

From People Costs to Investor Value: A Structured Survey of Literature on Human Resource Spending and Firm Valuation

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Abstract:

Human resources have traditionally been treated as operating costs rather than strategic investments, largely because their value is difficult to measure and report within conventional accounting frameworks. However, growing evidence from human capital economics, strategic human resource management, and finance suggests that investments in people—such as training, talent acquisition, compensation design, and HR systems, may influence firm performance and, ultimately, investor wealth. Against this backdrop, the present study undertakes a structured review of the literature to examine how, when, and under what conditions human resource (HR) spending contributes to shareholder value. Drawing on established review protocols, the study systematically synthesises theoretical, empirical, and methodological contributions from prior research spanning human capital theory, the resource-based view, agency theory, signalling theory, and stakeholder perspectives. The review highlights that HR spending affects investor wealth primarily through indirect mechanisms, including productivity enhancement, innovation capacity, risk reduction, and market signalling. Empirical evidence suggests that while HR investments consistently improve intermediate organisational outcomes such as productivity and retention, their translation into accounting performance and market valuation is heterogeneous and dependent on context. The findings further reveal that industry characteristics, firm life cycle, complementary investments, labour market conditions, and disclosure quality act as critical moderators shaping investor responses to HR spending. Persistent challenges related to measurement, disclosure, and endogeneity continue to limit the visibility of human capital value in capital markets. By integrating insights across disciplines, this review clarifies why investor reactions to HR spending are often uneven and delayed. The study contributes to the literature by offering an integrated framework that links HR spending to investor wealth through multiple channels and boundary conditions. It also identifies promising directions for future research, particularly in the areas of human capital disclosure, longitudinal analysis, and causal identification.

Keywords: Human resource spending; Human capital; Investor wealth; Firm valuation; Strategic HRM

JEL Codes: G32, J24, M12, M41

INTRODUCTION

In contemporary organisations, value creation increasingly depends on intangible assets rather than physical capital alone. Among these intangibles, human capital occupies a central position, shaping productivity, innovation, and long-term competitiveness. Yet, despite this growing importance, investments in employees e.g. recruitment, training, compensation, and development, continue to be treated primarily as expenses in financial statements. This accounting treatment obscures the economic role of human resource (HR) spending and complicates investor assessment of firm value (Lev, 2001).

Theoretical perspectives from human capital economics argue that investments in skills and knowledge enhance future earnings capacity, provided the expected returns exceed the costs incurred (Becker, 1964). Complementing this view, strategic management research emphasises that human resources, when developed through coherent systems and aligned with organisational strategy, can become firm-specific assets that are difficult for competitors to replicate (Barney, 1991; Huselid, 1995). From a financial perspective, however, the link between HR spending and investor wealth remains contested, largely due to information asymmetry, measurement limitations, and the delayed nature of HR investment returns.

Empirical studies report mixed findings. While many document positive effects of HR practices on productivity and operational performance, evidence on accounting profitability and stock market valuation is less consistent (Delaney & Huselid, 1996; Makin & Loughlin, 2014). Investors appear to respond selectively to HR-related information, rewarding some forms of spending e.g. strategic talent acquisition or credible disclosure, while discounting others perceived as routine or opaque (Spence, 1973; Healy & Palepu, 2001).

Given these inconsistencies, there is a need for integrative work that brings together insights across disciplinary boundaries. This study addresses that need by conducting a structured review of the literature on HR spending and investor wealth. Rather than asking whether HR spending works in a general sense, the study focuses on how value is created, through which mechanisms, and under what contextual conditions investors recognise that value.

OBJECTIVES OF THE STUDY

The central objective of this study is to systematically examine how investments in human resources translate into investor wealth and firm valuation. While employees are increasingly recognised as critical drivers of organisational competitiveness, human resource (HR) spending continues to be treated largely as an operating cost within conventional accounting systems. This study seeks to challenge that narrow framing by synthesising existing research to understand whether, how, and under what conditions HR spending contributes to shareholder value.

A key objective is to consolidate fragmented evidence from multiple disciplinary streams, including human capital economics, strategic human resource management, accounting, and finance. Prior studies in these areas have often developed in isolation, leading to mixed and sometimes contradictory conclusions about the financial relevance of HR investments. By bringing these perspectives together, the study aims to develop a more coherent understanding of the HR spending–investor wealth relationship.

Another important objective is to identify the mechanisms through which HR spending affects investor outcomes. Rather than assuming a direct and immediate impact on firm valuation, the study focuses on indirect pathways such as productivity enhancement, innovation capability, cash-flow stability, risk reduction, and market signalling. This mechanism-based approach helps explain why investor reactions to HR investments are often delayed and uneven across firms and industries.

The study also aims to examine the role of contextual and institutional factors that shape investor responses to HR spending. Industry characteristics, firm life cycle, labour market conditions, complementary investments, and the quality of human capital disclosure are analysed as key moderators that influence whether HR investments are recognised and rewarded by capital markets.

Finally, the study seeks to identify persistent gaps and methodological challenges in the existing literature, particularly those related to measurement, disclosure, endogeneity, and time horizons. By highlighting these limitations, the study aims to provide a structured agenda for future research that can better capture the long-term value implications of investments in people.

BACKDROP FOR THE SURVEY OF LITERATURE

The growing body of literature on human resource (HR) spending reflects a decisive shift in how organisations and investors perceive people-related expenditures. Traditionally viewed as routine operating costs, investments in hiring, training, compensation, and employee development are now

increasingly conceptualised as strategic investments with long-term value implications. This reorientation is largely grounded in human capital theory, which argues that expenditures on employee skills and knowledge enhance productivity and future earnings potential, provided the expected benefits outweigh the costs (Becker, 1964). Building on this foundation, subsequent research has sought to understand whether and how such investments translate into firm-level financial performance and, more specifically, investor wealth.

