital. As we have previously acknowledged, it is the stock of very desirable attributes that employees bring to the enterprise that constitutes its primary intellectual capital, rather than simply the employees themselves. There is much more to employees than their personal stocks of intellectual capital. Therefore, in embracing the term primary intellectual capital rather than human capital, no attempt is being made to reduce people, in the role of employees, to intellectual capital. This is not an exercise in commodification, since what is at issue is reinforcing the fact that it is people in the guise of employees, and including very many who might otherwise be designated as managerial employees, who alone are responsible for the existence of the stocks of secondary intellectual capital so central to the ongoing value creation processes, however conceived, of contemporary organisations. They are also the source of the other forms of capital that have traditionally been used for these purposes: physical and financial capital.

Secondary intellectual capital encompasses the greater part (although by no means every element) of the relational or customer capital and organisational or structural capital discussed earlier. It is not simply what employees leave behind them when they go home at night, however. While Edvinsson acknowledges that what is left behind is of increasing importance, it is necessary to emphasise that the various constituents of secondary intellectual capital testify to the unique creativity of employees, on whom all other parties are ultimately reliant. The distinction between primary and secondary intellectual capital should not be taken to mean that the latter is of less (secondary) importance than the former (primary). Employees possess talents that best manifest themselves in how they are able to use them. Consequently, primary and secondary intellectual capital is to be seen as forming two sides of the same coin of human creativity, potential and actual.

This primary/secondary intellectual capital distinction promotes a very employee-centred perspective on intellectual capital. By comparison, Lynn’s contribution is informed by a distinctly managerialist perspective, with Edvinsson somewhere in between. As such it is consistent with Roslender and Fincham’s earlier
acknowledgement that it might be preferable to adopt the term *intellectual labour* to capture such a perspective on the intellectual capital concept (Roslender and Fincham, 2004). Whatever else this line of argument might eventually give rise to, it clearly takes us far away from the notion of intangibles and intangible assets (and *ipso facto* narrow ideas about accounting for them).

6. Employee wellness as intellectual capital

As we observed at the beginning of the paper, a fit and healthy workforce is a very valuable organisational asset. In an era in which shortages of key employees can debilitate organisations, steps should be taken to ensure that a proven workforce is retained whenever possible. Allowing individuals to leave the organisation unless replacements of equal if not better quality are readily available makes little commercial sense. This was not always the case, however, when in previous eras a large proportion of the workforce was only expected to possess a limited portfolio of skills and talents. Movement between employments was extensive, and often argued to be advantageous as it contributed to keeping any economy dynamic. Nor should it be overlooked that in the present era there are continuing attempts to reduce the overall skill levels required in a workforce, partly to reduce the exposure that employers might experience in recruiting high quality employees, but perhaps principally to restrict the power of employees to extract high rewards from their employers. Overall, however, there is growing acknowledgement that a capable workforce is worth retaining these days. Once such a group of employees has been assembled, their potential contribution to the organisation is likely to be greater if they remain fit and healthy.

It is in this way that employee wellness becomes a further issue within the debate about intellectual capital. Initially employee wellness can be conceptualised in terms of primary intellectual capital. In the same way that the expertise and experience of employees together with their capacity for teamwork, leadership, creativity, adaptability, etc, are to be highly valued by their employers, so is their health and fitness. Employees bring their individual health and fitness to an organisation in the same way that they bring their expertise and experience. Likewise, they also bring their various capacities to remain in this condition or at least not to have it reduced prematurely. Again, as with employee capacities for teamwork, leadership, creativity, adaptability, etc, the organisation has a major role to play in ensuring that these capacities are put to good use and for mutual benefit. It is incumbent on senior management to be conscious of the challenge of promoting employee wellness at every opportunity. This is not restricted to ensuring that a safe and healthy physical working environment is in place. There must be a sufficient level of staffing in order to prevent overwork and the negative physical and mental consequences that can arise from it. At the same time close attention should be paid to how individual workers are coping with the demands associated with their allotted tasks. An inability to cope with job expectations, like a lack of challenge in any job, can have serious implications for individual employees and, over time, their health and fitness. As far as possible, senior management must adopt a proactive stance with regard to their employees’ wellness, in line with the preventive approach to medical intervention identified at the beginning of the paper.
In terms of secondary intellectual capital, its principal forms will be associated with organisational or structural capital rather than relational or customer capital. Perhaps the most obvious example might be some form of employee health network within an organisation. This would be a voluntary association formed by employees as a result of their own recognition of the value of high personal levels of health and fitness. This said, such networks clearly merit the support and encouragement of senior management, for the same reasons as set out in the previous paragraph. An employee health network might be thought of as the modern day equivalent of the work’s football or cricket team, or in more progressive cases the sailing club or ski club, etc. Such networks would retain the social objectives of the latter groups but combine these with a more informed approach to keeping fit and well. Equally, their main aim should be to secure very high levels of involvement on the part of individual employees, encouraged to participate by a continuous stream of local health education communications. A further possible characteristic of such health networks might be that they function within the normal working day rather than entailing activities that encroach upon individuals’ own free time. Senior management again have a key, facilitating role to play here. Since they will benefit from the consequences that maximising employee health and fitness promise to deliver, they should be prepared to make some concessions on the length of the working week to secure their workforce’s (and their own) to participation in them.

