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OBJECTIVES
HYPOTHESIS (ES)
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RESULTS & DISCUSSION
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INTELLECTUAL CAPITAL AS A TALENT POOL CREATES ORGANISATIONAL EXCELLENCE

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ABSTRACT

Social capital and structural capital is critical to talent development. Talent is all about an individual's knowledge and skills, but it ultimately depends upon the ability of individual. Several studies revealed that India would have more youth power as compared to other countries by 2020. The article emphasized on several models for the valuation of human capital and return on talent; corporates which are following valuation of their human capital and how it is valued and Problems associated for incorporation of Value of Human resources in Annual Reports. Talent in potential form is required to measure its return both in the macro and micro level of economy/ business. It measures the payback from investment in people. It indicates whether right people are hired and how effectively they are used to achieve organizational goals. The Economic model for value added can be revised by considering productivity, average cost per employee and number of employee in the organization, to find out value added by human resources to the organization/ stakeholders. Capitalisation super profits may be used for valuation of Human resources. It is observed that some PSUs in India have adopted Human resources accounting. It should make it mandatory for all the companies to show the value of human resources in their Annual Reports, to give the real state of affairs the company to their stakeholders.

KEYWORDS

intellectual capital, return on talent, H R accounting, value added to company/shareholders.

INTRODUCTION

It is common in Directors' report that employees is the greatest asset for success of the company and they have to be retained at any cost. Every country in the globe is operating in an environment of rapid growth. Rewards and benefits are liberal and aimed at retaining a large mass of employee base to maintain high productivity levels. Talent is all about an individual's knowledge and skills, but it ultimately depends upon the ability of individual. Social capital and structural capital is critical to talent development. Organisational performance is determined by the performance of its employees. Determination of talent is required especially in labour scarce economies of western world in assessing recruiting and retaining talent and also in determining the differential benefits both in physical and financial terms that the enterprise has derived. Human Talent Accounting (HTA) provides useful information to the Management regarding Hunan Resource capital which helps to take the valuable decisions for recruitment, training & development, promotion and retrenchment, remuneration. Traditional accounts which records all the tangible and some intangible assets, but ignore the value of human resources in Balance sheet. Therefore, The Annual reports will not the real value and the contributions made by human resources for the success of the company. This article focuses on the valuation of Human resources and Return on talent

OBJECTIVES

1. To study several models for the valuation of human capital and return on talent.
2. To Find out any company/ corporate has valued their human capital and how it was valued.
3. To study the problems associated for incorporation of Value of Human resources in Annual Reports.

REVIEW OF LITERATURE

Changing Face of Organisations: Intellectual capital is not a tangible matter at the formative stage. It becomes visible only when the process of intellection has taken some shape towards the development of specific or general skills. All most every organization in the globe has the employees of various ranks who have hidden talent in various lines related and unrelated to their jobs. Talented people may or may not know of their skill or external world may not recognize it.

Kainotophobia is wide spread and any thought about change is looked with suspicion. However, changing albeit at slow pace is matter of compulsion under threshold of globalization. (Chottopadhyay,2013), The organization will divide their employees as 'thrusters and sleepers". The thrusters look for innovative and improvement while the latter prefer to rest on oars. Investment on innovation is more in former class, but emphasis is on technology, products and markets rather than the people who are the source of this. The Managements responsibility is to recognize and act effectively and productively dealing with them and creating conditions for application of possible conditions. In Disneyland, United States of America, where the engineers are indeed called as 'imagineers'. Their human quality and capabilities are unlimited.

Knowledge Management: Knowledge derived from different situations by different persons and subjected to rigorous reasoning may give rise to a form of generalization leading to formulation of rules that may be applicable in many organizations. Knowledge Management is an area of expertise that utilizes many approaches to give a new thrust towards innovation seeking to make the best of a situation in this competitive business world.

