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The prospects for satisfactorily measuring and reporting intangibles

Time to embrace a new model of (ac)counting?

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Abstract

Purpose – This paper aims to provide an overview of the development of approaches to measuring and reporting on intangibles since the mid-1990s, and to identify intellectual capital self-accounts as a possible means of continuing this process in a beneficial way.

Design/methodology/approach – Principally a literature review, the paper provides the opportunity to extend earlier, initial thoughts on the promise of intellectual capital self-accounts.

Findings – Given the importance of primary intellectual capital ("people") in the creation of intangibles (secondary intellectual capital), the paper draws attention to the limited role hitherto ascribed to people in reporting on intangibles in particular.

Originality/value – The value of the paper lies principally in the identification of possible content for self-accounts in the context of brands and health and wellbeing as important intangibles.

Keywords Intangible assets, Intellectual capital, Financial reporting, Accounting procedures

Paper type Literature review

1. Introduction

Since the mid-1990s the stocks of intangibles owned by many enterprises have increasingly become the major foundations for their value creation and delivery activities. In some cases the unique combinations of such intangibles, and their consequent immunity to being successfully imitated by competitors, has resulted in market values that dwarf the value of the same enterprises as represented in conventional accounting terms. This in turn impacted on the accountancy profession, which found itself challenged to identify some means of satisfactorily accounting for intangibles, not least because of fears the intangibles phenomenon might undermine the supposed efficiency of the capital markets in securing the best use of scarce investment funds.

Previous difficulties associated with accounting for intangible assets, such as goodwill, not to mention accounting for people, quickly ruled out the possibility of developing credible financial valuations that might permit intangibles being slotted into the balance sheet. As an alternative, some researchers suggested the development of indices or composite metrics that might appear elsewhere in the financial statements and that would convey the necessary information to interested

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external stakeholders. Other researchers advocated the use of scoreboards, an approach that was becoming increasingly popular in the managerial accounting branch of the discipline, populated by sets of relevant metrics. The move to narratives followed a couple of years later, initially in Europe. This was partly informed by developments within the knowledge management field, which had emerged in parallel with intangibles, and partly by broader, again principally European developments in the management disciplines.

All of these approaches share the characteristic of being accounts constructed by accountants, or in some cases accountants in collaboration with other managers. What is suggested in this paper is that self-accounts, produced by people, as primary intellectual capital, about their myriad experiences of the value creation and delivery process, i.e. in the creation of secondary intellectual capital, hold out significant promise in enhancing accounting for intangibles. Self-accounts entail accounting moving into the realms of recounting as people formulate and share their stories about their individual and collective creativity. The contention is that such stories provide a portfolio of invaluable insights regarding the future prospects of the enterprise as a site for sustained value creation and delivery, thereby progressing the task of satisfactorily accounting for intangibles.

The paper is structured as follows: in section 2 the problems that intangibles pose from an accounting perspective are briefly outlined, while section 3 offers a more detailed look at intangibles and their link with intellectual capital. In the fourth and fifth sections, the main developments associated with scoreboard and narrative approaches to accounting for intangibles are reviewed. Section 6 sets out the principal merits of self-accounts, while in the seventh section what such self-accounts might encompass in the cases of brands and health and wellbeing are briefly discussed. In the concluding section, self-accounting's origins in the radical thinking associated with the critical accounting project are briefly reprised.

2. The problem with intangibles

From an accounting perspective, the increased importance of intangibles during the past two decades has posed a major problem. This is particularly the case in the financial accounting and reporting branch of the discipline, together with its auditing counterpart. The managerial accounting branch is less challenged by intangibles, a situation that will be explored in detail at various points in the paper. The difficulty for financial accounting and reporting is that the prevailing model for such practices is unable to satisfactorily incorporate intangibles. Their massive significance in recent times has served to attract unwanted attention to the discipline as it struggles to account for the "hidden value" that is intangibles.

The conventional basis on which external accounts, those emanating from financial accounting and reporting, are prepared is that of historical cost. Assets are exchanged for cash, which was previously invested in the enterprise. These assets are put to use in the pursuit of a financial surplus, selling any product for a higher sum than the cost of its constituent elements. In the case of fixed assets, such as buildings, machinery, fixtures and fittings, etc., their ongoing diminution in value is accounted for via the mechanism of depreciation, and in accordance with the matching concept. This has the consequence of allowing for an orderly reduction in the value of fixed assets in the balance sheet, complemented by a cost in the profit and loss account, i.e. a charge

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against income that is added to similar costs for materials, labour, power, utilities, overheads, etc. Year by year the historical cost of purchased fixed assets reduces, eventually reaching zero, at which time a decision about replacing them needs to be taken. The funds for such purposes should available from the cash holdings of the enterprise or may be raised through a loan from the bank.

This brief description of the financial accounting and reporting model is necessarily very much simplified. Hopefully what it conveys, however, is the reliance of conventional financial accounting and reporting on a *cost and value calculus*. This is especially relevant in the case of fixed assets, which are initially recorded in the accounts (balance sheet) at their cost of acquisition, which serves as a surrogate for their value. This value reduces over time to zero, and is taken through the profit and loss account as a series of costs. To the extent that the sum of any such costs incurred is less than the (part) income generated over the lifetime of the fixed assets, the fixed assets have contributed to (shareholder) value creation.

While it is incontrovertible that intangibles play an increasingly important role in the latter value creation process, it is difficult to see how else they fit with the above description. Initially, very many intangibles are not purchased in the same way as a machine or a vehicle is. It may be possible for an enterprise to buy a brand or group of brands. The same facility is not available in the case of customer loyalty. An acquired brand can be put on a balance sheet at its historical cost. Customer loyalty cannot, at least not directly. It may be possible to include it under the guise of goodwill, but such a step would be regarded as regressive today, for reasons to be discussed in the next section. A second issue is the fact that many intangibles do not actually lose their value (depreciate) over time. Quite the contrary, their value appreciates over time, something that is again evident in the case of a successful brand(s) or customer loyalty in the case of successful enterprises or goodwill *per se*. Consequently, it is not possible to identify a charge to take to the profit and loss account to set against income. At best, as in the case of the current provision for brand accounting, there would be no charge, with the asset remaining in the balance sheet at its purchase price, with the requirement per IAS 38 for regular financial impairment tests (International Accounting Standards Board, 2009).

