Human Capital Accounting: Creating Value Through People

1. INTRODUCTION

In today's knowledge-driven economy, people contribute skills, innovation, leadership, relationships, and organisational culture that drive long-term value creation. Traditional financial measures often overlook these contributions, creating the need for a framework that measures the value generated through investments in people.

2. DEFINING HUMAN CAPITAL ACCOUNTING

Human Capital Accounting (HCA) is an approach that recognises employees as strategic assets rather than merely operational costs. HCA refers to the process of identifying, measuring, analysing, and reporting the value employees contribute to an organisation. It evaluates how investments in training, development, engagement, wellbeing, and talent management support productivity, innovation, organisational performance, and sustainable growth. Unlike traditional accounting, which records employee-related expenditure as costs, HCA focuses on the returns generated from these investments.

3. WHY HUMAN CAPITAL MATTERS?

In modern organisations, competitive advantage increasingly depends on knowledge, service quality, innovation, customer relationships, and organisational culture rather than physical assets alone. Employees influence productivity, customer satisfaction, risk management, resilience, reputation, and stakeholder trust. Organisations that successfully attract, develop, engage, and retain talented employees are better positioned to achieve sustainable success.

4. EVOLUTION OF HUMAN CAPITAL MEASUREMENT

Historically, workforce reporting focused on headcount, salaries, and employment costs. While useful, these measures provide limited insight into workforce effectiveness. Modern HCA includes broader indicators such as employee engagement, capability development, productivity, diversity and inclusion, leadership effectiveness, wellbeing, learning and development, and talent retention. This shift reflects the growing recognition of employees as long-term value creators.

5. HUMAN CAPITAL AND INTEGRATED REPORTING

The International Integrated Reporting Framework identifies Human Capital as one of the six capitals that contribute to value creation. Human Capital includes employee skills, competencies, expertise, leadership capabilities, motivation, engagement, organisational culture, and alignment with organisational values. It interacts closely with Intellectual Capital, Social and Relationship Capital, and Financial Capital, influencing strategic execution and sustainable performance.

6. KEY AREAS OF HUMAN CAPITAL ACCOUNTING

HCA focuses on several important dimensions. Workforce composition examines employee demographics, diversity, and talent availability. Learning and development measure investments in training, certifications, and leadership programmes. Employee engagement assesses commitment and participation levels, while talent retention evaluates turnover and the ability to retain critical skills. Health, safety, and wellbeing metrics monitor workplace wellness and resilience. Diversity, equity, and inclusion indicators assess representation, pay equity, and workplace inclusiveness.

7. HUMAN CAPITAL RETURN ON INVESTMENT (HCROI)

One of the most commonly used HCA metrics is Human Capital Return on Investment (HCROI), which measures the value generated relative to employee-related costs. HCROI helps organisations assess how effectively workforce investments contribute to business performance. Higher HCROI values generally indicate stronger returns from investments in employees and workforce development.

8. BENEFITS OF HUMAN CAPITAL ACCOUNTING

HCA supports better strategic decision-making by providing insights into workforce effectiveness and future talent needs. It enhances investor confidence by demonstrating how people contribute to long-term value creation. HCA also improves workforce planning, succession management, capability development, sustainability reporting, and the management of workforce-related risks and opportunities. Ultimately, it helps organisations strengthen overall performance and competitiveness.

9. HUMAN CAPITAL ACCOUNTING IN SRI LANKA

Sri Lankan organisations are increasingly recognising the importance of workforce development, employee wellbeing, diversity, inclusion, and organisational culture. Many companies now disclose information relating to employee training, engagement, health and safety, talent development, and diversity. This reflects growing stakeholder expectations and a shift toward measuring workforce effectiveness rather than relying solely on traditional workforce statistics.

10. RELEVANCE TO THE FINANCIAL SECTOR

HCA is particularly important in the financial services industry, where performance depends heavily on knowledge, expertise, customer relationships, professional judgement, and trust. Financial institutions rely on employees to manage risks, ensure compliance, deliver customer service, drive innovation, and support digital transformation. Investments in training, leadership development, employee wellbeing, and talent retention directly influence operational resilience and long-term competitiveness.

11. EMERGING TRENDS AND FUTURE OUTLOOK

HCA continues to evolve through developments such as Human Capital ROI measurement, workforce productivity analytics, skills-based workforce planning, employee experience assessment, AI-driven workforce analytics, and Human Capital valuation models. Global frameworks including sustainability reporting standards, ISSB disclosures, and the World Economic Forum Stakeholder Capitalism Metrics are increasing expectations for workforce transparency and accountability. Future business success will depend on organisations' ability to attract, develop, engage, and retain talented employees while aligning workforce decisions with long-term strategic goals.

12. CONCLUSION

HCA represents a significant shift in how organisations measure performance and value creation. It recognises employees as strategic assets that drive innovation, productivity, resilience, and sustainable growth. For Sri Lankan organisations, particularly within the financial sector, HCA provides a valuable framework for strengthening decision-making, enhancing stakeholder confidence, improving workforce management, and demonstrating how investments in people contribute to long-term organisational success.