

# The Study of Human Resource Linkage with Accounting Valuation-Inspiration of IFRS

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**Abstract.** The topic of human resource linkage with accounting valuation isn't new research issue, however, we can trace literature review from 1960, 1970 were popular study period, fading time were 1980. Yet we have no doubt that excellent employee is enterprise assets, human capital plays an important role of successful business core competence, but why human capital or human assets that they can't measure in the financial statement? This is contradiction and dilemma in practice and academic.

This study explores why the topic declined and develop a human resource accounting new model different from the past research model, inspiration of international financial reporting statement (abbrev. IFRS). Empirical analysis using questionnaire, and Structure equation modeling to confirm human resource management capitalized path analysis and human resource management linkage with accounting valuation model fit. Empirical result showed that model is in accordance with assumption.

Research contribution are as following: the first one is we make a distinction between human capital and human assets from past research, second is we develop a new human resource linkage with accounting valuation model from past.

**Keywords:** human resource accounting, human assets, human capital, IFRS, capitalized

## 1. INTRODUCTION

"Employees: a company's best assets" it is familiar words. The study of exploring human resource accounting valuation is not a new issue. This study origins from 1960, 1970 were popular period and fading time were 1980, and restarted almost on 2000. What is human resource accounting? Human resource accounting is designed to identify, and communicative data about a firm's human resource (Abraham Friedman, Barch Lev, 1974). Nobel prize winner Theodore W. Schultz (1972) and Gary Becker (1992) advocate the human capital, current business practice takes excellent employee granted of admit employees are company's intangible assets, and excellent human assets are the core of competitive advantages. Display large amounts of academic study results showed that human capital and

human assets can generate benefit to company. However, as of 2016 international financial reporting standards (abbrev. IFRS) 2016 1 doesn't accept the concept of human capital or human assets accounting measurement. However, it exists contradiction and dilemma research gap. The study of human resource linkage with accounting valuation restart departs from conventional human resource accounting's input-process-output model by inspiring both IFRS's conceptual framework and IAS No.30

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<sup>1</sup> International Financial Reporting Standards (IFRS) is a set of generally accepted accounting standards implementing almost worldwide. It developed by an independent, non-profit organization, called the International Accounting Standards Board (IASB). The goal of IFRS is to provide a global accounting conceptual framework, in order to establish public companies principle based guidance how to prepare and disclosure their financial statements, rather than setting rules for industry-specific reporting.

intangible assets, trying restart a new human resource accounting model exploring to solve the research gap.

## 2. LITERATURE REVIEW

### 2.1 Human Resource accounting (abbrev. HRA)

Relevance and useful are critical factors on decision making, and accounting information is designed for stockholder and management decision making. Human resource linkage with accounting research from 1960, Likert indicated that organization performance measurement ought to attribute to specific accounting accounts. Flamholtz (1974) defined HRA is accounting for people as organization resource. American Accounting Association (1973) defined HRA is: "The process of identifying, measuring, and communicating information about human resource accounting to decision-makers. human resource accounting is designed to identify, measure, and communicate business archives about firm's human resource. Likert, R.L. Brummet, E.G. Flamholtz & W.C.L. Pyle (1969) indicated human resource accounting as a tool for increasing managerial effectiveness in the employee's acquisition development allocation maintenance and utilization. Hendricks (1967) address that human resource accounting information utilize decision making on stock investment. American Accounting Association (1974) further indicated that to see a socio-economic view which human resource accounting should solve problem as following:

- (a) actual costs of investment in human resource in the form of on-the-job training, formal schooling and other manpower development program
- (b) the relationship between these costs and firm characteristics, such as industry, size, age etc.,
- (c) the extent between to which **training costs and benefits** are **allocated** between employers and employees,
- (d) the component of costs of recruiting and replacing employees
- (e) the extent to which stochastic models are valid representation of reality,
- (f) the experience of firms using HRA systems in terms of improvement in manpower planning, and the reaction of employees, labour unions, investors and regulatory agencies.

