
Is HRCA a concept which summarizes the innovation work in the most intrinsic parts of firms during the last decades?

Why does HRCA still hit values and principles, even if it has had time to ripen?

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Abstract

Purpose – The purpose of this paper is to give an overview of the concept of HRCA – human resource costing and accounting – and to encourage debate in this research area. The knowledge dimensions or research areas of HRCA could be described by using a simple model or classification scheme. The model could be seen as a way to describe the links between accounting and financial calculation in company development, a development characterized as *the innovation of the intrinsic area in a company*. The three articles in this issue are also introduced, with a short overview of each of them.

Design/methodology/approach – The objective is achieved by a pure theoretical approach. The subject of the paper is to try to explain the existence of the people dimension in the two knowledge areas of “accounting” and “costing” and link them to the “external” and “internal” organizational perspectives. In the HRCA area the aim is to see and understand the common body for these two areas of research: how to make people more transparent in a company’s business. This is referred to as the “people dimension”.

Findings – In the article a model is reported which the author has found to be helpful when discussing the people dimension in organizational innovation. The model is helpful if one wishes to study and understand the innovation work going on in the most intrinsic and traditional parts of a company, usually driven in the same way, by rules and traditions, year after year.

Originality/value – The contribution of the paper is that it introduces the concept of the “people dimension” as the common interest for those dealing with accounting or costing in the forefront of development. The paper is of value for those dealing with trying to understand why human and intellectual capital has not become more accepted as something to be made more transparent in accounting and costing.

Keywords Human resource accounting, Human resource management research, Costs, Innovation, Knowledge management

Paper type General review

Researchers in the area of human resources costing and accounting (HRCA) are dealing with something which is not so self-evident for everyone dealing with accounting or finance in the business administration area. Traditional accounting and financial

methods are based on tangible assets used in the industrial or manufacturing society. New accounting methods and legislation are required to solve the problems of a service society, where the only assets of many companies are intellectual assets and other intangibles (Johanson and Mabon, 1998). There is a growing group of researchers, scholars and accountants in Scandinavian countries as well as at different universities all over the world who have a common interest in finding and developing instruments and models which could be used to adapt the accounting and financial fields to modern society, where human and other elements of intellectual capital are playing bigger and bigger roles. From different approaches and through the results of research projects, we are convinced that accounting and calculating must be more transparent and give more and relevant information to different stakeholders. By “stakeholders” I mean the responsible managers in companies, but especially those who are outside the managerial sphere and those who do not have the direct access to the companies’ economic and administrative departments. Those who are losing on asymmetry in information are, for example, the “little” owner, the owner of a smaller part of shares in the big public company, the employees, the municipality and the financial adviser and the broker.

The common interest among stakeholders is that they want to have access to relevant and honest information. Stakeholders also need information that can be used for benchmarking with other companies in the market, or just to give them the means to compare a specific company from one year to another. In several research reports researchers have demonstrated the poor status of financial reports which are published annually and quarterly (Guthrie and Petty, 2000; Bontis, 2003; Olsson, 2001). The many frauds and scandals – Enron, Parmalat, Worldcom, Skandia, to name just some – during the last decade have also demonstrated the need for better and more strict legislation as well as better rules and advice for the disclosure of financial information from company accounting. The state of the art is that several countries are now seriously working with the question. The effort going on in country after country to publish guidelines on how to improve financial reports is important for the development of more trust in accounting. Denmark, The Netherlands and the United Kingdom have all tried to use guidelines, and now also Australia is developing guidelines. In the UK it is interesting to follow the Human Capital Management initiative initiated by the British government (Roslender *et al.*, 2004). However, many countries, including Sweden, have a lot to do to keep up with the rapid development in other countries. Sweden and other countries have launched a code of conduct on a voluntary basis. Most companies are following the code and those who do not do it yet seem to be strongly mistrusted. A company that is going public is expected to follow the code. Recently, when a Swedish company which was planning to go public declared that it was not willing to follow “the code” it was accused of being a bit suspect, and this was a source of mistrust clearly demonstrated by business journalists serving the market with analyses of the stock market. This example shows that a healthy development is in the making.

HRCA researchers are undertaking research about disclosure of human and other elements of intellectual capital in financial reports. But HRCA contains in fact two sturdy pillars to rely on. The first, which already has been mentioned, is the accounting

pillar, and the other is the costing or financial calculation pillar. These two fields were also stressed in the very first issue of this journal in 1996. And it is sometimes a dilemma to try to give place and air to both directions in the journal. In this issue of the journal we have two articles demonstrating the advantages and problems with “costing”. Both deal with the key issue of measurement and both rely on the utility method. The utility method is used to calculate the value of or evaluate investments in human resources in an organization.

Let us have a look at the knowledge dimensions or research areas of HRCA we work with by using a simple model or classification scheme. Table I can be seen as a way to describe the links between accounting and financial calculation in company development, a development I want to characterize as the innovation of the intrinsic area in a company. I have found that this way of describing the HRCA field to be very helpful, and it makes it easier to understand how big and interesting this intrinsic area in company development is.

There are two knowledge and research areas:

- (1) the accounting knowledge area; and
- (2) the costing knowledge area.

