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Investigating the possibility of including key employees as assets in South African companies' financial statements

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Investigating the possibility of including key employees as assets in South African companies' financial statements.

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Management, University of the Witwatersrand, in partial fulfilment of the
requirements for the degree of Master of Business Administration**

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DECLARATION

I, Pieter Kruger, declare that this research article is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signed at

On the day of 2019

DEDICATION

Aan die liefde van my lewe, Danique en ons pragtige dogter, Clara.

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I would like to express my sincere thanks, appreciation and gratitude to:

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ABSTRACT

The purpose of this research study is to ascertain if a key employee in a company can be recorded as an asset on a company's balance sheet.

Traditional accounting methods and record keeping does not allow for this in the corporate setting, as an employee does not comply with the traditional definition of an asset.

The idea for this study came about when it was considered that football players are recorded as assets on the balance sheets of the football clubs that they play for. Certain criteria are used to determine their worth, based on their experience, past achievements and the skillset that they possess.

The question was asked: Can corporate accounting be developed in such way as to recognise employees as assets to the company?

The problem with this concept in the past has been that employees are classified as Human Capital, which is further classified as an intangible asset, without an objective monetary value. The other aspect that has hampered this process in the past has been the fact that employees are diverse, multi-dimensional, each with different levels of qualifications, experience and inert characteristics. The controllability of human beings and Human Capital as assets have also been difficult to overcome in the past.

Football players also possess this diversity among them. Will it be possible to draw parallels between these two situations in order to facilitate this process?

The design of this study includes an extensive literature review into the topic, as well as qualitative data collection, facilitated through in-person or telephonic interviews with corporate professionals.

In this research study the importance of employees as Human Capital within an organisation has been found to be undeniable. Key employees exist in most, if not every organisation, big or small. They are the employees without whom a company

would not be where it is now. They possess a wide range of skills and attributes than contribute to the financial value of organisations.

Up until now there has been great debate over the classification of employees as assets in organisations, but if one looks at the industry of football, they have been able to record their players as assets on their balance sheets.

The possibility still exists for the formulation of a method in which traditional employees can be classified as assets, by drawing a parallel between the corporate environment and the football industry.

Keywords: Asset, Balance Sheet, Football, Human Capital, Human Resource Accounting, Intellectual Capital, Intangible Asset, Key Employee.

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INTRODUCTION

Background to the study

The South African Minister of Public Enterprises Pravin Gordhan has recently acknowledged that it was a “bad idea” of Eskom to discharge industry professionals as part of their restructuring plan (Head 2019).

This contributed to the power utility’s fall from grace. Once seen as a powerhouse in the world has crumbled down to laughing stock. It may be argued that Eskom got rid of the most important part of any organisation - their most skilled employees.

As South Africans we know that the rest is history.

Background to the accounting perspective

Companies will often refer to their employees as their most valuable assets. It can be argued that this statement is fundamentally flawed due to the fact that employees are not recognised as assets in any company’s financial statements. The reason for this is that an employee does not fall within the conventional definition of an asset as set out by the IASB (International Accounting Standards Board). In order to be recognized as an asset, the IASB has set out the following definition of an asset as:

“Asset is a resource controlled by the entity as a result of past events and from which economic benefits are expected to flow to the entity.”

Currently no framework exists to include, Human Capital, arguably the most important asset, when valuing an organisation. Most stakeholders of an organisation will agree that it is important to know what the true value of the organisation is before investing into the organisation. One cannot establish the true value of an organisation without taking Human Capital in consideration.

The question however is what makes an employee valuable in the sense that it can be considered as the most important asset? According to Omotayo (2015), the new

competitive advantage in an organisation is knowledge and not just the financial capital of an organisation.

To fully understand why we are not recording employees as assets, Bokhari (2012) sets out the specific criteria, which needs to be adhered to in order for something to be considered as an asset namely: Identifiable, Controllable and Future Economic Benefit.

The first criteria that it needs to adhere to is that it should be “Identifiable”. It is quite self-explanatory, but for clarity, it simply refers to the fact that one asset should be seen as a separate entity from another, taking into account that it can, for example, be sold or leased, or has arisen from a contract.

The second criteria to consider is that whatever you wish to recognise as an asset, should be “Controllable”. If an asset is controllable, it means that whomever is in possession of this asset, is likely to obtain benefits from it, i.e. future economic benefits, and that the organisation has the ability to restrict others from gaining that same benefit from that specific asset. Otherwise put, if a company does not own an asset, they should not be able to use it to their benefit.

The last criterion is “Future Economic Benefit”, which is also easy to understand, and simply refers to the fact that having said asset in a company will ensure future economic growth or gain for the company.

When taking the above-mentioned criteria into consideration, specifically the “Controllable” aspect of the criteria, along with the definition of an asset, as set out by the IASB, an employee cannot be classified as an asset.

Only once a resource is seen as an asset as set out by the IASB it may be recorded as an asset in the Financial Statements and more specifically as an asset in the Balance Sheet of the company.

It is well-known that the valuation of employees in a monetary sense has long been problematic in Human Resource Accounting, and although many different models have been suggested and developed over the past few decades by many different parties, consensus has not been reached as to which model is most accurate.

Human Resource Accounting Problem

As the importance of Human Capital has increased, determining the monetary value of these employees has also grown in importance. Although no definite reference model has been agreed upon, what has well been agreed upon as stated by Monday (2017), is the absolute necessity which exists for such a model to be created and successfully introduced into Human Resource Accounting.

Research done in the field of Human Resource Accounting has revealed a number of factors that are preventing the above-mentioned successful creation and introduction of a model or guideline for the valuation of employees Monday (2017) explains these factors as follow:

Firstly, although there is available data to back the implementation of Human Resource Accounting within companies or organisations, it has been found that many of these companies or organisations are either not aware of the data, or are not willing to implement the concept of Human Resource Accounting into their already existing Human Resource Departments.

Secondly, Human Resource Accounting and the successful implementation thereof into an existing organisational structure, requires extensive research and effort. This is to ensure that adequate knowledge is obtained to determine the correct value of their employees. Along with the unwillingness of some to do the research, it also places a financial burden on these companies, which may just be too big for the smaller institutions to bear.

Thirdly, most private companies often do not have any pre-set industry standards to live up to, and are mostly responsible for creating their own standards as they deem fit. It is a prerequisite for companies to incorporate Human Resource Accounting into their organisations, and given the effort it will take to do so, most companies just reject the notion all together.

Finally, another factor identified by researchers is that some companies dwell within ever-changing domains, where new developments are constantly discovered and available. In such situations, it is even more difficult to begin to formulate a model

aimed at determining the monetary value of employees, as that which may be relevant in the nearby future might still not have even been discovered as yet.

Monday (2017) has further explored how other researches have attempted to determine which aspect of human resources and Human Capital are responsible for making the development of these models so difficult.

Firstly, when compared to other tangible assets, employees do not have a set “lifespan” within an organisation. Employees have a certain degree of freedom when it comes to employment and can resign from a post, with or without notice, whenever they please. This makes determining their value within an organisation problematic as their service period remains mostly uncertain.

Secondly, there is a large amount of uncertainty and unpredictability when it comes to determining or quantifying the level of productivity of employees. There are many factors which influence the production capacity of an employee, such as personal emotional struggles, office tension, illness, etc. These influences may affect some employees more than others, and this is also dependant on several factors such as personality traits and personal resilience. The vastness of these influences have in the past been found to be too great, which has made productivity levels too unpredictable.

Thirdly, government policies and unions may have a negative impact on determining the future reward that the employee is to receive, which may have an impact on their future salaries. It is well known that the salary that an employee is currently earning may be subject to change based on the changes proposed by governing bodies and unions.

According to Monday (2017), these external influences have also been a reason for the difficulty in determining the value of a specific employee.

Taking the above into account, Ravichandra (2015) emphasises the lack of the techniques which are required to include Strategic Human Resource Management and Human Resource Accounting into existing Human Resource Departments. A logical method has to be developed which assists in determining the monetary value of an individual, which takes all of these variables into account.

When considering Human Capital and giving special consideration to the knowledge and the labour provided by these employees, one can appreciate the fact that employment has to be viewed in the long term according to Steen (2011). Strategic Human Resource Management and Human Resource Accounting plays a large role in determining which employees would actually serve as an investment to an organisation, and therefore their employment must be regarded in the same manner as any other potential investment, and thereby preventing employees from becoming redundant.

Steen (2011) further articulates when one considers the strategic management of human resources as an investment, one can appreciate that capital, in its simplest sense, is something which will generate a future financial return for an organisation, which is why human resources can also be referred to as Human Capital. Human Capital has also been defined as “*the source of income embodied in the individual employee*” Even though this categorisation, and the importance thereof within an organisation, has been widely accepted by accountants, very few feel that there is a need for it to be included in financial record keeping. The main deterrent may be that there has been no consensus as to how the value of the employees should be determined, which arises from the fact that the categorisation of Human Capital as an asset has been challenging thus far. Yet, considering the statistics available regarding the percentage that intangible assets, such as Human Capital, form part of the actual organisational capital, this approach is flawed.

What the emphasis needs to be on is how the inclusion of Human Capital as an asset into the financial record of an organisation will be of benefit.