Ray Ball & Philip Brown (1968) pointed

out accounting research have to following with Some Standard which the model implies all practices should possess, since conceptual of accounting framework are generally accounting standard formulated mainly guideline, this is the reason why human resource accounting should follow accounting conceptual of framework, and current generally accounting principle mainly guideline globally is IFRS.

### 2.2 Performance measurement based on human resource views

Ulrich & Lake (1990) indicated the function of human resource consisted of six dimension: recruitment, training, development, evaluation, remuneration and organization governance, communication. Since traditionally human resource research on performance measurement focused on loyalty, organization commitment et.al discussed, it attribute to non-monetary behavior factors, lack of monetary measurement factors. Ulrich & Lake(1990) combined with concept of balance scored to evaluate human resource performance, proposed productivity, people and process. Ramlla, S.J (2003) pointed out human resource function including are: strategy, recruitment, training, and development, organizational change, performance management, reward system and organizational behavior, further proposed performance indicators of human resource activities.

### 2.3 Human resource accounting model

Likert, R.L. Brummet, E.G. Flamholtz & W. C .Pyle(1968) had been developed HRA accounting model, and divided human resource accounting valuation variable into 4 items: investment variable, causal variable, intervening variables and End-result or performance variables, return on Investment variables. Investment variable are consisted of new employee recruitment, selection and hire cost, training. Causal Variables consisted of technical proficiency level, supervisory, behavior, organizational structure. And intervening variables are including perception, communication, motivation. End-result or performance Variables: cost, productivity, revenue, manpower development, innovation. And return on Investment variables: return on investments

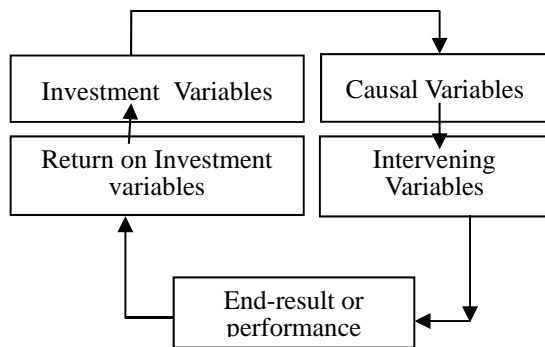


Figure 1. Former Human Resource model (Likert · R.L. Brummet, E.G. Flamholtz & W.C. Pyle (1968))

### Conclusion

Summarized literature review, we concluded the model showed input-process-output yet it ignored accounting principle basic concept and accounting accounts definition's discrimination. However, the concept of capital and assets are in difference based on generally accounting concept. An asset is an entity's resource which is expected to yield economic benefit in future periods and are consisted of liability and capital. Capital is a net value concept. Traditionally and current research emphasis on the importance of investing in human resource, like as training, it will increase employee's ability and produce potential benefit to an entity. However, current accounting practices and IFRS treat all expenditure concerning the firm's human resources based on expensing, it means that all spending cost on employee can't bring benefit to an entity in future periods based on generally accepted accounting principles. This is the mainly research gap exist human resource linkage accounting valuation.

### 3. EMPIRICAL RESEARCH DESIGN

Our research design as following steps:

1. Human resource accounting model assume based on conceptual framework of IFRS.
2. Develop HRA scale and questionnaire design
3. Items analysis and exploring factors analysis
4. HRA model test under structural equation modeling

#### 3.1 Human Resource Accounting model

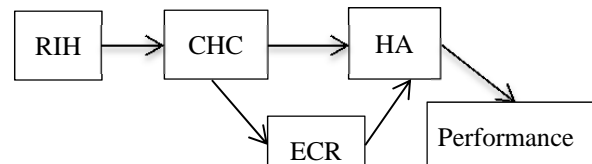


Figure 2. Framework of Human Resource Accounting Model Design

#### Independent Variable definition:

RIHC: Recruitment Initial human capital  
 CHC: Current human capital, hired employee  
 HA: Human Assets defined concept under IFRS  
 ECRA: Expenditure Capitalized for human resource activities

#### Dependent Variables definition

HRE: Human resource effectiveness  
 MP: Market Performance  
 FP: Financial Performance

