
A STUDY OF HUMAN RESOURCE ACCOUNTING PRACTICES IN INDIA

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DOI: <https://www.doi.org/10.58257/IJPREMS35727>

ABSTRACT

HRA is defined as a process of identifying and measuring data about human resources and communicating to the information to the interesting parties. The aim of bringing human resource in the category of asset of the organization resulted in series of efforts made in the field of Human Resource Accounting. Many researchers developed different methods of measuring Human Resource Values. This paper will be present the study of the development and need of human resource accounting, to study the modals and methods used for human resource accounting, to study the human resource accounting practices in selected companies in India and to study the challenges of adopting human resource accounting.

Keywords: Human Resource Accounting Practices, Modals and Methods, Challenges.

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1. INTRODUCTION

Human resource accounting deals with the investment made by an organization in its employees and the changes that occur in this value over a period of time. HRA is defined as a process of identifying and measuring data about human resources and communicating to the information to the interesting parties. The costs incurred by an organization in recruiting, selecting, hiring, training and developing the human assets are taken into account by HR accounting. HRA is the system of mounting financial evaluation for people within organization and monitoring of this assessment. HRA was introduced by different think tanks and most of the elements are found in many methods, tools and analytical frameworks. It combines internal and external information requirements in respect of costs-benefits of investments, human resource management and the relationship between various stakeholders' interests in enterprises. It is such a setting, which is more transparent and rapidly developing than ever. Economists, HR practitioners and Academicians all recognized the fact that human should be treated as asset, nevertheless accountants have not been recognized the value of human assets for long.

The aim of bringing human resource in the category of asset of the organization resulted in series of efforts made in the field of Human Resource Accounting. Many researchers developed different methods of measuring Human Resource Values. While others worked on operationalization of such methods in corporate sector. In broader sense, these methods are divided in two parts viz. Monetary Models and Non-Monetary Models. Methods grouped under Monetary Model calculate Human Resource Value in monetary terms. Monetary Model is further divided into Cost Based Methods and Value Based Methods. The cost based methods consider the total capitalized cost incurred on employees as Human Resource Value. The popular methods based on cost are Historical Cost Methods, Replacement Cost Model, Opportunity Cost Model, and Standard Cost Model. Value based methods consider the present value of future projected salaries and wages as the values of human resources. The methods of calculation and duration of valuation are different in different models. Methods based on values are Lev and Schwartz Present value of future earnings model, Flamholtz Stochastic reward valuation model, Jaggi and Lau's Human Valuation Model, Morse's Net Benefit Method etc. Non-monetary methods assess the economic value of human resource by applying various indices or ratings and rankings. These are Likert's Causal, Intervening and End Result Variable model; Statistical based method and other performance evaluation techniques. Different researchers in their research study and different companies in valuation of their employees adopted different methods of Human Resource Valuation. In context of Indian corporate sector, Lev and Schwartz model of Human Resource Valuation gained advantage over other models. Many companies in India adopted this model to value their human resource.

2. REVIEW OF LITERATURE

Raju, et. al., (2004) revealed human resource accounting may be considered as a controversial subject. It is opined that, the advocates of HRA have perhaps too much focused their field of research on accounting problems. But the predicament of the research on accountant still lingers, as there is no full proof formula to quantify the omnipresent human resource without which no organization can come in to existence. Therefore, accounting oriented formula to human resource needs to be explored very seriously.

Flamholtz (1999) explained that one of the primary purposes of a human resource accounting system is to help management plan and control the use of human resources effectively and efficiently. This chapter examines the role of

human resource accounting in the process of managing people in organizations and presents a model depicting how human resource accounting provides the information needed to acquire, develop, allocate, conserve, utilize, evaluate, and reward human resources. As will be seen in this chapter, human resource accounting is intended as a framework and a set of tools both for human resource professionals and for senior management.

Li (1993) World Resource Institute and with the support of the Ford Foundation of the United States, they have developed the research on natural human resource accounting and its application to the national economic accounting system since August 1988. There are about one hundred experts which have taken part in the research work. They are selected and organized from scores of units that include the Development Research Center of the State, the State Planning Commission, the State Statistics Office, the Environment Protection Bureau of the State, the Ministry of Geology and Minerals, the Ministry of Forestry, the Ministry of Agriculture, the State Land Bureau and more than ten other Ministries and Commissions concerned, and five Provinces (Guizhou, Jilin, Heilongjiang, Inner Mongolia and Shandong). Hence, there are more than ten government officials of higher rank (at least, they are the vice minister), which have held the post of council for the research project.