In a similar vein, making health promotion a key organisational process will have the consequence of establishing it as cornerstone of an organisation’s corporate culture as well as a component of management philosophy. All three have been identified as examples of organisational or structural capital within intellectual capital taxonomies. Once again the emphasis is on primary intellectual capital being crucial to the enactment of those activities now identified as secondary intellectual capital. It is employees who form health networks and who engage in those activities designed to promote their health and fitness. It is employees who can best encourage their colleagues to embrace a variety of new experiences, which in many cases they may have studiously avoided previously. Although membership of such networks, like membership of the broader organisation, may be constantly changing, they only exist and continue to function as a consequence of the presence of human agency, the source of all intellectual capital.

6. Accounting for employee wellness: some first steps

Earlier in the paper we identified a number of recent developments in the intellectual capital field that have progressed the task of accounting for employees. Accounting is here understood to entail two complementary processes, those of measurement and reporting. In the context of financial reporting, which dominated accounting for the greater part of the previous century, measurement was normally in monetary terms, while reporting was principally based on two interrelated financial statements, the income statement or profit and loss account and the balance sheet. As a consequence, financial reporting was accepted as being a highly objective practice characterised by an equally high degree of comparability. Work in the intellectual capital field since the mid 1990s has illustrated that in the case of employees, there is considerable merit in not seeking to use financial metrics for measurement purposes. This does not entail abandoning a quantitative emphasis, however, rather the necessity of representing
employees using ‘softer’ or ‘soft’ metrics. At the same time, the development of scorecard approaches to reporting business performance, including financial performance, provides a robust means of communicating such information to the various stakeholder groups, *inter alia* employees. In contrast, narrative approaches make much less use of quantitative information, financial or otherwise, combining narratives with a variety of qualitative representations.

In accounting for employee wellness, initially there is significant merit in continuing to report information on days lost to sickness and, indeed, as a consequence of accidents. Rather than simply providing total numbers of such days either in the crude sense or as a percentage of total days worked, however, a more informative approach might be to identify the number and percentage of individuals who have lost, say, no days, between one and four days, five and ten, and so on. Using this approach has the merit of making comparisons over time more insightful. In a healthy organisation, the trend should be to fewer people losing less days. Such information provides insights on the collective health of employees. Providing information on individual employees has significant ethical implications, and in all likelihood very few individuals will be willing to divulge this information. A possible compromise might be to devise some means of representing individual health and fitness, as a score based on a number of indicators. Such information could be collected and administered by company medical personnel, although only if it is agreed that they have comprehensive access to an individual’s general medical records. What might at first sight seem a little intrusive is only an extension of the widespread practice of gathering information on the health of new employees. Also, bearing in mind that it is here viewed as axiomatic that senior management have signed up to task of promoting employee health and fitness for mutually beneficial reasons, there is less reason to mistrust their motives.

A greater stock of insights might be gleaned from a secondary intellectual capital perspective. Providing information on health promotion initiatives, including the level and degree of employee participation, is a useful starting point. Of more value would be commentaries provided by the participants themselves, in the manner of self accounts (Roslender and Fincham, 2004). For example, a discussion of the perceived benefits of participating in giving up smoking or embracing dietary change, or in becoming involved in walking or jogging groups, or beyond this more physically demanding activities, would serve the twin functions of conveying the reality of such initiatives and encouraging others to become involved. The ready availability of the Intranet for a growing number of employees provides a means of continuous communication about such matters. This of itself has the capacity to catalyse activity. It also serves as a source of information complementing any more formal account of such initiatives. As far as possible it should be the views of the employees themselves that are contained in such reports, since it is their wellness that is at issue. Additionally, an element of critical appraisal should always be encouraged, since there is little to be gained from transforming these accounts into public relations exercises.

Implicit here is a much more extensive model of accounting than is presently in place. Developments such as the Balanced Scorecard or Skandia Navigator, or the narrative intellectual capital statement approach developed in Denmark, have already demonstrated the benefits that an expanded mode of reporting might bring. As we observed earlier, they have emerged at a time when financial reporting has begun to
explore how it too might expand in order to meet the needs of a growing number of stakeholders. The business reporting concept has the facility to embrace a wide array of constituent elements, including accounts of employee health and fitness. Recently a number of Scandinavian accounting researchers have begun to explore the merits of health accounts or health statements (Ahonen and Grojer, 2005; Mouritsen and Johanson, 2005; Johanson and Backlund, 2006; Almqvist et al, 2006). Although in part motivated by government agencies concerned about the cost of employee absence, for health or other reasons, the social settlements of these societies are likely to encourage a more humanistic approach to such forms of accounting, and one that is also consistent with the principles of self-accounting.

Concerns about an over expansion of the volume of information that is made available by organisations will inevitably be expressed by those who remain wedded to traditional models of reporting. Equally, it is important to ensure that what is reported in the name of health and fitness is substantial and not simply a case of making a half-hearted attempt to cover this particular base. Over time, and with the support of users, it is to be hoped that such accounts will become more expansive, thereby contributing to the promotion of ever greater levels of employee wellness.

References


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