The benefit thereof is twofold according to Shreelatha (2018). Firstly, the stakeholders within a company or organisation will be better informed regarding the true financial status of the company or organisation, offering the opportunity for better economic decisions to be made. Secondly, it can serve to make a company or organisation more attractive to future investors by portraying the true value of the assets thereof.

Objective Research Article

The aim of this research article is threefold:

- a) to explore the possibility of considering employees as assets in the world we live in today when considering Strategic Human Resource Management;
- b) based on the outcome of employees-as-assets and Strategic Human Resource Management, it has to be investigated if there is a possible avenue for an employee to be recognised as an asset for accounting purposes;
- c) Exploring situations where employees are already considered as assets, and to see if one can recreate these circumstances within a corporate environment.

The research questions which were formulated to try and achieve the objective of the study are as follows:

- 1. Do South African companies acknowledge the financial value that key employees add to them?
- 2. Do South African companies recognise the manner in which key employees increase their financial value (if any)?
- 3. In which manner do South African companies feel that key employees increase their financial value (if any)?

Conclusion

We are currently finding ourselves in an economic environment in which employee knowledge and skills play a pivotal role in ensuring future economic growth and sometimes even the difference between being mediocre and successful within a specific market. Taking this into account, the importance of Human Capital and Strategic Human Resource Management is undeniable.

The biggest challenge currently faced is that there has been no consensus regarding the model which should be used in determining the monetary value of employees. The most prevalent reason for this has been that there has been difficulty in reaching consensus about the manner in which an employee can be

classified as an asset, as humans do not conform to the standard definitions of the word “asset”.

As soon as a way around this dilemma can be found and a way to record an employee as an asset on the Balance Sheet of a company is agreed upon, the sooner organisations and companies can adopt the concept of Strategic Human Resource Management and Human Resource Accounting into their current Human Resource Departments.

When Human Resource Accounting and Strategic Human Resource Management are successfully integrated into the operations of a company or organisation, the special consideration can be given to the employment of individuals to ensure that a company or organisation manages to gain the greatest future economic benefits and growth from these employees. This might ensure that the true value of their assets can act as bait to future investors.

LITERATURE REVIEW

Introduction

The world we live in today has, undeniably, become driven by knowledge. Agarwala (2007) mentions that many resources are available to us to obtain knowledge in a variety of different ways, however certain skills and knowledge can only be gained by experience. This experience-related knowledge and skills have become a significant consideration in companies, resulting in employees being literally seen as a company or organisations' most valuable asset. With this being said, Human Resources has moved away from their stereotypical administrative roles, transforming into a more strategic part of an organisation, using their management of the human resources within an organisation, to gain the greatest benefit.

Since the 1980's, companies and organisations world-wide have started to experience a growth in their earning capabilities as a result of their Human Capital. Before then, tangible assets have been directly associated with the value of a company and until then was the most accurate indicator of the financial worth of the company or organisation. Companies are now, more than ever, relying on their employees to increase their revenue. Given the age of technology that we are currently living in, and the rapid technological growth that the world continues to experience. However, when carefully considered, one can see the value of having human ingenuity and creativity, i.e. knowledge, to your disposal to give your company the competitive advantage over those who only possess the same tangible assets as yours.

Taking all of this into account, no or very little provisions have been made to include these intangible assets in the traditional recordkeeping of companies according to Jelil (2014). As set out by Jelil (2014), a study has shown that Knowledge-assets account for approximately 65% of organisational value not disclosed within its Balance Sheet. The 35% which indeed is mentioned in traditional record keeping only refers to the collection of tangible corporate assets as well as some intangible assets such as patents.

Only when a patent has been bought for an objectively determined value, will it be recordable on a balance sheet. The value of a patent that has been generated within the company is unknown, therefore traditional record keeping does not make provision for it Merritt (2019).

Therefore, according to Jelil (2014), the majority of what contributes to the financial success of an organisation is not visible when considering the accounting aspects of the organisation.

Elements of Financial Statements

According to Bragg (2018), the elements of a financial statement are summaries of different aspects within the organisation, and collectively serve the purpose of reflecting the true financial status of an organisation, and to keep track of business transactions.

There are set standard contents of financial statements, being:

- A balance sheet, which indicates what the organisations assets, liabilities and stockholders' equity is at a report date
- An income statement, indicating the revenues, expenses, gains and losses of the organisation within a reporting period
- Cash flow statements within the reporting period
- Supplementary notes, which offers explanations and additional information where it may be required

Bragg (2018) states that when considering issuing these reports to any person or department within an organisation, there are no set frameworks that need to be adhered to. However, when issuing reports to any person or organisation outside of the organisation, there are standardised frameworks that are available to ensure that all financial reports have a general similar appearance. It also allows for these statements to have an individual appearance which is specific to that organisation. This improves the ease of which these reports can be audited for their accuracy and fairness of presentation.

A full financial report is only expected at the end of every fiscal year, with monthly income statements and balance sheets to document monthly results and the financial condition of the organisation.

It was mentioned that there are a few broader standard contents of financial statements which make up a financial statement, however, these broader categories can be subdivided into ten elements of financial statements. These ten elements serve to measure the financial performance and status of the organisation, which have been set out by the Statement of Financial Accounting Concepts (SFAC), which is governed by the Generally Accepted Accounting Principles (GAAP).

These ten elements as discussed by Harvin (2019) is set out below:

1. Assets

- a. Tangible assets, referring to assets of an organisation which are physical in nature.
- b. Intangible assets, as described above, broadly refers to assets which have no physical form.
- c. Fixed assets, which refer to assets of which the benefit can be derived from for a long period of time, generally for more than a single accounting period.
- d. Current assets, which differ from fixed assets in the sense that their use is more short-term, generally within one accounting year, which can be converted into cash.

2. Liabilities

The IFRS Framework defines a liability as: “a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits”, which simply means some form of debt owed by the organisation to an outsider, in the form of a person or other organisation.

Two forms of liabilities are recognised:

- a. Current liabilities - This is a more current matter in which these liabilities need to be repaid within this current financial year.
- b. Non-current liabilities - These are non-current and there is no need to discharge the liability immediately, the payments are due over a longer period of time.

3. Equity

The Business Directory (2018) provides a simple definition for the term equity: "Ownership interest or claim of a holder of common stock (ordinary shares) and some types of preferred stock (preference shares) of a company".

It can also be seen as the difference in the financial aspect, between assets and liabilities.

4. Investment by owners

Is a representation of the contribution that an owner makes to the organisation, when there is a transfer of resources in exchange of an ownership interest, the equity of the organisation rises.

5. Distribution to owners

When a cash dividend is paid to its stakeholders, there is a decrease in equity as a result of the transfer of funds to the stakeholder or co-owner, representing the owner's withdrawal from ownership interest of the firm.

6. Revenue

Revenue is described as the steady flow of income that is generated by an organisation by engaging in their usual business activities, which in turn increases the equity of the owner or owners.

7. Gains

Gains is a source of income or increasing equity from that opposite of revenue, it is acquired through non-recurrent transactions, or those which occur at irregular intervals, but also serves as a way in which the equity of an owner or owners can be increased.

8. Expenses

Expenses is described as the financial outflows from an organisation to support day-to-day operations. Expenses are also generally considered as a necessity in order to generate revenue.

9. Losses

A loss is considered to be the polar opposite of a gain, it is an expense incurred from peripheral transactions which do not occur at a regular basis, and which is generally non-recurrent.

10. Comprehensive income

An increase in equity which is not generated from investments by the owners of an organisation, is considered as comprehensive income, also described as an increase in equity from non-owner transactions.

Human Resource Accounting

The importance of Human Resource Accounting for Bragg (2018) lies in that the organisation can determine in which area of the organisation there is too much expenditure or room for more expenditure on Human Resources.

Bragg (2018) also states that determining the costs of expenditure on Human Resources within each department or section thereof, an organisation can reshuffle employees, away from areas where expenditure is too high, into areas with room for costs to rise.

The practicality of Human Resource Accounting according to Bragg (2018) is the information gathered from Human Resource Accounting can enable an organisation

to reallocate their employees, based on their qualifications, experience, leadership and so forth, to areas where they will be of greater value to the organisation. In this manner, the organisation will have realised the value of the employees, viewing them as assets.

Further importance of using Human Resource Accounting according to Bragg (2018) is to determine the employee costs to the organisation across the board, the total impact of employee expenditure is evident, which is of great importance during the annual budget review of the company.

Abolfazl Danaei (2014) indicates that Human Resource Accounting takes into account the aspects of expenditure related to human assets and Human Capital, which is not taken into account in traditional accounting, in other words, it bridges the gap that was previously found to be present in traditional accounting of an organisation. The reasoning behind this according to Abolfazl Danaei (2014) is that Human Resource Accounting provides a more accurate means of establishing the true financial position of an organisation by seeing Human Resources not only as an expense but as a form of an asset too. Human Capital, although classified as an intangible asset, is actually a strategic element in the future success of an organisation.

As explained by Shodhganga (2018), Human Resource Accounting was truly researched in the 1960's, in the United States of America, building on the primal and simplistic idea of Human Resource Accounting that was first developed in 1691 by Petty.

Likert pioneered the modern idea of Human Resource Accounting through the University of Michigan's Institute of Social Research, along with a few colleagues. One of these colleagues, Flamholtz, divided the development of the concept of Human Resource Accounting into five stages as set out by Shodhganga (2018):

1. 1960-1966, saw the development of academic interest in the area of Human Resource Accounting. The primary focus during this stage of development was on deriving concepts to define and implement Human Resource Accounting from other well-established studies, such as the Economic Theory of Capital.

