The Human Being – He Is Still ... the Living Resource of the Company

Mihaela Dumitrana[1], Iulia Jianu[2], Ionel Jianu[3], Ionela Gusatu[4]

Abstract: Almost every day, and quite often, we hear about how important the data, the information or the knowledge at work is. The saying "The one who has information, also has control" is more current than ever; it provides reliability, it awakens passion and determines you to store everything. We almost become machines, systems of these universal keys represented by knowledge. We tend to appreciate this ambulant knowledge, these bearers of knowledge and we lose sight of the essence - the human being. But isn't he, the human being, who brought us to this moment? Isn't it that all his needs, which became more and more refined, stricter, and more precise that caused this transformation? We believe that this may continue, at least in accounting, far beyond the moment when the great economists labelled the human being as a factor of production that advances towards the human being who brings performance then towards the possible ... human being as an asset, equity, debt. Perhaps, as in the case of great denials which have become truths, if not absolute, at least there will come a day when we are able to compress the time ... the space ...., a day when we have the necessary instruments to trade equity, assets and human liabilities... But until then, with your permission, we will deal with the human factor that brings performance, which is, we will be present both in reality and especially in thought, having the cliché of the transcendality of the human being towards new horizons of knowledge.

Keywords: performance; human; accounting; measurement

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[1]Professor, PhD, Bucharest Academy of Economic Studies, Romania, Address: 6 Piata Romana Str., Bucharest, Romania, Tel: 00-40-1-2110314; Fax: 00-40-1-3129549, e-mail: mihaelaadumitrana@yahoo.com.

[2] Senior Lecturer, PhD, Bucharest Academy of Economic Studies, Romania, Address: 6 Piata Romana Str., Bucharest, Romania, Tel: 00-40-1-2110314; Fax: 00-40-1-3129549, Corresponding author: jianu.iulia@cig.ase.ro.

[3] Senior Lecturer, PhD, Bucharest Titu Maiorescu University, Romania, Address: 22 Dâmbovnicului Str, Sector 4, Bucharest 040441, Tel/fax: 004021.316.16.46, 004021.311.22.97, e-mail: ionel_j@yahoo.com.

[4] Assistant Lecturer, PhD, Bucharest University of Medicine and Pharmacy "Carol Davila", Romania, Address: 37, Dionisie Lupu Street, 020021 Bucharest, Romania, tel: +4021 318 07 23; Fax: 004021 318 07 30, e-mail: yonela_g2001@yahoo.com

1 Introduction

We are seeking an approach that promotes the human being in all his complexity, in terms of the objectives assigned to him, in close interdependence with the objectives, resources and means of the systems in which he is integrated. The effect of this approach is the multilateral analysis of relations and processes in which the human resource takes part, which is reflected in the multidisciplinary nature of managerial knowledge, directly subordinated to obtaining the company's performance. In social science, the word „performance" has two meanings (Calisti, & Karolewicz):

- ✓ *Social performance*, which can be defined as the intensity with which each individual adheres to collaborate on business objectives, or more generally, the level of satisfaction achieved by individuals who participate in business life. Social performance reflects the social policy implications on employees' attitudes towards the company where they work.
- ✓ *Human performance*, which is analyzed according to the result of the employees in relation to the work performed by them. This result is expressed in terms of wealth, the added value, value supplement produced per unit etc.

The two concepts are different because:

- ✓ social performance reflects the ability to enhance staff satisfaction, to improve the social climate and living conditions;
- ✓ human performance involves optimizing the social cost to obtain a given result, or maximizing this result.

Social performance can be achieved by optimizing human resources management and human performance by developing initiatives concerned with making the knowledge permanent.

Today people often speak of *sustainable development* of the human resources. This concept associates the term of human resources with sustainable development. The sustainable development has three major objectives (Depoers, 2005): the increase of the financial performance of the company, the development of the effectiveness of its environment and the promotion of social development. The aim of the sustainable development of human resources is the improvement of the performance of the company and its social responsibility, by taking into account the ecological and social environment in order to protect future generations. The objective of the sustainable development of human resources is not to shift social performance to financial performance but to switch from performance to durable performance. To do this, companies must not be only concerned about their economic profitability and growth but also about the impact on ecological and social environment.

The sustainable development of human resources is a responsibility and mutual commitment of all parties involved. The company is committed to its environment and its partners in order to develop the financial performance by creating global value and not by destroying resources. In return, the partners and the employees are committed to become socially responsible towards themselves, their environment and business.

