

AN OVERVIEW OF ROMANIAN ACCOUNTANTS REGARDING THE INTRODUCTION OF HUMAN CAPITAL IN FINANCIAL STATEMENTS

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Abstract: *Human capital is an indispensable element that strongly contributes to the success and performance of organizations, being considered the most valuable resource of companies. This study aims to bring to the fore the development of human capital and, at the same time, to identify the position of accounting experts regarding the quantification of human capital and how this measurement can contribute to obtaining a more accurate and faithful picture of the financial position of the company. Therefore, to achieve these objectives, a survey was created that was distributed to the members of the Body of Expert and Licensed Accountants of Romania (C.E.C.C.A.R.), thus obtaining a number of 139 responses. The results show that 122 of the respondents consider it necessary to quantify human capital to present the company's image in a more accurate and realistic way. At the same time, 80 of these respondents do not consider that, once human capital is measured, it should be included in the financial statements, respectively in the balance sheet. This paper can provide an updated picture of the point of view of accounting professionals who have participated in the research on human capital, but also a starting point for the future steps of entrepreneurs in terms of human capital development, outlining new directions of development of professionals in the field. Also, this paper may be of interest to the institutions that regulate the relevant professions in the financial-accounting field, to outline new directions in the measurement and evaluation of human capital.*

Keywords: human capital development, human capital quantification, human capital in financial statements, human capital measurement challenges.

JEL classification: J24, O15, M41

1. Introduction

The concept of human capital encompasses a wide range of human attributes such as knowledge, skill sets, personality traits, attitudes, and values, as well as other characteristics developed through education and personal experiences that can lead to performance and productivity in the workplace (Armstrong and Shimizu, 2007; Backman et al., 2016; Becker, 1994; Debrah et al., 2017; Pennings et al., 1998; Lenihan et al., 2019).

According to Kotler (2011), for a company to be sustainable, radical changes are needed in all company departments. Companies must implement sustainability practices to achieve synergistic effects and maximize revenues (Jianu, Țurlea and Gușatu, 2015), and this can only be achieved through the experience and knowledge provided by human capital.

Jianu, Țurlea and Gușatu (2015) believed that the sustainable business must have a structure (based, among others, on marketing and sustainability reporting) and tools to assess the impact of structure on company's performance.

Ratti (2012) points out that, to a large extent, the success of any company depends on the quality of the people who work in it. In other words, human capital is the most important resource and the greatest asset a company can have. All activities and processes of the organization are operated by human capital, and this fact demonstrates the importance of human resources in the existence and development of companies. Therefore, the quantification of human capital is a necessity in building a realistic and faithful picture of the resources available to a company, and information related to the evaluation of human capital should be provided to management, investors, and other interested actors by including them in the financial statements or in accounting reports.

2. Literature Review

2.1. Human Capital Quantification In Accounting

Over time, researchers have proposed various methods to measure human capital in accounting. Among the most important according to Abudu, Valogo and Chilala (2018), we mention:

The Lev and Schwartz model

According to this model, the value of the human capital embodied in a person who is "y" years old is the present value of his future labor earnings and can be calculated using the following formula:

$$E(V_y) = \sum_{t=y}^T \frac{I(t)}{(1+r)^{t-y}} P_y(t)$$

Where,

$E(V_y)$ = the expected value of the human capital of a person of age "y"

T = retirement age of the person

$P_y(t)$ = the probability that the person will leave the organization

$I(t)$ = the person's expected earnings in period t

r = discount rate

The Flamholtz Model - The historical cost of employing human capital

In the model suggested by Flamholtz (1999), the historical cost method consists in capitalizing all the costs associated with recruitment, selection, hiring and training and amortizing these costs over the projected life of the asset. This model suffers from many limitations. First, the economic value of an active man does not necessarily correspond to his historical cost. Again, any appreciation or depreciation may be subjective, unrelated to the increase or decrease in productivity of human assets. In addition, the costs associated with recruiting, selecting, hiring, training, placing, and developing employees may differ from one individual to another within a company.

Friedman and Lev Model

According to Friedman and Lev (1974), the value of human resources consists in the value of the reduced flow of wage differentials between the market and those perceived by the company, that is, the difference between what employees would have to be paid if the personnel policies were identical to those of a company in the industry they operate in and what they will actually be paid due to specific company policies.

