



Talent Management

How Financial Accounting Screws Up HR

It distorts hiring, training, and benefits practices. by Peter Cappelli

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Many common practices for managing employees are hard to explain. Why do companies obsess over cost per hire but spend so little time trying to see if they make good hires? Why do they provide so little training when we know it improves performance and many candidates say they'd take a pay cut to get it? Why do firms delay filling vacancies and let work go undone? Why do they spend so much money leasing personnel from vendors rather than hiring their own?

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One answer to those questions is the peculiar way that financial accounting in the United States treats employment costs (which differs from the way that international standards treat them). Despite all the rhetoric about "investing in our people," training and development aren't considered investments; they're categorized as a current expense, a type of fixed cost—just as carpeting is. So are other employment costs such as wages and salaries for all administrative work. Given that U.S.

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In the United States public companies are required to report their financials using standards based on generally accepted accounting principles (GAAP) established by the Financial Accounting Standards Board. Those accounting rules say that items with value are assets—but only if they're owned by the company. On that basis, employees are not considered assets—even though the tenure of a valuable employee is often far longer than the life of any piece of capital equipment. Even when a company buys other businesses to get access to their skilled employees, the acquisition of talent cannot be treated as an investment.

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Many employee benefits—including vacation time, sick leave, and health care coverage—are accrued or earned by the workers and owed to them in the future. Under GAAP, those benefits show up on the liability side of the balance sheet as obligations that must be offset by current assets. From an accounting perspective they're an even bigger burden than simple expenses are.