1. Research Methodology

This paper is related to financial reporting and it presents the basic research. The objective is to examine in time and space the theories related to performance and the way they are reflected in accounting. In terms of epistemological discourse, this approach is of a regulatory type. As technical research, we use the procedure of reviewing the literature. In this respect, we focus on the research of the documents of literature regarding previous research and also on documentation related to the work performed by financial accounting standard board.

Our approach for the presentation of human capital as a support to ensure business performance is divided into three sub-paragraphs: the human capital management, the disclosure of human capital and the recognition of human capital in accounting.

2. The Human Capital Management

The man is the richest resource in the company. The performance of company is born by coordinating elements of human resources. Therefore, companies should establish as objectives both social and human performance. But you can't drive a man like a car. His complexity, which is variable in time, is added to the complexity of relationships between people. A company which does not integrate social criteria, not only may jeopardize its image, its functioning, its continuity, but more importantly, by its capital, it will not develop confidence to its partners.

To make wealth and value results not only from the intrinsic qualities of a product, but also from the constituents of ordered intangible benefits that accompany it. The way in which people communicate and work together determines the performance of an organization. Human dimension reflects the need to use or not a human resort represented by knowledge. Man doesn't entirely handle the knowledge he possesses. There may be cases in which he forgets something. Moreover, it is possible for him to remember all his knowledge regarding a particular case. The access to the knowledge that people have is influenced: by the desire of people to use their knowledge because their interest may be different from the interest of the company; and by people's capacity to use the science available for them. This capacity depends both on the actions conducted by the company to improve its potential (training, documentation, availability of information, the knowledge enrichment and the whole the action of training) and on the people's ability to apply and transfer the knowledge they possess.

Human resource management is crucial to the financial performance of the company. A study by the U.S. Office Advice Watson Ayatt states that the best companies in managing their human capital create twice more value than others. There are five reasons which each individual pursues at work (Levering & Moskowitz, 1993) remuneration, professional development, workplace environment, esteem and consideration, and working interest. The company which wants to have performance must consider these reasons and must focus the human resource management towards the achievement of the following objectives: to gradually integrate new employees, to participate actively in the integration and formation of the youth, to participate in the integration of persons with disabilities, to constantly update internal resources, to practice a responsible and equitable management of jobs and promotions, to show flexibility in work organization, to take into account individual aspirations, to ensure the people's safety, to support employees in difficulty, to value individual wealth, to recognize individual and collective work, to practice a fair remuneration for employees, to fairly protect results, to promote cooperation with local bodies, to interfere with academics, to gradually manage resignations.

The relation between employees and their work transforms them from providers into clients. The current social environment transforms the place of work into a place of life as if the society is like a second family. The XXI century education must meet four objectives: learning to know, learning to do, learning to be, learning to live together, and the company must take into consideration this new approach for performance and for its employees. The chronology of expectations in relation to the world of work can be summarized as in Table 1 (Detrie, 2005).

Table 1. The chronology of expectations in relation to the world of work (Detrie, 2005)

	Yesterday	**Today**	**Tomorrow**
Beneficiary	Country	Market	Society
Type of demand	Basic needs satisfaction	Consumption, Caution	Responsibility, Relationship, Attention
Purpose (aim)	Each one	Future	Others
The expected result	Equipment, Improvement	Sustainable development	Sharing, Contribution
Wealth	Gross wealth	Wealth without poverty	Wealth useful to everybody

As we said above, human performance is achieved through the development of initiatives that are concerned to make knowledge permanent, that is to implement a knowledge management. Knowledge management, also known as the capitalization of knowledge, involves considering the knowledge used and produced by the company as a set of wealth which represents a capital from which one can extract interests that contribute to the increase of the value of this capital.

There are two specific categories of knowledge: explicit knowledge and tacit knowledge (Boughzala & Ermine, 2004). The explicit knowledge characterizes the abilities to govern, to study, to develop, to sale and support its products and services. The tacit knowledge characterizes the capabilities of action and adaptation. This individual knowledge is tacit. It may not be expressed. It becomes collective knowledge when it is shared with others. Tacit knowledge is specific to each individual; it includes, on the one hand, informal technical expertise and on the other hand, the personal beliefs and aspirations, considered as a private form of knowledge. Tacit knowledge forms the essence of business knowledge, which is in the "mind" of its employees. This capital can be both individual and collective and lives along with knowledge networks of the company.

