An Economic Value Approach to Intellectual Capital Accounting: A Case Study of Oman's Hospitality Industry

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ABSTRACT: In the earliest ages people's commercial activities were predominantly based upon direct haggle system and subsequently, the keeping of records wasn't a part of commercial entities. Later on, in production activities, people started using some initial inputs thus, trifling prerequisite of estimation and transactions in monetary term was realized that helped to originate the coins and alternative currencies. Most of the transactions were wiped out of money, and principles of transactions upon credit terms became a part of business activities, recording of transactions became a compulsion to know the amount were outstanding to him by his customers and what as owing by him to his creditors. Now the day's commercial activities have reached at its advanced stage. In any form of business two categories of resources are used; active resources and inactive resources. A business cannot be operated without human resource. Human resource also be called as active resource as it uses the non-active resource and makes it doable to the most effective utilization of that inactive resource (Ojha 2013). We can understand that in contemporary production troposphere the indispensability of human resource has been reduced up to a great extent but still without a minimum quantity and quality of human resource, a business cannot be operated. Hence, the human resource will continuously have greater degree of favorable position over the inactive resources. This paper is an effort to explore prevailing practices of HRA in hospitality industry of Dhofar region in Sultanate of Oman by applying reformed Lev & Schwartz model.

KEYWORDS: active resources, inactive resources, human resources, HRS, hospitality industries, Lev & Schwartz model

Introduction

One of the foremost notable omissions of our traditional accounting is demonstration of the human capital employed, except in the financial statements regarding human resources is entries within the Profit and Loss Accounts, in respect of expenses associated with workforce. These entries refer exclusively to day-to-day overheads incurred in cash on the labour whereas conventional assets used in the computation of financial gain are shown in the financial statement either within the type of capital subscribed by shareholders or as assets acquired with this capital like permanent assets and current assets however the financial statement is silent on the assessment of human capital used (Ojha 2013). Hence, within conventional accounting procedures most of the corporates replicate the amount of inventories, investment within the plant and instrumentation and also the condition of plant and instrumentation however ignore attention towards human organization that workers and their loyalty, skills motivation and capability of effective interaction communication and higher cognitive process.

The total absence of any detail regarding the prominence of human capital will be a severe handicap to higher cognitive process each by managers, using quantitative objectives and to investors, seeking to create a lot of rational choices regarding investment that they hold or propose to shop for. From this it is clear that within existing conventional accounting system most of the vital policy judgements are based on something 25-50 % accounting as a result of human resources, the magnitude of the operating profit producing assets, being neglected and not enclosed in financial reporting.

Presently, human and intellectual capitals are seemed to be the strategic resources and so, clear estimation of their worth has gained vital importance. The fostered pressures for corporate governance and also the corporate code of conduct hard to please transparency in accounting

have additionally support the requirement for methods of determining human value (Ojha 2013). The Company Act, does not specifically offer for discourse on human assets within the financial statements of the corporates. However, sensing the advantages derived from valuing and recording the human assets, a number of corporations have voluntarily disclosed all relevant information in their books.

The purpose of HRA is to portray the prospective of HR in pecuniary terms, at the time of artifact the organization's financial statements. The theory is examined from dual dimensions: (i) the investment in human resource; and (ii) the worth of human resource. The expenditure incurred for recruiting, staffing and training and developing the HR quality is that the investment in HR. The fruits of such investments are boosted productivity and profit to the organization. The yield that the investment generates is taken into account as the basis for HR value (Ojha 2013).

Just like financial capital structure that consists of varied forms of capital, the human capital structure consists of different kind of personnel in a company. The classes of employees; executives, supervisors, artisans, clerical and skilled-staff or semi-skilled employees. The composition and proportion of multifarious forms of personnel play a crucial role within the development of a company.

People are the preeminent asset; the lone real distinction between one organization and the other is that the performance of the individuals. The survival, development and performance of a company rely heavily upon the excellence of force.

Human capital refers to the competency, capabilities, skills, and experience of the human members of the organization. It is that understanding that every individual has and which may be place to productive use.

Internally and externally, HRA would deliver data, to investors and different employees, regarding the value of human resources, the returns on investments in training and development and the link between HR interventions and financial results (Ojha 2013). As the simplest way to assess human capital, HRA represents a novel method of thinking strategically. For internal use HRA are often thought-about a management tool, and for external use, a tool for identification of the enterprise/ organization (Frederiksen 1998).