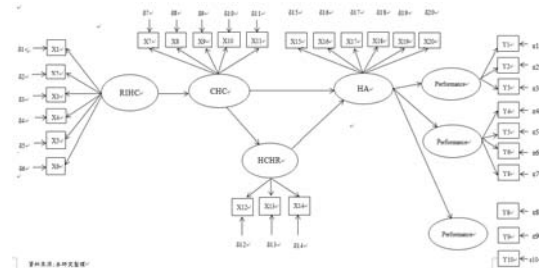


Figure 3. HRA SEM Diagram

#### 3.2 Development human resource accounting scale

Since human resource accounting is concerned with the development of measuring human cost and value to the company, how to confirm and test variables validity is very important. Previous study showed that LR. Likert & William Pyle, Bowers (1969, 1971, 1973) had developed scale 5 points of human resource accounting measurement variables, yet the measurement scale is very simple and lack of factors of generally accounting accepted principles. Research develop new human resource accounting scale based on generally accounting accepted principle, ie., inspired by conceptual of framework of IFRS.

We define concept into operating definition based on systematic literature review to develop HRA scale, and before questionnaire issued, we test by expert filled and corrected scale items, issued total 346 copies questionnaire, using IBM SPSS 21.0 to implement research data analysis. Items analysis with statistical Highest-Lowest mean t-test which called comparison of extreme group, further deleting irrelevant items. And using exploring factors analysis to screen factor

loading: communality and eigenvalues, rotation selecting varimax to get Kaiser-Meyer-Olkin measure of sampling adequacy value (KMO).

### 3.3 Structural Equation Modeling testing HRA

Human resource accounting model is major in human resource activities linkage with accounting valuation, including accounting conceptual expense or capitalized measurement path, and in order to reduce Type I error, we using structural equation modeling to evaluate model fitness.

### 4. EMPIRICAL FINDINGS

Figure 4. Exploring Factor analysis

	IHC	CHC	ECRA	HA	HRE	MP	FP
<b>KMO &amp; Bartlett testing</b>							
Kaiser-Meyer-Olkin	.565	.710	.646	.742	.656	.743	.693
Bartlett testing							
$\chi^2$	111.2	147.0	164.6	204.9	258.3	316.1	243.5
freedom	6	6	3	15	3	6	3
significance	.000	.000	.000	.000	.000	.000	.000

We use principle factor analysis to test items factorial validity, and research finding as figure 4, we conclude that IHC is miserable adequate, CHC, HA and MP are middling, and others are midcore adequate.

Figure 5. Reliability Analysis

	IHC	CHC	ECRA	HA	HRE	MP	FP
Cronbach Alpha	0.543	0.696	0.726	0.680	0.798	0.801	0.811

Reliability analysis is depending on Cronbach  $\alpha$  value, Figure 5 showed that IHC isn't so good, other items excess 0.6 represent reliability is good. Empirical research finding showed that HRA model is fit since RMSEA is 0.079.

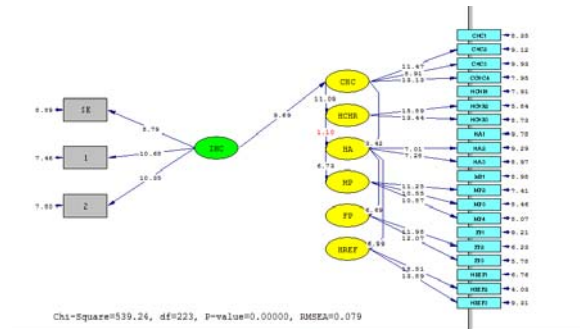


Figure 6. HRA SEM Empirical Research Findings

### 5. CONCLUSION

With global economic coming and commonly, excellent employ play an important role on sustained competitive core values, and how to evaluate human assets and human capital, it attribute to intangible assets based on IFRS.

This Paper contribution is first submit and design HRA scale based on generally accepted accounting principle and design new human resource accounting model difference former research model. Empirical evidence and statistical test result initial outcome is model fit and scale is adequate.