Documenting the Contribution of People to Successful Business Model Implementation: An Exercise in Integrated Reporting

Robin Roslender¹ and Christian Nielsen²

Abstract

The absence of people (employees) from the business model literature is at odds with their pivotal contribution to the value creation, delivery and capture process. As a resource that management is continually challenged to grow, their success in doing so has been identified as an outcome falling within the scope of Integrated Reporting, an approach currently touted as the new corporate reporting. This short paper suggests a number of employee attributes that might be documented in such reports.


1-2 Aalborg University Business School, Denmark

ISSN: 2246-2465
DOI: https://doi.org/10.54337/jbm.v10i1.7339
Introduction

In their 2015 paper Nielsen and Roslender characterise a business model (BM) in the following way:

“A business model provides a description of the organisation’s concept for ‘earning money’ [that] identifies the platform that connects value creation and delivery between the organisation, its stakeholders, and its customers in order to capture value.” (Nielsen and Roslender, 2015: 265, italics as in original).

The context in which this characterisation was originally framed was a continuing lack of engagement with the BM concept by financial accounting and reporting researchers. By the time of publication the International Integrated Reporting Council (IIRC) was providing evidence that its Integrated Reporting (IR) approach to corporate reporting was being subscribed by a growing number of organisations across the globe. The IIRC identified the BM as playing a central role within IR, in combination with the asserted necessity to focus on the underlying value creation process (IIRC, 2013). As Roslender and Nielsen (2018) observed, what IR signposts is the need to rethink corporate reporting as “accounting through the business model” for value creation, delivery and capture.

Despite its potential importance, IR has continued to attract only limited interest from accounting researchers, arguably starving the IIRC’s agenda of sufficient oxygen, and potentially hastening IR’s disappearance, much as its similarly iconoclastic predecessor Business Reporting had in the early 2000s. One field in which IR has attracted a measure of attention from accounting researchers is that of environmental and sustainability accounting. For the most part, however, the narrative is one of disappointment that while in its initial formulation the IR concept promised to ‘integrate’ environmental and sustainability considerations with those of a financial nature, in line with the Triple Bottom Line perspective, following the publication of the IIRC’s Framework in 2013, such issues were evidently to be accorded less importance. Flower (2015) provides an excoriating critique of the IIRC’s motivations, becoming the ‘received wisdom’ for critical accounting researchers. Roslender and Nielsen (2021) reinforce the critique advanced by Flower and subsequent researchers, including Rowbottom and Locke (2016) and Humphrey, O’Dwyer and Unerman (2017). Nevertheless, they also encourage colleagues to take a second look at IR, and in particular its hitherto weak engagement with both the BM concept and the value creation process.

Roslender and Nielsen (2021) returns to the above characterisation of the BM, particularly the identification of the importance of customers to organisations seeking sustainable competitive advantage. They argue that during the past 40 years customers have become an increasingly important stakeholder for many organisations, to the point that some observers have identified them as their most important/valuable assets, e.g., Peppers and Rogers (2005). Roslender and Nielsen suggest that this should be viewed as a positive development as C21st customers have become more discriminating in their behaviours, thereby progressively wresting control of the marketplace from organisations. Rather than abandon IR, the BM and the value creation process, accounting researchers should engage the challenge of taking customers into account (Roslender, Hart and Nielsen, 2021).

The value/importance of customers to organisations has been axiomatic to the development of the BM field since the late 1990s, with the value proposition identified as its central focus. Not everyone believes customers are the most valuable organisational asset, however, with employees having long been regarded as deserving this accolade. They too are key stakeholders within an organisation, something the IIRC acknowledges, identifying human capital as one of the six capitals that IR must now account for and report on. It is therefore surprising to find that the extant BM literature makes little explicit reference to employees. The purpose of this short paper is to promote a debate about how this oversight might be addressed.

Approach

Osterwalder and Pigneur’s core message is that in order to fashion successful value propositions it is
necessary to understand how best to configure a growing range and diversity of business assets for that purpose. Within their Business Model Canvas when describing the key resources building block Osterwalder and Pigneur initially observe that:

“The Key Resources Building Block describes the most important assets required to make a business model work........Key resources can be physical, financial, intellectual, or human”. (Osterwalder and Pigneur, 2010: 34).