Like customer loyalty, most intangibles are created within the enterprise, over time. Ideally they also become more valuable over time, which is why they are commonly referred to as "appreciating assets". This brings with it a third issue, the inherent subjectivity of any valuations that intangible may attract. Even if it was possible to include self-generated ("home-grown") intangibles on the balance sheet, accompanied by an appropriate non distributable "valuation reserve", fundamental questions would arise about the reliability of any such valuations at any point in time. There would be an incentive for any enterprise to provide a favourable set of valuations, given the appeal of an apparently healthy balance sheet to external stakeholders, real and potential. Continuing to embrace the traditional prudence of the accountancy profession would be self-defeating. The question, therefore, is: "How is it possible to verify any set of valuations, given the lack of historical costs?" – a question of particular significance to the audit profession. Ironically, the only reliable answer to this question is that provided when an enterprise actually decides to realise the value of its balance sheet through a sale to a third party, which would see these home-grown assets become acquired assets in the buyer's own accounts. Even in this scenario there

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is always the possibility that the selling enterprise has gifted the buying enterprise an even more valuable set of assets than it believed it possessed. Unfortunately the latter enterprise cannot immediately increase the value of its acquisition to take account of this gift.

Even this rudimentary discussion of the issues associated with accounting for intangibles conveys why their growing importance since the early 1990s has posed very serious challenges to the accountancy profession. Many of the same issues had been evident in the debates about the merits of current value approaches to accounting – i.e. entry value, exit value or value to the business models that had occurred a generation earlier. Only by the 1990s the stakes were so much higher, with market-to-book ratios in double digits in many leading-edge enterprises and growing concerns about the smooth operation of supposedly efficient capital markets. It was hardly surprising, therefore, that a high premium was placed on identifying a robust basis for accounting for intangibles.

3. Intangibles: a closer look

The term "intangibles" is most commonly found in the accounting and finance literatures relating to intellectual capital, where it is used more or less interchangeably with it. This is understandable, since the concept of intangible assets has been well known within accounting and finance for many years. Equally, however, in some cases this familiarity has produced a measure of unhelpful confusion, as the terms intangibles and intangible assets have been thought to be synonymous. One of the purposes of this section of the paper is to demonstrate that while all intangible assets might be subsumed within the concept of an intangible (or intellectual capital), the opposite is clearly not the case. A helpful statement of the relationship between intangibles/intellectual capital and intangible assets can be found in the Meritum Report (Meritum, 2002, pp. 61-3).

In his seminal discussion of intellectual capital, Edvinsson (1997) differentiated between two broad types, which he designated human capital and structural capital. The former type equates with "people", or more specifically the many attributes that people, as employees, bring to their employment and contribute to the value creation process in exchange for an agreed level of remuneration. Human capital therefore includes such attributes as education and training, experience and expertise, capacity for innovation and team working, flexibility, attitude to change, etc., all of the qualities that identify both individuals and the collectivity as being valuable organisational assets. Designating them as assets, however, is an important issue, since within conventional accounting and reporting employees are principally represented as a cost. Consistent with what was argued in the previous section, in practice as well as paying their employees, employers commonly take steps to grow the stock of attributes that reside with their employees. In some cases, actual expenditures are involved, which are also treated as charges in the profit and loss account in the period in which they are incurred, even though it is widely appreciated that the purpose of such investments is to create sustained shareholder value (and in recent times customer value) through the mechanism of profitable performance. The technicalities of these issues were widely explored in the accounting and finance literature (and beyond) in the 1960s and 1970s under the guise of human asset, then human resource accounting (Roslender *et al.*, 2007, and

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Roslender, 2009, provide useful introductions to the accounting for people literature). In this way accounting for intellectual capital can, in some part, be seen as continuing this focus into the twenty first century.

Edvinsson (1997) defined structural capital as "those dimensions beyond the human capital [that] were left behind when the staff went home" (p. 368). Such a nebulous description conveys the potential extent of exemplars of this type of intellectual capital and signals how it may vary significantly both between enterprises and over time. He decomposed this generic structural capital designation using the Skandia Value Scheme, which he had previously developed in his role as Director of Intellectual Capital at the Swedish financial products company Skandia AFS. Initially structural capital is divided into organisational capital and customer capital, with organisational capital further sub divided into process capital and innovation capital. Other authors have proposed alternative taxonomies using similar categories. For example, Edvinsson's fellow Swede Sveiby (1997a) advocates a tripartite division into employee competence, external structure and internal structure. Brooking (1996) had previously distinguished between human-centred assets, market assets, intellectual property assets and infrastructure assets. Van der Meer-Kooistra and Zijlstra (2001) identified human capital, customer capital, process capital and innovation capital. Habersam and Piber (2003) identified connectivity capital as a further component alongside human, relational and structural capital in a further four-category taxonomy. Generally most writers embrace the standard tripartite distinction, however, not least because of the latitude it continues to provide.

Lynn's (1998) adaptation of Brooking's taxonomy illustrates well how the relational (customer) capital and structural (organisational) capital categories incorporate both traditional intangible assets and their modern-day counterparts (not to mention some assets that might even be regarded as fairly tangible). In the case of relational capital, brands are listed alongside customer loyalty, customer penetration and depth, business collaborations and favourable contracts. Most of the examples of intellectual property listed by Lynn would qualify as intangible assets, while infrastructure assets such as management information systems could equally be designated as tangible assets. However, the majority of infrastructure assets such as management philosophies, corporate strategy, knowledge networks, etc., would seem to be highly intangible intangibles. Managerial ability or talent, together with any managerial development programme designed to cultivate it, would clearly sit at the far end of any intangible continuum. Yet both are among the most critical of contemporary intangibles, and both would be extremely difficult to place a financial value on thereby denying their presence within a balance sheet.

