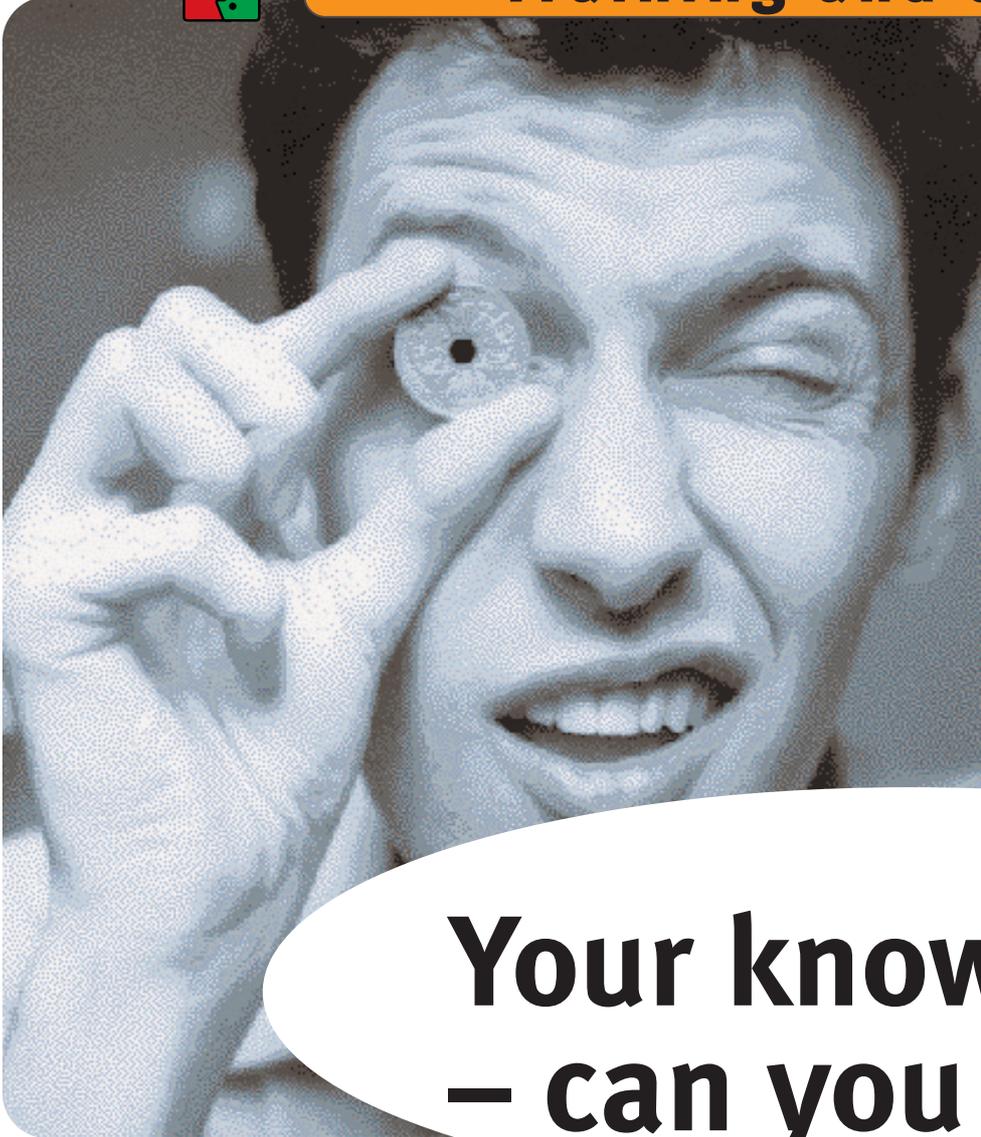




## Training and development



A debate paper on  
“the Developing  
Workplace” and  
knowledge accounting

# Your knowledge – can you book it?

LO (the Danish Confederation of Trade Unions) thinks in principle that training and development mean added value, both for ourselves and for our workplaces. But it is a value that can be difficult for other people to understand without strong arguments.