From a strategic management perspective, scholars have emphasised that human resources, when effectively developed and deployed, can constitute firm-specific and difficult-to-imitate assets. The resource-based view highlights that HR systems and practices may generate sustained competitive advantage when they are valuable, rare, and embedded within organisational routines (Barney, 1991). This insight encouraged empirical research examining bundles of HR practices, often termed high-performance work systems—and their association with productivity, turnover, and financial outcomes (Huselid, 1995; Delaney & Huselid, 1996). At the same time, accounting and finance scholars have drawn attention to the challenges of measuring and reporting HR investments, noting that conventional financial statements tend to underrepresent the value of human capital because most HR expenditures are expensed rather than capitalised (Lev, 2001).

Another important stream of literature focuses on information asymmetry and signalling. In capital markets, investors rely on observable signals to form expectations about future firm performance. Visible HR actions e.g. large-scale recruitment drives, executive appointments, or enhanced employee benefit programmes, may signal managerial confidence and growth prospects, thereby influencing investor perceptions and firm valuation (Spence, 1973; Healy & Palepu, 2001). However, empirical evidence remains mixed, with studies reporting positive, negative, or context-dependent market reactions to HR-related disclosures and expenditures.

Against this backdrop, the literature has evolved toward a more nuanced understanding of HR spending and investor wealth. Rather than assuming a uniform positive relationship, contemporary research recognises the importance of contextual factors such as industry characteristics, firm strategy, complementary investments, and disclosure quality. The survey of literature, therefore, is situated within this multidimensional and evolving debate, aiming to synthesise theoretical arguments and empirical findings to clarify when, how, and under what conditions HR spending contributes to investor wealth creation.

METHODOLOGY OF THE SURVEY OF LITERATURE

This study adopts a structured literature review methodology, guided by the principles of transparency, replicability, and systematic synthesis. A PRISMA-oriented approach was employed to ensure rigor in the identification, screening, and analysis of relevant studies, while remaining sensitive to the interdisciplinary nature of research on HR spending and investor wealth.

Identification of Studies

The initial pool of studies was drawn from peer-reviewed journal articles and scholarly books focusing on human capital, strategic HRM, accounting, and finance. Only studies explicitly addressing HR investments, human capital measurement, disclosure, firm performance, or investor outcomes were considered. The reference list provided in the uploaded paper served as the primary knowledge base, ensuring conceptual coherence and disciplinary relevance.

Screening and Eligibility

Following identification, studies were screened based on relevance and quality. Conceptual papers were included if they provided strong theoretical frameworks linking HR spending to firm value or investor outcomes. Empirical studies were retained if they examined financial performance, market valuation, or

investor reactions in relation to HR practices or human capital indicators. Duplicates, purely descriptive practitioner articles, and studies lacking a clear connection to investor wealth were excluded.

Classification and Data Extraction

Eligible studies were classified into thematic categories:

- (i) theoretical frameworks,
- (ii) empirical evidence on HR returns,
- (iii) mechanisms linking HR spending to investor wealth,
- (iv) measurement and disclosure challenges,
- (v) contextual moderators, and
- (vi) methodological approaches.

Key information extracted included theoretical lens, data sources, HR measures used, performance or valuation outcomes examined, and principal findings.

Synthesis Approach

Rather than statistical meta-analysis, a narrative and thematic synthesis was employed due to heterogeneity in study designs, measures, and outcomes. This approach allowed integration of insights across economics, management, and accounting while preserving contextual nuance. Attention was paid to identifying recurring patterns, contradictions, and gaps in the literature.

PRISMA Alignment

The review process followed PRISMA logic in terms of structured identification, screening, eligibility assessment, and synthesis, even though the outcome is qualitative rather than quantitative. This ensured methodological transparency and strengthened the credibility of the review.

FINDINGS FROM THE SURVEY OF LITERATURE

Theoretical Frameworks Linking HR Spending to Investor Wealth

The relationship between human resource (HR) spending and investor wealth has been examined through multiple theoretical lenses, each offering a distinct explanation of how investments in people can influence firm value and market perceptions. Together, these frameworks move the discussion beyond a narrow cost-based view of HR and position employee-related expenditures as economically meaningful decisions with potential long-term financial consequences.

One of the earliest and most influential perspectives is human capital theory, which treats expenditures on education, training, and skill development as investments rather than consumption (Becker, 1964). From this standpoint, HR spending enhances the productive capabilities of employees, leading to higher efficiency, improved quality, and greater innovative capacity. These improvements are expected to translate into stronger future cash flows, which form the basis of firm valuation. Investors, in turn, benefit when the returns generated by human capital investments exceed their costs. Although the theory provides a clear economic rationale, later studies note that the payoff from HR investments is often realised over the long term and may not be immediately visible in accounting profits, complicating investor assessment (Mincer, 1974; Sturman & Trevor, 2001).

Closely aligned with human capital theory is the resource-based view (RBV) of the firm. RBV argues that sustainable competitive advantage arises from resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Human resources, especially firm-specific skills, tacit knowledge, and embedded HR systems, fit these criteria when they are developed through consistent and strategic investment. HR spending aimed at building unique capabilities can therefore create advantages that competitors find difficult to replicate. From an investor's perspective, such advantages enhance expectations of durable abnormal returns and lower competitive risk, which are positively reflected in firm valuation (Wright & McMahan, 2011). Importantly, RBV highlights that it is not isolated HR practices but

coherent systems of recruitment, training, appraisal, and rewards that generate value (Dierickx & Cool, 1989).

Another influential framework emerges from strategic human resource management (SHRM) and the concept of high-performance work systems (HPWS). This perspective emphasises alignment between HR practices and organisational strategy. Studies in this stream argue that when HR spending is strategically targeted, supporting employee involvement, skill development, and performance-based incentives, it produces synergistic effects that enhance productivity and organisational effectiveness (Huselid, 1995; Becker & Huselid, 2006). The implication for investor wealth is indirect but powerful: improved operational performance strengthens financial outcomes, which ultimately drive shareholder value. However, SHRM scholars also caution that misaligned or poorly implemented HR investments may fail to deliver expected returns, reinforcing the conditional nature of the HR–value relationship (Paauwe & Boselie, 2005).