The sheer range and potential variety of intellectual capital runs counter to any inclination that accounting practitioners might have to make sense of them as goodwill. In an earlier contribution Roslender and Fincham (2001) speculated that it might be possible to think of intellectual capital as the "new goodwill". In retrospect this would not seem to be a useful exercise on the grounds that the various taxonomies that proliferated in the initial intellectual capital literature had the consequence of making the use of this established generic term largely redundant. Having persuaded colleagues to make a clear distinction between intangibles and intangible assets in this context, it would make no sense to then resurrect a seemingly familiar term in an attempt to characterise intangibles or intellectual capital. The persistence of the

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concept of goodwill within the financial accounting and reporting literature, not to mention accounting and reporting standards, only serves to problematise its extant relationship with intellectual capital and intangibles.

Roslender and Fincham (2001, 2004) argue for the use of a simple dichotomy in the context of intellectual capital. They do so in an attempt to better understand the process of growing intellectual capital, via the relationship between *primary intellectual capital* and *secondary intellectual capital*. Primary intellectual capital is human capital as this has been characterised above – i.e. people and the attributes they bring to their enterprises. Roslender and Fincham accord people primacy over what they create – i.e. secondary intellectual capital. In the case of relational capital assets such as brands, customer database, customer loyalty, business combinations, favourable contracts, etc., Roslender and Fincham contend that it is employees who are responsible for their existence and, more significantly, their persistence and enhancement. In the event that employees fail to meet the expectations of the enterprise's customer base, the enterprise's stock of secondary (relational) capital may begin to decline, resulting in a reduction in the enterprise's competitive advantage.

In the case of some (if not all) structural capital assets, the relationship is both more synergistic and more complex. For Roslender and Fincham it is employees who create the vital enabling corporate cultures, knowledge networks, management development programmes, etc., of successful enterprises. Since the primary intellectual capital designation explicitly seeks to be inclusive of all employees, neither the senior management cadres nor the lower order echelons of participants are viewed as playing the dominant role in their production and reproduction. More significantly, the existence of stocks of secondary intellectual capital of this sort provide exactly the environment in which primary intellectual capital can flourish. Conversely, should these assets become subject to challenge, for example as a result of an unwelcome merger or downsizing exercise, the effect on morale can be as rapid as it is damaging as the stocks of secondary intellectual capital dissipate.

4. Visualising intangibles

Denied the opportunity to provide robust financial valuations for stocks of intangibles, some researchers initially explored the possibilities of the next best alternative in the form of surrogate "hard" numbers that might be incorporated somewhere within the financial statements of enterprises. Among the most widely canvassed of these were metrics such as calculated intangible value, economic value added, the intellectual capital index, the market-to-book ratio and Tobin's *Q* (Andriessen, 2004, provides a useful overview of these and a number of similar metrics).

4.1 Measurement issues

Fortunately, some researchers were more adventurous, however, preferring to explore the options that "softer" accounting numbers afforded in successfully accounting for intangibles. In this regard they were, knowingly or otherwise, doing little more than following the lead provided by the new management accounting a decade or so previously. In the mid-1980s writers such as Kaplan had drawn attention to the rapidly failing relevance of managerial accounting, following several decades of subordination to the dominant financial accounting and reporting tradition (Kaplan, 1983, 1984; Johnson and Kaplan, 1987; see also Berliner and Brimson, 1988; Bromwich and

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Bhimani, 1989). These observations very quickly provoked a response in the form of an avalanche of "new" managerial accounting techniques, the best known of which are activity-based costing and target costing. While extremely influential, these techniques were not necessarily representative of many less widely canvassed techniques, which in some cases challenged practitioners to move some distance away from the traditional cost and value calculus discussed above. Particularly interesting in this regard are a number of developments within the generic strategic management accounting approach, which integrated managerial accounting and marketing management (Roslender, 1995; Roslender and Hart, 2002, 2003, 2006). In their quest for relevance to managerial decision-making, such approaches made a virtue of moving well away from the traditional focus on costs and values. The challenge was to fashion the information that senior managers required rather than engage in the fruitless exercise of deceiving oneself that it was possible to meet these information needs using tried and tested models.

By the mid-1990s it was no longer regarded as quite so radical to be interested in developing performance measures that appeared significantly at odds with conventional accounting information, at least not in the managerial accounting branch of the discipline. Consequently, visualising the growth of particular examples of stocks of intangibles might be viewed as little more than a further example of managerial accounting innovation. Edvinsson's work is an early example of such activity as he sought to capture and represent Skandia AFS's success in growing its intangibles. The generic approach was quite simple: identify what the most important intangibles are – i.e. those regarded as providing the bases for successful future value creation and delivery – and then identify measures that represent the growth of these intangibles well. This is very reminiscent of the critical success factors/key performance indicators couple that had become increasingly influential within the new management accounting in the previous decade, although it in fact predates the new management accounting by almost a decade (DeLong and Rockhart, 1988).

The simplicity of this approach to the measurement of intangibles (growth) obscures the difficulties associated with its implementation. A first problem is to know what an enterprise's most important intangibles are. Managers may believe they fully understand the dynamics of their value creation and delivery process on the grounds that it is demonstrably successful. This success, however, might in fact be attributable to other unrecognised factors (including intangibles), and thereby be enhanced if better intelligence is available. The determinants of success may also change over time and with the same consequences. Second, once the key intangibles are recognised, the problem of how best to capture their growth needs to be engaged. It is not the case that "any" numbers will suffice. Whatever numbers are used, they must be relevant, understandable and, possibly most significantly, they must be credible. It is important at this point to recall that these alternative measures are competing with traditional financial cost and value metrics, and therefore require to be regarded as being something close to as reliable as they are.