Recognision of Talent- (Jeffrey Pfeffer), stated that "Companies that manage people right will out perform companies that did not by 30 percent to 40 percent. Recognision or non-recognision of the talented people will spell out would spell out the difference in uncertain manner. Many organizations are known to have flattered as they have to remain satisfied with substandard levels of performance. It is said that it is more appropriate and effective to have more 'Peoplistic' communication in the organization irrespective of line of activities in rather overt contradistinction with the individualistic systems of communication. This is a better communication system not only for better performance, but also for achieving unison of the organization as one body. In addition, the effective communication system breaks down the traditional organizational hierarchy in practical terms and makes it possible to reach out to people at all levels in practically. No time. In terms of talent, the hierarchy loses its meaning and significance, because the advent of new products and services. This is possible that lowest level executives may have more knowledge in certain areas than the bosses. Therefore, effective and fast communication have practically enhanced peoples' emotional commitment to sort out the problems and to innovate, resulting into recognision of talent.

Ideation- Ideas do have wings and move at supersonic speed. Ideation finds fruition easily and it spans effectively not only in the entire organization but also in externalities in their entirety. In this competitive environment team work has to be developed for giving a shape to what is being done today, what is in store for tomorrow, making a way for future series of activities seeking to push the organization from existing level to those higher and brighter. Talent differentials may be quite significant in teams, but the leader of the team in practice has to have the responsibility inbringing out the best from every in his team. The top level leadership qualities may be coming from the bottom rather than the top (Marvin Bower.

Human Capital Accounting- Human resources like any other physical and financial assets have the ability of value creation and more over appreciate over a period of time. With the contributions human resources, many companies had taken turn- around from worst conditions to normal position. It is a tool for measuring efficiency of Human Resources policies and practices. One of the important decision factors for investment in the company is HTA. It is also useful for cost control through the elimination of inefficiency in Human Resources of the Organizatio, which results in profitability.

Brooking (1997) identified the importance of human capital to the organization and appropriate steps are necessary to account the contributions of human resources to the organization, if not the organization will lose them and when human capital leaves it will lose all competencies that is gained due to it.

Wall et al, (2004) identified the need for development of structural capital base to incorporate the value of their human capital as a part of their corporate culture which necessarily carry a higher value than their material value and identifies the need for development of measures for creating basis for such valuation scientifically.

Roose et al, (2005) showed how human resources/ capital of the organization carry higher value along with other intangibles which created a superior R&D, (Goodwill, Patents, Copyrights etc) and shows how motivated man power can create value to their operational process which in turn creates value to the organizations defined stakeholders.

Moustaghfir (2005) found in his study, how accounting for intangible stock, i.e. intellectual and knowledge resources by the organizations acts as very vital resources for achieving organizational objectives, for which he calls every organization to bring in transformation in their attitude towards their intellectual capital base that they carry with them in the organization.

Lilly S Marth and Reed, O Renald, identified the flaws in accounting standards for recording intellectual capital on their financial statements, either to treat such expenditure incurred for creation of their intellectual asset base as revenue expenditure or capitalize the same. The study suggested that regardless of acquiring their intellectual capital internally or externally they will have to be valued using comparative values (pre and post acquisition) as the stakeholders most of the times evaluate the performance and assign credit worthiness based only on the organisations' reported financial facts. Therefore, organizations while valuing their human assets will have to have scientific basis of evaluation as undervaluing such assets will make the companies real value understated.and suggested for development of efficient accounting standards that can help in realizing optimal value for their operations and create value for the stake held by their stakeholders.

Talent- The talent is defined in the present context as a skill or aptitude that comes in open rather accidentally in the face of a challenging situation. Creativity is a kingbolt of talent. It is universal and found unsuspected spots in potential form. The noblest of talent abide and pass away silently. An organization consists of people with formally assigned roles who work together to achieve the organizational goals. Potential development and retention should be geared up towards the best performing talent as talented employees are the agents of change.

Human Talents Accounting (HRA)-It is a process of quantifying cost and value of human resources of an organization to know their contributions for the achievement of organizational goals and also to the better management of their services so as to get their best value till retirement.