Perhaps it would be a good idea to make a kind of account or statement of this knowledge - a “knowledge account”. There are already some companies that have tried this. LO sees exciting perspectives in making the staff and their knowledge visible. That is why we have become involved in an effort to investigate how a knowledge account might look.

Many workplaces carefully book the costs of training and development. But there are hardly any workplaces that take a more precise

economic approach to what comes out of these investments. As far as we can see, this means that the companies, for quite natural reasons, end up investing too little in their most important resource - the knowledge of their employees.

LO acknowledges that employees are, after all, a “transient” resource. But presumably that is something that applies to all the resources in a modern workplace, where even fixed assets like computers and software now become obsolescent so quickly that people have started talking about the “spot prices” of computers. In fact technological development is now so rapid that the staff will usually be in their job longer than the machinery if the employer understands how to pursue a proper personnel policy!

Perhaps a knowledge account could bridge the gap between the various wishes as regards the company accounting. Right now there are clashes between old and new values. Should we run a company on the basis of a value set, or take a purely financial approach? We are convinced that the truth lies somewhere in between, and that new tools like the knowledge account could contribute to development.

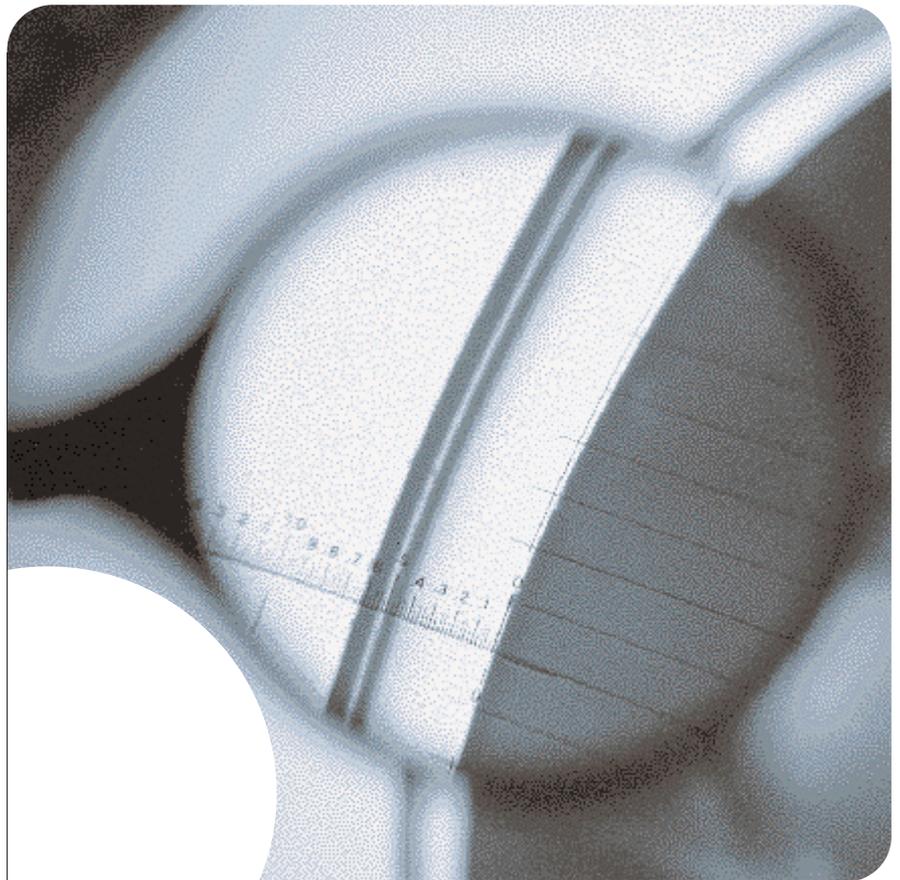
A knowledge account could have many consequences. It could pave the way for investments in training, and make the investors take an interest in the company. But it would also put some pressure on the individual employees to work actively on their own knowledge and development.