Despite these considerable difficulties, the intellectual capital literature quickly began to incorporate a wide array of measures of intangibles, an overview of which can be found in Andriessen's (2004) monograph.

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4.2 Reporting issues

Throughout the paper, accounting has been portrayed as having two complementary aspects:

(1) measurement; and

(2) reporting.

In the context of accounting for intangibles, there was clearly little value in devising compelling sets of measures of the growth of an enterprise's intangibles if equally sound approaches to reporting them did not exist. In many instances, the literature was enriched by contributions that combined the two. Nevertheless, there is considerable merit in discussing some of the most attractive reporting approaches as if they were distinct from their content. In what follows several of the most widely known "scoreboard" intangibles reporting frameworks are outlined.

For many working in the intangibles field, Edvinsson's Skandia Navigator is the most influential example of such a scoreboard of measures. Having identified the Skandia Value Scheme as an insightful means available to enterprises to interrogate their stocks of intellectual capital, Edvinsson quickly eschewed the temptation to pursue a traditional financial valuation exercise. Instead he developed the Navigator framework as a means of combining and reporting the relevant intangible measures he and his colleagues believed captured the growth of the enterprise's intellectual capital, and thereby its future strength as a competitive business. The measures were reported in one of five foci:

(1) human;

(2) customer;

(3) process;

(4) renewal and development; and

(5) financial.

These in turn were envisaged as assuming the shape of a house. The measures themselves had been developed and initially reported using intellectual capital supplements incorporated within interim reports (Edvinsson, 1997; Edvinsson and Malone, 1997; Mouritsen *et al.*, 2001).

For readers who are not too familiar with the Skandia Navigator, it clearly has significant similarities with the Balanced Scorecard, which predates it in the literature by several years. More specifically, there is a strong case to be made that the first-generation Balanced Scorecard, which Kaplan and Norton commended as a multi-dimensional management reporting framework in their *Harvard Business Review* articles (Kaplan and Norton, 1992, 1993), provides an alternative intangibles reporting approach. In this case the four dimensions are:

(1) customer;

(2) internal business process;

(3) learning and growth (as opposed to "people"); and

(4) financial.

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At the same time as Kaplan and Norton have embellished their founding Balanced Scorecard concept (Kaplan and Norton, 1996, 1999, 2004), they have acknowledged the growing importance of the intangibles field. To date they have not directly engaged the question of whether their own scoreboard is a viable alternative to the Navigator.

While the Skandia Navigator and Balanced Scorecard have both attracted substantial attention, a third scoreboard approach is regarded by many in the field to be the most attractive. Developed by Sveiby, the Intangible Asset Monitor again incorporates four dimensions, designated:

(1) employee competence;
(2) internal structure;
(3) external structure; and
(4) financial (Sveiby 1997a, b).

In the case of each of the first three dimensions Sveiby advocates that enterprises identify appropriate metrics in respect of growth and renewal, efficiency and stability. One of the attributes that distinguishes the Intangible Asset Monitor from the former pair of reporting frameworks is that it explicitly commends the use of a limited narrative to provide further information about the measures that it incorporates. Rather than restrict the account of intangibles (growth) to a range of well chosen metrics, the Intangible Asset Monitor therefore commends a balance of numbers and narratives, an approach that was successfully embraced by Celemi, a Swedish educational consultancy, on its website.

Two further scoreboard reporting frameworks also merit mention. Lev's Value Chain Scoreboard incorporates a 3×3 matrix structured in accordance with a three-stage model of the value chain:

(1) discovery and learning;
(2) implementation; and
(3) commercialisation (Lev, 2001).

Within each stage Lev identifies three dimensions, for which enterprises should identify relevant quantitative metrics that might be combined to provide information for both internal and external stakeholders. Equally, Lev indicates that enterprises should not believe they are obliged to slavishly populate every box in the matrix, simply to use it to furnish a set of ten to 12 relevant indicators. Finally, the Ericsson Cockpit Communicator is a further example of a Swedish development (Lovingsson *et al.*, 2000). It combines aspects of the Skandia Navigator and Balanced Scorecard frameworks, being constituted by five perspectives:

(1) innovation;
(2) customer;
(3) employee;
(4) internal efficiency; and
(5) financial.

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What provides an element of novelty in the case of the Cockpit Communicator is that each of the chosen perspectives incorporates a gauge that indicates level of performance, from warning to excellent, as in the case of the cockpit of an aircraft.

5. The narrative turn

A second wave of new approaches to accounting for intangibles began in 1998 when the Danish government funded an extensive research programme, with academic leadership provided by Mouritsen, which in November 2000 resulted in the publication of *A Guideline for Intellectual Capital Statements: A Key to Knowledge Management* (Danish Agency for Trade and Industry, 2000). By contrast with the Navigator and similar scoreboard frameworks, which shared the same multiple soft metric approach to intangibles reporting, the Danish Intellectual Capital Statement model was characterised by its narrative foundations. In addition, the Intellectual Capital Statement owes much to insights derived from its advocates' interests in knowledge management. This field emerged several years prior to the intellectual capital field, initially exhibiting a strong technicist emphasis. As interest in the organisational culture dimensions of knowledge management began to gather momentum, it became increasingly difficult to distinguish between the knowledge management and intellectual capital (management) fields (Mouritsen and Larsen, 2005). It is also significant that Mouritsen had an established reputation within the managerial accounting discipline, which as we observed at the beginning of the previous section provided many insights for those interested in developing scoreboard approaches to intangibles reporting.