They continue by acknowledging that:

“Every enterprise requires human resources, but people are particularly prominent in certain business models.” (p.35).

In a subsequent monograph Osterwalder, Pigneur, Bernarda and Smith (2014) affirm that an organisation’s key resources are its most important assets (p.xvi), although continuing to refrain from any further elaboration. With some justification, these authors may respond that focusing on employees is not their concern in these texts or that they lack the knowledge and understanding to provide the requisite insights. A more worrying explanation is that they believe the availability of such resources can largely be taken for granted. In the case of human resources, which are also the source of intellectual assets, this is both unfortunate and inaccurate. Unfortunate because it is human resources that are the critical driving force in creating and delivering on customer value expectations, and thus should not be overlooked. Inaccurate because it has become evident that the ready availability of sufficient key human resources can no longer be assured.

In respect of the first observation, that human resources, or hereafter ‘people’, should never be taken for granted, it cannot be claimed that people are the only source of value – both nature and financial capital also have this capacity. Nevertheless, as the source of labour power, people are the most critical factor in creating and delivering value for customers, as well as to the providers of financial wealth via the value capture mechanism, and to the broader society and its myriad stakeholders. During the past two generations we have become acquainted with Porter’s value chain concept, which identifies the generic process of adding value through the performance of a series of activities undertaken within different business functions (Porter, 1985). Referring to activities and functions within the value chain in this way obscures the reality that activities are performed by people who are present within the functions in question. While there is now a much greater presence of technology within the workplace, it is under the control of people, having originally been fabricated by people. Enthusiasm for extending the scope of artificial intelligence has also had the consequence of focusing on what such intelligence can, in many cases beneficially do, while overlooking what it cannot presently do but that people can. There are ready explanations of why documenting the cruciality of people is downplayed in several quarters, not least the challenge any rectification would pose to the prevailing social arrangements including the social organisation of work.

There has never been a time when the demand for and supply of the most talented people have been in full alignment, as a result of which a minority of people has always been able to command higher rewards from employers. To counteract this situation systematic deskilling has been widely pursued, initially among skilled manual workers but subsequently for most blue-collar workers and thereafter many white-collar and professional workers (Braverman, 1974). During the past half century a massive expansion of higher education opportunities has been funded to ensure that the supply of knowledge workers has not proved too problematic, combined where possible with their deskilling. The development and diffusion of information and communication technologies that characterise the existence of the information society has largely performed the same function. Nevertheless, a ‘war for talent’ has been a continuing feature of the labour market throughout the C21st (Michaels, Handfield-Jones and Axelrod, 2001), with employers acknowledging that as the market becomes ever more competitive, it is imperative that organisations are able to attract, recruit, develop and retain the very best people available. Although it might seem that such practices have long been a core component of the modus operandi of
the human resources function, the lengths to which many organisations are prepared to go nowadays to ensure that they consistently attract and retain the best talent are extraordinary. In the most progressive organisations such practices are likely to be widespread, consistent with people's pivotal role in creating and delivering value to customers and the broader society alike.

It is not people per se but the myriad attributes they bring to the organisation that constitutes their importance. The most fundamental attributes have been recognised for many years - educational attainments and practical training. Over time the average level of individual competence has increased as jobs have required more skills, the continued existence of the generic deskilling process identified above notwithstanding. Complementing this pair of attributes is a second pair, those of experience and expertise. These attributes are developed and accumulated over time as people pursue their careers, learning 'on the job' as opposed to in the classroom or training facility. In many cases as individuals develop their expertise they become highly specialised, as a result of which they may become more attractive to employers other than their current ones. Equally it has also become more commonplace for occupations to become unnecessary, sometimes very suddenly, often in the wake of technological advance. Consequently, a willingness to be flexible and prepared to engage in a process of continuous learning have emerged as desirable people attributes, possibly accompanied by a readiness to accept the need for geographical mobility. Although always present among employees, nowadays there is often more focus on personal initiative, ingenuity, responsibility and creativity, for people who are comfortable to 'just do it'. However, the importance of soft skills has become recognised in recent times, e.g., teamworking, ad hoc project leadership, enthusiasm for sharing skills and experience, etc, all of which contribute to the presence of integrated functioning within the workplace.