2. 1966-1971, saw the rise of the “validation” era, where different methodologies were being studied and employed to seek validation of the concepts and models that emerged from stage one. These models aimed to provide organisations with different tools to manage and assess the Human Resources within an organisation in a more efficient manner. Although this was considered to be a stage in which validation of the previously developed models would occur, there were also a few new studies and research projects undertaken to further investigate models of Human Resource Accounting.
3. 1971-1976, the third stage saw the biggest “boom” of interest in the growing field of Human Resource Accounting, with research in this field taking off at an alarming rate. During this stage, the main focus was application of the already validated models and concepts that came about in stage one and stage two.
4. Until the fourth stage, the research and information regarding Human Resource Accounting had grown in leaps and bounds, but during the fourth stage, for the first time, a significant decline in interest in this area was noticed. The fourth stage occurred between 1976 and 1980, and it was found in this stage that there was still a lot of research to be done to develop more sophisticated models than those which arose during the first stage. This proved to be too simplistic and therefore inadequate for proper implementation into sophisticated organisations. The primary reason for the decline in interest was that organisations weren’t willing to invest large sums of money into the development of models which still hadn’t been proven to be of advantage to the organisations.
5. From 1980 onwards, the second big “boom” in interest in the field of Human Resource Accounting was seen. There was a sudden realisation around the importance of the value of employees in organisations as there was a sudden shift from manufacturing to service delivery economies. It was during this stage that traditional accounting was criticized for its lack of inclusiveness, accounting was failing to recognise the importance of Human Capital and “knowledge assets”. Due to the fact that the value of the employee was realised, organisations were more inclined to invest in the development of accurate

models to ensure adequate measurement of investments into, and costs and value of Human Resources.

When following the traditional method of accounting, Abolfazl Danaei (2014) stipulates that human resources and the concept of “knowledge assets” are simply seen as an expenditure, which contributes to reduce the profit of an organisation, due to the financial resources which are invested into growing the knowledge and the monthly salaries which are paid to the employees.

When considering the different definitions of Human Capital mentioned above, the importance of recognising the role that Human Capital plays within an organisation can be appreciated. Human Capital, also known as “knowledge assets” according to Abolfazl Danaei (2014), contributes undoubtedly to the growth and financial security of an organisation, by the accumulation of skills, innovations, branding, creativity and ideas, which is specific to the organisation in which they arise.

Taking this into account, it is easy according to Abolfazl Danaei (2014) to see why there has been a shift from traditional accounting, to include the value of Human Capital in the financial reports and balance sheets of an organisation.

Human Resource Accounting differs from Traditional Accounting by focussing on the employee. It measures the effectiveness of the manner in which these employees are managed and how these employees are utilized within an organisation. It doesn't only see Human Capital as assets and expenditures, however, altering the manner in which employees are seen as only “expenses” is the main goal. But by also being able to monitor the effectiveness of employees and the way in which they are managed within an organisation, will also offer an insight into ways in which their management can be improved to further increase the value of employees as assets in an organisation according to Abolfazl Danaei (2014).

Measuring Human Capital

There are a few different reasons behind the importance of measuring Human Capital, and if one understands the reasoning behind it, the success of a company is attainable. Sawalha (2018) attempts to explain the importance as follows:

Firstly, organisations invest large sums to continuously develop their Human Resources and grow their “knowledge assets”, such as skill development and investment in research project, branding and concept development. By being able to properly measure Human Capital, an organisation will be able to determine their Return on Investment, even in an area which involves intangible assets. Measuring Return on Investment enables an organisation to evaluate how efficient the Human Capital within that organisation is functioning.

Secondly, when an organisation is able to effectively evaluate the efficiency of value of their Human Capital, they will be able to identify areas in which improvements can be made, areas where certain skills are lacking, or areas where additional funding is required to improve areas within the organisation, based on the individual needs of the organisation in question. If an organisation aims to be the best service provider in a specific area, they can evaluate their efficiency and the efficiency of their Human Capital in that area and make appropriate changes as is required.

Thirdly, measuring Human Capital will not only provide an idea of where there are shortages of Human Capital in an organisation, the full analysis will also provide an idea of how these “gaps” can be addressed. The organisation now has a full and thorough idea of what the current status of Human Capital within the organisation is. The problem can therefore be addressed in such a manner as to increase the value of Human Capital, in the smartest and most efficient manner possible, also keeping in mind the individual goals of the organisation.

Lastly, it is one thing to understand why it is of utmost importance to be able to measure Human Capital, but it is a completely different thing to do the actual measuring. The reason behind this, as has been previously described, is that Human Capital, along with “knowledge assets” is intangible in nature, and the value thereof cannot be determined solely by its physical value, as it doesn’t possess any

physical properties. There hasn't been any transaction around attaining this asset, therefore there is no previous monetary value to base the measurement on.

The other reason according to Sawalha (2018) that makes it very cumbersome to measure Human Capital, is the fact that it is affected by so many different factors.

Throughout the years, direct and indirect ways to measure Human Capital has been derived, all with limitations, and no perfect fit has been found as yet, but each method, direct and indirect, as explained by (UNECE Task Force, 2016) below may help an organisation to place a monetary value on the Human Capital within that organisation.

1. Direct methods to measure Human Capital:

The first direct approach up for discussion is the "Cost-based" approach, which involves taking into account all of the costs that were incurred when the original investment in the Human Capital was made, then using a scientific-based method to determine the depreciation rate of the initial investment. This, at the end of the day, gives one an indication of the Human Capital stock at any given time based on the initial monetary investment.

The second direct approach involves the "Lifetime Income-based" approach, which looks at measuring Human Capital from a different "side" than the "Cost-based" approach. This approach doesn't take into account the input into Human Capital, but rather focuses on the output, by summing up all future incomes that the entire population is expected to earn throughout their lifetime, taking into account the discounted values thereof.

The first two measurement methods work very similarly, and will usually offer comparable results if both are employed within the same population group.

The third approach is termed the "Indicator-based" approach, which broadly refers to estimation of Human Capital based on educational output indicators.

The three methods mentioned above, are in fact used more broadly to measure Human Capital within a larger population, which doesn't necessarily refer to

organisational employees, but is more applicable to certain population groups within a province or country.

A fourth method as set out by Sawalha (2018) to measure Human Capital involves one of the reasons you would want to measure Human Capital, which happens to also be one of the ways to measure Human Capital, which is Return on Investment.

This method is applicable to smaller population groups, more specifically to employees within a specific organisation.

Sawalha (2018) further stipulates when one considers all of the expenses incurred by an organisation, “Investment on Human Capital” should also be included in those expenses, referring to the amount of money that has been invested into the organisation to develop Human Capital. When “Total Organisational Profits” are calculated, with quite a simple equation, the total profit after all of the expenses are covered, including “Investment on Human Capital”. This will give you an idea of what the Return on Investment regarding the organisation’s Human Capital is.

2. Indirect methods of measuring Human Capital

An approach has been developed which indirectly estimates Human Capital, by assessing its residual value. The assumption is that the discounted value of the benefits that the Human Capital stock will deliver over the span of its lifetime will be equal to its current monetary value. This indirect approach is also based on the assumption that all Human Capital which is obtained will produce a steady stream of future income.

Although this approach has been pioneered by the World Bank, it is also mainly applicable to measuring Human Capital stock within a country, and there have been many flaws identified in this approach, also related to aspects associated with population size, non-market benefits and the actual difficulty of measuring the value of Human Capital within industries found in that specific country.

There are also a few other parameters according to Sawalha (2018) which will give one an idea of the “value” of the Human Capital within an organisation:

- Skills Inventory, refers to keeping a database within the organisation which keeps one up to date with the skills, qualifications and certifications which one's employees possess, giving Human Resource Management a more accurate idea of where there are gaps in skills, which can be improved upon, or where there are employees whose "value" within the organisation are on par with what is expected of them. This tool can help one to indirectly measure Human Capital by focussing on that which makes one's employees an asset to the organisation and identifying areas in which there are aspects lacking, ensuring that an organisation has the knowledge to grow in the field which they specialise in.
- It is a well-known fact that there are many attributes which makes an employee valuable to an organisation, not just their training and qualifications, but time-efficiency, teamwork abilities, personal motivational skills, initiative and their personality. There can be improvements made on most of these areas, by hosting and attending workshops, teambuilding sessions, introducing clocking systems at the organisation and rewarding initiative. The one crucial aspect of an employee, which is inborn, innate and not easily changed, is personality, which has been formed since birth. Luckily there are testing methods available, psychometric testing, which can give Human Resource Management an idea of the set of personalities within a specific area of the organisation, giving an idea of who are leaders, who are followers, who need a bit more motivation and who works well in teams, and by analysing this information, more strategic Human Resource Management can be employed to ensure that all gaps in personality types are bridged, to ensure a more harmonious working environment for all, improving overall productivity and job satisfaction. An example of such a psychometric evaluation is the Meyr-Briggs Type Indicator, which categorises persons into sixteen commonly identified personality types, based on answers which each employee gives introspectively on generalised questions.

