# NATIONAL CONTEXT OF HUMAN CAPITAL REPORTING. THE ROMANIAN ECONOMISTS PERCEPTION ABOUT INFLUENTIAL ELEMENTS OF HUMAN CAPITAL REPORTING

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**Abstract.** *Human capital reporting is under the sign of volunteering. Researchers have tried to identify the elements that influence human capital reporting, but at the national level, the research of these elements is in an incipient stage. The objective of the research is to identify the elements that have an influence on companies in order to report information about human capital. Using the quantitative method, the questionnaire, the perception of Romanian economists regarding the elements of influence was identified. All research hypotheses were statistically analysed, based on the answers received. The present study contributes to bringing the national research close to the results of the international research on the influencing elements of human capital reporting*.
**Keywords:** Human capital, Human capital Disclosing, Elements of influence in the human capital reporting
**JEL Classifications:** A10, B40, C10

## Introduction

It is clear that the information published in the financial statements and reports is important in knowing the companies. Over time, the emphasis has been on information related to assets, liabilities, equity, which are used by all accounting regulations. However, due to the fact that the automation of primary processes has reached a high level, the importance of human capital has increased considerably. However, the information published about it remained at a minimalist level. Not all companies understand the importance of human capital reporting, leading to information insufficiency. As there is no legacy alignment on reporting human capital information, the researchers sought to identify the factors that contribute to some companies reporting human capital information, and other companies do not. At the international level, the research of the elements that influence the reporting of human capital is incomparable without the research at the national level. It is based on reports published by companies on stock exchanges or on their own sites, being available to researchers. The study case contributes to national research. Elements that have not been measured so far by Romanian researchers were taken into account. At the same time, the research is based on the perception of Romanian economists, in identifying the elements of influence in reporting information about human capital. Their perception is important in the sense of a possible change in legislative requirements. The need to report on human capital was identified through elements brought to the fore by international research.

## Basic Content of the Paper

### Literature review

Every company try to form its own human capital on the basis of its development plan, strategy, in order to have at its disposal the necessary intellectual capital to achieve the proposed objectives and to always have a concrete situation of the state in which it is. Handy (1989) suggests that the intellectual assets of a company represent three or four times the book value of tangible assets (Bontis, 1998). People provide companies with the necessary support for business continuity and adding value, and their lack of companies determines the inability of the other balance sheet items to function. It is noticeable that people are constantly expanding through the human capital-tangible assets relationship which is determined by the permanent development of human capital through fixed assets, and the human capital-intangible assets relationship is determined by corporate relationships, new ideas, and other people (Karl-Erik Sveiby, 2001). The two-dimensional composition proposed by the Skandia model was not accepted in the evolution of the concept, and it reached a logical composition of human, structural and relational capital (Chatterji & Kiran, 2017). Intellectual capital was seen at the time of "Skandia" as consisting of knowledge-based components, and the only dimensions were human capital and structural capital (Edvinsson, 1997). Around 1991, the position of Intellectual Capital Manager was implemented within Skandia, the first such position in the world. At that time, the mission of this function was to measure the value of intangible assets and software, to determine transparency in knowledge, to develop intellectual capital through professional development, training and IT activities (Edvinsson, 1997).

Reporting minimum information about the employees such as number, age, gender, of an organization's new employee hires can indicate its strategy and ability to attract diverse, qualified employees and can the organization's efforts to implement inclusive recruitment practices based on age and gender, and the optimal use of available labour (GRI Standards, 2016).

More skilled employees enhance the organization's human capital and contribute to employee satisfaction (GRI Standards, 2016).