These and similar people attributes constitute the substance of the human (capital) component of the key resources invoked by Osterwalder and Pigneur. Their availability in abundance is required to ensure greater levels of value creation for and delivery to customers, and successful value capture on behalf of shareholders. Although this is well-understood within the BM field, little attention continues to be afforded people, and in particular the contribution that reporting people-related information can make to society's assessment to the integrity of organisations. It is to this focus that we now move.

Key Insights: ‘Taking People Into Account’

However sincere the assertion that 'our people are our greatest asset' might be, in the absence of a robust demonstration of that status it is easy to dismiss these words as an exercise in rhetoric. A century ago Paton, one of accounting's founding theorists, observed that:

"In the business enterprise, a well-organized and loyal personnel may be a more important "asset" than a stock of merchandise.......At present there seems to be no way of measuring such factors in terms of the dollar; hence they cannot be recognized as specific economic assets. But let us, accordingly, admit the serious limitation of the conventional balance sheet as a statement of financial condition." (Paton, 1922: 486-7)

People were present in the income statement but as costs, and from a fundamental financial management perspective the challenge was to reduce these costs wherever possible. Incorporating people in the balance sheet would recognise people as assets, which in turn suggested it was desirable to place a financial ("dollar") value on them, i.e., on the attributes people brought to the organisation. It took several decades before Hermanson identified some sound bases on which this might be done in the context of his human asset accounting approach (Hermanson, 1963, 1964). ‘Putting people on the balance sheet’ by means of robust financial valuations then became a fertile research field for much of the next decade. It the 1970s it was replaced by a managerial accounting approach focused on understanding the broader cost and benefit implications of human resource
decision-making, labelled human resource accounting. This proved a major research topic for a further decade but quickly waned in the early 1980s, in part because it was regarded as unlikely to deliver cost savings (Flamholtz, Johanson and Roslender, 2020). In the view of its principal advocate, Flamholtz, what it did urge managers to do was to ‘think people’, an imperative that resonates strongly with the content of the previous section.

The emergence of human capital accounting (HCA) in the later 1990s, and its challenge to continually strive to ‘grow’ people, was consistent with Flamholtz’s motivations. Equally significant is that by this time managerial accounting had identified how it might be possible to take people into accounting without recourse to the cost and value calculus (Sort and Roslender, 2021). Many of the key information needs of contemporary management were now recognised to be addressed using relevant non-financial metrics and in some instances contextualising narratives. Beyond this, by embedding these within scoreboard frameworks provided a means to communicate information more widely within the organisation and, crucially, to those outside the organisation, i.e., to both shareholders and their advisors and to a variety of external stakeholders. For the most part, such developments have yet to find favour with many accounting practitioners, who remain comfortable with the cost and value calculus despite it acknowledged shortcomings. Equally, the more inclusive nature of such reporting regimes means that the annual report package that has traditionally been the accepted preserve of the profession may become progressively colonised by competitor professions and functions.

As we observed at the beginning of the paper, in its 2013 Framework document the IIRC commends accounting for and reporting on six capitals present within the value creation process, one of which is human capital, a second being somewhat confusingly referred to as intellectual capital. As essentially a think-piece, the IIRC omits any specific guidance on how organisations might set about taking people into account. The choice is therefore left to individual organisations to do so in the light of their own critical success factors. The following categories of people information would seem to be of initial relevance in such exercises.

1. **Demographics** Many organisations already provide some information on workforce composition, e.g., by age, gender, level of education, category of employment, longevity of employment, etc. An additional metric might be staff turnover rate, supported by details of its possible impact on the future performance of the organisation. For example, if turnover is high amongst those people whose attributes are important to the organisation, some information on how this compares with previous turnover is important, as is information on any initiatives designed to moderate turnover. In the case of less valuable people, similar explanations may not be necessary. However, where such people leave the organisation as a result of structural changes or business reconfiguration, there may be merit in providing information on any assistance that was provided to departing people towards securing new employments, perhaps complemented by details of their subsequent employment status. Disclosures of this sort can reinforce how seriously an organisation takes its people responsibilities.

