



A4S

**CFO LEADERSHIP
NETWORK**

HUMAN CAPITAL ACCOUNTING

Practical example: Olam



THE PRINCE OF WALES'S
CHARITABLE FUND



Olam





WHAT

Olam International is a leading food and agri-business supplying food, ingredients, animal feed and fibre to 17,300 customers worldwide. We are headquartered and listed in Singapore, and our operations span over 60 countries.

Our goal is to leave the world better than we found it. As part of our Sustainability Framework, in 2017 we began taking a multi-capital approach to accounting. We go beyond finance, reporting against an additional six capitals: social, human, manufactured, natural, intangible, and intellectual.

With human capital accounting, we aim to evaluate the talent, skills, dedication and inspiration of our workforce, in the same way that we evaluate our financial assets. However, human capital accounting is still in its infancy. To make human capital a useful part of our reporting, we research and validate accounting methodologies.

We conducted our first pilot project on human capital accounting, in Olam Vietnam, covering select operations to develop the capability to make human capital accounting a useful tool for the future. Olam Vietnam, a subsidiary of Olam International, employs more than 6,500 people. Vietnam is the world's largest producer of pepper, and Olam is the only player in the market to have a fully integrated supply chain, from growing pepper at our farms to producing sterilised ground pepper ingredients.

WHY

People are the drivers of our success; our workforce is essential to growing our financial capital. Yet, traditionally, employees are viewed as a cost. Under conventional accounting there is currently no way to put a figure to the value of human resources employed by an organization.

We believe human capital accounting has the potential to help us:

- Examine how our Human Resource (HR) practices generate impact.
- Inform our decisions about future projects such as engagement and health initiatives.
- Value and prioritize the talent, skills, dedication and inspiration of our workforce.
- Understand the true value of our organization and its future potential.

Olam Vietnam was selected as a pilot due to their high employee engagement scores, the awards they have received for their HR practices and accessibility of data.



HOW

In these initial pilot projects, we focused on two areas:

1. The value of inspired, engaged employees.
2. The value of health and the economic impact of wages and benefits.

These pilots are within the early stages of our research. We are developing models for how human capital accounting might work, which we can then test against real-world data over time. Through these pilots, we are asking ourselves two key questions, outlined below.

Q1: IS THERE A STATISTICAL LINK BETWEEN THE IMPLIED VALUE OF AN INSPIRED WORKFORCE AND ENHANCED FINANCIAL PERFORMANCE?

Olam Vietnam saw a remarkable increase in employee engagement between 2017 and 2019; after adopting an integrated talent management approach, engagement scores improved from 54 to 89 and the team received accolades as one of the country's

most admired employers. This increase in engagement gave us an opportunity for a pilot project to attempt to measure financial value creation by engaged employees.

Modelling the value of engagement

We created a mathematical model to estimate the value, in Singapore Dollars (S\$), generated by the increase in engagement.

Using a methodology from organizational theory research, we estimated the dollar value of an engaged employee in 2017, compared to a neutral employee. We also estimated the loss in value from a disengaged employee, compared to neutral.¹ We then carried these figures forward to 2019 and applied them in light of the improved employee engagement levels to see how the value increased.

The results

Based on our model, between 2017 and 2019 the total value created by engaged

employees at Olam Vietnam increased by 40%. The value lost due to disengaged employees decreased by 75%.

The model predicts that we could add an additional S\$1.78m in value by further improving employee engagement.

Why is this useful?

- We can use this data to help evaluate the correlation between theoretical increases in value and actual improvements in financial performance.
- We can continue using the model to assess how further engagement programmes can maximize the value created.
- The results support the idea that employee engagement can create long-term value, allowing us to make people decisions with a significant positive impact.

1. The values are a function of the wages of the employees and the percentage of employees in each engagement category. See the calculations in our [Annual Report 2020](#) (PDF) p131-133.



Q2: DOES PROVIDING A LIVING WAGE TO OUR WORKERS CONTRIBUTE TO ENHANCED PRODUCTIVITY AND CREATE BROADER HEALTH IMPACT?

The OFI Spices pepper plantation in Gia Lai, Vietnam employs 68 farm workers who also live in accommodation provided by Olam Spices. When the costs of accommodation are excluded, all workers receive wages and benefits greater than the local Living Wage (LW).

The improved health and wellbeing of employees and their families leads directly to lower downtime, enhanced workforce energy and farm-level productivity improvements. We created a mathematical model to estimate the potential health benefits to employees from paying above and beyond the LW level.

Modelling the impact of wages

Using the [Global Living Wage Coalition's living wage for rural Vietnam](#), we estimated how much additional wages and benefits our workers are receiving above LW level.

Using the concept of Health Utility of Income (HUI), we estimated how valuable those extra wages and benefits are in terms of employee health and productivity.²

The results

The model predicts that the wages and benefits Olam provides to these employees generate 88% more positive impact/utility than the LW. This works out at change in wellbeing equivalent to S\$7,996 per employee.

Why is this useful?

- The model supports the idea that paying wages well above the living wage results in positive health and social benefits for the employees on the plantation.
- It provides a baseline value that we can track and monitor going forward, to see how changes in our offering to our employees are likely to impact wellbeing.
- We can use the figures to establish if the estimated utility of the wages and benefits correlates with changes in productivity, gathering evidence that fair wages translate directly into long-term value creation.

2. This model is explained in more depth in our [Annual Report 2020](#) (PDF) p133-134.



NEXT STEPS

These two models provide us with the opportunity for further research as we begin to link up the theory with actual, measurable increases in productivity and financial performance.

Over the longer term, our dedicated Finance for Sustainability department is working to develop a toolkit that will allow us to review nonfinancial data alongside our financial accounts. Finance departments could then assess the human capital value of decisions such as wage increases or employee engagement schemes, to increase the positive impact and outcome of their operations on the ground.



TOP TIPS

BUILD AWARENESS

Start with building awareness on the topic and why it is needed.

ENGAGE REGULARLY

Regular engagement on the topic is essential.

SCALE UP

Scale up the methodology to test it in different geographies and business units.

MONITOR

Conduct the study for the next five years to identify the correlation between business performance and contribution of human capital.

SEEK FEEDBACK

Disseminate the study results and findings across the organisation for feedback.

EXAMINE DATA

Ensure you have complete, accurate and credible data for useful results and insights.

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