This puts the ball in the court of the trade union movement. From the outset, we must be able to work with the development of knowledge accounts, for it is the knowledge of our members that will now be measured by brand new methods.

The trade union movement wants to see knowledge accounting as part of the agenda for companies. But we must have the debate and a lot of practical experience before we draw the final conclusions.

Is it at all feasible to measure and itemize knowledge in an account? In LO's view - yes, it is. So in the second booklet of the "Toolbox", *When training becomes a matter of economics*, we propose a concrete way of calculating investments in staff training. But at present we lack a clear focus on what is important in the discussion of knowledge accounts - for the staff and for the companies. LO has certain reservations about tying employee development too closely to technical principles of accounting; and for that very reason, one of the critical points in the knowledge account will be whether we can manage to include the right things.

- How do we ensure that the employees' "hard" and "soft" knowledge are both included in the knowledge account?
- Should we work for amendments to the Act on Financial Statements that safeguard the interests of both the employees and the companies?
- How do we make the issues visible within the public sector in a constructive way?
- How do we ensure continued flexibility on the labour market when the knowledge of the staff is tied even more closely to the individual company?
- How do we create a safety net for the wea-



kest members of the labour market, now that their knowledge will be measured in even more detail than before?

- How do we ensure that the knowledge account becomes a hard-edged instrument that will support "the Developing Workplace" and not just a cosmetic coat of "polish" on the existing financial statements?

Yes, the questions are many; but just to fire a starting shot in the debate, let us finish off by saying this: it is no coincidence that the knowledge account and the social and ethical account are on the same pages in this debate booklet. We think we should deal with these new ideas as a totality; and with this debate booklet LO would like to ask a major question about the knowledge account: do we have to demand a social and ethical account in parallel with the knowledge account in order to ensure any kind of sound development?

Hans Jensen  
LO Chairman

Harald Børsting  
LO Secretary



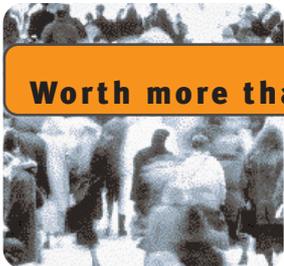
## We'll be measured anyway - but we must understand the principles

"At Danaklon we spend DKr 4 million a year and pay full wages during training. This has resulted in a drop in production rejects equivalent in value to our whole profit last year. At the same time sick leave dropped from 8.5% to 1%, and people think it is more fun to work. If we can draw up accounts for these things, people will have more stimulating jobs, and the firms will earn more money and thus be able to assume a social responsibility. This could be a way of incorporating "the Developing Workplace" in the knowledge account.

Some people in my hinterland might ask "Are we now to be weighed and measured, and maybe dismissed or rationalized out?" Well, yes - but we are weighed and measured every day. And when the cuts bite, the result may be based on the forceful personality of a middle manager in my division rather than an objective assessment.

At Danaklon we test the staff. But we don't reject those normally considered "weak". We find the right people for the job, and we have many different jobs. But someone who lacks the self-awareness to see where he is short on knowledge, and guesses instead of asking, can't be left to operate production equipment worth hundreds of millions of Kroner. We don't test intelligence, but we do test self-awareness and the ability to work under pressure. We must be measured in a way we can ourselves understand, and we must have insight into what is happening. If we can do that, then we can actively support knowledge accounts."

Steen Nygaard, Senior Shop Steward  
Fibervisions A/S  
(formerly DANAKLON)



## Worth more than money and machines

If you call a plumber, he comes with two things: his knowledge and his tools. Without his knowledge his tools are worth nothing. Knowledge plus tools equals a craft.

This might sound like learning your ABC - stating the obvious. But if the example seems simplistic, there is a good reason. It is necessary right from the start to prevent any intellectual attempts to monopolize the concept of knowledge.