The Danish researchers readily embraced the rhetoric of the new management accounting in respect of the challenge of creating and delivering value to customers. Drawing on knowledge management, they argued that initially it is necessary for the enterprise to establish a knowledge narrative that will underpin all the enterprise's activities. Such a narrative will set out how the enterprise intends to deliver products or services that meet the requirements of its customers, as well as how the enterprise intends to organise its resources to this end. Knowledge narratives will incorporate the enterprise's mission in respect of its customers, a statement of the use value of its products or services as seen from a customer perspective. As such it is vital that this knowledge narrative is shared with all the enterprise's participants and in a facilitatory manner, thereby ensuring maximum buy-in from employees. The existence of such a narrative is designed to make the task of identifying the critical challenges that face any enterprise easier. These management challenges are the specific challenges that the company may face in implementing its knowledge narrative, which should be represented in the form of a set of actions to be pursued by management. These actions are in respect of customers, employees, processes and technologies, each having relevant performance indicators identified for them. These indicators are essentially of the same order as those that might be incorporated in a scoreboard.

The final element of an Intellectual Capital Statement is designated "reporting", and can be either an internal or an external report. In the case of an external report format, what is constructed is a document that reports the enterprise's strategy for knowledge management combining text, figures and illustrations, while internal statements offer the possibility of reporting greater levels of detail and more radical visualisations, if required. In developing the Guideline the researchers also discussed the issue of the

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credibility of such approaches, given that they departed so extensively from the normal model of financial reporting. Their suggestion was that when preparing such documents it was desirable to bear in mind the normal quality assessment criteria associated with financial reporting, such as relevance, reliability, clarity, materiality, completeness, comparability, etc. In addition the research team sought to consult with the Danish audit profession, a move that in due course gave way to the latter profession's willingness to afford a measure of support in the form of an auditor verification exercise.

In 2003 a revised version of the Guideline was published (Danish Ministry of Science, Technology and Innovation, 2003). The researchers now commended a four-element framework:

(1) knowledge narrative;

(2) management challenges;

(3) initiatives; and

(4) indicators.

The narrative foundations of the Intellectual Capital Statement are reaffirmed, with the knowledge narrative and management challenges providing a coherent tale, one which communicates the enterprise's ambition for knowledge management and how it intends to realise this. In this way the researchers emphasise the strategic credentials of an Intellectual Capital Statement. They do so in a manner not dissimilar to that which informs the strategy map concept (Kaplan and Norton, 2004; Nielsen *et al.*, 2009). The new element, initiatives, is concerned with knowledge containers, in the form of employees, customers, processes or technologies, and in particular with how it might best be possible to enhance these in order to meet management challenges. Further attention is also paid a number of practical issues in respect of external reporting using an Intellectual Capital Statement. Preparers should be clear about who their target audience is and what the principal message is, as well as the most appropriate media for effective communication. In 2005 the Danish Financial Statements Act required enterprises to provide a report on intellectual capital resources and environmental issues in the management report, if this is necessary to provide a "true and fair view" of the enterprise's financial position. An Intellectual Capital Statement provides a means of accomplishing this, as a supplementary report, of which directors must be prepared to take ownership.

Some of the Danish researchers were also involved in a parallel project, usually referred to as the Meritum Project, together with Scandinavian colleagues from Finland, Norway and Sweden, as well as researchers from France and Spain (Meritum, 2002). In due course several teams moved on to a further EU-funded project known as the E*Know-Net, which also incorporated input from UK-based researchers. The Meritum Project commends its own *Guidelines for Managing and Reporting on Intangibles*, which identify the Intellectual Capital Report as the preferred accounting and reporting mechanism. Such reports also incorporate three elements, which are again explored via the narrative. First, the vision of the firm is a statement of the enterprise's strategic objectives and critical intangibles. Second, the summary of intangible resources and activities entails a review of the enterprise's current stock of intangibles (or intellectual capital), which also needs to identify any absent resources

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and how this might be overcome. The third and final element of an Intellectual Capital Report is a system of indicators designed to provide the user with an indication of how well the enterprise is accomplishing its objectives (see Bukh and Johanson, 2003).

Guthrie *et al.*(2007) outlines the main features of a subsequent development within the narrative tradition in the form of the *Australian Guiding Principles on Extended Performance Measurement*, introduced in 2005. Once again the underlying objective of this development is informed by knowledge management: to improve stakeholder understanding about the strategic management of intangible resources in pursuit of effective value creation and delivery. In the context of internal extended performance measurement reporting it is envisaged that such reports might also be used to help motivate employee performance, while external reports based on this model promise to enhance decision making by virtue of their comprehensive content.

These moves in the direction of narrative approaches to intangibles reporting overlap with a growing interest in promoting a new business reporting approach to financial reporting. Business reporting was identified in 1994 by the Jenkins Committee as providing a means of meeting the growing information needs of investors and creditors (American Institute of Certified Public Accountants, 1994). The case for business reporting was reinforced in the Institute of Chartered Accountants of Scotland (Beattie, 1999) research monograph entitled *Business Reporting: The Inevitable Change?* and Upton's (2001) Financial Accounting Standards Board sponsored *Business and Financial Reporting, Challenges from the New Economy* study, both of which acknowledged the growing importance of intangibles within the enterprise. Extended narrative reporting was further debated by the UK accountancy profession in the context of proposals to extend the scope of the Operating and Financial Review (Accounting Standards Board, 2005; Department for Trade and Industry, 2005) and to encourage the development of Management Commentary within the financial reporting package (International Accounting Standards Board, 2005). Enthusiasm for such initiatives has subsequently plateaued, although is likely to be rekindled in due course.

6. The prospects for self-accounts

In the closing paragraphs of section three above, the case was briefly made for using a simple distinction between primary intellectual capital and secondary intellectual capital in preference to the more elaborate taxonomies that can be found in the intellectual capital literature. The distinction is between people and what they create in the context of the value creation and delivery process. However, this distinction is not simply that between human capital on the one hand and relational and structural capital on the other, since some key constituents of structural capital such as corporate culture, management philosophy and organisational values, while undoubtedly being the creation of people, are somehow more akin to human capital than many other constituents of structural capital such as management information systems, knowledge networks and organisational structures. The former components have the characteristic of being facilitative, providing the environment in which human capital can be as creative as it might possibly be. Equally, such components, like very many of those identifiable as human capital, are extremely intangible and thereby difficult to imitate or replicate. In this regard, it can readily be seen that primary intellectual capital is the true foundation of value creation and delivery.