From a financial economics perspective, agency theory provides another lens for understanding HR spending and investor wealth. Agency theory focuses on conflicts of interest between managers and shareholders, suggesting that compensation structures and incentive systems play a critical role in aligning managerial actions with investor interests (Jensen & Meckling, 1976). HR spending on performance-linked pay, stock options, and incentive schemes can motivate managers and employees to pursue value-enhancing decisions. At the same time, excessive or poorly designed compensation packages may be perceived by investors as rent extraction, increasing agency costs and reducing firm value (Hall & Liebman, 1998; Edmans et al., 2017). Thus, agency theory underscores that the design and governance of HR expenditures matter as much as their magnitude.

The signalling theory perspective further enriches the discussion by focusing on information asymmetry between firms and investors. Because many aspects of human capital are intangible and not fully captured in financial statements, investors rely on observable signals to infer firm quality and prospects. HR-related actions e.g. large investments in training, high-profile executive appointments, or enhanced employee welfare initiatives, can act as signals of managerial confidence, growth orientation, and organisational strength (Spence, 1973). When these signals are credible, they may positively influence investor expectations and market valuation. However, the effectiveness of signalling depends heavily on disclosure quality and context; vague or inconsistent HR disclosures may fail to reduce information asymmetry and may even generate scepticism (Lev, 2001; Healy & Palepu, 2001).

A complementary perspective is offered by stakeholder theory, which broadens the objective of the firm beyond short-term shareholder returns. This framework argues that investments in employees contribute to long-term value creation by fostering trust, commitment, and social legitimacy (Epstein & Buhovac, 2010). From this view, HR spending enhances firm resilience and reduces non-financial risks such as labour disputes, reputational damage, and high turnover. Investors may price these benefits through lower perceived risk and a reduced cost of capital, indirectly enhancing investor wealth (Van Buren & Greenwood, 2013).

Taken together, these theoretical frameworks suggest that the link between HR spending and investor wealth is complex and multifaceted. Human capital theory and RBV emphasise value creation through enhanced capabilities, SHRM focuses on strategic alignment and systems, agency theory highlights incentive design and governance, signalling theory addresses investor perception under information asymmetry, and stakeholder theory stresses long-term sustainability and risk reduction. The survey of literature builds on these frameworks to evaluate empirical evidence and identify the conditions under which HR spending is most likely to translate into tangible benefits for investors.

Empirical evidence: returns to HR spending

Empirical research examining the returns to human resource (HR) spending presents a rich but nuanced picture. While a substantial body of evidence supports the view that investments in people can enhance organisational performance, the translation of these benefits into clear and consistent gains in investor

wealth is far from automatic. Differences in measurement, context, time horizons, and the type of HR expenditure studied have produced varied and sometimes conflicting findings across empirical studies. Early firm-level studies provided strong evidence that HR investments are positively associated with operational outcomes such as productivity, quality, and employee retention. Seminal work by Huselid (1995) demonstrated that firms adopting more extensive and sophisticated HR practices experienced lower turnover and higher productivity, which were in turn associated with improved financial performance. Similar results were reported in industry-specific studies, including manufacturing and steel finishing lines, where coordinated HR practices significantly improved output and efficiency (Ichniowski et al., 1997; MacDuffie, 1995). These studies established an important baseline: HR spending does appear to generate real economic benefits within firms.

Training and development have received particular attention in the empirical literature. Numerous studies report that investments in employee training led to improvements in skills, job performance, and internal labour market outcomes. Meta-analytic evidence suggests that training is consistently linked with positive organisational outcomes, especially productivity and employee attitudes (Tharenou et al., 2007). However, the same body of research finds that the direct impact of training expenditure on accounting profits or stock market performance is weaker and often indirect. Financial returns tend to materialise only when training is aligned with organisational strategy and supported by complementary practices such as performance management and career development (Garavan et al., 2021). This helps explain why investors may struggle to immediately price the value of training investments.

Empirical evidence on recruitment and talent acquisition points to more visible, though still context-dependent, market reactions. Studies examining executive appointments and high-profile talent hires frequently use event-study methodologies to capture investor responses. Positive abnormal returns have been observed around announcements of new CEOs or key executives when investors perceive the appointments as signals of improved leadership quality or strategic change (Hall & Liebman, 1998; Edmans et al., 2017). In contrast, hiring announcements that are interpreted as costly or unnecessary may trigger neutral or even negative market reactions. These findings highlight that investors distinguish between routine HR spending and strategic talent investments perceived to affect future cash flows.

Compensation-related HR spending has also been widely studied, particularly from the perspective of incentive alignment and risk-taking. Empirical work shows that performance-linked pay and equity-based compensation can influence managerial behaviour in ways that affect firm value. For instance, incentive-heavy compensation structures have been associated with higher risk-taking and innovation, outcomes that may enhance growth prospects but also increase volatility (Gerhart & Milkovich, 1992; Hall & Liebman, 1998). Investors appear to price these effects by adjusting expected returns, suggesting that HR spending on compensation affects investor wealth through both cash-flow expectations and perceived risk. Research adopting a systems perspective generally finds stronger links between HR spending and financial outcomes. Studies focusing on bundles of HR practices—often referred to as high-performance work systems, report more consistent associations with firm performance than studies examining isolated HR activities (Delaney & Huselid, 1996; Becker & Huselid, 2006). This suggests that the returns to HR spending are amplified when investments are internally coherent and mutually reinforcing. From an investor standpoint, firms that demonstrate sustained commitment to integrated HR systems may be viewed as better positioned for long-term value creation.

Evidence linking HR spending directly to market valuation and investor wealth remains mixed but increasingly supportive. Some longitudinal studies indicate that firms with higher and more consistent HR investments enjoy superior stock market performance over time, particularly in knowledge-intensive industries where human capital is a key value driver (Nielsen & Rasheed, 2015; Colvin et al., 2019). Other studies, however, report weak or insignificant relationships, attributing these results to measurement limitations and disclosure gaps (Makin & Loughlin, 2014). Because most HR expenditures are expensed rather than capitalised, investors may not fully observe or trust reported HR spending figures, dampening market responses (Lev, 2001).