Objectives of Study

The primary purpose of human resource accounting is to facilitate the management of individuals as organizational resources. The present study has been concerned with the subsequent objectives:
1. To explore current practices in hospitality industries in valuing their human resources.
2. To investigate the current human resource valuation practices of hospitality industries.
3. To determine whether or not human resources valuation is worthy for internal management purposes moreover as for higher cognitive process by investors, financiers and creditors.
4. To determine the point of view of professional accountants and shareholders regarding the desirability of public disclosure of human resource information by the enterprise.
5. To recommend effective human resources accounting model.

Literature Review

According to Flamholtz (1985), the value of an employee represents his current worth of the services that he might render to the organization in the future. As an individual passage from one position to another, at the identical level or at different levels, the profile of the services provided by him is probably going to vary. The current cumulative value of all the possible services that will be rendered by him during his/her association with the organization is that the value of the individual. Characteristically, this value is tentative and has two dimensions. The primary is that the expected

conditional value of the individual and the second dimension of his value is that the expected realizable value, which could be a function of the expected conditional value, and also the probability that the individual will remain within the organization for the duration of his/her productive service life.

Given the uncertainty and also the exertion related to determination of the worth of human capital, Baruch and Schwartz (1971) suggested the use of employee's future compensation as a surrogate of his value. According to them, "the value of active resources personified in a person of certain age is the present value of his remaining remunerations from employment.

Hermanson (1964) proposed a model in his pioneering work on Michigan State University based upon the idea that a relationship exists between a person's salary and his value to the organization. He suggested the discounting of wage payments to people as a measure of a person's value to a corporation. He suggested the adjusted discounted future wage stream by an efficiency factor. To calculate Efficiency Ratio, he makes use of weighted average of firm's net income during the past five years. The weights are assigned in a very reverse order – highest to current year, i.e., 5 and 1 to the preceding 4th year.

Hekimian and Jones (1967) proposed Competitive Bidding Model. In this method, an indoor marketplace for labour is developed and also the value of the staff is decided by the managers. Managers bid against one another for human resources already available within the organization. The best bidder 'wins' the resource. There are not any criteria on which the bids are based. Rather, the managers rely only on their judgment.

Likert and Bowers (1971) propose causal, intervening, and end-result variables, which determine the group's value to a corporation. Causal variables are those which may be controlled by the organization. These variables include managerial behavior and organizational structure. Intervening variables reflect organizational capabilities and involve group processes, peer leadership, organization climate, and also the subordinates' satisfaction. Both, the causal and the intervening variables determine the end result variables of the organization.

The Brummet, Flamholtz, and Pyle (1968) model follows the principle that a resource's value is equivalent to the current worth of the longer term services it will be expected to render, and thus, it can provide a basis of measuring the worth of a gaggle of individuals. According to this method, groups of human resources should be valued by estimating their contribution to the whole value of the firm. Thus, a firm's forecasted future earnings are discounted to see the firm's present value, and a little of those earnings is allocated to human resources bestowing to their contribution. This method was adopted to value the sales price within the insurance industry at the time of its acquisition or sale. Under this method an estimate is created of the contribution of human resources to the whole value of the firm.

Dr. S. K. Chakraborty (1976, 397) has made a pioneering contribution by suggesting a model of valuation of human resources of a corporation. He has suggested that it is the foremost appropriate to incorporate human assets under the heading of investment within the financial statement of a corporation.

Research Gap: Most of the models concentrate upon the uncertainty and the difficulty associated with determination of the value of human capital, and suggested the use of an individual employee's future compensation as a surrogate of his value. The researcher will divide group of employees into homogeneous groups of employees, such as unskilled, semiskilled, and skilled employees, engineers of different kinds, salesman, managerial staff, and etc. Average earnings profiles, based on census data, will be constructed for each group and the present value of human capital calculated. The sum of present values over the various employee groups will provide the total human capital value associated with the firm and will propose a refined model.

Research Methodology

1. Sample Area: The present study is a resource approach to manpower. To make the study more concrete and meaningful, the researcher has selected four hospitality companies from different segments; Five star, Three Star, Two Star, and One star, for the purpose.
2. Period of the Study: 2014 to 2018
3. Valuation is based on most widely used "Lev & Schwartz" model.
4. Aggregate future earnings during remaining employment period of employees, discounted at 10% p.a. for all the years under study, provide present valuation.
5. Future earnings are based on current emoluments with normal incremental profile.