American Accounting Association defined Human Resources Accounting as" The Process of identifying and measuring data about human resources and communicating this information to the interested parties." Human Resources Strength – Among the major countries of the world is given in table-1.

TABLE 1: THE AVERAGE AGE OF CITIZENS IN 2020AD

Country	Average age of citizens
India	29
US	37
China	37
Western European countries	45
Japan	48

Source: International Monetary Fund

The table indicates that India would have more youth power as compared to other countries. A proverb says "Catch them young" to marking out talent, is most appropriate.

Return on Talent (ROT) – Talent in potential form is required to measure its return both in the macro and micro level of economy/ business. It measures the payback from investment in people. It indicates whether right people are hired and how effectively they are used to achieve organizational goals.

Return on talent Index- To construct an index, monetary values are to be assigned for each element.

ROT= (R-Tc) / Tc,

Where

R=Return on talent;

Tc = Total cost.

Total cost= Cost of spotting talent + cost of developing talent + cost of required environment in which talent can work +cost of rewarding.

Human Economic Value added (HEVA)

Apostle- Stern Stewart, defined, Economic Value added is the excess of net operating profit after tax over cost of capital. Fitz –enz (2000), brought the concept of Human Economic Value Added (HEVA).

HEVA= (Net operating profit after tax – Cost of capital)/ Full time equivalent of Human resources or labour. HEVA in simplest form is profit per employee.

Economic profit- Barber and Strack (2005)- The equation for the calculation of economic profit is based on conventional capital oriented one. The employee productivity is substituted for capital productivity i.e. return on investment. The average personnel cost per person employed corresponds to the cost of capital. The number people employed corresponds to the amount of invested capital. Economic profit is reformulated by substituting some basic components to on productivity of the people rather capital. The equation highlights the employee related drivers of a people – investment business. (Services Sector).

Economic profit- perceptive

Economic Profit = (ROI- COC) IC

ROI= percentage of Return on Investment; COC= Percentage of Cost of Capital and IC= Invested capital.

Return on Investment can be replaced with its equivalent Earnings divided by Invested Capital

=[E/IC- COC]IC Where E/IC= Earnings/ invested capital

Earnings= Revenue- Employee costs

Employee costs= personal costs (PC)+ supplier costs (SC)+ depreciation)

= R- (PC+ SC+D)-(COC x IC)

The above formula can be modified by incorporating key people oriented elements for calculation of return on investment. They are number of people employed, employee productivity and average personnel cost per person employed.

={ [R- EC - (COC x IC) / P]- (A x P)

Where R= Return, P= Employee productivity; A= Average cost per person and P= People employed.

Accordingly, Economic Profit = [EPR- ACP] P Where EPR= Employee productivity rate/ return; ACP= Average cost per person and P= People employed

This model can be applied where the organization is a perfect candidate for this people centered metrics. In other words, this model is suitable where there are high employee costs, and limited spending on research & development and high ratio of employee costs to capital costs.

Other valuation models of Human Resources:

Historical cost Method (Brummentmodel**):** This method is developed by Brumment with the aim of measuring firm's investment on human resources. The cost of recruitment, selection, training and development for the employees will be capitalized to find out the value of investment and to be shown on the asset side of the Balance sheet. The capital expenditure is amortised over the expected life of the human assets. The amortised portion is charged to Profit & Loss A/c. If any employee leaves early, unamortised amount is transferred to Profit & Loss A/c treating it as a loss. The problem associated in this model is to find out the effective life of human assets.

Replacement Cost Method (R. Likert and E.G. Flamhottz model)-

The value of Human resources is equal to replacement cost of recruitment, selection, training and development for the employees. It is very difficult to find out replacement of all employees in the organization. More over replacement cost will not reveal competency/ skill set of employee, which reflects the return on talent.

Opportunity cost Method (Hekimaian and Jones model)- Under this model the value of the human resources is equal to capitalized value of total bid cost of all scarce employees.