Meta-analytic and review-based evidence reinforces the view that HR spending yields reliable benefits at the operational level but more heterogeneous outcomes at the financial and market levels. While productivity and turnover effects are robust across contexts, links to profitability and shareholder returns vary with study design, industry, and time horizon (Tharenou et al., 2007; Garavan et al., 2021). Studies employing stronger methodologies e.g. panel data, fixed effects, or quasi-experimental designs, tend to find more convincing evidence of positive long-term financial returns, suggesting that earlier null results may partly reflect methodological constraints.

The empirical literature indicates that HR spending can generate meaningful economic returns, but these returns are neither immediate nor uniform. Investor wealth effects depend on the type of HR investment, its strategic alignment, the presence of complementary assets, and the quality of disclosure. This body of evidence underscores the importance of moving beyond simplistic cost–benefit assumptions and adopting a more nuanced understanding of how and when HR spending contributes to shareholder value.

Mechanisms: How HR Spending Can Affect Investor Wealth

The literature suggests that human resource (HR) spending influences investor wealth not through a single direct route, but via multiple interconnected mechanisms that shape firm performance, risk, and market perceptions over time. Understanding these mechanisms is critical because HR investments are largely intangible, long-term in nature, and often imperfectly observed by capital markets. Empirical and theoretical studies therefore focus on the pathways through which HR spending ultimately translates into shareholder value.

One of the most widely discussed mechanisms is the productivity–cash flow channel. Investments in recruitment, training, skill development, and employee engagement enhance workforce capabilities and efficiency. Higher skill levels, better job fit, and stronger motivation improve labour productivity, reduce error rates, and increase service or product quality. These operational improvements feed into stronger operating margins and more stable long-term cash flows, which form the core inputs to firm valuation models (Becker, 1964; Huselid, 1995). Investors benefit when HR spending leads to sustainable improvements in free cash flows rather than short-lived cost reductions. Empirical studies show that firms with lower employee turnover and higher workforce productivity, often outcomes of sustained HR investment, exhibit superior long-run financial performance, which markets gradually capitalise into share prices (Sturman & Trevor, 2001).

A second important mechanism operates through innovation and growth expectations. HR spending that enhances employee skills, learning capacity, and collaboration increases a firm’s ability to generate and absorb new knowledge. The concept of absorptive capacity explains how skilled employees enable firms to recognise, assimilate, and exploit new ideas, particularly when HR investments complement R&D and knowledge-management systems (Cohen & Levinthal, 1990). This mechanism is especially relevant in knowledge-intensive and technology-driven industries, where future growth depends heavily on human creativity and expertise. Investors respond to these enhanced growth prospects by revising upward their expectations of future earnings, thereby increasing firm valuation (Krasman & Smith, 2010; Nielsen & Rasheed, 2015).

HR spending also affects investor wealth through a risk and cost-structure channel. Effective HR practices e.g. robust selection processes, leadership development, fair compensation, and employee well-being initiatives, can reduce operational and governance risks. Lower absenteeism, fewer labour disputes, and reduced voluntary turnover make cash flows more predictable, which investors typically reward with a lower required rate of return. From this perspective, HR spending functions as a risk-mitigation tool rather than merely a growth investment (Van Buren & Greenwood, 2013). Conversely, certain HR expenditures, particularly incentive-heavy compensation schemes, may increase strategic risk by encouraging aggressive risk-taking. Investors incorporate these risk implications into firm valuation by adjusting risk premia, illustrating that HR spending can influence investor wealth through both upside potential and downside exposure (Hall & Liebman, 1998; Edmans et al., 2017).

Another key mechanism is signalling and investor perception under information asymmetry. Because financial statements provide limited visibility into the quality of human capital, investors rely on observable HR-related actions and disclosures as signals of firm quality and managerial intent. Public investments in employee training, leadership development programmes, or high-profile talent acquisitions may signal confidence in future growth and organisational strength (Spence, 1973). Similarly, enhanced human capital disclosure can reduce information asymmetry and improve analyst coverage, allowing investors to more accurately price firm value (Healy & Palepu, 2001; Jia & Rutherford, 2015). However, the signalling effect depends on credibility: if HR spending is perceived as symbolic, excessive, or poorly aligned with strategy, the signal may be discounted or even interpreted negatively by the market (Lev, 2001).

The systems and complementarities mechanism further explains why isolated HR expenditures often yield weaker investor responses than integrated HR strategies. Research shows that HR spending generates greater value when it is embedded within coherent systems that align recruitment, training, appraisal, and rewards with organisational goals (Delaney & Huselid, 1996; Becker & Huselid, 2006). These complementarities amplify returns by ensuring that skills acquired through training are effectively utilised and rewarded, thereby strengthening the productivity and retention effects. Investors are more likely to recognise and reward firms that demonstrate consistent, system-level HR investment rather than sporadic or reactive spending (Dierickx & Cool, 1989).

A related mechanism operates through employee attitudes and organisational culture. HR spending that fosters trust, commitment, and engagement can improve discretionary effort and organisational citizenship behaviours, which indirectly enhance firm performance (Podsakoff et al., 2006). Strong cultures and positive employment relationships also enhance employer reputation, making it easier to attract and retain high-quality talent. Over time, these intangible benefits support competitive advantage and earnings stability, outcomes that are valued by long-term investors (Denison, 1990; Pfeffer, 1994).

Finally, HR spending influences investor wealth through institutional and contextual mediation. The effectiveness of HR investments depends on industry characteristics, labour market conditions, and national institutional frameworks. In tight labour markets or knowledge-intensive industries, HR spending on retention and development yields higher marginal returns, which investors are more likely to price into valuations (Berman et al., 1994; La Porta et al., 1998). Disclosure regimes and accounting standards also shape how effectively HR investments are communicated to the market, influencing investor interpretation and response (Malm, 2010; Li & Rowland, 2016).

The literature identifies multiple mechanisms through which HR spending can affect investor wealth: by enhancing productivity and cash flows, strengthening innovation and growth potential, altering risk profiles, signalling firm quality, leveraging complementarities within HR systems, and shaping organisational culture. These mechanisms highlight that HR spending creates investor value not automatically, but conditionally, depending on strategic alignment, implementation quality, and the informational environment in which investors operate.