Intangible Assets

The broad definition as defined by Kenton (2019) of an intangible asset is one which is non-physical in nature. However, the definition of Bragg (2018) precisely defines an intangible asset states that the asset should be of long-term use of more than a year, and is recognised as an acquisition.

Gu F (2011) explains that intangible assets are also referred to as “knowledge” assets, and are inadvertently associated with delivering future benefits for the organisation to which they belong. Examples of intangible assets include things such as new discoveries related to the organisation’s field of expertise, trademarks, branding and organisational design. Even though the acquisition of intangible assets is associated with future financial benefit to the organisation, accounting in general has not been very open to recognise intangible assets, especially those directly flowing from knowledge.

The reason for this reluctance according to Gu F (2011) related to the fact that there has been no clearly defined measuring tool to assess these assets to enable their inclusion in financial reports and organisational balance sheets. The reluctance of general accounting to recognise intangible assets as an asset to the company, has resulted in the inclusion of these assets as an expense, which deducts from the actual value that these expenditures contribute to towards the organisation. This appears unfavourable to anyone outside of the organisation, which then decreases the overall value of the organisation.

According to Gu F (2011), the inability to define to value of intangible assets affects both sides of the fence. On the one side, the organisation is unable to define their actual value, and on the other side, any future investors or companies or individuals wishing to acquire the organisation, run the risk of over-paying for what they thought to be valuable intangible assets.

Intellectual Capital

Intellectual capital as defined by Spacey (2017) refers to aspects within the organisation, contributing to the value and productivity thereof, which is intangible in nature.

Intellectual capital has been suggested to comprise of three elements as set out by Virkus (2014) as follow:

1. Human Capital, which refers to all of the positive contributions that employees have to offer within the organisation.
2. Relational Capital, which refers to the relationships that the organisation has with the external subjects linked to the operations of the organisation.
3. Structural Capital, referring to all of the processes, documentation and systems which are put into place in an organisation, along with the knowledge that has been stored or embedded within them.

Stewart (1998) explains that when one considers the concept of intellectual capital, the difficulty is that intangible assets don't conform to the general rules of accounting, which requires an asset to be acquired through one or more transactions, mostly through purchase, and the asset needs to have a physical form.

The reasoning behind this for Stewart (1998) is that in order for an asset to be included on the financial statements or balance sheet of an organisation, the exact market value of the asset needs to be known, which is obviously difficult to define if no one is able to visualise the asset or if no transactions have been made before involving this asset.

Another factor according to Stewart (1998) which influences the accounting aspect surrounding intangible assets is the fact that, although these assets are said to belong to a specific organisation, they are in fact not under the control of the said organisation.

Stewart (1998) explains how Intellectual capital theory challenges this traditional method of accounting. It is of opinion that if this narrow-minded approach to organisational capital and assets isn't changed, the majority of organisations will

never truly be able to correctly manage their true assets, and will subsequently never reach their full potential in future growth and financial position. This theory has proposed a broader definition, that everything that transforms a raw material into something useful with more value should be classified as an asset to the organisation. And when taking this broader definition into account, intellectual capital involves knowledge that then transforms something raw, either a raw material or raw knowledge into something more valuable.

The quasi-proprietary influence that an organisation has over the application of its organisational capital has also been found to be of greater importance. The actual control which the organisation has, has become of greater importance recently when considering intellectual capital, as opposed to the actual ownership thereof (Stewart, 1998). Human Capital

Apart from the standard view of Human Capital as a set of traits or skills that improves an employee's productivity, Human Capital can be viewed from other viewpoints as explained in the Basic Theory of Human Capital (2019) as follow:

1. When considering the Becker view, Human Capital is seen as a one-dimensional object which directly forms part of the productivity functions of an organisation.
2. The Gardener view points out that Human Capital should not be considered as one-dimensional. Employees can possess more than one skill or trait of value, and the mental and physical abilities of the employee also plays a role in determining the amount of dimension that an employee has.
3. The Schultz/Nelson-Phelps view describes the concept of Human Capital as the ability of adaptability within the ever-changing environment of a company.
4. More rigidity is found within the Bowles-Gintis view, which refers to Human Capital as the ability of an employee to function within the hierarchy of a company. Obedience is a strong element in this view.
5. The Spence view emphasizes the observable measures of Human Capital as having a greater impact in the production services of a company, over the importance of characteristics or traits.

The first four views all boil down to the fact that Human Capital aims at increasing the financial value of a company, by applying their skillsets and traits, which increases production function and profitability. Although the Spence view places more emphasis on what the directly observable contribution of the employee to the company is, it should be noted that what is observed may elude to the traits or characteristics that the employee possesses (The Basic Theory of Human Capital, 2019).

McCracken (2017) has encountered a definition of Human Capital as 'the human factor in the organisation; the combined intelligence, skills and expertise that gives the organisation its distinctive character. The human elements of the organisation are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organisation' according to McCracken (2017). This definition takes into account the processes which actually during the development of Human Capital, and that all Human Capital is used to distinguish one organisation from another. It also speaks to what all organisations wish to achieve, which is long-term sustainability and survival, which then eludes to the financial implication that Human Capital has on the organisation in which it is found.

McCracken (2017) further articulates that there are numerous other definitions of Human Capital, many of which also elude to the "potential" which these employees have within the organisation, which is important to take into account, as employees have the possibility of improving their skills over time, and with adequate investment from the organisation into Human Capital, the development of skills can have a definite impact on future growth and financial gain.

McCracken (2017) has concluded that there is no consensus up until now about the exact definition of Human Capital. It can be argued that all of these different definitions each contains at least one crucial point. These definitions should be revised, and in some way combined to form a detailed and encompassing definition of Human Capital, in order to assist organisations to best evaluate the true value of their organisational assets, tangible and intangible alike.

Football Players as Human Assets

There are certain criteria to which a football club must comply in order to be affiliated to a national football federation. Included in these criteria are the financial side of the club, which includes reporting perimeters, annual and interim financial statements, overdue payable status and future financial information (Bullen, 2010).

The accounting aspect behind football clubs and the financial management of their players can become quite complex and in order to comply with the financial criteria required for affiliation with a national football federation, there are certain aspects within these financial criteria which need to be adhered to as set out by Bullen (2010) below:

- All clubs need to prepare and submit audited yearly financial statements to the federation under which they are licenced.
- In cases where the submission deadline is missed by a club, with the time past the deadline surpassing six months, another requirement in the form of interim financial statement arise.
- Clubs also need to provide the Licensing Federation with proof of the payables and receivables of the club. This forms an important aspect of the monitoring of compliance for affiliation, because there is no exception made for overdue payables, with very heavy sanctions placed on a football club should there be any evidence of overdue payables, with the heaviest penalty of all being refusal of licencing under a national football federation.

UEFA (the Union of European Football Associations) allows all licenced clubs to adhere to their own accounting policies, however the standard procedures followed in these accounting policies should adhere to the International Financial Reporting Standards (IFRS), however the majority of European Football Clubs have adopted the IASB regulations.

The IASB (International Accounting Standards Board) is a private-sector body that works under regulation of the International Financial Reporting Standards Foundation, to approve and develop the reporting standards that are associated with the IFRS (Deloitte, 2019).

According to Bullen (2010), most clubs associated with UEFA have specifically adopted the IAS-38 regulations, which is applicable to intangible assets and the accounting regulations associated with it.

IAS-38 is applicable to intangible assets which were acquired on or after 31 March 2004, and it works on the following premise: “Intangible assets meeting the relevant recognitions criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortised on a systematic basis over their useful lives, unless the asset has an indefinite useful life, in which case it is not amortised” (Deloitte, 2019).

IAS-38 gives definite guidelines on how to manage the aspect of the intangible asset financially, but before its adoption, the clubs were given the choice of how to manage the financial aspects related to the acquisition of a player.

The two available options, as explained by Bullen (2010), that were used before the adoption of the IAS-38 were:

1. Capitalization of the rights for use derived from the contracts associated with player acquisition.
2. The transfer costs could be fully included in the Income Statement of the football club, as operating or exceptional expenditures. This approach was found to be problematic, as its inclusion in the Income Statement gave a falseness to it, as there was no immediate benefit generated from the player acquisition in question.

The two options mentioned above were phased out with the adoption of IAS-38. The reasoning behind the removal of these options is that they led to a skewed view of the financial standings of the club.

The appropriate financial approach is that the transfer fee paid for a player, in other words, the licence to use a player within the club, requires management which differs from that of any other tangible assets Bullen (2010). Taking into account, once again, that the acquisition of a player into a club is classified as the acquisition of an intangible asset, the exact value, or prediction of the value of a certain player is very difficult to ascertain. This difficulty gives rise to three scenarios according to

Bullen (2010). Firstly, the transfer fee was accurate in terms of the value which the player brings to the club. Secondly, the transfer fee could have been too high as the player is either performing poorly, has a bad attitude which negatively affects the way that the team functions, or is injury prone. Thirdly, the initial “acquisition” fee was much less than that which the player has actually proved to be worth within this specific club.

There has always been significant difficulty when determining the value of a player. There are many variables that have an effect on the outcome of this valuation. There is obvious difficulty when coming to the valuation of free agent players, as well as youth players, less so when it comes to transferrable players. However, it was also mentioned above that even in the case of transferrable players, it is difficult to determine the exact value of a player, as each player is different and can, for example, have different success rates at different clubs.