Knowledge is not necessarily something you read in a book. It can just as easily be job-related insight learned from practical experience. Knowledge is about methods, about familiarity with the right tools and materials, about the situation of those who need the service or product you help to supply. It is about cooperation, good contacts and the competence necessary to use your knowledge.

That kind of knowledge is something inside people. And the more thinking that goes into new ways of working, treatments and production methods, the more this knowledge will be worth. More than money, machines and bricks.

Knowledge is necessary before all our machines, office systems, factories and hospitals are worth the money. That's the way it is with so many things.

## First issue:

Can the knowledge of the employees form part of the overall accounts at your workplace?

## Training plus development means knowledge

Knowledge is part of all of us. It isn't the same as academic learning.

We have some of our knowledge from our home or from the kindergarten, where we have learned valuable things about relations with other people. Other knowledge has been propped into us in school - not only book learning, but also knowledge of how you work to acquire knowledge.

Knowledge learned by rote is not particularly long-lasting. It has to be renewed all the time. The working habits we have built up last much longer. And this also goes for the professional understanding and routines we learn in our everyday work, whether we work in physical production, with paperwork or with human problems.

Knowledge is the result of both education and development through work and experience. It lives in people. But far from all knowledge is tied to us as individuals; we have a lot of knowledge in common with others.

A group of employees who have learned to function together are co-owners of the knowledge that makes them a group. An organization that has developed a goal and a set of ground rules has a knowledge that enables each of them to act quickly and effectively without having to ask.

Knowledge is in other words several things: what the individual knows and can do; what we know and can do together; and the way we have arranged our interrelations.

- Knowledge plus money is a *bank*
- Knowledge plus machinery is a *factory*
- Knowledge plus brooms and buckets is a *cleaning firm*
- Knowledge plus medical instruments is a *hospital*



Without knowledge, money, machinery and so on are not worth much. Nevertheless, the accounts treat these things quite differently. When a firm spends money on machinery and bricks, they call it an investment and book it as capital. But when the same firm spends money on training and development, they call it a cost.

Now we are well into what some people call the knowledge or the information society. Every time a change is made in a company or a public institution, it is almost certainly a change that demands an increase in knowledge, and which adds new knowledge to what the firm has done before.

A new machine is in itself new knowledge. At the same time it requires new knowledge from those who use it. And it often produces a product which has new knowledge built into it - for example in an electronic chip. The same goes for new office equipment, shop fittings, and equipment for hospitals, libraries and local authority offices.

When this happens, the old financial statement results become more and more absurd. A software house may be worth a thousand times as much as what the financial statement says. The rest is knowledge. But the money spent on creating and maintaining knowledge still disappears into the black hole in the accounts.

Some people think that we should bring knowledge out into the light of day and keep a knowledge account that shows how the company manages its knowledge capital.

Perhaps this is a good idea. But we cannot tell as long as we do not know what a knowledge account is. The knowledge account does not exist yet. There is no given entity that is called a knowledge account. But there are some firms that are trying to show how it might look.

## An account is so many things

Traditional accounts or financial statements only record what can be measured in money terms. But you cannot be content with this in a planning department. There you have to think in concrete terms: in terms of units, hours, or beds for example.

But there are situations where you have to think in less exact terms. How probable is it that we will get the next order, or that the



## Shows the value of the staff - in terms of the company's situation

*"The knowledge account shows what the employees mean to the company, and can show what it loses from a dismissal. What disappears is an amount of competence that the company has perhaps paid for with extra training. Thus training and development become not just a matter of costs, but also of potential. The customers also have knowledge. The interplay with the customers is part of the knowledge capital. There is a lot of competence elsewhere than among the employees: suppliers of products and manpower; universities; technical colleges and so on. The question is where the value creation is in the company. The knowledge account could put this on the table. It will also be necessary to get a dialogue going in the companies. It isn't just a matter of training; there is also the company's whole situation. This can mean that a body of competence is not enough in itself; it has to match the job. A lot of companies could benefit greatly from this."*

Henrik Jensen,  
Special Consultant,  
Agency for the Promotion  
of Trade and Industry

## Into the light of day

sales goals will be achieved? How much loyalty and trust can we count on among the employees or the customers, or in the outside world?