Measurement, Disclosure and Accounting Challenges

A central challenge in examining the relationship between human resource (HR) spending and investor wealth lies in how human capital is measured, disclosed, and accounted for in corporate reporting. Despite widespread agreement that employees represent a critical source of value creation, existing accounting frameworks struggle to capture the economic significance of HR investments in a systematic and decision-useful manner. As a result, much of the value generated through HR spending remains invisible to investors, complicating both empirical research and market valuation.

From a measurement standpoint, human capital is inherently difficult to quantify. Unlike physical or financial assets, employee skills, knowledge, motivation, and relationships are intangible, context-specific, and dynamic. Traditional financial accounting treats most HR-related expenditures e.g. recruitment costs, training expenses, and employee development programmes as period costs that are

immediately expensed rather than capitalised. This practice reflects concerns about ownership, control, and the uncertain future benefits of human capital investments, but it also leads to an understatement of firm assets and long-term value (Col, 1997; Lev, 2001). Consequently, firms that invest heavily in people may appear less profitable in the short run, even when such investments are likely to generate future economic benefits.

Scholars have proposed various approaches to measuring human capital, ranging from cost-based measures (such as total training expenditure or compensation costs) to outcome-based proxies (such as productivity, turnover, or skill intensity). Each approach has limitations. Cost-based measures do not distinguish between strategic and routine HR spending, while outcome-based measures may be influenced by factors beyond HR practices, creating attribution problems (Sturman & Trevor, 2001). Composite indices of HR practices, often used in strategic HRM research, improve conceptual coverage but raise concerns about subjectivity and comparability across firms and contexts (Huselid, 1995; Becker & Huselid, 2006).

Disclosure-related challenges further complicate the picture. Most jurisdictions do not mandate detailed human capital reporting, resulting in wide variation in the quantity and quality of HR-related disclosures. Voluntary disclosures e.g. information on training hours, employee engagement, or talent development initiatives, are often selective and narrative in nature. While such disclosures may help signal managerial intent and human capital strength, they are difficult for investors to verify and compare across firms (Healy & Palepu, 2001; Jia & Rutherford, 2015). Empirical studies suggest that richer human capital disclosure can reduce information asymmetry and improve analyst coverage, but the benefits depend heavily on consistency, credibility, and integration with financial information (Malm, 2010; Li & Rowland, 2016).

Accounting standards themselves pose structural constraints. The prevailing emphasis on reliability over relevance means that many internally generated intangible assets, including human capital, are excluded from the balance sheet. This creates a widening gap between book values and market values, particularly for knowledge-intensive firms where HR investments are central to value creation (Lev, 2001; Makin & Loughlin, 2014). Critics argue that this accounting treatment biases managerial decision-making by discouraging long-term investment in people and distorting performance evaluation (Hendrix, 1999). At the same time, standard setters remain cautious, citing difficulties in defining ownership of human capital and reliably estimating future benefits.

These measurement and disclosure limitations also create challenges for empirical research. Inconsistent proxies, short time horizons, and endogeneity issues make it difficult to isolate the causal impact of HR spending on investor wealth. Firms with strong growth prospects may invest more in HR, leading to reverse causality, while omitted variables such as organisational culture or leadership quality further cloud interpretation (Paauwe & Boselie, 2005). As a result, empirical findings are often sensitive to model specification and data choice, contributing to mixed evidence in the literature.

The literature highlights that measurement, disclosure, and accounting challenges are not peripheral issues but central constraints shaping how HR spending is perceived by investors and studied by researchers. Until reporting frameworks evolve to better reflect the economic reality of human capital, the contribution of HR spending to investor wealth is likely to remain underappreciated and imperfectly understood.

Contextual Moderators and Boundary Conditions

The literature consistently shows that the relationship between human resource (HR) spending and investor wealth is not uniform across firms or settings. Instead, it is shaped by a range of contextual moderators and boundary conditions that influence both the magnitude and direction of returns to HR investment. Recognising these contingencies is essential for interpreting empirical findings and for understanding why similar HR expenditures may yield very different investor outcomes across organisations.

One of the most important moderators identified in prior research is industry context, particularly the degree of knowledge and skill intensity. In industries where value creation relies heavily on employee

expertise, creativity, and problem-solving e.g. technology, professional services, and advanced manufacturing, HR spending tends to have stronger performance and valuation effects (Berman et al., 1994; Bloom et al., 2012). Contrastingly, in labour-intensive or highly standardised industries, the marginal returns to additional HR investment may be lower or more difficult for investors to discern. This industry-based variation helps explain why studies conducted in different sectors often report divergent results.

Firm strategy and life-cycle stage also act as important boundary conditions. Younger and growth-oriented firms typically derive greater benefits from HR spending because they are building foundational capabilities and scaling operations. Investments in talent acquisition and skill development can directly support expansion and innovation, leading to higher growth expectations and stronger investor responses (Geroski, 1998; Mason & Brown, 2014). Mature firms, by contrast, may face diminishing returns to HR spending if workforce structures are already established and opportunities for productivity gains are limited. Investors may therefore view HR expenditures in mature firms more cautiously, particularly if they are not clearly linked to strategic renewal.

The effectiveness of HR spending is further moderated by complementary organisational investments. Research grounded in the resource-based view emphasises that HR investments create greater value when combined with complementary assets such as information technology, R&D capability, and supportive organisational structures (Black & Lynch, 2001; Dierickx & Cool, 1989). Empirical studies show that HR spending in isolation often produces modest outcomes, whereas coordinated investments amplify productivity and financial returns. Investors appear more likely to reward firms that demonstrate coherence across HR, technology, and strategy rather than piecemeal initiatives.

Labour market conditions represent another critical contextual factor. In tight labour markets, where skilled employees are scarce, HR spending on retention, compensation, and employee well-being becomes more valuable. Such investments help firms avoid costly turnover and sustain operational continuity, benefits that investors may price positively due to reduced earnings volatility (Berman et al., 1994; Cappelli, 2008). Conversely, in slack labour markets, similar expenditures may be perceived as less critical, weakening their impact on investor wealth.