3. The Disclosure of Human Capital

France was the first country to adopt regulation (Act of July 12, 1977) to present social information in a social balance. The word balance should not be understood only in its accounting purposes, as the social balance sheet summarizes in a single document the important information that allows the evaluation of a company's situation in the social domain, the recording of the achievements made and the measuring of changes that took place in both the current year and the preceding two years in the social domain. Consequently, the social balance sheet contains information about work, wages and social costs, hygiene and safety conditions, other working conditions, training etc.. The social balance sheet is addressed to employees, their representatives as well as to trade unions and shareholders. Act of May 15, 2001 and decree no. 221/20 February 2002 requires listed companies in France and the companies that have more than 300 employees to publish social information. The objectives of social balance are to improve social information system for various stakeholders (employees, unions, shareholders), to plan human resources management, to promote dialogue and to compare data over time. This document is determined by the following logic (Decock Good & Georges, 2003):

- It is focused on the accounting and financial approach regarding the independence of exercises, being annually determined;
- It is part of a fully analytical approach. Social balance does not lead to positive or negative balance on social policy of the company but is rather a situation of organization's ties, a representation of the existent.
- It allows to easily know the costs of human resources and the wage mass of the company. However, it is very difficult to judge the social policy and the impacts of this policy on enrichment and value creation for the organization.

The data presented are mostly quantitative in order to avoid subjective assessments. Indicators which should be presented (approximately 170) are established by the State and they cover working conditions, information on jobs and specialty, training, remuneration, salary policy, etc. The only penalty provided by the State appears when the social balance sheet is not done and not when some indicators are not presented. The creation of the social balance is not the result of a well-established procedure as in the case of the accounting balance sheet. Staff services are responsible for preparing the social balance having as guidance the indicators published by the State.

The social balance is a difficult document to read. The abundance of figures is not accompanied by comments, which leaves an impression of figures collection without analysis. Moreover, data are presented independently of any strategic and economic context: the external constraints are completely ignored. For this reason, it is difficult for any foreign investor to make a judgement on the led wage policy and on the social climate. The social balance is not prospective because it doesn't favour the presentation and following of the company's policies, from which an incomplete information tool results. The indicators used to create the social balance are characterized by their heterogeneity: they can be expressed numerically (number of persons employed with indefinite employment contract), as money (salaries, costs of improving working conditions), social indicators (the seriousness of the rate of accidents at work), and several indicators of binary form (whether or not of security plans). The amount of information available in the social balance requires making a choice, the social indicators presented in the balance sheet being classified on five major components: remuneration, training, working conditions, social climate, structure and the work place.

Tabel 2. The most indicator of the social balance sheet

Concepts	Explanatory Variables
The remuneration	Wage costs
	The amortization of the average remuneration of workers in relation to TESA staff
	The average remuneration of TESA staff
	The average remuneration of workers
	10 higher wages
The training	The ratio of training expenditure
The working conditions	The severity rate of accidents at work
	The social expenditure
	The duration of work
The social climate	The absenteeism rate
	The resignation rate
	TESA staff resignation rate
	The resignation rate of workers
	The deviation pay of men in relation to women

The structure and the work place	The total personnel Employees with permanent contract Employees with fixed-term contract The proportion of TESA staff The employment rate The licensees rate

The studies have demonstrated that only three out of five concepts are important to the employees, namely: the social climate, the remuneration policy and training policy. That is why we recommend that the profit and loss in wage costs and social expenditure should be detailed in the Annex, at the following categories: wage costs, expenditure on social benefits, training and development expenditure, social expenditure (including here the benefits given to the employees, as defined in the tax code). However, other information must also be presented, such as: relative information on any plans to reduce the number of personnel, reclassification efforts, rehabilitation and counseling measures; the hygiene and safety conditions, the training, the insertion of the disabled; the manner in which the company takes into account the territorial impact of its activities on employment and regional development.