Friedman and Lev's (1974) approach to measuring a firm's investment in human resources is based on generally accepted concepts of asset valuation, but goes beyond more common accounting practices by incorporating both present value and salvage value into the measurement process market.

In terms of accounting records, Friedman and Lev (1974) propose the existence of an "Investment in Human Resources" account, where the difference between external and internal human resources is recorded.

Hekimian și Jones Model

Hekimian and Jones (1967) proposed the opportunity cost method to overcome the limitations of the replacement cost method. These authors suggested that the value of human resources is determined through a bidding process within the company, based on the concept of opportunity cost. With this method, those in charge make a kind of offer to recruit the employees they need.

Several limitations arise regarding the use of the opportunity cost method. First, the inclusion of only those employees selected based on assets may be interpreted as discriminatory by other employees. Second, less profitable divisions may be punished for their incompetence. Third, the method may be judged artificial by those who disagree.

2.2. Challenges In Dealing With Human Capital

Arkan (2016), Gates (2002) and Akinsoyinu (1992) did not support the inclusion of human resources in financial statements. Among the reasons why they argued for this, but not limited to them, are:

- the human resource is a sensitive data of an organization and cannot be shared externally;
- measurement is not a priority for the company. This is because entities are interested in how to use human resources to improve performance, not measurement;
- insufficient time and resources;
- HR professionals who do not know about the value or do not have a clear picture of the investment;
- standard setters and other regulatory bodies have not covered it to make it a requirement for international financial reporting purposes;
- global and group problems.

According to Abudu, Valogo and Chilala (2018), different countries have different labor laws, which means that human resources are treated differently in terms of job evaluation, job placement, remuneration and retirement plans. This means that the harmonization of international accounting standards would create a problem.

Abudu, Valogo and Chilala (2018) pointed out some aspects regarding the opinions of other researchers about the quantification of human capital:

- Kenneth and Srinivas (2004) classified human resource as a contingent asset and the challenge of this asset is that it cannot be completely liquidated in a short period because there is no active market where they can transfer their skills for a fee. Another challenge is the issue of measurement (Haddad, 2014).
- Other researchers believed that including human resources in financial statements would dehumanize people and treat them like machines. It will also distort the measurement of return on investment (Alnasser, Shaban & Atieh, 2014).
- Oseni and Igbinosa (2015) suggest that even if human resources are to be included in the financial statements, there should be a separate report on human capital that would provide statistics and other facts about a company's level of human capital. A balance sheet of a company experiencing a high turnover rate the labor force would be unstable if the human resource is reported as an asset, this having decisional implications.

As a result, it is of interest what professional accountants in Romania think about this subject.

3. Methodology

The main purpose of this research is to bring to the fore the development of human capital and at the same time to identify the position of accounting experts regarding the quantification of human capital and how this measurement can contribute to obtaining a more correct and accurate picture. faithful to the financial position of the company. Therefore, a form that can contain a maximum number of 32 questions relevant to this research was sent for completion.

4. Data

The population to which this form was sent consists of members of the C.E.C.C.A.R. with legal personality, whose professional visa for the current year (2022) is valid, excluding freelancers and affiliated members whose email addresses are not found in the Members Table, available on www.ceccar.ro. Therefore, a sample size includes 2,177 C.E.C.C.A.R. members. Among them, only 139 respondents with at least the qualification of accountant participated by filling out the form. 112 companies had incorrect or missing email address. Microsoft Office - Excel was used for data processing, analysis, and discussion.

5. Results

Among the 139 respondents, only 4 graduated as their last form of education, the high school cycle, but they hold the quality of expert accountant conferred by CECCAR. he remaining 135 respondents are graduates with higher education (48 respondents – university bachelor studies, 57 respondents – university master's studies, 3 respondents – MBA program, 7 respondents – university doctorate studies, 20 respondents – postgraduate studies).