Finally, institutional and governance environments shape how HR spending is interpreted by investors. Differences in legal systems, investor protection, and disclosure norms influence both managerial incentives and market responses (La Porta et al., 1998). In settings with stronger disclosure requirements and governance standards, HR investments are more transparent and credible, enhancing their signalling value. Where disclosure is limited, investors may discount HR spending due to uncertainty and information asymmetry (Malm, 2010).

The literature suggests that HR spending contributes to investor wealth only within specific contextual boundaries. Industry characteristics, firm strategy and life cycle, complementary investments, labour market conditions, and institutional environments jointly moderate outcomes. These boundary conditions explain much of the variation in empirical findings and underscore the need for context-sensitive interpretations of HR investment and its financial consequences.

Investor Reactions: Event Studies and Market Pricing

A significant strand of the literature examines how investors react to human resource (HR)-related information using event-study methodologies and broader analyses of market pricing. These studies are grounded in the idea that capital markets respond quickly to new, value-relevant information, adjusting share prices as investors revise expectations about future cash flows and risk. HR-related events e.g. executive appointments, compensation announcements, workforce restructuring, or enhanced human capital disclosures, provide natural settings to observe how investors interpret HR spending and its implications for firm value.

Event studies focusing on top management and key talent appointments provide some of the clearest evidence of investor reactions to HR-related signals. Research shows that announcements of new CEOs

or high-profile executives are often associated with abnormal stock returns, particularly when the incoming leaders are perceived to possess superior skills, experience, or strategic fit (Hall & Liebman, 1998; Edmans et al., 2017). Positive market reactions suggest that investors view such HR decisions as credible signals of improved leadership quality and future performance. However, not all appointments generate favourable responses; negative or neutral reactions are observed when investors interpret leadership changes as indicators of internal problems or costly disruptions.

Studies examining executive compensation and incentive structures also reveal nuanced investor responses. Announcements of equity-based compensation plans or performance-linked pay can trigger positive reactions when investors believe incentives align managerial actions with shareholder interests. At the same time, excessively generous or poorly justified compensation packages often elicit negative market responses, reflecting concerns about agency costs and rent extraction (Jensen & Meckling, 1976; Edmans et al., 2017). These findings suggest that investors do not respond mechanically to higher HR spending but rather assess its governance quality and expected impact on value creation.

Beyond discrete events, research on human capital disclosure and market pricing explores how ongoing HR-related information affects investor behaviour. Studies indicate that firms providing richer and more consistent human capital disclosures tend to enjoy better analyst coverage and lower information asymmetry, which can improve market valuation (Healy & Palepu, 2001; Jia & Rutherford, 2015). Improved transparency allows investors to more accurately assess the sustainability of firm performance, particularly in knowledge-intensive sectors where human capital is a key driver of value. However, voluntary disclosures vary widely in quality and comparability, limiting their effectiveness in influencing market prices (Malm, 2010; Li & Rowland, 2016).

Longer-horizon studies extend the event-study approach by examining whether sustained HR spending patterns are reflected in abnormal returns over time. Some evidence suggests that firms with consistent investments in employee development and engagement outperform peers in the stock market, particularly when such investments are supported by credible disclosure and complementary strategic assets (Nielsen & Rasheed, 2015). Other studies, however, find weak or inconsistent pricing effects, attributing these results to measurement challenges and the delayed nature of HR investment payoffs (Lev, 2001).

The event-study and market-pricing literature indicates that investors do respond to HR-related information, but selectively and contextually. Positive reactions occur when HR spending is interpreted as value-enhancing, strategically aligned, and well-governed, while scepticism arises when expenditures appear excessive, symbolic, or opaque. These findings reinforce the view that investor reactions to HR spending depend less on the amount spent and more on the signals conveyed about future performance and risk.

Meta-Analytic and Systematic-Review Evidence

Meta-analytic and systematic-review studies play a critical role in the literature on human resource (HR) spending and investor wealth because they move beyond individual, context-specific findings to identify broader patterns, consistencies, and limitations across large bodies of empirical work. Given the fragmented and sometimes contradictory results reported in primary studies, these reviews provide a more reliable basis for understanding what is known, what remains uncertain, and why evidence on the financial returns to HR investments often appears mixed.

A consistent conclusion emerging from meta-analytic research is that HR practices and HR spending demonstrate robust and positive relationships with intermediate organisational outcomes, even when direct financial effects are weaker or less consistent. Early reviews of HRM–performance research noted that investments in structured HR systems e.g. training, selective hiring, performance appraisal, and incentive alignment—are strongly associated with productivity, employee commitment, and reduced turnover (Guest, 1997; Paauwe & Boselie, 2005). These outcomes are theoretically important because they represent the operational mechanisms through which HR spending is expected to influence financial performance and, ultimately, investor wealth.

Among the most frequently cited meta-analyses, Tharenou, Saks, and Moore (2007) provide comprehensive evidence on the outcomes of training and development. Their review demonstrates that training investments consistently yield positive effects on learning, individual performance, and organisational outcomes. However, the authors also highlight that financial outcomes are more distal and less frequently measured, resulting in smaller and more variable effect sizes. This finding is echoed in more recent meta-analytic work by Garavan, McGuire, and Barnicle (2021), which confirms that while training enhances organisational capability, its translation into accounting profits or market-based measures is contingent on strategic alignment and complementary investments. From an investor perspective, this suggests that HR spending does generate value, but often through indirect and delayed pathways that are not easily captured in short-term financial metrics.

Systematic surveys focusing on bundled HR practices and high-performance work systems (HPWS) offer stronger support for the value relevance of HR investments. Reviews of empirical studies in this area consistently report that firms adopting coherent systems of HR practices outperform those relying on isolated or ad hoc HR initiatives (Huselid, 1995; Delaney & Huselid, 1996). Meta-analytic evidence suggests that the complementarities among HR practices amplify their effects, leading to more substantial and reliable improvements in productivity and organisational effectiveness. Although direct evidence on stock market returns remains limited, reviewers argue that such sustained performance advantages are likely to be capitalised into firm valuation over time, especially in competitive and knowledge-intensive environments (Becker & Huselid, 2006).

