

## Chapter 33

# The Role of Human Resource Accounting in the Business Environment

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### ABSTRACT

*In this chapter, human resources accounting is comprehensively analyzed. Human capital has been often neglected or inaccurately reported in the financial statements due to its nature. In the new economy, financial market participants such as investors, creditors, and shareholders would like to get information about the firm's investment in human capital. Over the last decades, some accounting methods have been developed for human capital. In this chapter, the methods used in the accounting treatment of human capital are analyzed, and a total of 288 operating reports of banks listed on Borsa Istanbul for the period between 2010 and 2017 are examined through content analysis. The results of content analysis indicate that there is a growing trend in human capital disclosure by banks listed on Borsa Istanbul between the period of 2010 and 2017, implying that banks listed on Borsa Istanbul have become more aware of the importance of human capital.*

### INTRODUCTION

Firms' financial statements are used by financial market participants to assess firms' financial position and performance. Financial market participants heavily need financial statements when making investment decisions. The financial statements that truly reflect financial performance and position are one of the key components of well-functioning financial markets. According to full disclosure principle, firms should report all types of information that can influence the decisions of financial market participants.

As the world economy is becoming much more globalized than before, economic competitiveness among firms significantly increases. Over the last two decades, firms have developed new management and production process to gain advantages over competitors. Firms should effectively utilize their capital to maximize the shareholders' wealth. Due to economic globalization, firms should effectively use all

DOI: 10.4018/978-1-6684-3873-2.ch033

types of capital to increase their operational efficiency. In the new economy, knowledge has become one of the important factors that shape firms' operational efficiency. The efficient use of knowledge can prominently contribute to the firms' value added of products.

The rapid globalization of world economy makes knowledge one of key resources in the current business climate. Knowledge-based firms play more active role in the economy. The production process of knowledge-based firms is not dominated by capital and labor. Knowledge is the major input of knowledge-based firms' production process (Asimakou, 2009). Strategic and organizational features of the firm influence the role of knowledge in the firm (Carlucci et al., 2004). Therefore, the same knowledge can affect different firms differently. Malhotra (1998) and Tapp (1997) claim that firms increasingly adopt organizational learning mechanisms. This is because firms are aware of the fact that best performing firms value knowledge and know how to effectively manage it in the new economy. A well-established knowledge management system enables firms to acquire and use human capital and create new business opportunities. In some cases knowledge can be a valuable asset for the firms' operations and only available for firms that can afford it (Carel, 2010).

There is a significant interaction between human capital and innovation. Human capital is one of the key contributors to innovation. Minai et al. (2016) stated that innovation is one of the results of explorative activities managed by individual or a team over a period of time. Innovation processes are influenced by firm-specific factors such as human capital, organizational structure and firm policies. The higher education level of workforce is a driving force of innovativeness of firms. Moreover education enables firms to facilitate effective use of human capital. More educated employee can easily adopt and introduce new technology. Educated employees are important keys to importing and managing innovations. Human capital investments increase the productivity of knowledge-intensive activities (Dakhli and Clercq, 2004). Innovation can be considered a knowledge-intensive activities. Teixeira and Shu (2012), D'amoria and Iorio (2017), Scott and Bruce (1994) and Amabile (1988) state that firms heavily depend on human capital for the creation and application of new ideas. The involvement in research and development activities implies the continuous improvement in innovation activities. High-quality human capital can play prominent role in fostering individual innovation within firms.

Human capital-intensive firms are inevitable part of the global economic environment. Past research studies indicate that human-capital intensive firms tend to play more active role in economic activities. Human capital-intensive firms are very special since the most important asset of these firms is human capital. These firms are expected to provide remarkable incentives to suppliers of human capital. The operations of human capital-intensive firms are based on human capital. In the human capital-intensive firms, employees have high educational levels and professionalism in the workplace. Problem solving ability of human capital-intensive firms' employees in a volatile industry is a critically important ability to sustain growth and operational efficiency. Human capital is considered a key engine of well-functioning economy (Ahmed et al., 2011; Grossman and Helpman, 1991; Romer, 1986). Governments around the world spend huge amount of money to create high-quality human capital with the expectation of enhancing innovation capacity (Gelübcke, 2013). Human capital-intensive firms heavily rely on the loyalty of key employees. When key employees leave the firm, this human capital-intensive firm may face serious operational risks.

The accurate measurement of human capital increases the quality of financial statements. It is worth mentioning that the structure of capital has huge impacts on the firms' financial performance. Financial market participants such as creditors, investors and stockholders meticulously analyze firms' human capital structure when making investment decisions. Although the significance of human capital is constantly

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