The association of Intellectual capital with the intangible assets had a spectacular increase in 2000-2001 period (Cuozzo et al., 2017: 15). Thereby, the intellectual capital reporting is meaningless, being reduced to the fact that intangible assets are already reported in the accounting. The human capital reporting, as a part of intellectual capital, is under the sign of substitution: the larger and more detailed the portion of intangible assets (especially goodwill), the lower the quantity and quality of voluntary Intellectual Capital Reporting (Schiemann et al., 2015). Over time, the term of intellectual capital was associated with goodwill, then an attempt was made to determine its value by the difference between market value and book value, but it is still remains under the sign of "what you measure is what you get" (Guthrie, 2001). The current situation of Intellectual Capital reporting is under the sign of poor understanding, inadequately identified, inefficiently managed (Taliyang et al., 2011).

Given the high degree of automation of all primary processes, human capital is the element which differentiates a company for another (Seetharaman et al., 2004). Human capital reporting has strategic relevance because it represents a competitive advantage in the current economy (Fontana & Macagnan, 2013). Human Capital Reporting can be either results-oriented in the human capital evaluation (emphasizing the recognition of employees' contribution to the company and reporting the added value of employees), or process-oriented (emphasizing the entrepreneurial qualities and knowledge of employees related to work) (Abeysekera & Guthrie, 2004).

As intellectual capital reporting is not linear and mandatory, researchers have sought to determine the influencing factors of intellectual capital reporting. In the sense that some companies disclose information about this type of capital, but other companies omit it. Firm size is one of the most measured elements, in the sense that large companies will disclose much more information about their intellectual capital than small companies (Raimo et al., 2020) (Duff, 2018); (Branco et al., 2011)(Taliyang et al., 2011)(García-meca et al., 2005)(Kateb, 2015)(White et al., 2007)(Fontana & Macagnan, 2013)(Abeysekera, 2011)(Bozzolan et al., 2003)(Ferreira et al., 2012)(Bellora & Guenther, 2013)(White et al., 2007). The type of intellectual capital reporting is narrative across all three intellectual capital categories (Duff, 2018). In terms of human capital reporting, this is usually revealed in qualitative terms (García-meca et al., 2005). Pictorial reporting is the type of human capital reporting being usually located in information provided for recruitment purposes(Duff, 2018). The most reported information about human capital are the quality and experience of managers (García-meca et al., 2005). Firm size impacts human capital reporting because, as Raimo says "larger firms generally have greater impacts on the community in which they operate and are more exposed to public pressure and through human capital disclosure, they have the opportunity to disseminate information about their human resources, mitigate pressures and avoid the risk of government inclusion in corporate management" (Raimo et al., 2020).

Another element considered that could affect the reporting of Intellectual Capital is the industry to which the reporting firm belongs (Seetharaman et al., 2004)(Sonnier, 2008)(Bozzolan et al., 2003)(Ferreira et al., 2012)(García-meca et al., 2005)(Kateb, 2015)(Bozzolan et al., 2003)(Bellora & Guenther, 2013)(Melloni, 2015). The results of the research show that, as Kateb says "the absence of control and the risk of expropriation discourage managers to reveal information to competitors on skills, knowledge and expertise developed within the firm especially since it operates in a high-tech sector (Kateb, 2015). In this knowledge economy the major challenge for managers is to transform as much as possible the human capital into protected structural capital to avoid brain drain (Kateb, 2015). Also, the more customer-oriented the industry, the more detailed the relational capital will be reported (Sihotang & Sanjaya, 2014).

Regarding the age of the company, the results showed that companies aged 41-80 (middle companies) have an increase in the reporting of intellectual capital trend (Sihotang & Sanjaya, 2014).

The impact of the "online media" factor over the intellectual capital disclosure showed that noticeable differences are related to the higher presence of Human Capital information in annual reports than on the internet and the higher presence of internal capital information and external capital information on the internet than in annual reports (Branco et al., 2011). Also, it was found that the most used methods for disclosing quantitative and qualitative Intellectual Capital information were non-traditional sources, such as its website, online reports and social media pages (Ndou et al., 2018).