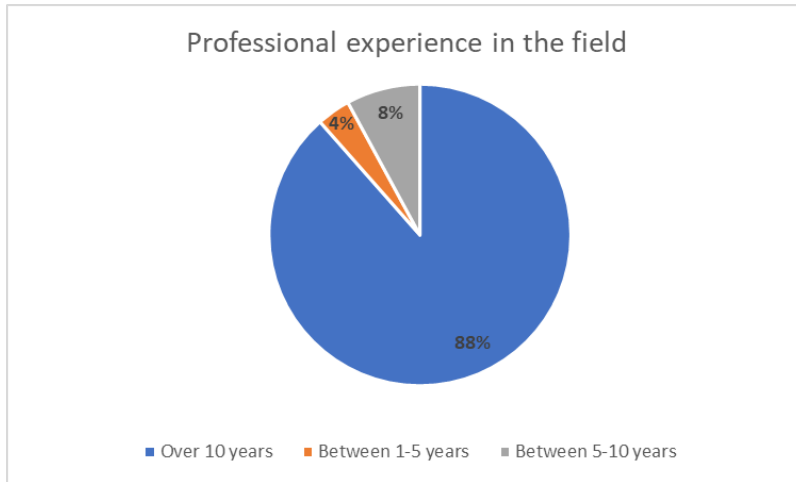


Figure 1: Professional experience in the field
 Source: Own elaboration

As can be seen in the Figure 1, the respondents are professionals with rich experience in the field, the professional reasoning being developed through the prism of the experience acquired throughout the activity, but also through the courses completed and the professional qualifications obtained. Also, 111 of the respondents only hold the title of expert accountant, while the other 28 hold at least one other professional qualification:



Figure 2: Professional qualification held
 Source: Own elaboration

Where:

CECCAR – The Body of Expert and Licensed Accountants of Romania

CAFR – The Chamber of Financial Auditors of Romania

CCF – The Romanian Chamber of Fiscal Consultants

ASPAAS – The Authority for Public Supervision of the Statutory Audit Activity

ANEVAR – The National Association of Authorized Romanian Valuers
 UNPIR – The Romanian National Association of Practitioners in Insolvency,
 represents the name of the institutions from which the professional qualification
 was obtained.

When asked how they would define the concept of human capital based on experience and professional judgment, most respondents believe that it is the sum of knowledge, skills, experiences, and social qualities that contribute to a person's ability to perform work in a way that produces economic value for the entity in which it operates. Key words appear such as: indispensable, the key to success, the most important resource of an entity, continuous professional development and training, team, the source of achieving objectives. Also, the respondents believe that the development of companies depends closely on the quality of human capital, being an indispensable resource and able to be categorized as a separate category of investments, especially in the case of service companies. To the question related to the importance of human capital in the operation and development of a business, scores were given starting from 0, meaning not at all important, to 10, meaning that this resource is very important for the company. 96 out of 139 respondents answered with maximum points, considering that it occupies a very important role in business.

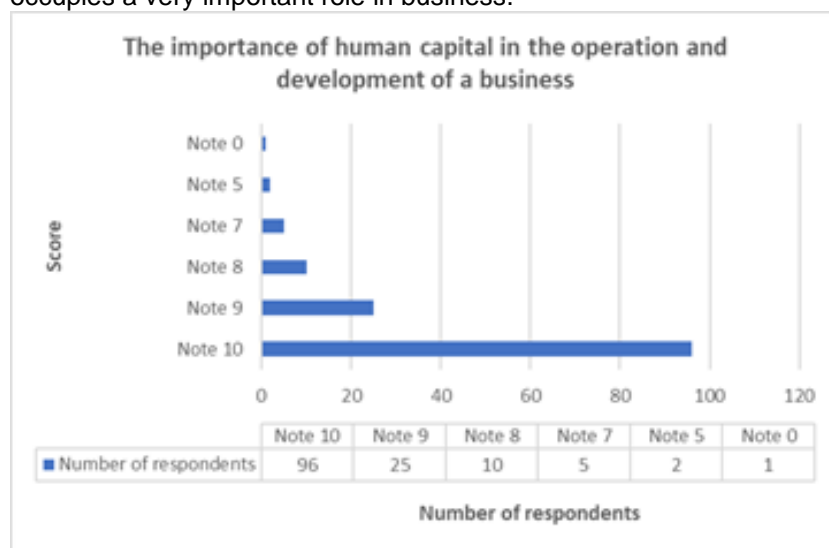


Figure 3: The importance of human capital in the operation and development of a business

Source: Own elaboration

Referring to the professional development of the respondents, 94% of them are of the opinion that continuous professional development is very important for the activity they carry out, and the responsibility for the level of professional training rests with both the respondents and the companies (66%). A percentage of 34% of respondents believe that the responsibility for their professional development rests only with them.