Flamholtz E.G. (1999) revealed that although human resource accounting (HRA) is a relatively new field, its development has already passed through several discernible stages. The first stage of development, from 1960 to 1966, was marked by interest in HRA and the derivation of basic HRA concepts from related bodies of theory. The initial impetus for the development of HRA came from a variety of sources, including the economic theory of human capital, organizational psychologists' concern for leadership effectiveness, the new human resource perspective, and a concern for human assets as components of corporate goodwill.

Wiley (2000) focused on professional codes of ethics in HR, this article establishes a foundation for understanding the contents of the codes and for future research in this area. Five key professional ethics codes in HRM are analyzed according to six obligations. The resulting characterizations revealed that these codes advocate five principles related to integrity, legality, proficiency, loyalty, and confidentiality. Particular flaws in code content and implementation are identified with recommendations for addressing them. Also suggestions for standardizing professional HR codes and for future research are discussed.

Houghton (1980) reveals that Employees have long been recognised by managers as being of substantial economic value to an employing organisation, yet traditionally that value has been ignored in the accounting systems of those organisations. In the past decade serious consideration has been given to the valuation of human resources in a manner that would fall within the constraints currently affecting the financial disclosure policies of business entities. This paper focuses attention on the parallel between human resources and leased resources, and notes certain implications for the disclosure of the value of a certain group of human resources. Swann (1978) expressed that for some years, a body of literature on the topic of Human Resource Accounting has been building up in the accounting journals. The response from psychologists to the idea of valuing the human resource has been very limited despite the fact that it was a psychologist, Likert, who can be considered to have been one of the significant influences in the field. An unfortunate feature of the Human Resource Accounting approach has been the emergence of strong pro- and anti-camps. This paper attempts a piecemeal survey of some of the aspects of Human Resource Accounting and argues that a selective picking from this field could be the justified concern of many occupational psychologists.

3. RESEARCH METHODOLOGY

Objectives of the study

The specific objectives of the study are as follows:

1. To study the development and need of human resource accounting.
2. To study the modals and methods used for human resource accounting.
3. To study the human resource accounting practices in selected companies in India.
4. To study the challenges of adopting human resource accounting.

Collection of data

This study mainly depends on secondary data and most source for that is the annual report and other sources are like through books, journals, research papers, websites and newspapers. The use of internet was also of great help to the researcher.

Limitation of proposed research

As it natural the study is bound to have a few limitations.

1. The study is based mainly on secondary data only.
2. The study is based on non-monetary information, the monetary factors ignored.

4. DATA ANALYSIS

Development of Human Resource Accounting:

HRA was first developed by Sir William Petty in the year 1691. However, the true research in HRA began in 1960 by Rensis Likert, founder of the University of Michigan Institute of Social Research and well known for his work on management styles and management theory. He, along with faculty member Brummet, and Ph.D., Candidates William C. Pyle and Eric Flamholtz, worked on a series of research projects designed to develop concepts and methods of accounting for human resources. Thus early work in HRA provided inspiration for the development of HRA measurement models. In the late 60s' and early 70s', a number of researchers proposed that the capital nature of certain human resource costs was recognized as investments rather than as expenses, which was collectively known as HRA. According to Eric G. Flamholtz the development of HRA is a systematic and detailed academic activity which began in sixties. He has divided the development into five stages. These are listed below:

First stage (1960-66): This marks the beginning of academic interest in the area of HRA. However, the focus was primarily on deriving HRA concepts from other studies like the economic theory of capital, psychological theories for effective leadership, and the emerging concepts of human resource was different from personnel or human relations as well as the measurement of corporate goodwill.

Second stage (1966-71): The focus here was more on developing and validation of different models for HRA. These models covered both cost and the monetary and non-monetary value of Human Resource. The aim was to develop some tools that would help the organisations in assessing and managing their human resource/asset in a more realistic manner. In this stage only a number of research projects were undertaken by the researchers to develop the concepts and methods of accounting for human resources.

Third Stage (1971-76): This period was remarkable for its widespread interest in the field of HRA leading to a rapid growth of research in the area. The focus in most cases was on the issues of application of HRA in business organisation.

Fourth Stage (1976-1980): This was a period of decline in the area of HRA primarily because the complex issues that needed to be explored required much deeper empirical research that was needed for the earlier simple models. An organisation, however, were not prepared to sponsor such research. They found the idea that HRA was quite interesting but did not find much use in pumping in large sums or investing a lot of time and energy in supporting the research.