This distinction makes it also easier to realize how difficult it could be for a person who himself/herself is mostly dealing with accounting to accept a utility analysis, or how difficult it could be to understand the difference between internal and external accounting. It could also be a problem for those who are dealing with costing and calculation to understand the value of a new approach to accounting. I try to explain the two fields of interest through Table I. Both these knowledge areas are important if we want to see and understand the common body: how to make people more transparent in a company’s business. We call this the “people dimension”.

What do I mean by “people dimension”? First, let us point out one important assumption: the company can be seen from at least two perspectives – an internal

HRCA pillars/knowledge areas	HRCA perspective	
	External organizational perspective	Internal organizational perspective
Accounting knowledge area	Financial reports Annual/quarterly reports	Balanced score cards Performance measurement
Costing and financial calculating knowledge area	Valuation of the company: by stock market in introduction phase; by stock market on a daily basis when companies are merging Due diligence: introduction value of shares Bank loans and security	Calculation: utility analysis; cost accountant; cost-benefit analysis (CBA); net profit value; added value; “balloon model” (CBA analysis) Benchmarking Performance evaluation

Table I.
Classification scheme of HRCA with the aim of describing the areas of innovation work to include the “people dimension”

organizational and an external organizational perspective. The company is from an internal perspective its own with its own walls, a body which cannot be controlled in full by laws and rules from outside. It could, for example, decide by itself which human assets or which human liabilities should be seen as accountable and which should not. It could also decide upon on which level it should distribute the costs for personnel, to different departments or on products. From an external perspective the company is controlled by different laws and official rules. It cannot just act on its own, but still it could, for example, add things or omit things from the annual reports if it is not in contradiction of the laws. In both perspectives, internal as well as external, it is a need for more transparency of human resources or it is the lack of people dimension that HRCA researchers are trying to understand and do something about. The HRCA researcher does this by proposing new models for bringing the people dimension into accounting as well as into calculating.

The two pillars/knowledge areas, and the two perspectives (i.e. external and internal) can be described as in Table I. In the square “accounting + external” we find financial reports. In the square “internal + accounting” we find balanced score cards and performance measurement. In the square “costing + external” we find different aspects of valuation where it is of importance to include the people dimension. It is both valuation of the company to prepare for introduction to the market and valuation when applying to the bank for a loan. In the square “costing + internal” we find all forms of calculations such as utility analyses but also the “balloon model” developed by the PEI group at Stockholm University as described by Olsson (1999).

The sort of thinking which this classification scheme is based on can also be found in the articles by Johanson and Nilson (1996) and Flamholtz *et al.* (2004). I want to take the chance to thank Eric Flamholtz, Rangapriya Kannan-Narasimhan and Maria L. Bullen (Flamholtz *et al.*, 2004) for their excellent contribution of an overview of the innovation work done in HRCA via the Personnel Economics Institute (PEI) during the last decades. In their article they try to assess the contributions of HRA, discuss the controversies that surround HRA and draw conclusions on the state of the field, as well as suggesting requirements for future research and development. In their article they try to highlight the contributions from the Scandinavian group of researchers around the Personnel Economics Institute at Stockholm University. Their conclusion is:

... that the *JHRCA* has achieved its strategic mission: it has become a meeting place for scholars interested in the advancement of the field of Human Resource Accounting and related disciplines (Flamholtz *et al.*, 2004, p. 31).

In this issue of the journal, which is the first to be published by Emerald, we have three articles dealing with both measure problems and the dilemma of accounting for human resources.

The first article is written by Jens Rowold and Martina Mönninghoff, and its topic is utility analyses of assessment centers. In the article the authors to show the results of a study aiming at providing information in economic terms about the utility of a personnel selection strategy. The study is based on Boudreau and Ramstad’s model.

The second article is written by Lisa A. Burke and Chengsho Hsieh, and is about operationalizing the strategic net benefit (SNB) of HR. The authors apply the long-established finance concept of net present value (NPV) in order to determine the

value that HR activities provide to an organization's business strategy. In other words, NPV is used to operationalize the SNB of HR's costs and contributions to a firm's business strategy.

The third article is written by an old player in the field, Herman Theeke, one of those who have for a long time felt unease with HRA, utility analysis and, more recently, IC. He has previously written on that topic together with Vida Scarpello (Scarpello and Theeke, 1989). He gives us an overview of HRA in its childhood and why he thinks that it has failed to become a more common standard more quickly. He primarily raises critiques against the difficulties of measurement. In the second part of the article he tries to sketch an alternative way to make HRA more acceptable among experts and others having an impact on the future of HRCA. He suggests that the human factor might better be represented as a liability rather than an asset as the means of "moving forward". He proposes a method of disclosure of contingent liabilities reported in financial reports as a supplemental note. That is a way to account for the amount of potential loss which equals the cost of replacing the entire workforce with a new one of equal quality. Theeke names this idea "the new liability paradigm" for accounting on human resources.

The journal invites you to give your view of the research area and take part in the debate starting with the article written by Theeke entitled "A human resource accounting transmission: shifting from failure to a future". Help us to find out the answer on the following question: why does HRCA still hit values and principles even if it has had time to ripen?

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Further reading

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