

Branislav Bernadič, M.B.A., PhD.
VŠM / CityU Programs, Bratislava
bbernadic@vsm.sk

On some aspects of financial valuation of human capital

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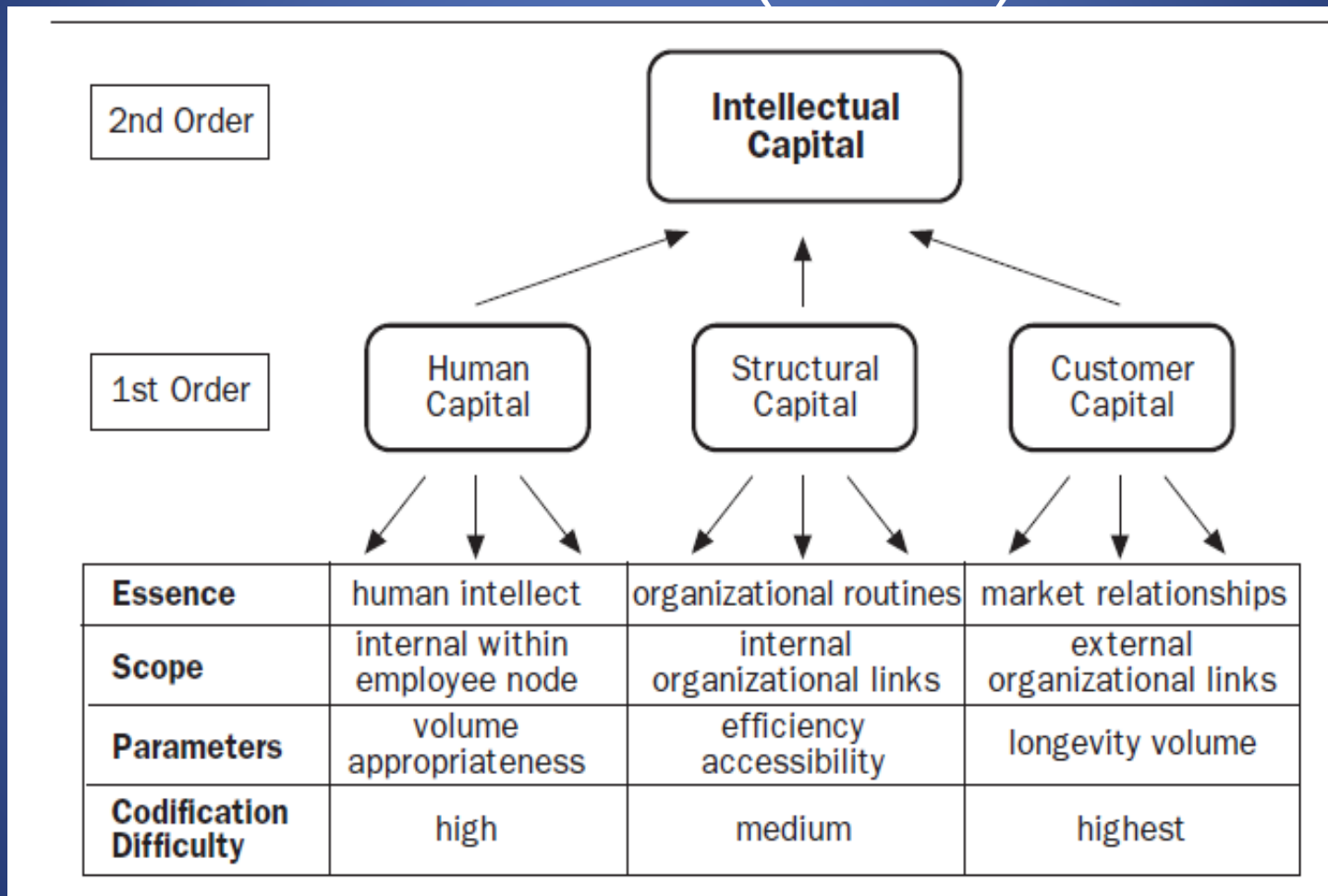
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Contemporary state: definition & accounting treatment

- Human Capital (HC) – the tacit knowledge embedded in the minds of the employees (Bontis, 1999)
- expensed in the period incurred, not capitalized

Contemporary state: def. & acc. treatment (cont.)



Source: Bontis, 1998

Contemporary state: definition & accounting treatment

- Evident increase of role of HC but...
- n=180 survey; 13% said that HC should be accounted for and reported on BS (Dean, McKenna, Krishnan, 2012)

Why not:

- impossible to measure
- very difficult to maintain consistency
- too subjective and there would be no conformity among companies
- as a line item on the balance sheet could be easily manipulated and, thus, distort the balance sheet
- humans are too mobile, a person could easily switch jobs
- the financial performance of a company already represents the inherent value of the human capital. It is inherent that a successful company would have the best qualified personnel for their positions (Dean, McKenna, Krishnan, 2012)

Some aspects of HC valuation

- What type of asset? What type of value? (cost, fv, other?)

survey: 4% classified as a current asset, 71% intangible asset, 12% investment, and 13% other assets (Dean, McKenna, Krishnan, 2012)

- Ownership
- What type of quantification (measurement? calculation?)
- Kinds of quantity expression: SI units/ other & monetary units

HC as quantity?

- Measured quantity → measurement def.
- Field specific
- No single one generally accepted
- Some agreement on: “.... *activity that involves interaction with a concrete system with the aim of representing aspects of that system in abstract terms..*” (Tal, 2017)

HC as quantity? (cont.)

- **Measured quantity:**
- Measurand (true value)
- Acceptable level of uncertainty (purpose of the measurement)
- Repeatability & reproducibility
- Consistency (comparability)
- Representativeness (sampling)
- Environmental factors
- Intersubjectivity (interpretation)

Program for HC valuation

- Conceptualization & modeling (interdisciplinary approach)
- Measurability conditions (soft metrology) (Mari, 2007; Rossi, 2007)
- Conditions under which numbers (and their relations) reasonably represent empirical phenomena → numerical operations make sense
- Accounting principles (reliability vs. relevance)

Resources

Bontis, N. (1998) Intellectual capital: an exploratory study that develops measures and Models Management Decision 36/2 [1998] 63-76

Bontis, N. , (1999) Managing organizational knowledge by diagnosing intellectual capital: framing and advancing the state of the field. *Int. J. Technology Management, Vol. 18, Nos. 5/6/7/8*

Dean, McKenna, Krishnan, (2012) Accounting for Human Capital: Is the Balance Sheet Missing Something? *International Journal of Business and Social Science Vol. 3 No. 12*

Mari, L. Measurability, in: M. Boumans (Ed.), *Measurement in Economics*, Elsevier, 2007, 41-77.

Rossi, B.G. (2007) Measurability. *Measurement*, 40 (2007), pp. 545-562

Tal, E. "Measurement in Science", *The Stanford Encyclopedia of Philosophy* (Fall 2017 Edition), Edward N. Zalta (ed.), <https://plato.stanford.edu>