Fifth Stage (1980 onwards): There was a sudden renewal of interest in the field of HRA partly because most of the developed economies has shifted from manufacturing to service economies and realized the criticality of human asset for their organisations. Since the survival, growth and profits of the company were perceived to be dependent more on the intellectual assets of the companies than on the physical assets, the need was felt to have more accurate measures for HR costs, investment and value. In this stage, behavioural scientists attacked the conventional accounting system for its failure to value the human resources of the company along with its other material resources.

Other evidences revealed that a number of companies adopted the concept of human resources accounting in India for external reporting. The nature of human resources accounting system in India included the profile of human assets, the compensation pattern, training and development, human asset productivity, human asset value and the total wealth of the organization. Thus, Bharat Heavy Electrical Limited (BHEL), Infosys and Reliance Industries (all Indian companies) were the pioneer in publishing human resources in the annual reports. The National Indian Information Technology (NIIT) had followed a similar method as Bharat but with a different model called Economic Value Addition (EVA). This model assisted NIIT in assessing the real value that an employee can fetch for the company. Other companies that adopted one method or another in accounting for human resources included Steel Authority of India Limited, the Minerals and Metals Trading Company of India, the Southern Petrochemicals Industries Corporation of India and the Infosys and Reliance Industries. Furthermore, football clubs in Europe and Latin America have since adopted the idea of human resource accounting.

The following reasons for developing HRA are often cited:

Table 1: Reasons for developing HR

Reasons for developing HRA internally	Reasons for developing HRA both internally and externally	Reasons for developing HRA externally
To improve human resource management	To overcome problems arising from the valuation of intangible assets	To overcome the difficulties in providing enough information to investors in traditional balance sheets

To focus on employees as assets	To redistribute social responsibilities between the public and the private Sector	To profile the enterprise and improve its image
To retain qualified labour force		To attract future employees

Need for Human Resource Accounting:

It is fact that the 21st century is era of Human demand, countries those have labor quality ruling the world with dominant technology. Countries like china and Japan forerunners in technology advancement, is all result of work force performance. Hence whole world realized that human resource is the real investment into business ventures that should only catch and stick the success waves. Human Resource accounting can be defined as an application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence.

There are two major why HRA reports are receiving so much attention in recent years. First developments in modern organization theory have made it apparent that there is a genuine need for reliable, improving and evaluating the management of HR. Second the traditional framework of accounting is in the process of being expanded to include a much broader set of measurement then was thought possible or desirable in the past. It helps in planning - Human resource cost acting provides cost information required in human resource planning process thereby facilitating preparation of future forecasts and budget. It helps in decision making - human resource accounting provides data in areas where alternative option exist e.g. whether to acquire a trained employee or develop one from within, or whether to retrench or retain an employee. Instead of applying non-monetary measures of potential ability, the economic value of recruits will be better criteria for selection and optimization of the expected value of the organization human resource and subsequent valuation of adequacy of return on investment in human resource. It helps in capital budgeting - the present technique used in capital budgeting decision consider the human dimension as a qualitative factor. This is not realistic in the present scenario where huge investment is being made in development of employees and therefore human resource accounting system would justly assess the impact of capital budgeting on human and non-human asset. It helps in control - human resource accounting help to ensure that human resource objective are attained objectively and efficiently as it provide information necessary to implement the control function. The standard cost of acquisition and development is compared with actual cost incurred and the variance if any is analyzed to identify the possible lapses in personnel management function. It helps in performance evaluation - the present convention of measurement of return on investment ignore the changes in human resources and this encourages managers to use their human resource to include their short term objective. Inclusion of human resource input would be a good performance measure as it would reveal the return on human asset. It helps in activity analysis - measurement of human resource value would provide top management with new set of financial ratio for effective organization activities analysis e.g. ratio of human and non-human resources indicate the degree of labor intensity. Higher labor intensity could be used as a result of outdated technology requiring the utilization of high proportion of labor or employment of unwarranted existing labor.

Models and Methods used for Human Resource Accounting:

Human resources have been given much priority in the present service sector since identifies importance. In order to quantify the talent, skills and knowledge of employees or workforce various models were suggested. Some of the models to valuation of human resources are presented as under:

A. Monetary Methods

Cost of Production Method

Capitalized Earning Method

Other Methods

B. Non-Monetary Method

Skill or Capability Inventory

Performance Evaluation Measures

Attitude Measurements

Assessment of Potential

Cost of production approach

Acquisition cost method or Historical Cost Approach: This approach is also called an acquisition cost model. Under this method, the organization's investment in employees is measured using the five parameters: recruiting, acquisition, formal training and familiarization, informal training and informal familiarization, and experience and development.