Bullen (2010) explains how theorists have aimed to alleviate the difficulties associated with the valuation of intangible assets, applicable to the Football industry, but also intangible assets in general, which are associated with being “knowledge assets” or “skills assets” as is the case in football.

There are three “player-types” as described by Bullen (2010) which are found in football clubs, the financial approach to each type of player and the ways in which the value of each type of player is calculated based on the theories described by GrEjer and Flamholtz.

1. The first “player-type” is the transferrable player, who is still under contract in a specific club.

The transfer fee paid for the acquisition of a player into a new club requires “gradual write-off” for the duration of the contract. According to new regulations, the maximum period allowed for “write-off”, which corresponds to the contract length of a player, cannot surpass five years.

With this basic principle in mind, it is important to note that a “write down” can be implemented by the club, should the value of the player’s contract be lowered

due to numerous possible events that adversely affects his or her reputation or value to the club.

Although “write-ups” aren’t permitted according to new Football regulations, the player that was initially acquired through the payment of a transfer fee lower to that which he or she has proven to be worth, can then be transferred further to another club at a higher transfer fee based on their positive performance within the current club, allowing the generation of financial benefit.

2. The second section refers to the free agent, which the second type of Football player encountered within the clubs.

When a player’s contract expires at the end of a five-year period, the old regulations stated that a player could only transfer to another club on the approval of the current club, with the payment of a transfer fee from the prospective club to the current club, but a legal battle won by Jean-Marc Bosman in 1995, after five years of trials, against his football club RFC Liege, found that at the end of a contract period, all players are declared free agents. Allowing them to negotiate their own contracts with prospective clubs up to six months before the expiry of their contract with the current club. Should the player be unhappy with the contract offered by his or her current club he may proceed to negotiate a contract with prospective clubs. This took the bargaining power away from the club and gave it to the player.

The upside to being a free agent, and not being transferred as a transfer-player during the time of active contract, is that it completely removes the transfer fee from the equation, which allows greater financial benefit to the player operating as a free agent as he or she can now negotiate higher wages and better benefits as the initial transfer fee is no longer a necessity to acquire the player in the first place.

The down-side to being a free agent, on both sides of the spectrum, is that valuation of a free agent has been found to be problematic as they do not form part of the transfer players and their exact value as an intangible asset to a club cannot be derived, this is further aggravated by the fact that a lack of payable transfer fees increases the bargaining advantage of the player, which is player-

dependent, and makes it even more difficult to determine player values within the free-agent market.

The first theory as explained by Bullen (2010) which is applicable to the above-mentioned player types, the transfer-based player and the free agent, describes how the value of these players can be determined and described is through wage capitalization. This entails that a player is paid weekly wages (as is the case with most football clubs), throughout the duration of their contract with the club. This would entail that the contract value of the player will still be an estimate, based on the initial financial investment and their expected performance within the specific club. This “estimation” is what makes this theory, although one of the more relevant ones in this case, still somewhat problematic when applied to transfer-based players. The main reason that this theory is flawed is exactly because of the “expected” performance, and the fact that a club never truly has control over the player and the performance that they will have in a match, their effect on team-dynamics, or any injuries that he or she will sustain during the course of their contract with the club. Therefore, although a player is classified as an intangible asset, a club will never truly have control over this Human Resource.

This theory is more applicable to the free agent, as the valuation of such a player will be reflected by the wages which were negotiated, however the fact that a free agent has greater bargaining power based on the fact that there is no transfer fee involved in the process, it leads to an artificial over-valuation of the player based on the higher wages negotiated than that of a transfer-based player.

The second theory as explained by Bullen (2010) which is proposed by Flamholtz, describes that the recruitment costs associated with a certain player, be incorporated into his or her contract, which will ease the valuation process, however, the recruitment costs are applicable to the entire academy, with only the portion of recruitment costs applicable to an individual player being determined should a player decide to sign up for a professional contract.

3. The third type of player found in Football clubs, is the youth player, and youth players are a crucial part of any licenced club, not only because it is a

requirement for accreditation with a licencing authority, but youth clubs are invaluable to the future growth and existence of the clubs which they belong to. The importance of a youth club is obviously that there is a constant influx of young talent into the club, who can join the adult teams when their age allows them to, but in doing this, the club also lowers its mean player-age within the adult teams, which is mostly associated with more favourable match-day outcomes.

The financial aspects related to youth player differs from that of the adult teams as a youth player cannot have a professional contract, and for that reason they cannot be reflected as an asset, because non-professional contracts do not offer the club use of the player that can be recorded in the asset category of the financial statements of the club.

The second, and probably most important accounting aspect related to the fact that youth players do not comply with the criteria for IAS-38, is that there is no generation of future economic gain from youth players from their statuses.

As soon as a youth player becomes eligible to receive a professional contract from a club, he or she becomes a free agent until such a contract is accepted, and they will then be managed as a transferrable player until the current contract expires, then either become a transferrable player once again, or a free agent, based on the acceptance or decline of the contract offered to them by their current club, as explained above.

Until the time that a youth player becomes eligible for a professional contract, he or she is seen in the same light as the youth academy, with only indirect benefit to the club, whilst being immediately and directly resource consuming.

Even though there are many theories available for determining the value of a Human Resource as an intangible asset, one can still appreciate the difficulties surrounding determining the exact value of a Football player, but also, in other areas of business where intangible assets are involved.

RESEARCH METHODOLOGY

The method of data collection that was used in this study is qualitative in nature. The reason behind deciding on the use of qualitative research is that the concept of Human Resource Accounting and the concept of a “key individual” is one that different professionals have different views on. The aim of this research was to obtain a greater understanding of these concepts within the corporate sector, by conversing with corporate professionals.

The methodological approach that has been adopted was in the form of interviews. The advantages of this approach includes, but is not limited to, directing the research questions to a group of chosen individuals who have knowledge in the field of study, the collection of personal data and the ability to elaborate on questions asked. The disadvantages of this approach includes, but is not limited to, the amount of data that has been collected is considerably less than that obtained through quantitative research methods; and the diversity of the individuals who were interviewed can be seen as limited.

Five interviews were conducted for the purpose of this research study. The interviewees were approached by way of email and telecommunication. The interviewee was informed about why he/she was asked to be interviewed, what the purpose of the interview is, the length of the interview and a possible date, time and place. An email has been sent to confirm the what was said and agreed upon telephonically. One day prior to the interview a follow up email or form of telecommunication was used to remind the interviewee of the appointment. The interviewees included employees with:

- a) Long-standing Human Resources experience;
- b) Solid Financial experience; and
- c) Employees with extensive experience in the corporate environment

To ensure validity and reliability of the data collected from the interview, the interviewees were selected based on their reputation, seniority and mental health.

RESULTS AND DISCUSSIONS

Introduction to Interviewees:

Interviewee 1: Mr Wim de Klerk, the interim CFO of Denel.

De Klerk is a registered Chartered Accountant, with post-graduate experience at Harvard University amongst others, and was the former Chief Executive Officer of ArcelorMittal South Africa. Prior to his position at ArcelorMittal, De Klerk held a position in the Executive Management team of Iskor, and prior to that he held the position of Financial Director at Exxaro.

In the interview, De Klerk's answers are based on his opinions and experiences as CEO of ArcelorMittal South Africa.

Interviewee 2: Mr Francois le Grange, the CFO of Mezzanine Ware

He is also a financial business partner to mVISA, Visa Direct and Fundamo brands globally. Prior to this he was the financial manager of Fundamo.

Prior to this he was also an Audit Contract Worker for PriceWaterhouseCoopers.

The answers that Le Grange gives in the interview pertains to his current position as CFO at Mezzanine Ware.

Interviewee 3: Ms Wanda Hendricks, a Talent Manager at Telkom

She has than twenty years' experience in Human Resources.

The answers that Hendricks gives in this interview pertains to her current position as Talent Manager in the Human Resources Department of Telkom.

Interviewee 4: Mr Chris Volschenk, the CEO of Stortech.

He has approximately twenty years' experience in the Information and Communications Technology Sector, as well as prior experience in Information Technology.

The position he held prior to becoming the CEO, was the CFO of Stortech. Prior to that he was the CFO at Vodacom Business, and prior to that he held the position of Group Executive of Vodacom's Strategy and Business Development.

All of the answers that Volschenk give in this interview pertain to his current position as CEO of Stortech.

Interviewee 5: Professor Zunaïd Bulbulia, former CEO of MTN.

Bulbulia is a registered Chartered Accountant, with a long-term history with MTN, the final position that he held there being Chief Group Operations Executive. He is currently an independent consultant in the Telecommunications Industry, and also the CFO of the Huge Group, as well as serving on the advisory Board of the Kirusa Group of Companies in North America.

Bulbulia is also involved in Academics and lecturing at the University of the Witwatersrand.

The answers that Bulbulia gave pertained to his former positions at MTN.

Discussion of Results:

The reasoning behind the selection of the interviewees was based on the following: to obtain opinions based on different industries, as well as to include individuals who have fulfilled a diverse set of roles. The aim was to obtain a diverse pool of answers from these interviewees.

The formulation of the questions was also done purposefully, attempting to gain more insight into the current understanding of key employees within organisations and to ascertain which traits should one look out for in an organisation to assist with identifying key employees.

When discussing the results, the focus will first be on the Yes/No portion of the questions.

