



Sade Noémi NAGY

*BA Student,
Department of Finance, Accounting and Economic Mathematics,
Milton Friedman University
Budapest, Hungary*

Botond Géza KÁLMÁN

*PhD, Associate Professor,
Department of Business and Management,
Kodolányi János University
Budapest, Hungary*

Szilárd MALATYINSZKI

*dr. habil., associate professor
Head of the Department of Economics and Management,
Kodolányi János University of Applied Sciences
Budapest, Hungary*

HUMAN CAPITAL IN BUSINESS VALUE

Schumpeter [7] pointed out that in today's advanced economies, innovation is essential for development and growth. It has now become clear that human resources are a more effective factor in further economic growth than increasing invested capital [2, 6]. However, in their published financial reports on their operations and economic situation, companies determine and communicate the value of the company based on the book value. However, according to many opinions, this procedure does not show the real value.

Human capital is an intangible asset that is not included in the company's balance sheet. Its value is given by the experience and skills of the employee. This value can be increased if employers invest in the training, education and benefits of their employees. The timeliness of the topic and the task is indicated by the fact that organizations such as the IIRC [4] or the World Economic Forum [10] are also involved in solving the problem. This is no coincidence, since sustainability has been an important issue since the Brundtland report [1], which professionals and politicians are forced to solve in more and more areas of life. In fact, we all have to do it. The basis of sustainable corporate performance is human capital [5]. Therefore, knowing the value of human capital is essential to determine the true value of a company.

Our present study proposes a possible solution for displaying the value of human capital in the financial statements that are the source of company valuation. Since the statements currently in use do not include this, the current tasks of company valuation professionals include the creation of a human capital reporting standard. According to a survey [9] carried out ten years ago by The Commission on the Future of Management and Leadership, the training of human capital, the appropriate organizational atmosphere and culture, and good management are the determining factors of the company's success. There is evidence of the importance of human capital to financial performance, however there is currently very limited quantitative or qualitative reporting by companies on their approach to workforce management. This, in turn, means that it is impossible to see a complete picture of the operation of a company, and therefore it is not possible to compare and form an idea of how



companies maximize the productivity of their workforce [8]. Three everyday trends justify the need to value human capital: persistent workplace inequalities, changing workplace preferences, and the need for innovation and new skills.

The value of a company to shareholders depends on the amount of dividends and the frequency of dividend payments. The market of investors evaluates companies' shares based on complex information, therefore the market value of a share can be undervalued, overvalued and normal valued. The reality that can be verified with numbers is provided by the book value based on financial documents and statements (balance sheet, income statement, cash flow statement). According to our proposal, based on literature sources, intangible assets can be displayed on the asset side of the balance sheet, and equity on the liability side. In the income statement, we measure the impact of the workforce on financial performance for a given reporting period. And the cash-flow statement tracks the flow of human capital in several dimensions of staffing, costs and movement per period, such as quarterly or annually, showing where and how the organization allocates and uses human capital. Another possible direction is that separate human capital statements are prepared as a supplement to the financial statements [3].

References

1. Brundtland, G. H. (1987). *Report of the World Commission on Environment and Development: Our Common Future*. UN World Commission on Environment and Development. <https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>
2. Fogel, R. W. (1994). *Economic Growth, Population Theory, and Physiology: The Bearing of Long-Term Processes on the Making of Economic Policy*. *The American Economic Review*, 84(3), 369–395. <https://doi.org/10.3386/w4638>
3. Higgins, J. (2024, February 19). *Human Capital Financial Statements: The Missing Link between Human Capital and Financial Results*. Hcmi. <https://www.hcmi.co/post/human-capital-financial-statements-the-missing-link-between-human-capital-and-financial-results>
4. IIRC. (2016). *Creating Value Human Capital Reporting (Integrated Reporting IRCC06; p. 30)*. The International Integrated Reporting Council. https://integratedreporting.ifrs.org/wp-content/uploads/2015/12/CreatingValueHumanCapitalReporting_IIRC06_16.pdf
5. JPT. (2016, February 1). *Talent & Technology: Development of Engineering Competency Models Continues*. *Journal of Petroleum Technology*, 2016(0131), 1–4. <https://jpt.spe.org/development-engineering-competency-models-continues>
6. Schultz, T. W. (1961). *Investment in human capital*. *The American Economic Review*, 51(1), 1–17. <https://www.ssc.wisc.edu/~walker/wp/wp-content/uploads/2012/04/schultz61.pdf>
7. Schumpeter, J. A. (1961). *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle*. Oxford University Press.
8. Segars, J., Druckman, P., & McGill, A. (2015). *Where is the workforce in corporate reporting? An NAPF discussion paper (p. 24)*. The National Association of Pension Funds Limited (NAPF). <https://www.plsa.co.uk/portals/0/Documents/0439-Where-is-the-workforce-in-corporate-reporting-An-NAPF-discussion-paper.pdf>
9. Sheerman, B., & Ayliffe, P. (2014). *Management 2020 – Leadership to unlock long-term growth (p. 60)*. The Commission on the Future of Management and Leadership. <https://www.managers.org.uk/~media/Angela-Media-Library/pdfs/HE/Marketing->