Low level of intellectual capital reporting could be explained from a strategic point of view (Samudhram et al., 2010) because the companies are not ready to commit wholeheartedly to a strategy that fully endorses and properly presents the true value of Intellectual Capital ( Guthrie, 2001) and because companies fear giving away vital information to competitors and to labour (Samudhram et al., 2010).

More skilled employees enhance the organization's human capital and contribute to employee satisfaction (Approach et al., 2016). But, a result that deserves particular attention is that the quality of disclosure does not differ significantly between firms with a low or a high number of employees quality (Bellora & Guenther, 2013).

Elements such as level of growth and level of debt influence the narrative presentation of human capital in the annual reports of large companies (Abeysekera, 2011).

The results showed that the amount of voluntary HC information is related to the number of employees and the average salary (Motokawa, 2015).

## Research Questions

The research is based on the identification of the elements that determine the human capital reporting. Thereby, the research questions are: Is the size of the company an element that influences the human capital reporting?; Is the firm age an element that influences the human capital reporting?; Is the level of company growth an element that influences the human capital reporting?; Is the number of employees an element that influences the human capital reporting?; The company's online popularity level determines the human capital reporting level?.

## Research methods

The study case objective is to identify economists' perception about the factors that influences human capital reporting. To determine the economists perception, it is necessary to identify the elements measured in the national and international research. To identify what elements Romanian respondents consider to influence human capital reporting, the quantitative method was used. A questionnaire was applied to respondents, using Google Forms Platform. It was completed in March 2021. The questionnaire was published on the social media economic groups. The questions applied are

following a 5-point Likert scale: 1-strongly disagree, 2-means disagree; 3-neutral option; 4-agree; 5-strongly agree. The answers received were analyzed and statistically interpreted. The descriptive statistics was performed using Excel- Data Analysis. The research was addressed all over the hierarchical levels within private companies and public institution. This questionnaire consisted of 10 questions, and 5 of them support the research hypothesis. The questions are based on the results obtained in national and international research on the identification of elements that can determine the human capital reporting. All the answers received were analyzed from a statistical point of view, interpreting each value obtained.
Five questions were applied to know objectively the respondents. Was achieved the economists perception from public and private economic environment. The sample used covered respondents aged between 18 and 41 years, according to the table below:

**Table 1.** Structure of respondents' ages

| Age range criteria | Total | % |
|---|---|---|
| 18-24 years | 10 | 7% |
| 25-40 years | 53 | 37% |
| >41 years | 80 | 56% |

*(Source: Own processing based on the answers received)*

The sample was covered with a small difference between the number of respondents with operational functions and respondents having managerial functions, according to the table below:

**Table 2.** The function occupied by the respondents

| The function range criteria | Total | The function occupied by the respondents (%) |
|---|---|---|
| Operational functions | 74 | 52% |
| Managerial functions | 69 | 48% |

*(Source: Own processing based on the answers received)*

One of the important questions applied is to know the experience that the respondents have in the economic environment. Considering the different economic environments in which they work, through different procedures and tasks, their perception of the elements that can influence the reporting of human capital is an important one.

**Table 3**. Respondents work experience

| Work experience range | Total | Respondents work experience (%) |
|---|---|---|
| Less than 1 year | 3 | 2% |
| Between 1-5 years | 22 | 15% |
| Between 5-10 years | 18 | 13% |
| More than 10 years | 100 | 70% |

*(Source: Own processing based on the answers received)*

## Findings

Descriptive statistics were used, as there are no response groups to be able to compare the results of the questionnaire. A sample of 155 people was used, but only 143 of them work in the economic environment. Thereby, in order to obtain correct results, only the sample, consisting of Romanian economists, was used. Using *Anova Single Factor,* the statistics method was applied on the sample used. Statistics method was applied to increase the accuracy of the tested hypotheses. The hypotheses measure the perception of Romanian economists regarding the elements that could influence human capital reporting.