Methods of Data Collection
Primary Sources: The primary data for the purposes of the study have been collected from the corporate office, zonal office and divisional office and branches of hospitality companies. Personal interviews were held at various levels of the enterprises viz. managers, executives, supervisors, technical staff, clerical and office staff, etc. to collect primary data.
        Secondary Sources: These include annual reports, journal and magazines, standard books, newspapers and other literature.

Sampling Technique: Sampling technique used in the study is deliberate sampling technique.

Data Analysis: Keeping in view the above objectives of the study, the researcher has adopted the following hypothesis to verify the results scientifically The Human Resource Accounting is in the initial stage of India and has not generally been adopted by most of the companies.

Statistical Tools: To test the given hypothesis and presentation survey findings, the appropriate statistical tools, wherever necessary, have been used.

The Lev and Schwartz Model

This Model is also known as the Compensation Model. Given the uncertainty and the difficulty associated with determination of the value of human capital, Baruch Lev and Aba Schwartz suggested the use of an individual employee's future compensation as a surrogate of his value. According to them, "the value of human capital embodied in a person of age x is the present value of his remaining earnings from employment." This value for a discrete income stream is:

$$\underset{t=x}{\overset{T}{Vx}} = \Sigma \frac{I(t)}{(1+r)^{t-x}}$$

Where Vx = the human capital value of a person x years old.

    I(t) = the person's annual earnings up to the retirement

     r = a discount rate specific to the person and

    T = retirement age.

Because Vx is an ex-post value, given that I (t) is obtained only after retirement, and Vx ignores the possibility of death occurring prior to retirement age, the authors have refined the valuation model after incorporating Px(t) the probability of a person dying at age t in the following manner:

$$\Sigma(V'x) = \sum_{t=x}^{T} Px(t+1) \sum_{t=x}^{t} \frac{I'i}{(1+r)^{t-x}}$$

     i.   Where I'i = Future annual earnings
     ii.   Px(t)= the probability of a person dying at age t, and
     iii.   ∑(V'x) = The expected value of a person's human capital.

The firm's labour force will be divided into homogeneous groups of employees, such as unskilled, semiskilled, and skilled employees, engineers of different kinds, salesman, managerial staff, and etc. Average earnings profiles, based on census data, will be constructed for each group and the present value of human capital calculated. The sum of present values over the various employee groups will provide the total human capital value associated with the firm.

Case Study of Tourism and Hospitality Industry in Oman

Sultanate of Oman, relatively new entrant in International tourism, has registered incredible growth, both in domestic and international categories, during the last five years or so. Every year, on an average six to seven percent growth is recorded by this enchanting destination. According to World Travel and Tourism Council (WTTC), the annual growth rate predicted for the country is estimated from six to eight percent until 2017 as new investments pour in for development. The accommodation sector has shown consistent progress over the last several years. According to a report released by the National Centre for Statistics and Information (NCSI), the number of tourists stayed in four-and five-star category hotels has increased by 10.8 per cent to 614,000 in 2013 over the previous year. According to the Middle East Hotel Benchmark Survey Report, Oman's hospitality sector recorded a strong growth in 2013, with occupancy rates rising up to 68 per cent in 2013, just behind that of the UAE and Saudi Arabia. Muscat was closely followed by Doha (64 per cent) and Jordan (61 per cent). Moreover, air transport in the country has registered a significant growth rate over the last few years and increased growth is predicted in the forthcoming years, especially on account of the new airports that are going to be commissioned soon. The air transport sector across the world has shown growth so far this year, but the growth in the Middle East region, especially in Oman is much higher than the international rates.

United Nations World Tourism Organization (UNWTO), in a press release reports that the Sultanate's tourism revenue from international visitors exceeded $1 billion for the first time in 2012, making it one of the top tourism destinations in the Gulf region. Oman's international tourism receipts increased from $996 million in 2011 to $1.095 billion last years. Currently, Oman is in the fourth place after the UAE, Saudi Arabia, and Qatar, whose international tourism receipts for 2012 were $10.38 billion, $7.43 billion, and $2.85 billion, respectively. The Sultanate also took home top honors including the '20 Top Tourist Destinations in the World' in the latest edition of the 'National Geographic' magazine – the only Arab country to figure in the elite list.