Replacement cost approach: This approach measures the cost of replacing an employee. According to Likert (1985) replacement cost includes recruitment, selection, compensation, and training cost (including the income foregone during the training period).

Standard cost method: The standard cost method of human resource accounting involves determining the total cost of recruiting and hiring each employee, as well as the cost of any training or development.

Current purchasing power method (CPPM): In this method the historical costs are converted into current purchasing power of money with the help of index numbers.

Opportunity Cost method: Heckiman and Jones first advocated this approach. This is also known as “Market Value Method” Opportunity cost is the value of an asset when there is an alternative opportunity of using it.

Competitive bid price method: In order to overcome the limitations of replacement cost method, Hekimian and Jones suggested the use of opportunity cost method which determines the value of human resource on the basis of an employee’s value in alternative uses.

Capitalised Earnings Approach

Capitalization of salary method: This method is also famous as The Lev and Schwartz Model, based upon the economic concept of value this model was suggested by Baruch Lev and Abaa Schwartz. According to them, the value of human capital embodied in a person of age X is the present value of his remaining earnings from employments.

Economic Value method: This approach utilizes the concept of present value. The value of human resource is considered as the present value of future benefit expected to be received from employees' service (Lev and Schwartz, 1971).

Net benefit method and Certainty Equivalent Benefit Method: This approach has been suggested by Morse (1973). According to this approach, the value of human resources is equivalent to the present value of net benefits derived by the organization from the service of its employees.

Human Resource Accounting Practice in selected companies:

Historically, human resources accounting and costing focused on how much employees cost an organization, without evaluating the value of the employee to the business. As the world moves into the information age, intellectual knowledge as a business asset is becoming increasingly important. Recording, evaluating and assigning value to this intangible asset is one of the primary focuses of the evolution of human resources accounting.

Table-2: Human Resource Accounting Practice in selected companies

S.NO	Companies using Models	
	Company name	Model used
1	Infosys Technologies Limited	Lev & Schwartz
2	Cement corporation of India (CCI)	Lev & Schwartz
3	Hindustan Petroleum Corporation Limited (HPCL)	Lev & Schwartz
4	Rolta India Limited (present value of the future earnings of the employees)	Lev & Schwartz
5	Oil and Natural Gas Corporation Company (ONGC)	the present value by discounting the estimated earnings
6	National Thermal Power Corporation Limited (NTPC)	Lev & Schwartz
7	Metals and Minerals Trading Corporation (MMTC Ltd)	Lev & Schwartz

The challenges of adopting human resource accounting:

The ownership of human resources is practically impossible, therefore, it cannot be considered at par with other assets. The concept of human resource accounting is not recognized by Tax authorities and therefore, it has only academic utility. If the accounting standards board makes it mandatory to disclose the values of Human capital or Human Assets, then only the Direct or Indirect Tax Authorities will take into concern of HR Accounting. There are a number of specific objective procedures for the selection of the factors to be included in the valuation of human resources. Therefore, the subjective approach of the value in their regard makes it less reliable. Employees and unions may not like the idea, because HRA may lead to division among the ranks of employees. A group of employees may be valued lower than their real worth owing to reasons beyond the control of management. The employees may resist the idea of being treated like second class citizens, despite their contribution over a period of time. The measurement of Human Resources is subjective as different firms will use different methods for this purpose. Till date there is no model for valuation of Human Assets, which is widely acceptable and used worldwide. It is not economical for small business units as it

involves heavy costs if the firms desire to install the HR accounting package in their organization. There is no empirical evidence to support the idea that HRA is an effective tool to measure the economic value of people to their organization. There is very little data to support the contention that it facilitates better and effective management of human resource.

5. CONCLUSION

This study focuses on the study of the development and need of human resource accounting, to study the modals and methods used for human resource accounting, to study the human resource accounting practices in selected companies in India and to study the challenges of adopting human resource accounting. In order to implement effective HRA practices, it is essential to focus main settings as profound knowledge on human resource cost, values, outcome and how to calculate these & high management demands and high target settings. Finally, it is essential to execute HRA from strategic-management prospects. Human Resource Accounting (HRA) includes all this human resource information in their financial statements.

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