

A Study on Human Resource Accounting Practices in India

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Abstract: *The human resources of the enterprise are its prominent assets, without these people other factors of production cannot be utilized. Practicing accounting methods in Human resources is known as Human Resources Accounting. Thus a study of Human resource accounting was evaluated in the 16 century and aimed to create, improve, and valuation of Human resources in monetary terms. Presently worldwide, on one hand, there is a time-lapse leading the economy and business towards the modern era and on another hand, many business enterprises are recognizing and appreciating human resources as assets. This study only focuses on Human resources accounting practices within the selected geographical area and time is a constraint. The study is purely based on secondary data.*

Keywords: Human Resource Accounting, Human Resource Accounting Practices

1. Introduction to the Study

Human resources are one of the prominent factors of production without which we cannot lead a successful organization even though we have others as materials, machines, and money. This is a line where all other aspects of businesses like M' and P' are linked within its existence. Human resources accounting is an estimation of value and cost incurred on human resources within the organization. It is the process of identifying and measuring costs incurred to recruitment, selection, hiring, training, and development of human resources and communicating the same data to interested parties.

Sir. William Petty was a pioneer and made the first attempt to value human beings in monetary terms in early 1691. He treated human beings as elements of national wealth as they are key role players in every sector. Decades later it took the voice towards the improvement of procedures and methodology that have to be developed for finding the value and cost of people to the organization. Over some time, many scholars have worked on it. In such a direction some notable scholars are Shultz (1960), William C Pyle (1967), Flam Holtz (1971-1975), Morse (1973), and many more.

"Happy employees lead to happy customers which leads to more Profits". Skills, caliber, Creativity, intelligence, and satisfaction of human resources are act as the mounting milestone for Success factors for any knowledgeable Company.

Definition of Human Resource Accounting

HRA is "Accounting for people as an organizational resource. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people to the organization". (Flamholtz)

"HRA is the measurement and quantification of human organizational inputs such as recruiting, training, experience, and commitment". (Stephen Knauf)

"Human resources accounting is a term used to describe a variety of proposals that seek to report and emphasize the importance of the human resource, knowledgeable, trained and loyal employees in a company's earnings process and total assets". (Sidney Davidson)

2. Objective of the Study

The study has concentrated on the following objectives

- To study the Human Resource Accounting Practices.
- To study the significance of Human Resource Accounting.
- To examine and identify the challenges and issues.

3. Significance of Human Resource Accounting

- 1) Human Resource Accounting helps the management in deciding employment, locating, and utilization of human resources.
- 2) It also helps in the transfer, promotion, training, and retrenchment of human resources.
- 3) It provides a ground study for the planning of physical resources against human resources.
- 4) It assists in the evaluation of costs incurred on training, benefits, and development of people of the company.
- 5) It avails for identifying the issues of high labor turnover and taking preventive measures to contain it.
- 6) It will guide to locating the causes of low return on investment, either due to underutilization of physical resources or human resources, or both.
- 7) It supervises the company in understanding and assessing the inner strength of the organization and helps management can steer the company well through repugnant and doomful circumstances.
- 8) It provides valuable information for persons interested in making long-term investments in the firm.
- 9) Human resources accounting helps individual employees in improving their performance and bargaining power.

Thus the adoption of human resource accounting in an organization will help the management to reach decisions relating to:

- 1) Valuation of human resources as organizational assets;
- 2) Recording the valuation in the books of accounts; and
- 3) Presenting the information in the financial statements.

4. Research Design

The study on human resource accounting practices in India mainly focused on secondary data. Published data collected from sources as research papers, articles, books, Web-based pages, and journals.

The study mainly focuses on learning the practices of Human Resource Accounting within Indian territories and States. The study has constraints as periodicity, data collection, and disclosure.

5. The Practice of Human Resource Accounting in India

Despite, many favors have contributed by HRA, yet its development and application in different industries have not been encouraging. Because Indian companies act 1956, does not provide any scope for showing any information about human resources in a financial statement. Due to the development of business and industries, some of the Indian companies, both public and private, value their human resources and report this information in their annual report. The companies, who are presently reporting human assets valuation, include:

(A) The popular public sector companies

- Bharat Heavy Electricals Limited (BHEL)
- Cochin Refineries Limited (CRL)
- Cement Corporation of India Limited (CCI)
- Electrical India Limited (EIL)
- Engineers India Limited (EIL)
- Hindustan Petroleum Corporation Limited (HPCL)
- Hindustan Shipyard Limited (HSL)
- Hindustan Machines Tool Limited (HMT)
- Hindustan Zinc Limited (HZL)
- Madras Refineries Limited (MRL)
- Maruti Udyog Limited (MUL)
- Minerals and Metals Trading Corporation of India Limited (MMTC)
- National Thermal Power Corporation Limited (NTPC)
- Oil and Natural Gas Corporation Limited (ONGC)
- Oil India Limited (OIL)
- Project and Equipment Corporation of India (PEC)
- Steel Authority of India Limited (SAIL)

(B) The popular private sector companies

- Associated Cement Companies Limited (ACC)
- Southern Petro-Chemical Industries Corporation (SPIC)
- Infosys Technologies Limited (ITL)
- Tata Engineering and Locomotive Works (TELCO)
- Satyam Computer Services Ltd.
- Reliance Industries Ltd.
- D.S.Q Software Ltd.

6. Methods of Human Resource Accounting

Compounding and deciding the valuation of human resources took many assessments and methods. The models for evaluation of human resources can be classified into two major groups i.e. Cost-Based Models and Value-Based Models. Cost-Based Models consists of Historical Cost Model, Replacement Cost Model, Opportunity Cost Model, Standard Cost Model, and Value-Based Model Includes Lev and Schwartz Model, Flamholtz Model, Jaggi and Lau Model, Gills And Robinson's Model, Morse Model, Ogan Model, Chakraborty Model. Dasgupta Model, Watson Model, Dave's Model, Maheshwari's Model.

6.1 Cost-Based Model

This method measures the organization's investment in employees using the five parameters: recruiting, acquisition; formal training and, familiarization; informal training, Informal familiarization; experience; and development. The following methods are further classified in this major classification.

a) Historical Cost Model

This model of human resource management has been suggested by William C Pyle and others in the year 1967. According to this method, the actual costs incurred on employee-aid are capitalized and those will be written off on the anticipated life of human resources. This method is an extension of the concept of matching the cost and revenue".

$$HRV = AC - L + R$$

b) Replacement Cost Method

This method was developed by Rensis Likert and Eric G. Flamholtz in 1973. The model concentrated the valuation of human resources on current costs under this method human resources of an organization are to be valued on assumptions of the estimated cost of replacement of existing human resource with other of equivalent talent and experience.

c) Opportunity Cost Method

This model of HRA has been suggested by Hekimian and Jones'. In this approach value of the human resource is compounded based on an employee's value in alternative uses. This method links the basic relationship between "scarcity and choice". The opportunity cost of an employee or a group of employees in one department is calculated based on the offers by other departments for these employees.

d) Standard Cost Method

This model has been suggested by David Watson. Instead of historical cost or replacement costs, the model uses standard costs which are associated with the recruiting, hiring, training, and development per grade of an employee or determined annually.

6.2 Value-Based Models

This method links HRM with the money aspect involved in it and the amount of money that can be saved using it.

a) The Lev and Schwartz Model Present Value of Future

The model was proposed by Branch Lev and Aba Schwartz in 1971. They suggested that "the valuation of human capital embodies in a person of age X is the Present Value of his remaining earnings from employment" as such division of the organization's labour force is considerable depends upon homogeneous groups such as skilled, unskilled, semi-skilled, technical staff, managerial staff, etc. and following different classes and age groups. The following is the formula

$$VX = \sum \{1(T) \div 1+R\} 1-X$$

b) Flamholtz Stochastic Rewards Valuation Model

The model was propounded by Eric Flamholtz in 1971. The model advocates that an employee generates value for an organization as he occupies and performs different roles and renders services to the organization. The model suggests a five-step approach to assess the value of an individual to the organization, which are:

- Employees expected service life position he might occupy.
- Service status of an occupied position.
- Probability of periodicity which he will stay into a particular role.
- Probability of occupying each possible mutually exclusive service state at specified future times.
- Discounting the expected service rewards to his present value.

c) Giles and Robinson's Human Assets Multiplier Model

In 1972, Giles and Robinson's suggested valuation of human resources should be made in as same as other physical and financial resources in a going concern approach. The employees will be classified into grades then their valuation of each grade will be totalized that totalized value will be recorded.

d) Morse's Net Benefit Model

Morse (1973) has introduced this net benefit model. The value of a human resource is evaluated equivalent to a present value of net benefits by the organization from the services of its employees. The following are 4 steps

- Gross Value services rendered in the future.
- Determination of direct and indirect future payments.
- Difference of value of Human resources and value of future payments determined.
- Present value of the net benefits is determined by applying a pre-determined discount rate.