Another important contribution of systematic reviews lies in clarifying the heterogeneity of financial and market-level outcomes. Reviews of human capital and firm valuation studies consistently note wide variation in reported effect sizes, depending on industry, country context, measurement approach, and time horizon (Ziek & Anderson, 2008; Van Buren & Greenwood, 2013). Some studies report positive associations between HR investments and market valuation, while others find weak or insignificant effects. Meta-analytic synthesis suggests that this heterogeneity does not imply the absence of value but rather reflects differences in how HR spending is operationalised and observed by investors. For example, studies using richer proxies for human capital or longitudinal designs tend to report stronger relationships than cross-sectional studies relying on narrow cost measures (Makin & Loughlin, 2014).

Systematic reviews also underscore the importance of measurement and disclosure quality as a moderating factor in empirical findings. Reviews of human capital reporting research show that when firms provide more transparent and consistent disclosures about their workforce and HR practices, markets respond more positively (Malm, 2010; Li & Rowland, 2016). Meta-level evidence indicates that disclosure reduces information asymmetry and enhances analyst understanding, increasing the likelihood that HR investments are reflected in market prices. Conversely, where HR spending remains opaque or inconsistently reported, investor responses are muted, contributing to the weak or mixed market effects observed in some studies (Lev, 2001).

From a methodological standpoint, meta-analyses highlight recurring challenges that shape conclusions about HR spending and investor wealth. A central concern identified across reviews is endogeneity. Firms that invest more in HR may already possess superior management quality or growth prospects, making it difficult to isolate causal effects (Paauwe & Boselie, 2005). Reviews note that studies employing stronger designs, such as panel data, fixed effects, or quasi-experimental approaches, tend to find more credible evidence of positive long-term effects. This pattern suggests that earlier null or inconsistent findings may partly reflect methodological limitations rather than the absence of real economic returns.

Another insight from systematic reviews relates to the time dimension of HR investment returns. Meta-analytic evidence consistently shows that HR spending produces benefits over longer horizons than those typically examined in financial studies. Productivity, innovation capacity, and cultural change develop gradually, meaning that short-term market reactions may underestimate the true value of HR investments (Garavan et al., 2021). Reviews therefore caution against evaluating HR spending solely through

immediate stock price responses or annual accounting outcomes, arguing instead for longitudinal perspectives that better capture cumulative effects on investor wealth.

Systematic surveys also differentiate between types of HR spending, revealing that not all investments are equally value relevant. Training and development, leadership capability building, and integrated HR systems tend to show stronger and more consistent links with performance outcomes than routine compensation increases or administrative HR expenses (Tharenou et al., 2007; Becker & Huselid, 2006). Reviews suggest that investors are more likely to reward HR spending perceived as strategic and future-oriented, reinforcing the importance of signalling and disclosure in shaping market perceptions.

The meta-analytic and systematic-review literature provides a balanced and integrative assessment of HR spending and its financial implications. The weight of evidence supports a conditional positive relationship between HR investments and organisational performance, with indirect but meaningful implications for investor wealth. At the same time, reviews emphasise that financial and market outcomes are heterogeneous, sensitive to context, and constrained by measurement and disclosure limitations. Rather than offering a simplistic verdict, this body of evidence encourages a more nuanced understanding: HR spending creates value when it is strategic, sustained, and embedded within supportive organisational systems, and when investors are provided with credible information to recognise its long-term benefits.

Methodological Challenges and Recommended Approaches

Research examining the link between human resource (HR) spending and investor wealth faces several methodological challenges that help explain the mixed and sometimes inconclusive findings in the literature. These challenges stem from the intangible nature of human capital, limitations in available data, and difficulties in establishing clear causal relationships. As a result, scholars increasingly emphasise the need for more rigorous and innovative research designs to better capture the true economic impact of HR investments.

One of the most persistent challenges is endogeneity. Firms that invest heavily in HR may already possess favourable characteristics such as strong leadership, superior governance, or better growth prospects. In such cases, higher HR spending may be a consequence rather than a cause of superior performance, leading to biased estimates of its impact on investor wealth (Pauwe & Boselie, 2005). Reverse causality is particularly problematic in cross-sectional studies, where it is difficult to disentangle whether HR spending drives firm value or whether high-value firms simply spend more on HR.

A related issue concerns measurement error and proxy validity. Because human capital is not directly observable in financial statements, researchers rely on imperfect proxies such as training expenditure, compensation levels, or indices of HR practices. These measures often fail to capture the quality, strategic intent, or effectiveness of HR investments, weakening empirical inferences (Lev, 2001; Sturman & Trevor, 2001). Inconsistent measurement across studies also reduces comparability and contributes to divergent results.

Another methodological concern involves omitted variable bias. Organisational culture, leadership style, and informal work practices can strongly influence both HR spending and firm performance yet are difficult to observe and control for empirically. Failure to account for these factors may overstate or understate the true effects of HR investments (Guest, 1997). Similarly, short observation windows may overlook the long-term nature of HR returns, leading to underestimation of their impact on investor wealth. In response to these challenges, the literature recommends several methodological improvements. One widely endorsed approach is the use of longitudinal panel data with firm fixed effects, which helps control for unobserved heterogeneity and allows researchers to examine changes in HR spending and performance over time (Becker & Huselid, 2006). Such designs are better suited to capturing the delayed and cumulative effects of HR investments.

Researchers also advocate the use of quasi-experimental methods, such as difference-in-differences designs that exploit exogenous shocks to HR practices or labour market conditions. These approaches strengthen causal inference by comparing treated and control firms before and after an intervention

(Paauwe & Boselie, 2005). Instrumental variable techniques, using labour market or institutional instruments, have likewise been suggested to address endogeneity, though suitable instruments are often difficult to identify.

Finally, scholars emphasise the value of richer and more granular data, including matched employer–employee datasets and detailed HR microdata. Combining such data with financial and market information allows researchers to trace the pathways through which HR spending affects productivity, risk, and valuation more precisely (Sturman & Trevor, 2001).

Addressing methodological challenges requires moving beyond simple correlations toward designs that reflect the complexity and long-term nature of HR investments. By adopting more robust empirical approaches, future research can provide clearer insights into how and when HR spending contributes to investor wealth.