In this part of the interview questionnaire, there was little discrepancy between the different Interviewees.

All interviewees were of the opinion that they are a key employee to the organisation that they find themselves in, and what I gather from this is the following:

1. All of the interviewees were able to distinguish what a key employee is, by applying the traits which are mentioned later in the questionnaire to come to this conclusion.
2. Key employees are found in different positions within an organisation, if one takes into account the positions held by the Interviewees.
3. The interviewees all believed that their contribution to the companies that they belong to are worth being seen as key, they then value their own contributions as much as those of the other employees that they deem “key”.

All of the Interviewees also recognised the role that a key employee plays when considering the value of an organisation.

The companies in which these Interviewees are employed all spend money on training and skills development of their employees, in the case of ArcelorMittal: (as stated by Mr De Klerk) “Absolutely, a lot”, but there may be instances where more can be done. This was supported by Hendricks from Telkom in addition to her “Yes or No” answer to the question. Hendricks offered an explanation to this Yes/No answer, which was unprompted, and she then stated that budget constraints in Telkom results in an inadequate amount of training and skills development offered to their employees.

Another way in which it can be deduced that key employees are valued, is that restraint of trade clauses have been included in three out of five interviewees’ organisations’ employee agreements. A restraint of trade clause as defined by Murdock (2013) is a clause or agreement in terms of which a person’s freedom to work, do business or trade, is limited for a specified time and within a certain area, with the objective of protecting a legitimate business interest. This definition refers to protecting the business interests of the previous organisation, or the one that the employee is currently exiting.

These organisations invest large sums of money, in most cases, into developing these employees and improving and growing their Human Capital. One can see why they would not want these employees to apply that knowledge in a competitive organisation, therefor explaining the existence of restraint of trade clauses.

“Key Man Insurance” also eludes to the importance of the “key man” to the organisation, being a life insurance policy that is taken out on the lives of key employees, without whom the company may crumble to the ground. It is also important to note that the majority of the Interviewees had “key man insurance”.

What the researcher found interesting is that Mezzanine Ware does not have “key man insurance”, and Le Grange answered “No” to a subsequent question pertaining to the company’s Board making a link between a key employee and the financial performance of the employee. Unfortunately, this question was formulated for the purposes of “Yes/No” only, and did not allow further discussion pertaining to this

question. If one links these two answers, could it possibly be that the organisation at large does not place as much emphasis on the value of a key employee as they should?

But pertaining to the interviewees themselves, Le Grange included, all answering “Yes” to the questions pertaining importance of a key employee to the financial performance in their own organisations. They also answered “Yes” to the overall financial value of any organisation. This echoes the conclusion that all of the Interviewees have the view that key employees do exist and that they are of great importance in any organisation.

Another interviewee that answered “No” to the question pertaining to “key man insurance” is Hendricks. She subsequently elaborated that she doesn’t have such insurance on herself, therefore there is still no clarity if “key man insurance” exists anywhere else in Telkom.

When considering the short answer section of the questionnaire, the response was leaning greatly towards the fact that there are key employees within an organisation. It was those who contribute to the financial performance and value of organisations, who are mostly offered adequate training and skills development to further improve themselves and their knowledge.

The discussion questions yielded some differences in their answers, different in the sense of context and content, however mostly containing some sort of similarity amongst them.

The first discussion question yielded a list of traits that were identified by the Interviewees to be present in someone who is viewed as a key employee. The traits identified were:

- A key decision maker
- An individual with specialist knowledge
- An individual with good qualifications
- An individual who makes an impact in the company through his or her actions

- Someone with the ability to manage others within the company
- Innovative individuals
- Self-motivated individuals
- Employees that carry the best interests of the organisation at heart
- Any individual that contributes positively to the benefit of the company

When considering all these traits mentioned by the interviewees, the one that stands out from the rest is the last one. It stands out because it encompasses and integrates all the other traits into one.

When asking to further elaborate on an example of a key employee within their organisations, the answers can be grouped into two based on their similarities:

- The first answer pertained to a wide variety of different personnel or employees that are all valuable to the company. Not one person or department could be singled out. Key employees can be found at every level within a company. Bulbulia pointed out however, that the higher the position of the key employee, the greater an employee's ability is to create value due to the fact that they have a greater scope of influence.
- The second similarity was that there were two of the Interviewees that identified a specific "key man" within their company. The first was Hendricks who stated that she felt that the Department of Human Resources was central to the success of the organisation. The second Interviewee was Le Grange who singled out a single person, the Chief Technology Officer, as their company's key employee because of the knowledge that he brings to the organisation.

Through these interviews, many different ways were identified in which a key employee can have an impact on the financial value of the organisation. What is notable is that not one of the interviewees gave the same answer to this question. The following ways were identified:

- By implementing good decision-making

- Possessing superior leadership skills
- By creating value in the organisation through implementing their individual traits
- Through the development of other employees
- By possessing the ability to integrate processes, departments and the workings between other employees
- By being self-less and placing the needs of the other customers, other employees and the company above their own
- By embracing and integrating themselves into the specific culture that exists within the organisation
- By turning challenges within the organisation into opportunities.

By analysing the answers given to this question, the researcher found that it is diverse, which comes back to the fact that a key employee can be found at any level within an organisation. Not only higher- or top-level employees fall within the answers gained from this question.

Decision-making, pro-activity within the organisation, innovation and managing the outcomes of decisions made, were also identified as “how” a key employee has an impact on the financial value of an organisation. Three of the answers stood out from the rest. The first answer being from Hendricks, who spoke specifically about the role of the Department of Human Resources within Telkom. She stating that their effect is indirect, by ensuring employee satisfaction and attempting to resolve conflict within the organisation internally. The second answer was given by Volschenk. He stated that the influence in this case should be from the top-down, starting with well-rounded higher-level employees who are able to have a positive influence on those who work under their supervision. The third answer was given by Bulbulia. He answered that inspiring those around them is of importance, and ultimately aligning themselves with activities that increase the revenue and profitability of an organisation.

The information gathered from the question regarding retention of employees covered the more obvious elements, as well as some which were unconventional.

The following measures were identified:

- Financial measures in the form of shares, including phantom shares, which are given to the employees and other forms of remuneration, fixed and variable
- By ensuring employee satisfaction and pro-actively doing research into which elements of the organisation require improvement in the eyes of the employee
- By acknowledging the success of the employees, by creating a caring environment and culture
- By combining recognition and financial reward

When considering the elements mentioned above, I do believe that combining financial reward, credit and recognition with ensuring a happy workplace, is the best manner to retain employees within an organisation.

All of the interviewees also understand and verbalised that there have been instances in their organisations where the arrival and/or departure of a key employee has had an impact on the financial value of the organisation.

Interestingly, one of the interviewees did state that the arrival of a key employee does not necessarily mean that that employee is the right fit for the organisation in terms of not fitting into the established culture of the organisation. Therefore only the arrival of a suitable key employee will have a financial benefit for the organisation.

It has also been found that there are organisations that put measures into place that prevent the severe repercussions that can be felt from the departure of a key employee. This has been done by grooming successors for those positions well in-time, to ensure that there are minimal disruptions from the entrance of a new person into a key position.

Taking the above into account, I have found that adequate knowledge exists around the identification and value of a key employee within respected organisations in our

country. The fact that key employees are valued in the manner that they are, is reason enough for them to be seen as assets in a company.

CONCLUSION AND RECOMMENDATION

When concluding this research study, taking into account the information gathered from the literature review and the qualitative research, a few questions come to mind.

The first question is: Should a key employee be recorded as an asset on a balance sheet? The answer to this question is a resounding “yes”.

The importance of Human Capital in an organisation is undeniable. This was stated in the literature review as being a significant contributor to the production function of a company. Large sums of money are spent by some of the largest organisations in our country to continuously improve their Human Capital. Improved Human Capital equals improved productivity.

Let's consider the company aspect of this study. By viewing an employee as an asset, and recording them this way for accounting purposes, gives one a better idea of the true value of an organisation. This may lead to future financial benefits for the organisation, especially in terms of investors.

When considering the employees themselves, being valued as an asset may improve overall productivity at work. Knowing that by improving your skills and qualifications may increase your value within the organisation. This may possibly include future financial benefit to the employee themselves. It may also facilitate future progression of their careers as their value will be known. This will also indicate to future employers of what value this employee may bring to the company.

The next question that came to mind is: Can a key employee be recorded as an asset on a balance sheet?

This question can be answered by applying the definition of an asset to the concept of an employee.

Three elements were identified in the literature review: Identifiable, Controllable and Future Economic Benefit. An employee is identifiable and undoubtedly offers future economic benefit to the organisation he or she works for, but is an employee controllable?

Controllability is the big area of debate in the opinion of the researcher. The answer is yes and no. Yes, one can control the employee in terms of a scope of practice, working hours, dress code and so forth. One can also control the future career of an employee by including restraint of trade clauses in the employee agreement. Some may argue “no”, one cannot control a human being, who has his or her own free will. An employee cannot be fully purchased by an organisation, but what has been evident from the football example discussed in the literature review, an employee can be utilised within an organisation, and fees can be paid for this utilisation.

The answer to this question finally boils down to “maybe”. And this is the only aspect in my opinion where fitting an employee into the definition of an asset is a grey area.