At present, there is a tendency to present information on employees with information on the natural environment. A very important body in this field is GRI (Global Reporting Initiative), which was created in 1997 by some of the companies and organizations that belong to CERES (Coalition for Environmentally Responsible Economies), with the mission to develop global guidelines for economic, social and environmental performance reporting, initially for corporations, and now also for small and medium-sized entities, governmental or nongovernmental organizations. Currently, GRI is the best known framework for voluntary reporting on environmental and social terms, being used worldwide (in over 65 countries). The purpose of GRI is to harmonize the many existing reporting systems and to provide a platform for an active dialogue about what sustainable performance is. GRI was created taking into account the U.S. financial reporting system FASB, which has sought to expand it in terms of depth (global), purpose (social, economic and environmental performance indicators), flexibility (descriptive and quantitative indicators) and in terms of public interest (industry, financial sector, accounting profession, civil society, NGOs working on human rights and environment and other stakeholders) (Brown et al, 2009). The main reason why such a project developed was the lack of current instruments reporting of what was really happening in the entities and the lack of highlighting the concerns and concrete actions undertaken by them.

4. The Recognition of Human Capital in Accounting

In order to make an accounting of the human capital, firstly we must find the relevant methods for assessing this capital. The human capital represents the totality of the skills, knowledge and intelligence of the employees. Although it is of a paramount importance in achieving business performance, the human capital does not appear in the balance sheet along with the intangible assets. The financial accounting records only the costs of staff salaries once the work was done. But the human capital is valuable and this value, although it satisfies the definition of an asset, is not recognized in the balance sheet because it cannot be estimated in a reliable manner.

Many researches, having as aim the integration of human factor issues in the balance sheet and in the process of evaluating the performances, were achieved starting with the 1960-1970s. The need of an accounting of the human resources lies in the incompleteness of financial information and in the financial statements in making decisions. This accounting puts into question the economic and financial evaluation of the human capital that the firm uses. The human capital accounting must respect the principle of the independence of exercises, by distinguishing personnel expenses which can be considered costs of the period, from the investments in personnel which should be immobilized and amortized over time. Obviously, the costs incurred by the company to ensure the services of its staff are treated in accounting in a classic way as expenses of the period and they are recorded on the principle of historical cost. But, some of these expenses such as recruitment costs, training costs, training and work organization costs, undertake productive effects over several periods: this argument justifies the activation of such costs on order to be amortized over time.

We can make an assessment of the human capital having as support the 4 bases of assessment recommended by the general accounting, resulting thus four models for assessing the human capital:

- human capital assessment based on historical cost;
- human capital assessment based on current cost;
- human capital assessment based on realizable value;
- human capital assessment based on present value.

Human Capital Assessment Based on Historical Cost

As the historical cost of an asset represents in most cases its cost of acquisition or production, for the human capital also, it represents the totality of expenses incurred by the company to acquire and develop the human potential: recruitment costs, training costs, integration costs and organization costs which are invisible, but often important. Recruitment costs and training costs are direct and do not involve difficulties in determining their value. Instead, the costs of integration and organization are indirect and difficult to measure. If we can determine the amount of these costs, then we must resort to bases of sharing in order to calculate the individual cost.

The recognition of investments in human resources raises the question of depreciation of these assets. The life expectancy of human investments depends on numerous factors such as: the lifetime of the employees, their health, the retirement age, the social climate, the likelihood of breaking the contract of employment, the depreciation of the accumulated knowledge. There have been proposed two ways to measure this time (Marquès, 1974) one, which is of a statistical nature and involves the creation of career curves on staff categories, starting from historical data, and another one, of a behavioral nature, which examines the game of the variables that determine an individual to abandon the work in the enterprise.

Following a research conducted by a group of American professors (Brummet, 1968), Barry Corporation, a medium sized company, has implemented a human capital accounting. In the accounting system of human capital held by Barry Corporation, period costs include costs of consumed services and the amortization of investments in the human capital. The investment costs include the costs of recruitment, hiring, induction, training, training and development of experience. The cost of such investments is amortized over the likely duration of employment of the employee in the company. The amount which is not amortized is shown in assets, in the net investment section in the human capital position. The regulatory constraints and the accounting practices do not allow the publication in financial statements, especially in assets, of the investments in the human resources. Therefore, between 1969-1973, Barry Corporation realized a double presentation of the balance sheet and of the profit and loss. Furthermore, we intend to present the balance sheet and the profit and loss of this company for 1969.

Tabel 3. The balance (after division) of the Barry Corporation company with and without "the immobilization" of the human capital - in 1969 ($ millions).