**HI: Firm size influences the level of reporting human capital information**

| Firm size | |
|---|---|
| Mean | 3.475524476 |
| Standard Error | 0.091407765 |
| Standard Deviation | 1.093077886 |

*(Source: Own processing based on the answers received, using Anova Single Factor)*

The hypothesis according of reporting human capital is influenced by the size of the company, is confirmed. The responses received are above the population average, which shows that respondents believe that the larger the company, the more information they will report about their human capital.

**H2: Firm age influences the level of human capital reporting**

| Firm age | |
|---|---|
| Mean | 3.384615 |
| Standard Error | 0.092527 |
| Standard Deviation | 1.106467 |

*(Source: Own processing based on the answers received, using Anova Single Factor)*

The hypothesis according of reporting human capital is influenced by the age of the company, is confirmed. The population confirmed that the longer a company is on the economic market, the more information will report about human capital.

**H3: Level of a company growth determines the level of human capital reporting**

| Level of growth | |
|---|---|
| Mean | 3.244755 |
| Standard Error | 0.086642 |
| Standard Deviation | 1.036087 |

*(Source: Own processing based on the answers received, using Anova Single Factor)*

Human capital reporting can be influenced by the company's growth level. If the company has a rapid level of growth, it will increase the level of financial reporting complexity and completeness. Therefore, the hypothesis according to which the reporting of human capital is influenced by the level of growth of the company, is confirmed. The respondents consider that the growth level of the company represents an element of influence the human capital reporting level.

**H4: Number of employees determines the level of human capital reporting**

| No. of employees | |
|---|---|
| Mean | 3.41958 |
| Standard Error | 0.096431 |
| Standard Deviation | 1.15315 |

*(Source: Own processing based on the answers received, using Anova Single Factor)*

Given that the term human capital refers to the company's employees, the respondents consider that the reporting of human capital is determined by the number of employees. The answers received are above the population average, which confirms the hypothesis according number of employees determines the level of reporting of human capital. The number of employees is a determining factor because it can be considered directly proportional to the firm’s size, the level of growth and also the firm's age.

**H5: The firm's online popularity level determines the human capital reporting level**

| *Online* | |
|---|---|
| Mean | 3.398601399 |
| Standard Error | 0.091034015 |

| | |
|---|---|
| Standard Deviation | 1.088608494 |

*(Source: Own processing based on the answers received, using Anova Single Factor)*

In the age of technology, the online environment is replacing traditional financial environment. In the online sphere, it can become much easier and faster visible than in the traditional environment, which is actually an offline one. The users of the information posted by the companies seem to be more open-minded of the new era. As in the online environment, can increase the visibility much easier, the respondents consider that the online environment can be an element of influence the human capital reporting. Therefore, the hypothesis that the company's popularity in the online environment influences the level of human capital reporting is confirmed.

## Conclusions

Human Capital Reporting is incipient in the financial reports from Romania. Through this research, the elements that can influence the reporting of human capital were determined. Previous research is based on the financial reports of listed companies. What brings to the fore the present research is the perception and openness of Romanian economists regarding the development of human capital reporting in national context. The hypotheses tested are confirmed by the answers received, which are above the population average. Thereby, the Romanian respondents confirm the need to report human capital, but they are not fully convinced, the answers being slightly above the population average. This result can be determined by the lack of legislation in this regard, by the age category that participated in the research, this being the majority over 41 years. From a psychological point of view, this category of respondents is considered a category that is not open to change. At the same time, a beneficial result emerges from the category of age between 25-40 years old, which is characterized by openness to novelty and diversity. Accounting is a social science, and the inclusion in the financial reports of some social impact information, determines a correct, complex and complete image of the companies. The research completes the research at national level by identifying, from the perception of Romanian economists, the elements that determine the level of reporting of human capital. Thus, firm size, firm age, level of growth, number of employees, the firm's online popularity are elements of influence of the reporting level of human capital.

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