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Traditionally accounting has entailed accounting practitioners providing highly routinised visualisations within a defined sphere of competence. The latter has expanded in recent times, most particularly in the case of managerial accounting as researchers and practitioners have sought to ensure its continuing relevance within the strategic management process. At the same time, however, accountants have begun to experience a measure of competition from other professional groups including marketing managers, production managers, supply chain managers and quality managers. This has occurred against a backcloth of a greater trend towards inclusivity within the strategic management process, in opposition to the tradition of exclusivity that seemingly benefited the accountancy profession for many decades. Yet despite unquestionable progress since this time, it is difficult to separate the practice of accounting from some form of *counting*. The move towards softer numbers, i.e. away from hard financial quantification, evident in managerial accounting, remains at base an exercise in counting.

The case of accounting for people, touched on in section 3, is an interesting one. Although its origins can be traced back to the 1920s, when Paton commented on the continuing absence of employees from accounts (Paton, 1922), human asset accounting was only developed in the early 1960s, initially by Hermanson (1963, 1964), then subsequently by Hekemian and Jones (1967) and Likert (1967). To a very great extent the challenge identified by these researchers was to that of "putting people on the balance sheet", which is itself the epitome of hard number (ac)counting. In opposition to this generic visualisation, the main figure in accounting for people, Flamholtz, strongly commended a managerial accounting perspective on the problem in the form of human resource accounting (Brummet *et al.*, 1968, Flamholtz, 1971, 1974). Nevertheless, despite his own considerable technical ingenuity, he never escaped the prevailing cost and value calculus, i.e. hard number counting. Likewise the subsequent human resource costing and accounting perspective devised in Sweden by Grojer and Johanson and their colleagues at Stockholm Business School in the 1980s, which provides the link between human resource accounting in the 1970s and intellectual capital accounting in the 1990s (Grojer and Johanson, 1991, 1998).

In the same way that the challenge of accounting for people has been widely thought of as identifying some ingenious way of putting people on the balance sheet, there was considerable implicit interest 30 years later in doing the same with intellectual capital. Lessons had been learned, however; hence the rapid move to the scoreboard measurement and reporting approaches discussed above. Such developments provided a means of escaping from the constraints of hard number counting, although clearly not from counting. That is the advance that the narrative turn afforded; hence its immediate appeal to many of those within the field who recognised the need to embrace approaches to accounting for intellectual capital that were more radical. At the same time it is necessary to acknowledge that in the case of both the Danish Intellectual Capital Statement and Meritum's Intellectual Capital Report, there remains a strong reliance on the use of indicators of performance. So although it is possible for commentators to applaud the move to reflexive narratives, with their more inclusive strategic management underpinnings, it may well be that their appeal in practice is at least equally the result of their more familiar (ac)counting attributes.

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Despite their various attractions, intellectual capital scoreboards and narratives continue the tradition of accountants constructing accounts on behalf of the enterprise. This is their traditional jurisdiction of course but having now privileged people as primary intellectual capital, there would seem to be an inconsistency in continuing to allow the accountancy profession to account for – i.e. construct – people in this way. In a previous paper this process was provocatively described as imprisoning people within accounts devised in order to ensure that they are managed effectively (Roslender and Fincham, 2001, p. 384). Imagery of this sort is informed by the critical accounting project, which has evolved over the past three decades as an element of work that has sought to explore the non-technical aspects of accounting (Roslender and Dillard, 2003). Within the contemporary critical accounting project, researchers such as Broadbent, Ciancanelli, Gallhofer and Haslam have advocated the formulation of more enabling forms of accounting, which are intended to promote the emancipatory intent that is itself associated with the Critical Theory of both the early Frankfurt School and its principal post-war figure, Habermas, as well as humanistic Marxist theorists such as Lukacs and Gramsci.

Instead of being constructed in the traditional manner, what is envisaged here as self-accounting is that people, as primary intellectual capital, provide their own accounts of their praxis, i.e. their various contributions to the value creation and delivery process. These self-accounts are envisaged as being full-blown narratives by means of which people articulate their experiences of value creation and delivery within the enterprise. By definition such narratives will be reflexive, a characteristic that self-accounts share with knowledge narratives. Unlike the latter narratives, however, the intention is to promote much greater self-awareness among all the participants within an enterprise rather than simply among the upper echelons of management, by whom and for whom such narratives are constructed in collaboration with accounting practitioners. It is in this way that self-accounts are enabling and emancipatory, fundamentally bottom-up democratic activities that are fully consistent with people's status as primary intellectual capital. There is no reason why the use of numbers or indicators in such self-accounts should be proscribed. If individuals wish to use such means to articulate their experiences, they should be encouraged to. Given that numbers are the stock in trade of accounting practitioners, and in many cases line managers, it might just be that given the opportunity to tell, or to *recount* their own stories, people will exhibit a preference for narrative formulations.

Roslender and Fincham (2001) identified some form of yearbook as providing the means of collecting together and publishing such self-accounts. Publication would be in parallel to but independent of the normal annual report package, which might also include scoreboard reports and accountants' intellectual capital narratives. The task of editing such a yearbook was initially envisaged as extending to issues of expression, spelling and grammar, with particular accounts being selected on a random basis. Subsequently, some further detail was added (Roslender and Fincham, 2004). Individuals might use the intranet to share their self-accounts with fellow employees. An elected editorial group would be charged with the task of creating any yearbook, now to be composed of the most insightful narratives. The resulting collection could again be made available internally via the intranet, with the internet providing a means of publishing a truly independent document for use by external stakeholders. Crucially, efforts should be made to create a dialogue between the two parties, i.e. employees and

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senior management, both being encouraged to retain their independence, albeit in the hope that management might come to recognise the value that might be added by engaging with self-accounting. The possibility of including a substantial self-accounts component of a much expanded annual report package is not ruled out, although any such component must ultimately be characterised by its independence.