The Ministry of Tourism is working on a new strategy on tourism with support from an external agency specialized in tourism, in order to increase the contribution of tourism sector to the GDP of the country, press release of the Ministry says. The sector's contribution to the GDP stood at 6.6 per cent in 2012. Meanwhile, the annual Arabian Travel Market roadshow reaches in Muscat recently, bringing together key industry players to discuss marketing opportunities to showcase Oman's tourism ambitions.

The country is raising awareness of its tourism-related developments at this year's Arabian Travel Market (ATM), where exhibitors may include the Oman Ministry of Tourism, Oman Airways and for the first time, Muriya Tourism Development. Developing new hotels and resorts and bringing them to market is one of Oman's top priorities. A number of large-scale transport infrastructure developments will be coming to fruition over the next few years at a cost in excess

of $50 billion. This was demonstrated by figures from global research and analytics company Aranca, which revealed that as of July 2013, Oman had the largest growth in its active hotel development pipeline of all the MENA countries, up 59.9 per cent on July 2012, with 4,577 rooms.

Targeting international visitors is high on the agenda for Oman Air, which plans to go double-daily on its Muscat-London route and branch out into other medium- and long-haul markets when new A330 and B787 aircraft are delivered, taking its total fleet size to 50 by 2017. The current trends leading to the fact that the country is poised for incredible growth in the years to come and will occupy a leading position in the list of top tourist destinations in the Middle East very soon.

Analysis and Interpretation of Collected Data

Number of employees and average cost and benefits to employees at Hilton Salalah is almost similar during the study period. The highest number of employees are 177 in the year 2017 and highest average cost and benefits to employees are 5,971 OMR in the year 2016. The minimum number of employees are 168 in the years 2014 and 2018, and minimum average cost and benefits to employees are 5,785 OMR in the year 2014.

The average value of human resource is 60,006 OMR.

The highest number of employees at Hamdan Plaza Hotel Salalah are 77 in the year 2014 and highest average cost and benefits to employees are 2,881 OMR in the year 2017. The minimum number of employees are 72 in the year 2018, and minimum average cost and benefits to employees are 2,135 OMR in the year 2014.

The average value of human resource is 31,672 OMR.

Number of employees and average cost and benefits to employees at Salalah Hotels remain same, three and 3,600 OMR respectively, during the study period. The average value of human resource is 36,699 OMR.

The highest number of employees at Al Jabal Hotel, Salalah are 18 in the years 2014 and 2017 and highest average cost and benefits to employees are 4,300 OMR in the year 2017. The minimum number of employees are 15 in the years 2016 and 2018, and minimum average cost and benefits to employees are 3,299 OMR in the year 2016.

The average value of human resource is 2,283 OMR.

Tables

HILTON, SALALAH					
Years	2014	2015	2016	2017	2018
Total Cost & Benefits to Employees (OMR)	971,875	1,012,046	1,038,908	1,054,574	985,719
Number of Employees	168	172	174	177	168
Average Cost & Benefits to Employees (OMR)	**5,785**	**5,848**	**5,971**	**5,958**	**5,867**
HAMDAN PLAZA HOTEL					
Total Cost & Benefits to Employees (OMR)	164,390	184,820	198,293	218,990	201,710
Number of Employees	77	74	76	76	72

Average Cost & Benefits to Employees (OMR)	2,135	2,498	2,609	2,881	2,802
SALALAH HOTELS					
Total Cost & Benefits to Employees (OMR)	10,800	10,800	10,800	10,800	10,800
Number of Employees	3	3	3	3	3
Average Cost & Benefits to Employees (OMR)	3,600	3,600	3,600	3,600	3,600
AL JABAL HOTEL					
Total Cost & Benefits to Employees (OMR)	3,500	3,400	3,200	4,300	4,100
Number of Employees	18	17	15	18	15
Average Cost & Benefits to Employees (OMR)	195	200	213	239	273

Computation of Value of Human Resource

	E(x) (in OMR)
HILTON, SALALAH	60,006
HAMDAN PLAZA HOTEL	31,672
SALALAH HOTELS	36,699
AL JABAL HOTEL	2,283

Example of Computation of Value of Human Resource at Hilton, Salalah:

$$\sum_{i=2014}^{2018} X_i = \sum \left| \frac{104.9}{1000} (60+1) \right| \sum \left| \frac{5785}{(1+0.1)^{12}} + \frac{5849}{(1+0.1)^{12}} + \frac{5971}{(1+0.1)^{12}} + \frac{5950}{(1+0.1)^{12}} + \frac{5867}{(1+0.1)^{12}} \right| =$$

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