e) Jaggi and Lau Human Resource Valuation

The model was suggested by Jaggi and Lau in the year 1974 and it concentrated on the valuation of human resources as groups rather than individuals. A group implies homogeneous employees who may or may not belong to the same department or division, that group is assessed the roles that each of those people may occupy during service life in the organization.

$$TV = (N)r^n (T)^n (V)$$

f) Organ's Discounted Certainly Equivalent Net Benefit Model

Pekin ogan (1976) has propounded the model and it is an extension of the net benefit model given by Morse. The approach the certainty with which the net benefits in the future will occur should also be taken into consideration while determining the value of Human resources.

g) Chakraborty's Aggregate Payment Approach

S K Chakraborty (1976) is the first Indian to suggest a model for the value of Human resources of an organization. According to this model, the group of employees has to assess rather than individuals in the valuation of human resources. The following are steps to calculation

- Group of HR are classified as managerial and non-managerial employees.
- The average tenure of employment is evaluated on experience.
- The average remuneration of the group is determined on basis of the wage and salary structure adopted by that firm.
- The value of Human resources X average salary of that group with an average tenure of the employees.

h) Dasgupta's Total Cost Concept Model

N. Dasgupta (1978) he proposed that value of Human Resource of a nation is to be determined which consists of employed and unemployed persons within it. Also he suggested that the total cost incurred by an individual in bringing him up to that position in the organization should be taken as the value of a person on the day he starts serving the organization. However, he acquires the value of the new roles tends to be increasing. Assessments of individuals or groups are expectable.

i) Dave's Modified Present Value Model

Shivkumar Dave (1987) incorporates in its indicators to effect of five factors that often affect the contribution of employees to the organization and thereby, the calculated value of human resources. The five factors are reflected of experience, efficiency, labour turnover, labour unrest, and output per employee which often contributes to employees in the organization.

j) Maheshwari, Rana And Krishnamoorthy Differential Matrix Utility Model (2002-2003)

Maheshwari, Rana, and Krishnamoorthy have proposed the model. The basic data for this model will come from the job title or job responsibilities of that position. Identify the basic critical factors relevant to the firm's profitability, success, and market share, etc. related to the individual job title or position. Develop a differential matrix of the individual for those factors. The differential matrix is based on a 1:1 ratio for an equally effective candidate for replacement.

7. Challenges and Issues of HRA Practices

The study found some challenges and issues raised against the HRA practice are as following

- 1) None of the methods fulfills the overall requirements of an acceptable model.

- 2) The service tenure of the existence of an employee is uncertain and hence valuation of them in such circumstances in the future seems to be unreal.
- 3) There is no appropriate method which insists on the division of human resource as to the value of them.
- 4) As human resources are not capable of being owned, retained, and utilized unlike other assets there may be the problem of effective cost.
- 5) The concept of human resource accounting is not yet accepted by tax authorities and laws unless ASB makes it obligatory.
- 6) Inappropriate HRA information in financial statements distorts the financial picture and also computation of rate of return on capital employed.
- 7) Methods for the valuation of HRA based on certain assumptions may prove wrong any time in the future.
- 8) HRA leads to dehumanization manipulation of human resources in the organization.
- 9) Yet discussions are going on the topic like human resource is an organization's liability, not an asset.
- 10) Measurement of human resources is subjective as different firms use different a method for this purpose till is no method widely accepted model for HRA.
- 11) Rate at which prospective stream of contribution is to be discontinued and compounded to calculate present value and future value.
- 12) The charge of the amortization rate is not solved.
- 13) Trade union may bargain their value.
- 14) Lack of initiative from the private sector.

8. Suggestions

The following are some suggestions

- 1) In India more companies have to adopt human resource accounting as considering them as an asset of their firm.
- 2) The Indian Act 1956 has to make provisions to evaluation and disclosure of human resources in every organization.
- 3) Over the area of study, the universities have to develop large numbers in research regarding HRA.

9. Conclusion

Human resources accounting is a new branch of accounting. More than a half-century has lapsed by practicing it worldwide. The study was found that many research methods have to be developed in the future as to universal acceptance of human resources as a one and soul.

India is a developing, labour intensive country. For many decades the country has been practicing the traditional method of accounting. The adoption of a new method i.e., human resource accounting is yet a developing stage in India. A study reveals that most public sector organizations are accepted and practicing the methods which are acceptable and convenient to them. But on contrary to this few numbers of private-based organizations are not adopted, which may lead to the wrong assumption of HRA. To overcome these cons and pros the Indian universities have to urge more research on developing human resources.

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