	Financial items with human capital integration	**Financial items without human capital integration**
ASSETS		
Current assets	10.004	10.004
Net property	1.771	1.771
Intangible assets	1.188	1.188
Net investments in human resources	986	
Other assets	106	106
Total	**14.055**	**13.069**
LIABILITIES		
Current liabilities	5.715	5.715

Long-term debts	1.935	1.935
Deferred tax	63	63
Deferred taxes (related to human capital)	493	
Subtotal	***8.206***	***7.713***
Capital and bonuses	2.616	2.616
Reserves:		
- financial	2.740	2.740
- related to human capital	493	
Total	**14.055**	**13.069**

Tabel 4 The profit and loss of Barry Corporation company with and without "the immobilization" of the human capital - in 1969 ($ millions)

	Financial items with human capital integration	**Financial items without human capital integration**
Net turnover	25.310	25.310
The cost of goods sold	16.275	16.275
Gross margin	***9.035***	***9.035***
Administrative and distribution expenses	6.737	6.737
Operating profit	***2.298***	***2.298***
Financial expenses	953	953
Profit before tax	***1.345***	***1.345***
Net investment in human capital in 1969	173	
Adjusted profit before tax	***1.518***	***1.345***
Tax	730	644
Net profit after tax	***788***	***701***

The recognition of some of the costs as net investment in human capital, in the financial statements, is translated by a total of the higher assets and a profit before tax, also higher. To ensure consistency between the presentation of the two sets of financial statements, but also to comply with the regulatory constraints and the practices related to determining net income, this increase in earnings is recorded in the balance after deducting the related deferred tax, in a post of non-distributable reserves (deferred tax has been calculated at a rate of 50%). Along with the recognition of human capital, Barry Corporation has completed this social accounting by a policy of management staff as quarterly and annual budgets, investments in human resources. However, the assessment of the human capital based on historical cost does not reflect its true value.

Human Capital Assessment based on Current Cost

This assessment was initiated by Likert (Vatteville, 2000) and starts with the hypothesis that the company would lose its entire staff, except for its management. The question is: What is the cost of replacing the entire staff? The surveys revealed that the cost varies from 1 to 20 times more than its original cost. Yet, such an assessment, with such subjective results may not be subject to the evaluation of human capital. Another variant involves determining the current cost of recruiting, training, integration of personnel, etc., thus leading to an opportunity cost. This is the method of assessment that we suggest for the recognition of the human capital.

Human Capital Assessment Based on Realizable Value

We consider that such assessment is not suitable for human capital because the man is a being who may not be sold.

Human Capital Assessment Based on the Present Value

This assessment involves updating the future cash flows generated by the value of human capital as:

$$VA = \sum_{i=1}^{n} \frac{S_i}{(1+a)^n}$$

where:

VA **-** The present value of human capital;

S **-** future wages paid to the employee which are determined by comparison with salaries paid by the company to the staff having the same age and qualifications;

n **-** the period in which the employee will work in the company;

a **-** the discount rate that may be represented by the equity.

But this approach and also those aforementioned lose sight of the relationships between employees and teams, which in most cases are the most valuable. Another solution is required, namely the assessment of the company from the global point of view. Thus, the difference between the market value of a company and its overall value is represented by the amount of goodwill and the value of relationships that exist between employees. Here comes another problem: what is the percentage of goodwill and what is the percentage of the value of human relationships? This is a sensitive issue which we intend not to address in this work because it requires a separate and complex field of study. However there is a field where people are recognized as assets: in the case of sports clubs and professional players. They are recognized as fixed assets because they meet two conditions necessary for recognition: it is probable that future economic benefits associated with restraint to enter the company and the restraint cost may be reliably estimated.

5. Conclusions

The difficulty of implementing an accounting of human capital lies in the difficulty of carrying out assessments or carrying out very subjective assessments. Bary Corporation's experience led to academic presentations in the reviews „The Accounting Review” and „Management Accounting” and served as support for the development of case studies at Stanford University.

But this first serious attempt should provoke a great interest in the academic world to find appropriate models for implementing human capital accounting. Rey (1979) noted: "Few companies use an accounting system so sophisticated as that of Barry Corporation, but many carefully follow the costs of recruitment, hiring and training, through an organized set of indicators, tool of social pilotage or of social management control ".

The studies which were conducted in the field of recognition of human capital in accounting have tried to implement only the cost of human capital which is reflected by acquisition and training cost or by maintaining a private resource **-** labour **-** and not the resource itself **-** the human being.

Human value is obviously higher than accepted accounting costs, and only when we know how to calculate the value of the man, we can speak of a true human capital accounting. The recognition on human capital is useful not only to external recipients of the entity, but also within the entity. It is useful for everything that is management, for everything that is socio – professional conditions, for everything that is human resource.

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