Among the skills considered necessary for the development of the activity of accounting professionals, we mention:

Table 1: Skills considered necessary for the accounting professionals

Required skills	Number of respondents
Programming skills	43
Time management skills	101
Teamwork	72
Predictive and prescriptive analytics	44
Descriptive analytics	23
Decision making skills	77
Negotiation skills	52

Source: Own elaboration

In addition to the skills listed above, the respondents believe that digital skills, managing relations with control bodies and clients, but also working under stress are topics of interest to them.

For future training programs, the subjects of interest to the respondents are:

Table 2: Future training programs

Topics of interest	Number of respondents
Social and environmental impact management	18
Development of social skills	36
Teamwork and collaboration	83
Development of professional knowledge	115
Data analysis	66

Source: Own elaboration

The quality of human capital influences the performance of companies. 88% of respondents believe that it is necessary to quantify this resource available to the company, in this case human capital, so that the image of the company is presented in a more faithful and realistic way.

We can see in the Figure 4, therefore, that this resource can generate future economic benefits for the company, benefits that could influence its image in one way or another.

Although 122 respondents believe that it is necessary to quantify human capital, only 42 of them are of the opinion that, once quantified, it should be presented in the financial statements, respectively in the balance sheet.

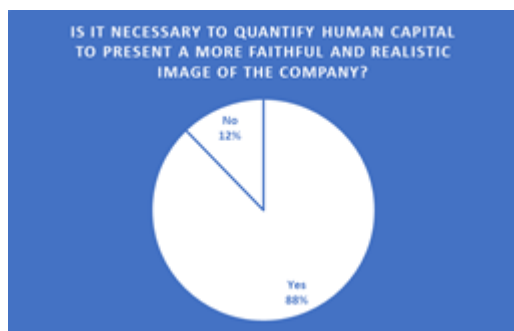


Figure 4: Human capital quantification

Source: Own elaboration

This result can also be caused by the lack of a way to measure human capital that is generally valid, in the same unitary way, for all companies.

Among the respondents who believe that this resource should be presented in the financial statements, 17 are of the opinion that the classification of human capital should be done in the form F30 – Informative data, 7 within the assets, 7 within the explanatory notes or annexes, 1 answer in equity, 1 answer in financial result, 1 answer in personnel data, more precisely in salary expenses, 1 in class 4, and 7 answers were invalid, as the situation is also presented in the table below:

Table 3: The inclusion of human capital in the balance sheet

In which section of the balance sheet would you see the introduction of this quantification of human capital relevant?	Number of respondents
Informative data - Form F30	17
Explanatory notes to the balance sheet and annexes	7
Assets	7
Own capital	1
Financial result	1
Personal data - Salary expenses	1
Class 4	1
Invalid response	7

Source: Own elaboration

6. Conclusions

After analysing these answers, it is confirmed once again the important and indispensable role that human capital has in the existence and development of companies, leading to the achievement of performance. Human capital can represent the main asset that a company has in front of its competitors, and investments in increasing the quality of this resource should not be neglected, because its quality can make the difference, leading to the creation of economic advantage.

Most of the accounting professionals who participated in the research believe that the responsibility for their professional development rests with them as well as with the company in which they work. As a result, companies must support this approach, to the benefit of both parties, by thinking about and making available to employees plans for training courses that they can participate in. Considering that the last period was strongly affected by the health crisis caused by the spread of the SARS-CoV-2 virus, the support from the company in such efforts can be very important.

Also, the research results show us the desire of professionals in the field to measure human capital in order to provide the most accurate picture of the resources available to the company, but most are convinced that this measurement of human capital should not be included in the financial statements, respectively in the balance sheet of the company, because there is no clear way to achieve this and in the same uniform way in all companies.

For the other category of respondents who want the inclusion of human capital assessment in accounting, the answers are divided regarding the section in which this quantification should be included. Most of them are of the opinion that it should be detailed in the Form F30 – Informative data, together with other information on human capital, such as: information on the professional training of employees, but also of managers, so that interested actors have information available about the management of the company, the level of training and qualification of both them and the employees. This is quite difficult to achieve because human capital is a sensitive resource for the company.

So, until a universally valid method of quantifying human capital is established, it is difficult to talk about its evaluation in a unified way, so that the data on this resource of companies can be compared with each other.

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