If an employee can hypothetically be classified as a traditional asset, the final question and title of the thesis is: Could a key employee be recorded as an asset on a balance sheet?

The researcher does propose this is a possibility, and as seen from the literature review it may be a necessity for companies to consider. The method to do this has unfortunately been elusive. The belief is that if more research is done into the formulas that Football uses to determine the value of their players, a similar formula may be revealed, which will consider all the different dimensions of employees. This formula could be worthy to determine the value of an employee based on their qualifications, experience, past contributions and expected future contributions, that may benefit both the employee and employer.

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SUPPLEMENTARY DOCUMENTS

Interview Transcripts

Please take note that alterations have been made to the original interview dialogue in terms of translation from Afrikaans to English in some instances, as well as the removal of irrelevant dialogue.

Prior to the start of every interview, permission was asked and granted to record the interview dialogue for the sake of time.

Interview 1 with Wim de Klerk:

Myself: What is your current role in the organisation?

Wim: Interim CFO of Denel.

Myself: Do you consider yourself a key employee?

Wim: Yes.

Myself: Do you have “key man insurance”?

Wim: Yes.

Myself: Does your organisation spend money on training or skills development for employees?

Wim: Absolutely, a lot.

Myself: Does restraint of trade clauses exist in employee agreements?

Wim: Absolutely.

Myself: Do you believe that your key employees have an impact on the financial performance of your organisation?

Wim: Absolutely.

Myself: Do you believe that your Board (or equivalent) understand the link (if any) between key employees and the financial performance of your organisation?

Wim: Yes, they do.

Myself: Do you believe that a key employee forms part of the overall financial value of an organisation?

Wim: Absolutely.

Myself: Who do you consider as a key employee?

Wim: Any person that's got the ability to take an important decision on the company's behalf, a key decision maker.

Myself: Which employee(s) (if any) create(s) financial value for your organisation?

Wim: That's on every level, it's on the executive level, on the next level, it's on management level, it's on foreman level. It's basically on each and every level in the organisation that you have key people. Whether it's the guy on the ground-level that takes serious decisions about day-to-day activity or work, or whether it's the CEO of the company. So throughout the organisation.

Myself: In which way (if any) does a key employee impact the financial value of your organisation?

Wim: The way that he takes decisions, in other words it comes back to decision-making. In Leadership, through his leadership.

Myself: How do the key employees have an impact (if any) on the financial value of the organisation?

Wim: To take the right decisions, to manage the appropriate outcome, to be decisive, you have got so many choices in life and you need to make the right decision and to have the impact in that regard. I think that's the closest I can get to that.

Myself: What measures are in place (if any) to retain your employees?

Wim: So, it's a combination of shares, remuneration and it is variable and fixed-remuneration. So on the triangle, it starts on a triangle, on the bottom of the triangle it your fixed pay, then the next level is your variable pay and the next level is your long-term incentive plans. That's one of them. The other is your performance contracts, where each and every guy knows exactly what he or she needs to do in order for the organisation to be a winning organisation, so you contribute A, B, C and D, and then you measure them on those and you remunerate your variable portion on those portions of their attributes to your organisation.

Myself: Has the arrival or departure of a key employee ever had an impact on your organisation's financial value?

Wim: Yes, predominantly leaving, because when you leave you immediately have a hole and you immediately feel and see the attributes that that individual had. Coming into your organisation, absolutely, but that takes a period of time, but you only see it in a year or two, because every individual coming into an organisation will start at the bottom, he or she will carve out their way, they will have to determine what they have to do. So on exit, absolutely, you immediately see that hole and if you don't have good retention in place, you immediately suffer the consequences. The people entering also have that impact, but over a longer period.

Interview 2 with Francois le Grange

Myself: What is the position you currently hold in the organisation?

Francois: CFO.

Myself: Do you consider yourself a key employee?

Francois: Yes.

Myself: Do you have "key man insurance"?

Francois: No.

Myself: Does your organisation spend money on training or skills development for employees?

Francois: Yes.

Myself: Does restraint of trade clauses exist in your organisation's employee agreements?

Francois: No.

Myself: Do you believe that your key employees have an impact on the financial performance of your organisation?

Francois: Yes.

Myself: Do you believe that your Board (or equivalent) understands the link (if any) between key employees and the financial performance of your organisation?

Francois: No.

Myself: Do you believe that a key employee forms part of the overall financial value of an organisation?

Francois: Yes.

Myself: Who do you consider as a key employee?

Francois: Like an example? The CTO, our Chief Technology Officer.

Myself: Which traits do you think a key employee has?

Francois: His knowledge, in our case, the knowledge about technology. If you don't have good systems, processes and documentation in place, an organisation becomes very dependent on individuals. If you are able to incorporate an individual's knowledge into documents and processes, it is less so, but if it is not the case you become very dependent on that person. There are also certain aspects that will be very difficult to put down on paper or incorporate into processes. In our case there are certain instances where you can't capture that knowledge.

Myself: Which key employees (if any) create(s) financial value for your organisation?

Francois: The Chief Technology Officer.

Myself: In which way (if any) does a key employee impact the financial value of your organisation?

Francois: Well, I think because they create value. Some individuals create more value than others, being on a software level or on a business level. So in this case, you can probably replace such an individual, but the question would be if someone else would be able to create the same value, which is debatable. So it is someone whose value will be difficult to replace.

Myself: How do the key employees have an impact on the financial value of the organisation?

Francois: I think it is the pro-activity of that individual to think outside the box, pro-activity and thinking outside the box.

Myself: It sounds like you are leaning towards decision-making in your answer?

Francois: Yes, definitely.

Myself: What measures are in place (if any) to retain your employees?

Francois: Incentive schemes, financially, is what we currently have in place. To incentivise people financially, to have a more long-term incentive programme, which is coupled to the company's worth.

Myself: Do you give the employees shares?

Francois: Yes, phantom shares.

Myself: Has the arrival or departure of a key employee ever had an impact on your organisation's financial value?

Francois: Yes, I think it is difficult to quantify it. You try to make alternative plans if it were to happen, but I'm sure if you were to do the math, especially with technical persons, it would surely have had an impact. If it is just a temporary impact, is another question, but I think there is definitely an impact.

Interview 3 with Wanda:

Myself: What is your current role in the organisation?

Wanda: Talent manager.

Myself: Do you consider yourself a key employee?

Wanda: Yes.

Myself: Do you have “key man insurance”?

Wanda: What is “key man insurance”?

Myself: It is a policy that is taken out on an individual, if something happens to that individual, a sum of money gets paid out to the company.

Wanda: No.

Myself: Does your organisation spend money on training or skills development for employees?

Wanda: Yes, and no.

Myself: Does restraint of trade clauses exist in your employee agreements?

Wanda: No.

Myself: Do you believe that your key employees have an impact on the financial performance of your organisation?

Wanda: Yes.

Myself: Do you believe that your Board (or equivalent) understands the link (if any) between key employees and the financial performance of your organisation?

Wanda: Yes.

Myself: Do you believe that a key employee forms part of the overall financial value of an organisation?

Wanda: Yes.

Myself: Who do you consider as a key employee? Which traits will a key employee have in your opinion?

Wanda: Well, it would be an employee who has grown in the organisation, who has good knowledge, who has good qualifications, and also does something that makes an impact. Everyone does, but not only a tech that goes out, someone who manages perhaps.

Myself: Which key employees (if any) create(s) financial value for your organisation?

Wanda: Well, it would be in every department. In HR, it is very important that we look at individual talent and encourage them to study further, and we manage incapacities and absenteeism and performance.

Myself: In which way does a key employee impact the financial value of your organisation?

Wanda: Specifically, in HR? The way HR works, managing performance and absenteeism, ensuring that the employee is happy. If the employee is happy, there performance improves.

Myself: How do the key employees have an impact on the financial value of the organisation?

Wanda: An indirect impact, through doing other things like developing talent and culture, to put measures in place to ensure that employees are happy. We aren't on a production line, so we can't see how many mistakes are made for example, but we can see how many cases we keep out of the CCMA, we resolve conflict beforehand.

Myself: Do these measures save the organisation money?

Wanda: Yes, indirectly. It doesn't cost money to go to the CCMA, but there are a lot of hours then spent outside of the workplace, different individuals from different areas are involved. It has an impact on the productivity.

Myself: What measures are in place (if any) to retain your employees?

Wanda: We are going to do research into how the employees feel, what keeps them in the organisation, what makes them happy or unhappy, what can improve and so on. I compile a monthly report on the individuals that leave the organisation, it is an online questionnaire that they complete, asking them where they are going, are they starting their own company, are they retiring or are they moving over to a different company, and why. Then we can ascertain what needs to change in order for us to retain our employees.

Myself: So it is almost like a customer survey but for your employees?

Wanda: Yes, so firstly it is the exit survey when a person leaves the organisation. But we are now going to be more pro-active, and send a survey out to current employees, to ascertain how we can improve the working environment. We also look at the different generations within our organisation. Millennials want more flexi-hours, they want to be treated differently and receive more training. We have also measures in place with talent management where we identify successors for higher positions, giving them exposure to higher positions, to ensure that someone is able to take over a position as soon as it opens, for whatever reason.

Myself: Has the arrival or departure of a key employee ever had an impact on your organisation's financial value?

Wanda: Yes, if you plan well, and with our talent management, you find successors to take over a position, you can manage the impact. However, if, for example, someone passes away suddenly, the person that takes over his position struggles for the first three months to get into the position.

