

Disclosure of Human Capital Practices: The Case of the GCC Banking Sector

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ABSTRACT

The objective is to assess the disclosure practices of human capital in the banking sector of the Gulf Council Countries. This study aims to assess the level and quality of human capital disclosure and to investigate the consistency among countries. The study investigates the human disclosure practice of eight banks from each the six gulf countries with a total of 48 banks out of the 56 national banks over five years. The paper develops the variables of the disclosure index based on long discussion with professional and researchers. The disclosure index is computed for each variable for all banks under the sample. Compensation comes as the most disclosed variable with an average score of 2.87 Whereas knowledge is the least disclosed variable with an average score of 0.75. The Bahrain banks score the first level of disclosure with a disclosure score of 391, followed by UAE, Qatar, and Kuwait.

KEYWORDS

Disclosure Index, GCC Banks, HC Reporting, HD Variables, Human Capital Disclosure

INTRODUCTION

During the transfer from industrial to the knowledge economy, more emphasis is placed on intellectual capital (IC), which is composed of human capital (HC), organizational capital, and relational capital. Papula and Volna (2011) indicated that both human and organizational capital contain knowledge oriented towards something inside the organization, whereas, relational capital contains outside knowledge.

Human capital is defined as the skills or/ and competencies, training and education, and experience and value characteristics of an organization's workforce (Hendry and Brown, 2005; Miller, 1999; Roos and Ross, 1997). Wang and Chang (2005) suggested employee increment/decrement ratio as an appropriate indicator. Human capital is the knowledge and skills, which individuals create, maintain and use (Armstrong, 2006).

Although (HCD) is necessary for managers and investors to know the contribution of their employees and plan for the future growth and sustainability of their organizations, its practice remains a critical, debatable and controversial issue (Higson, 2014). HCD lacks a unified definition, an accurate measure, and disclosure style. It is one of the voluntary disclosure items, which may vary from an organization to another. Hence, it is up to an organization to decide whether it wants to disclose it or not and in what amount, if at all. HCD is also facing the problem of unified measurement

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to be reported in a specific statement. Therefore, this paper covers all information related to the HC (education, knowledge, productivity, compensation, diversity, turnover, training, etc.) that is available in different parts of the annual reports utilized for this study.

It is agreed in this paper that HC is an asset but very difficult, if not impossible, to be included in the statement of financial position. The nature of this asset is completely different from other tangible and intangible ones. Some of the specific features are:

- HC satisfies the definition of assets in some aspects such as; generating future benefits, adding benefit and value, and contributing to revenues generation. HC has its own features that differ from assets reported on the balance sheet in the following aspects.
- HC is not a transaction acquired asset, which complicates its exact value.
- It does not have a definite useful life. Therefore, it is not subject to depreciation or amortization.
- The value of HC, unlike other assets, increases over time through experience, education, and training.

After the changes adopted by the International Accounting Standards Board (IASB) to remove a reliably measurable asset, there is a good opportunity to estimate the value of HC. Higson (2014) provided a broader definition of HC to include the social capital of the organization, that is, the shared skills and knowledge of employees as a group and can be extended to include all intangibles.

This study tries to estimate the value of HC through an index that includes any variable that contributes to its acquisition or development. The factors may be to generate more resources (revenues) or the use of resources (expenses). Therefore, the study can create an index based on the value added by HC through the difference between the revenues generated by HC and the expenses incurred for HC in a direct or indirect relationship.

Objectives of the Study

- The main objective of this study is to assess the level and quality of HCD practices in the banking sector of the Gulf Council Countries (GCC) during a five year period (2013 to 2017).
- It also aims to investigate the consistency and progress of HCD practices among different banks in these countries.

Motivations of the Study

Disclosure of human capital is necessary for organizations from different aspects:

- HDC provides useful information to the decision makers in and outside their organizations. It helps managers in employment, promotion, training, and evaluation decisions. In addition, it helps investors to measure their value creation. Abeysekera (2007) stated that the employees want to know the extent to which human capital is developed and valued by companies.
- Unreported information does not receive important attention as it lacks an accurate measure. Bullen (2007) stated, "What gets measured gets managed".
- Reporting HC helps managers to develop accurate plans with regard to the benefits and costs of human resources. Mara, Ahmed, and Hassan (2016) stated that HC information will help investors assess to the effectiveness of human capital management so that they can deliberate their capital allocation.

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