7. The content of self-accounts

It would be inappropriate to attempt to sketch out the generic form that any self-account might assume. Nevertheless, there is some value in exploring a couple of intangibles in a little detail in an attempt to provide some substance to the ideas that have been discussed in the previous section. The two intangibles in question are interesting in that the first, brands, has previously attracted significant attention for the accountancy profession, unlike the second, employee health and wellbeing, which has not.

7.1 Brands

Nowadays, brands are widely identified alongside customer loyalty, beneficial business relationships, customer databases and corporate reputation as examples of relational capital. Thirty years ago, brands were beginning to be more widely included among the intangible assets of enterprises as senior managers recognised their increasing importance to the future of the business together with their very different character to traditional fixed assets. As key assets it was logical that they should, if possible, be included alongside the latter in some way, ideally "on the balance sheet" perhaps (and alongside people?). The problem was how to value brands, particularly those that had been developed within the enterprise, over time. While it was recognised that enterprises needed to invest continuously in their home-grown brands if they wished them to remain successful, it was conventional for such expenditures to be written off in the year in which they were incurred, in the interests of prudence on the one hand, and because of the very considerable difficulties involved in matching income and expenditure on the other.

In the case of any brands that an enterprise might acquire, however, there was no such problem, since the cost of purchase served as a reliable indicator of value, perhaps adjusted for some extent of goodwill. As a result it was possible for the enterprise to include acquired brands on the balance sheet, as well as to amortise them if appropriate, alongside other, more tangible assets. Any further investment designed to enhance the value of an acquired brand posed the same problems, however, until a further sale. In an attempt to address this situation, in the late 1980s corporations such as Rank Hovis MacDougall and Grand Metropolitan sought the services of the brand consultancy Interbrand, which had developed a model capable of generating robust brand valuations for home grown brands (Murphy, 1989; Guilding and Moorhouse, 1992; Penrose and Moorhouse, 1992). Twenty years later, very little has changed. It is still only possible to include acquired brand valuations within the balance sheet, albeit to be accounted for in a more sophisticated manner. No matter how reliable any estimates of the value of a home-grown brand may be, they cannot be included within the published balance sheet.

Central to any brand valuation exercise is the determination of the strength of a brand and more specifically its perceived future credibility in the market place. Such

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notions are uncomfortable ones for a profession that has for generations relied on the historical cost convention. It will therefore come as little surprise to discover that the brand strength aspects of the Interbrand valuation model, and alternatives to it such as the Brand Finance model or the Young and Rubicam "BrandAsset Valuator" model (Keller, 1998), draw heavily on the traditions of marketing management. Interestingly, there is considerable reliance on quantification in this sphere, although many of the determinants of brand strength are at base of a qualitative nature. There is also evidence of a desire to distil a whole range of quantifications down to a single number, as if such a metric somehow ensures enhanced credibility. In a recent paper advocating a brand management accounting approach to accounting for brands, Roslender and Hart (2006) commend the use of a scoreboard of indicators drawn from both the accounting and marketing literatures combined with a number of novel inter-functional metrics. In so doing, they acknowledge the catalytic effect of almost two decades of new managerial accounting developments as well as the emergence of scoreboard reporting frameworks within the intellectual capital accounting field.

Within the schema identified earlier, brands are an example of secondary intellectual capital, and as such the creation of primary intellectual capital. It is widely acknowledged that the foundations of the success of any brand are furnished by the highly positive associations they have for those customers who purchase them. For this success to endure, whether by ensuring that customers continue to purchase branded offerings or as result of a continued reproduction of demand from new customers, and ideally both at the same time, it is crucial that positive brand associations persist. In order for this to occur it is necessary to accomplish the necessary balance of stability and change. This is the challenge that faces all of those who are engaged in the continued creation and delivery of value, in the guise of highly positive brand associations, to customers. It is this challenge and how it is met that will provide the content of self-accounts produced by the enterprise's workforce, the stories that they recount about the exercise of their individual and collective creativity in fulfilling the expectations of their customers. Of particular significance, perhaps, will be reflections on what people bring to the brand and its traditions, how people view their role as being entrusted with successfully reproducing the core brand associations and how people approach the task of continually ensuring that the brand remains fresh and appealing, and thereby more attractive than competing brands.

The provision of a continuous stream of self-accounts of this sort, via the intranet, should have the consequence of reinforcing the organisational culture as employees gather insights regarding how their peers view their own experiences within the enterprise. On occasion there is likely to be some negative sentiment expressed but in the context of a strong organisational culture this should soon be compensated for as people are reminded of the positive aspects of their tasks by their own peers. Suggestions that this is not happening are likely to be indicative of possible difficulties for the enterprise that might in due course translate into a commercial downturn. The availability of a collection of self-accounts to various groups of external stakeholders, via mechanisms identified in the previous section also has considerable merit. Stakeholders will be able to get a feeling for the enthusiasm of those within the organisation for ensuring the continuing success of the brand. Such information will complement any softer quantitative measures of customer satisfaction, brand loyalty,

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customer retention, brand awareness, etc., that might be reported in a scoreboard of brand performance.

7.2 Health and wellbeing

Unlike brands, workforce health and wellbeing have not figured extensively in the accounting literature. A moment's reflection, however, convinces that in the knowledge economy, with its massive reliance on cadres of intellectual labour, a physically fit and mentally attuned workforce is an increasingly important asset to any enterprise. Without wishing to appear disparaging of those engaged in manual labour, it is not so easy to engage replacement knowledge workers in the short term, with the result that those who remain at work can often find themselves called upon to make greater inputs, possibly running the risk of becoming unwell themselves. In the twenty-first century, if a workforce is worth retaining, a fit and healthy workforce would seem to be a doubly valuable organisational asset. For this reason, health and wellbeing merit being added to the existing list of attributes of primary intellectual (human) capital such as:

- education and training;
- experience and expertise;
- capacity for learning and innovation;
- flexibility; and
- leadership and teamworking skills, etc.