Rewards valuation model (Flanholtz model)- This model suggests to identify the major variables to determine individual's expected realizable value to the organization. The expected realizable value of an individual is the present value of the services he is expected to be given in the service period remain in the organization. This model is worked out on the assumption that the person's value in the organization depends upon his position in the organization. People occupy different roles in the organization as they move in future, they give more rewards in the form of services to the organization.

Economic Models (Earnings Approach) / Lev and Schwartz model – This model suggests that the value of human resources of the company is the summation of value of all the net present value expenditure on employees. This method has been adopted by many companies. However, this method does not consider training expenses, productivity attrition rate etc of employees.

SUGGESTED MODEL FOR VALUING HUMAN RESOURCES / CAPITALISATION OF SUPER PROFITS

Super profit of the company is to be ascertained. It is to be capitalized at normal rate of return to find out the value of human resources and it can be shown the Balance sheet.

TABLE 2: ILLUSTRATION (Imaginary Figures)

Particulars	2014	2015
Capital Employed	Rs.1000 lakhs	Rs. 1100lakhs
Normal rate of return of the company	10%	10%
Profit after Tax	Rs. 120 lakhs	Rs.140lakhs
Less normal rate of Return on Capital employed (10%)	Rs.100 lakhs	Rs. 110 lakhs
Super Profit	Rs. 20 lakhs	Rs. 30 lakhs
Increased Earnings	Rs. 30 lakhs-20 lakhs= Rs. 10 lakhs	
Normal capitalization rate	10%	
Value of Human resources	(Super profit x 100)/ Normal capitalization rate =(Rs. 10lakhs x 100) 10 = Rs. 100lakhs	

The above model is based on the assumption that normal rate of return in the company / industry is the most appropriate variable for capitalizing the super profit, in spite there is a change in the capital employed of the company over a period

FINDINGS

1. The concept of Human capital is not a new one, particularly in India.
2. On the study of various models on Human Resources Accounting, It is observed that some PSUs in India have adopted Human resources accounting such as Bharath Heavy Electricals Ltd., Steel Authority of India Limited, Minerals and Metals Corporation Ltd, National Thermal Corporationb Ltd, Hidustan Coppers Limited, Oil India Ltd., TaTa, Birla, Wipro, Tech Mahindra, Infosis Technologies etc have adopted accounting of Human resources and showed the same as separate section in their Annual report.
3. Infosis Technologies followed Lev and Schwartz model in the valuation of their human resources.
4. Return on talent is the difference between employee productivity and average cost of the employee. Its emphasis is more in soft ware and service sectors, as they depend on human resources.

PROBLEMS IN HUMAN TALENT

Human resources cannot be owned by the organization like other tangible assets such as Plant & Machinery, Furniture etc. Income tax department will not recognize Human Resources as business asset. Moreover, human resources cannot be measured in monetary terms such as praise, loyalty honesty etc. In addition, no future benefits are assured for human talent.

SUGGESTIONS

1. The Professional bodies over the globe, must give due attention to find out the way of valuing human resources of the organization.
2. Uniform Accounting policy/ standard for valuing human resources is to brought in existence to bring the uniform measurement in all the companies.
3. It should make it mandatory for all the companies to show the value of human resources in their Annual Reports, to give the real state of affairs the company to their stakeholders.

CONCLUSION

It may be under stood that Value of human capital and return on talent are measurable both in quantitative and qualitative terms. Development of the human capital will not only serve the purpose of today but also of tomorrow. In this competitive world, the emphasis should not only in finding out the talent but also they are constantly under focus. Return on talent is important all over the world, in spite of difference in its emphasis. In labour scarce economies, the focus is to get the return out of the best, while labour surplus economies emphasize on employment creation and disciplined utilization of human capital. Return on talent is the excess return of employee productivity over average cost per employee. Capitalisation of super profits method is one of the appropriate methods suitable for valuation of human resources.

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