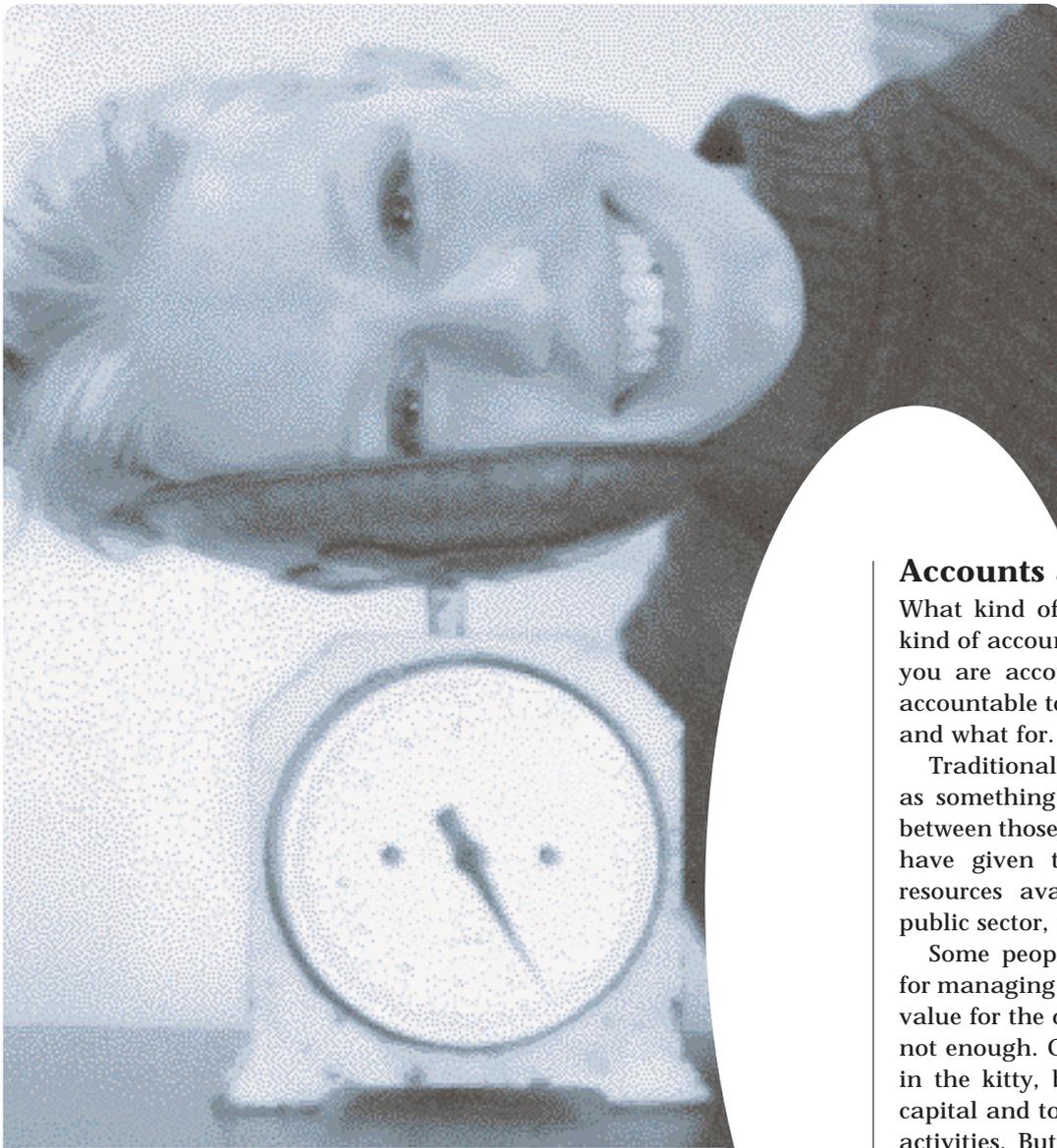
These are all things that are included quite naturally in the assessments we have to make to manage our everyday actions or - from the outside - to form a realistic picture of the situation and potential of the company.