2. **Training and development provision** In the light of the importance that people have within the value creation and delivery process (and value capture), there is reason to expect that organisations would wish to retain the services of the majority of them. The existence of a wide range of development opportunities and ready access to these will usually be viewed positively by many people, while contributing to the long-term competitiveness of the organisation. Providing information on such provision, including levels of investment, uptake, outcomes and impact on levels of employee engagement would seem to be desirable. The existence of unusual or ambitious initiatives would merit publicising, as would provision designed to benefit those with disabilities, learning difficulties or from recognised deprived socio-economic backgrounds. The introduction of provisions specifically designed to contribute to the availability
of future generations of people is something that organisations should also consider both pursuing and publicising.

3. Corporate culture – “a great place to work”

Throughout most of the C19th and C20th work was widely regarded as a necessary commitment but not necessarily a source of enjoyment or fulfilment for the majority of people. Understanding that when the workplace is a place where considerable enjoyment might be had, and indeed encouraged, has increased in recent times. Ben and Jerry’s, Microsoft, Cisco, DHL and Hilton have all attracted that designation, evidencing strong, inclusive, responsible, flexible and rewarding corporate cultures. In such organisations many inherently positive attributes have become the norm. A key attraction is a commitment to communication both from the top down and the bottom up. People are continuously kept apprised about what is happening within the organisation locally, nationally and globally. A comprehensive consultation process often complements this. Recognition and rewards for exemplary levels of performance are commonplace, while generous discounts within the organisation and in partner organisations also feature extensively. Increasingly these organisations have prioritised the pursuit and publicisation of corporate social responsibility activities, thereby documenting what measures have been taken to ensure that every employee is treated as well as they might be.

4. A healthy organisation

In most more advanced societies decades of health and safety legislation have had the consequence of reducing their incidence to relatively stable, low levels. Accidents continue to happen and people still become sick as a consequence of unfortunate oversights at a local level, resulting in pain and suffering for those affected. As one era appeared to be drawing to an acceptable conclusion, evidence of an equally unpalatable new era has begun to emerge – the health and safety couple has been replaced by the health and wellbeing couple as work health issues have begun to become more evident. Levels of sickness absence rose to high levels in many European countries around the time of the millennium and although empirical evidence has indicated that days lost has been on a downward trajectory, the cost of absence has continued to edge up. The spread of presenteeism – continuing to work while unwell – has reached worrying levels, more recently complemented by increasing leaveism. Over time there has been a move towards mental health conditions driving absence, often necessitating long-term absences. There is also some consensus about the underlying issues: understaffing; continual change; poor communication; dated management behaviour; and job security concerns, all of which are in principle addressable within a comprehensive, well-defined people strategy. Such organisations might reasonably be designated as healthy. By providing a package of information of absenteeism, its extent and any provisions designed to reduce the loss of people’s input will allow an organisation to demonstrate its worthiness to be regarded as a healthy organisation.

5. Employee value proposition

This strangely familiar term was coined some time ago (Minchington, 2006) to identify the specific package of conditions and benefits that an organisation makes available to its employees and, critically, prospective employees as part of its engagement in the war for talent. As with the customer value proposition, employee value propositions normally extend beyond financial aspects, reflecting the realisation that many people now expect a much broader range of attractive features from their employment and careers than simply money, a tolerable workplace environment and a measure of job security.

Discussion

In an age where ever greater levels of transparency and accountability regarding corporate responsibility are becoming the norm, an increasing number of organisations recognise the many benefits that can flow from actively engaging with their various stakeholder groups. It might be deemed generous
to be suggesting that the IIRC’s IR initiative has been strongly impacted by such thinking. Despite IR’s shortcomings, in acknowledging that new capitals now need to be taken into account, it appears that there is indeed a powerful genie in the bottle that clearly demands to be released (‘let out’). IR’s conceptual framework incorporates the BM concept while focusing on a generic value creation process. Unfortunately, although the BM literature acknowledges people to be among the most important assets of any organisation, to date it has very little more to say on this observation. By embedding people’s many attributes within BM thinking, we believe this will provide both fields with a much better understanding of what they bring to the organisation and an indication of what should be taken into account for the benefit of the generality of present-day stakeholder groups.
References