These are the attributes that people "gift" to the enterprise in exchange for agreed levels of remuneration and working conditions. They provide the bases of people's capacities for value creation and delivery, as do their health and wellbeing.

The majority of accounting practitioners might object that health and wellbeing are more properly understood as personal phenomena. Employees may become unwell as a consequence of their employment, possibly as a result of unfortunate accidents or because of some failings within the enterprise, as is the case with asbestosis, pneumoconiosis, silicosis, musculoskeletal disorders, etc. The existence of a body of health and safety legislation, together with agencies such as the UK Health and Safety Executive, is intended to minimise such occurrences, thereby protecting people in their workplaces. People become unwell principally as result of genetic factors, "lifestyle" choices or, increasingly, old age, and in this respect they bring their ill-health to the enterprise, which increasingly finds itself required to make a direct financial contribution to accommodating it.

The emergence and subsequent persistence of a major sickness absence problem in the past decade runs counter to this position, however. Annual days of absence from the workplace have reached double figures in some sectors, resulting in a growing financial cost to employees, employers and the state. As well as a growth in the number of single days of absence, widely regarded as being a case of individual employees taking additional holidays, there has been an increase in longer-term absences from work. A major contributory factor to this has been the shift in reasons for absence, from being physical in nature to being associated with mental health issues. What a generation ago was designated "management stress" is now evident across the workforce as employees find the demands of their work, both in qualitative and

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quantitative terms, increasingly difficult to accommodate. In some cases anxiety, depression and stress give way to more familiar physical ill health in the form of hypertension and heart disease. Self-medication in the form of increased eating, alcohol consumption or substance abuse can also lead to physical illnesses. Others develop unhealthy interests in gambling or worse, which in turn often give rise to stressful financial outcomes. The current global economic crisis can only serve to aggravate the situation as costs are cut by means of a combination of increased redundancies and work intensification.

In order to minimise the extent of employee health and wellbeing, and thereby reducing the extent of costly sickness absence, senior management might invest in the creation of a "healthy organisation" as a further element of the continuing organisational culture. In this way they will be engaged in the promotion of preventive medicine at a local level, the foundations of which already exist in many enterprises (Roslender *et al.*, 2009, provide some details of current provision in the UK). Inevitably this will prove a costly exercise in the great majority of cases but it is a long-term investment, the success of which cannot be captured solely by means of conventional appraisal methodologies. Equally, it will not be possible to place a financial value on a healthy organisation, any more than it is possible to derive such a valuation for the health and wellbeing of the workforce, nor the myriad other attributes that provide any enterprise with its competitive advantage. After close to half a century of failing to account for people within the prevailing cost and value calculus, no further resources should surely be allocated to such endeavours.

In formulating self-accounts of their health and wellbeing employees might outline the manner in which their employers sought to encourage them to become fitter and healthier. Participation in initiatives designed to encourage stopping smoking or improving diet, increased physical exercise, walking or cycling to work, regular trips to the gym or the swimming pool, coupled with candid reflections on how these have contributed to feeling fitter and healthier, both physically and mentally might provide the foundations for a more wide-ranging set of narratives. As individuals' health improves, and they appreciate the importance of their lifestyle changes, further engagement might ensue. For those interested in greater physical exercise, the opportunities afforded by intramural competition might hold some appeal and beyond this more challenging activities such as sailing, skiing and climbing and ultimately some extreme sports. Alternatively, less energetic activities such as yoga or reiki, which advocate holistic approaches to health and wellbeing issues, may be pursued. As far as possible, the opportunities for such pursuits should be facilitated in the case of enterprises that are fully committed to the promotion of enhanced health and wellbeing, by allowing participation within the normal working day. This is a feature of existing Work Ability initiatives that have been introduced in Finland in recent times (Hussi and Ahonen, 2007; Aura *et al.*, 2008).

As in the case of brands, the intention is that any set of self-accounts conveys a highly positive impression of the preparedness of the enterprise for future successful value creation and delivery activities. This, hopefully, will happen without the need for intervention by senior management seeking to represent the enterprise and its future prospects in a favourable light. If the aphorism that "our people are our most valuable assets" is true, then letting them recount the detail of their organisational participation should prove to be a mutually beneficial exercise to promote.

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8. In conclusion

It is not proposed that self-accounts replace scoreboard or narrative visualisations in respect of intangibles and their growth. All three approaches should feature in a much expanded financial or, more correctly, business reporting package, as this was development was initially envisaged by the Jenkins Committee in 1994. Given that there will inevitably be many other additional constituents of such a package, for example relating to sustainability, ethics, governance, etc., the outcome will be a document that far exceeds the size of the present financial reporting package, already viewed by many within accounting and finance (and beyond) as too unwieldy. Consequently there may be a very strong case for developing internet-based business reporting, incorporating the facility for both full and partial downloading.

Self-accounts might seem a very radical proposal, one that departs quite markedly from what most people understand or recognise as accounting. However, when we recall that in the mid-1990s it was relatively commonplace to find leading-edge enterprises with market values ten or more times their accounting-based balance sheet valuations, the problems this posed the global accountancy profession could only ever really be resolved by embracing a large measure of radical thinking. It is unsurprising, therefore, to observe that the two ideas on which the proposal for self-accounting is based, those of people as primary intellectual capital, and thereby the foundation for all value creation and delivery activities, and of people being called upon to recount and reflect upon such activities, do not originate in the mainstream of accounting thinking. These ideas emanate from the critical accounting project, a development that began to gather pace in the later 1970s as a number of like-minded accounting researchers began to explore the merits of a more wide-ranging approach to non-technical accounting studies. In self-accounting it is possible to see what might be achieved if the accountancy profession is prepared to engage with those who are motivated to look beyond the narrow confines of the cost and value calculus that so tightly constrains their attempts to satisfactorily account for intangibles.

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