So when we talk about accounts, it may be a matter of much more than money. But whatever new forms we are talking about, it will at all events be a matter of accounting for the way we manage assets. So any account will include three elements:

**State of assets:** The account must show what values (assets) exist. It describes what one is responsible for maintaining and developing, no matter whether the assets are money, physical objects or intangible things like competence and reputation. In the financial statement this is described in the balance sheet.

**Actions:** You must be able to see what measures have been taken to preserve the existing assets, to update them to meet new needs and changes within and outside the organization. These are described, for example, in the traditional profit-and-loss account (income statement or statement of operations).

**Results:** You must be able to see the effect of the actions. This appears from the bottom line of the profit-and-loss account in money terms - but might just as well be described in terms of the reduction of pollution, increased qualifications, the wellbeing of the employees or changed attitudes in the company's surroundings.



### **An important part of the annual report - but it shouldn't be in the financial statement**

*"As investors we need insight into more than the capital situation. That is why an assessment of the knowledge, experience and training that exist in the company is an important part of the annual report. But in my view it begins to become problematical if you want to itemize this knowledge as an asset in the balance sheet."*

Eva Parum,  
Director,  
ServiceUdvikling A/S

**Second issue:  
Do you make good  
enough use of the  
employees' knowledge  
at your workplace?**

### **Accounts and accountability**

What kind of accounts you keep, and what kind of accounts you submit, depend on what you are accountable for, and who you are accountable to; who is to use the information, and what for.

Traditionally, accounts have been regarded as something almost private: a relationship between those who do the work and those who have given them the task and made the resources available. The politicians in the public sector, the owners in the private sector.

Some people talk about the responsibility for managing the capital and safeguarding its value for the owners. But to be honest - this is not enough. Of course there has to be money in the kitty, both to pay for the disposal of capital and to pay for development for future activities. But any activity has consequences that affect many more people than the owners, managers and employees who are directly involved. We call them the stakeholders. They are all those people who have a legitimate stake in the results of the organization: customers, clients, patients, suppliers, creditors and investors, the local community, the authorities and the general public. They too have a right to be informed.

### **The hidden values**

The real capital of the organizations comprises more than what is said in the traditional statement of money and physical assets like machinery and buildings. They have what could be called an invisible capital that consists of both the knowledge that exists in the organization and the relations it has built up with the outside world.

But just as the companies have an invisible capital, they also create results that are not normally included in the accounts. In addition, they have an effect on the environment and an effect on the community where the products and services are manufactured and consumed.

There is a growing demand for companies



and institutions to account for values and results in more areas. For several years, many companies have already voluntarily submitted environmental accounts, and legislation is now being passed on the accountability of companies. But to this we can add the debate on the possibility and desirability of the submission of accounts in two new areas: knowledge accounts, and social and ethical accounts.

The social-ethical accounts have been prompted by the new demands from the world surrounding the companies - a world that wants the companies to behave decently and to account for how they do so. The debate covers many different themes: from racial discrimination and child labour among sub-suppliers to the use of animal experiments and genetically engineered materials - or even flexible working hours.

But we will not be going into more detail about the social-ethical accounts in this debate paper.

### **The new accounting**

#### **Social and ethical accounting**

Attitudes to people  
Social responsibility  
Employee rights  
etc.

#### **Knowledge accounting**

People  
Systems  
The market  
etc.