Interview 4 with Chris Volschenk:

Myself: What is your current role in the organisation?

Chris: CEO of Storetech.

Myself: Do you consider yourself a key employee?

Chris: Yes.

Myself: Do you have “key man insurance”?

Chris: We do.

Myself: Does your organisation spend money on training or skills development for employees?

Chris: We do.

Myself: Does restraint of trade clauses exists in your employee agreements?

Chris: Yes.

Myself: Do you believe that your key employees have an impact on the financial performance of your organisation?

Chris: Yes.

Myself: Do you believe that your Board (or equivalent) understands the link (if any) between key employees and the financial performance of your organisation?

Chris: Yes.

Myself: Do you believe that a key employee forms part of the overall financial value of an organisation?

Chris: Yes.

Myself: Who do you consider as a key employee?

Chris: I think, I mean, you get employees, two sets of employees, a set of employees that contribute to the company and ones that don't contribute. So, in terms of key employees, you can mention five, or you can mention everyone that contributes to the company, so the key ones that I would like to keep are the ones that contribute to the company in one way or another. I think it is important to look at employees from an overall perspective. You can't have a higher level employee and not have expertise to fulfil certain roles, to be an essential end-to-end player in the company. I see employees generally as an asset, if I would put it on a balance sheet is a different story. So for me, making sure that we have the right skillsets,

the right training as well as the right set of employees in general is very important for Stortech to make a difference in the environment. So what is the question again?

Myself: Who do consider as a key employee?

Chris: So, I think key employees are effectively all the guys that contribute positively to the benefit of the company. So if you want to narrow it down, I have a few technical people that I can't do without, I have a few sales people I can't do without, the Exco members, we have a very flat structure so those are key for us. I think there are quite a broad amount of employees that contribute positively to the company and those would be the key employees.

Myself: Which key employee(s) (if any) create(s) financial value for your organisation?

Chris: The longer I have been in the game, the more I realise that it is not the one employee that makes or breaks it. One can break it but many are required to make it. You need to have a full set of different types of employees to create value in the company. I'm looking at it from a business perspective, for me business is a lot more important than the financial side. My employees, if I have happy employees, I make sure that I have happy shareholders and customers, all of that will come after that. So for me, the centre of Stortech is the employees, how they interact with each other, how they interact with customers, that will create the value. From a leader-perspective, the more employees that can be beneficial and contribute to the bottom line of the company or create value for the company, then you will have a successful company. It is not about one, but there are certain employees that create more value than others, absolutely, everybody is not created equally, but I think the important part is integration. Companies in general have become a lot more complex, historically, you can have one guy to do the work for you, with someone who was "created" specifically for a purpose. The new way is that you need to have integrated systems, you need to have integrated environments and the better you can integrate all these environments, that creates the value. Key employees, the ones that add value are team-players, that create value overall for the company and then link it to the rest of the field. A key employee needs to integrate all if the areas within the company into an end-to-end play, that is the key part.

Myself: In which way does a key employee impact the financial value of your organisation?

Chris: It depends on the staff members, at the lower levels, before you integrate everything, each type of employee has an own role, sale, presale, tech and the back office, which all need to fulfil their roles to make sure that they have an impact on the organisation. In which way, overall, I think there are a lot of systems that need to be put in place, in order to be able to create an end-to-end value proposition to your customer. Then you have those guys who can have those integration systems implemented, creating a platform that can help take it to the next level. So I always see a company in three ways: you have your business as usual, which is the biggest portion of the company, don't throw that away; then you have the portion that creates real innovative things, that adds a lot of value from where you are at the bottom of the business as usual, the cloud, the digital and to all those things; and then a small bit at the top, for example the "Ubers" which can throw a whole industry on its head, these things are very expensive and can take years and years to get right. So you need a combination, and I'm all about a balance between different sets of people, making sure that you create possibilities for each of these sets of individuals so that they can create value within the company. So the leaders that can actually get the best out of these individuals in the different areas, they are the guys that can make or break a company. If you have selfish people, those are the first guys you need to take out of the system, get rid of individual contributors, except maybe in sales, they are the only ones who can stay in that little bubble. The rest of the organisation needs to be people's people, keeping the interest of the company at heart and that of their fellow employees. So we have a family culture, we try and look after each other. All the guys that contribute to that, to the culture and what we do, for each other and for our customers, that is how they create the magic. It's because we care, it is because we have got heart. Guys with heart are is a lot more important than brilliance, and that is what I look for in an interview, along with fitting into our culture.

Myself: How do the key employees have an impact (if any) on the financial value of the organisation?

Chris: In so many different ways, honestly it is, so what we try and do it, the Exco and the Manco teams, we try and make them as flexible and agile as possible, so that they have a combination of Financial and HR experience. And each leader needs to make sure that their staff are managed and has the right culture. Each of those needs to make sure that they have a good financial setup and drive that. Each of them need to make sure that they have got the sales capability and go out the customers and drive that and each one of them will have the softer, the cultural skillsets to do that. So what we try to do is to create a more rounded type of leadership environment that you can fill into a lot more positions and a lot more environments, with that you are almost a little CEO in your own environment. So that for me is very important. How they then do it, because they are very rounded in what they do, that's then where you create that whole integrated environment in the different areas, that you get that benefit out of it. That is how we try to get the most value out of our employees. Is it perfect? Absolutely it has long-term benefit, short-term it can be difficult to get all of those things right. All of the employees need to have an understanding of how the traditional and the more modern ways work, in order to get it right.

Myself: What measures are in place (if any) to retain your employees?

Chris: The things you can physically put on the table is the salary, we pay people pretty well, we are usually in the 75th percentile where we pay employees. Everybody has a component of a short-term incentive, a bonus for example. The key employees have a long-term plan as well. Then there are certain employees that we can keep in a retainer type scenario. These are the HR things you look at. But the most effective way is through the heart, by caring, by educating them, by giving them opportunities to learn a lot of new things, so that is ultimately how you keep most of the employees. You create an environment and a culture to keep the employees. Culture, caring and passion, that is what keeps people and helps them create, let them create, don't take the credit for anything, let them create.

Myself: Has the arrival or departure of a key employee ever had an impact on your organisation's financial value?

Chris: Absolutely. So, if you have the wrong person coming in, it creates chaos. If they have the wrong culture, it creates terrible chaos and you get rid of them very

quickly. They can out rumours out there, they can out the wrong messages out there. The wrong employee can have a much more visible and palpable impact than the right employee, they can try and create doubt in the guys that are there currently. The right guy coming in can create proper benefits for a company, with the right attitude, the right culture, indifferent ways. In sales, the technical side that is creating new platforms, just ensuring that you have the right culture in every bit of the organisation, but the benefits from the right person coming in can take a little bit longer.

Interview 5 with Professor Zunaid Bulbulia:

Myself: May we refer to the questions in this interview as pertaining to your previous position in MTN?

Zunaid: Yes.

Myself: Do you consider yourself a key employee?

Zunaid: Yes.

Myself: Do you have key man insurance?

Zunaid: Yes.

Myself: Does your organisation spend money on training and skills development of employees?

Zunaid: Yes.

Myself: Does restraint of trade clauses exist in your employee agreements?

Zunaid: Yes.

Myself: Do you believe that your key employees have an impact on the financial performance of your organisation?

Zunaid: Absolutely.

Myself: Do you believe that your Board understands the link between key employees and the financial performance of your organisation?

Zunaïd: Yes, I believe they do.

Myself: Do you believe that a key employee forms part of the overall financial value of an organisation?

Zunaïd: Yes.

Myself: Who do you consider as a key employee?

Zunaïd: People that are innovative, that see challenges as a reason to become constructive and time sufficient as opposed to seeing it as a problem that can destroy the company, people that are self-motivated, that have the best interests of the organisation at heart. People that display the kind of characteristics that drives an organisation forward.

Myself: Which key employee(s) if any, create(s) financial value for your organisation?

Zunaïd: You find them everywhere; it is never confined to one level or one job type. Obviously, the higher up employees are, their ability to create value is higher because they have a greater scope of influence and can make things happen. But my experience has been that you get key employees at every level that adds value.

Myself: In which way does a key employee impact the financial value of your organisation?

Zunaïd: The main one is that whenever an organisation is challenged in a certain way, they find ways to turn challenges into opportunities. They always find ways to get value out of any situation in an organisation.

Myself: How do the key employees have an impact on the financial value of your organisation?

Zunaïd: Key employees always inspire others, whether it is retention of a customer or creating a new product, or improving an existing product. So all of those activities are aligned with increasing revenue or the profitability of an organisation.

Myself: What measures are in place (if any) to retain your employees?

Zunaid: The most often used one is when employees are given a share in the business, they get more reward as the business or organisation gets more valuable. But the one that is there but doesn't get used enough is recognition, people like to be recognised, they like to be recognised for the things that they've done and done well. That is often useful. Good organisations use recognition and reward, not just reward, they use both.

Myself: Has the arrival or departure of a key employee ever had an impact on your organisation's financial value?

Zunaid: Yes, absolutely.

Myself: Arrival or departure, or both?

Zunaid: Both, there is no question about it. So people make any business good, bad or ugly. There is no doubt about it that key employees that are leaving, moving or arriving, have got a significant impact on that.