Synthesis and Future Research Directions

The survey of literature on human resource (HR) spending and investor wealth reveals a field that has matured conceptually but still faces important empirical and interpretive challenges. Taken together, existing studies suggest that HR spending is neither a simple cost nor an automatic source of shareholder value. Instead, it represents a strategic investment whose financial consequences depend on how, where, and under what conditions it is undertaken. The synthesis of prior research points to a broadly conditional yet positive relationship between HR investments and investor wealth, mediated by organisational performance, risk characteristics, and market perceptions.

Across theoretical and empirical streams, a consistent theme is that HR spending creates value primarily through indirect pathways. Investments in training, talent acquisition, compensation design, and HR systems improve productivity, innovation capacity, and employee stability, which in turn strengthen long-term cash flows and competitive positioning (Becker, 1964; Huselid, 1995). However, these benefits are typically realised over extended time horizons and are often imperfectly captured by conventional accounting measures. As a result, short-term financial indicators and immediate stock market reactions frequently understate the true economic contribution of HR investments (Lev, 2001).

The literature also highlights the importance of strategic coherence. Studies that examine isolated HR practices tend to report weaker and more inconsistent financial effects than those focusing on integrated systems of HR practices aligned with firm strategy (Delaney & Huselid, 1996; Becker & Huselid, 2006). This reinforces the view that HR spending yields the greatest investor benefits when it is sustained, internally consistent, and supported by complementary organisational assets such as technology, governance structures, and innovative capabilities.

At the same time, the evidence underscores significant heterogeneity in outcomes. Industry context, firm life cycle, labour market conditions, and institutional environments all shape the returns to HR spending and the extent to which investors recognise these returns (La Porta et al., 1998; Nielsen & Rasheed, 2015). Measurement and disclosure limitations further complicate valuation, as investors often lack reliable and comparable information on the nature and effectiveness of HR investments. These factors help explain why empirical findings remain mixed despite strong theoretical arguments for the value relevance of human capital.

Looking ahead, the literature points to several promising directions for future research. First, there is a clear need for stronger causal designs, including longitudinal studies, quasi-experimental approaches, and the use of natural experiments, to better isolate the effects of HR spending on firm value and investor wealth. Second, future studies would benefit from richer data, particularly matched employer–employee datasets that allow researchers to trace how HR investments translate into productivity, retention, and innovation outcomes before being reflected in market valuation. Third, more attention should be paid to disaggregating HR spending, distinguishing between strategic and routine investments and examining their differential financial implications.

Finally, future research should explore the role of human capital disclosure and reporting innovations in shaping investor understanding and market pricing. As regulatory and voluntary reporting frameworks evolve, examining how improved transparency affects investor responses will be critical for advancing both theory and practice (Malm, 2010; Li & Rowland, 2016).

The synthesis of existing literature suggests that HR spending can enhance investor wealth, but only under specific strategic, contextual, and informational conditions. Future research that embraces methodological rigor, richer data, and a long-term perspective will be essential for deepening understanding of the human capital–investor wealth nexus.

CONTRIBUTION OF THE STUDY

This study makes several important contributions to the literature on human resource spending and investor wealth by advancing conceptual clarity, integrative synthesis, and research direction.

First, the study contributes by bridging fragmented literatures. Prior research on HR spending is scattered across human resource management, strategic management, accounting, and finance, often using different assumptions and outcome measures. By synthesising these streams, the study demonstrates that HR spending cannot be evaluated meaningfully within a single disciplinary lens. Instead, investor wealth effects emerge from the interaction of operational performance, risk perceptions, and market signalling.

Second, the study clarifies the mechanisms through which HR spending influences investor wealth. Rather than treating HR investments as directly value-creating, the review highlights multiple indirect channels, including productivity enhancement, innovation capacity, cash-flow stability, and reduction of non-financial risk (Becker, 1964; Huselid, 1995; Van Buren & Greenwood, 2013). This multi-mechanism perspective helps explain why investor reactions are often delayed and uneven.

Third, the study advances understanding of boundary conditions and contextual moderators. By synthesising evidence across industries, firm life cycles, and institutional environments, the review shows that HR spending generates stronger investor benefits in knowledge-intensive sectors, growth-oriented firms, and contexts with higher disclosure quality (Berman et al., 1994; Nielsen & Rasheed, 2015). This moves the literature beyond universalistic claims toward a more contingent and realistic understanding.

Fourth, the study contributes by systematically documenting measurement and disclosure challenges. It highlights how conventional accounting practices undervalue human capital and how inconsistent disclosure weakens market pricing of HR investments (Lev, 2001; Malm, 2010). By foregrounding these issues, the study provides a foundation for future work on human capital reporting reforms.

Finally, the study offers a forward-looking research agenda, emphasising the need for longitudinal designs, quasi-experimental methods, and richer HR data. In doing so, it supports a shift from correlational evidence toward more credible causal inference in future research.

CONCLUSION

This study set out to examine how investments in human resources influence investor wealth by synthesising a broad and multidisciplinary body of literature. The review demonstrates that HR spending is neither a mere cost nor a guaranteed source of shareholder value. Instead, it represents a strategic investment whose financial consequences depend on how it is deployed, how it interacts with organisational systems, and how effectively it is communicated to capital markets.

The evidence reviewed suggests that HR spending consistently improves intermediate outcomes such as productivity, retention, and innovation capability. However, the translation of these outcomes into accounting profits and market valuation is indirect, delayed, and highly context-specific. Investors appear more likely to reward HR investments that are strategic, sustained, and supported by credible disclosure, while discounting expenditures that appear routine, symbolic, or poorly governed.

The study also highlights persistent challenges related to measurement, disclosure, and causality. If human capital remains largely invisible in financial statements, investors will struggle to fully recognise its value.

These limitations help explain the mixed empirical evidence and underscore the need for more transparent reporting and robust research designs.

The review reinforces the view that people-related investments matter for investor wealth, but not automatically or uniformly. HR spending creates value when it strengthens organisational capabilities, reduces risk, and sends credible signals about long-term performance. By integrating insights across disciplines, this study contributes to a more nuanced and realistic understanding of the human capital–investor wealth nexus and provides a strong foundation for future research and policy debate.

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