

Human Resource Accounting: Global Need

Dr. R. D. Darekar¹, Mrs. V. V. Patil²

¹Asso.Prof. and Vice Principal, K.T.H.M. College Nashik (India)

²Asst. Prof., K.T.H.M. College Nashik (India)

ABSTRACT

"Our core corporate assets walk out every evening. It is our duty to make sure that these assets Return the next morning, mentally and physically enthusiastic and energetic."

**- N. R. Narayana Murthy, Chairman and Chief Mentor, Infosys Technologies
Opening statement of the Infosys Annual Report, 2007-08.**

In the 21st century, the era of globalization, the knowledge and attitude of employees assume greater significance than the physical assets and the accomplishment of organizations is reliant on the quality of their Human Resource- its knowledge, skills, competence, motivation and accepting the organizational culture. With the advent of the new economy, knowledge-based economy, it has been concluded that human resources becomes increasingly more important in determining the total value of an organization. This paper is an attempt to depict the need, importance and benefits of HRA and the approaches of Human Resource Valuation used by several Indian companies.

Key Words: HRA, Human Resource Valuation, Value

I HUMAN RESOURCE ACCOUNTING

The American Accounting Society Committee on Human Resource Accounting (1973) defines HRA as: "Human Resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties." In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms.

HRA is similar in the principle to the financial accounting, that is, just as financial accounting reflects the costs of assets such as building and machinery. HRA shows human resource as capital not as expenses. Thus, HRA shows the investment, the organization makes in its people and how their values change over a period of time. It involves measuring the cost incurred by an organization to recruit, select, hire, train and develop the human assets".

Objective of the Study

1. To know the concept of Human Resource Accounting.
2. To study the Development and objectives of the Human Resource Accounting.
3. To study the benefits, Indian Scenario and Limitations of Human Resource Accounting.

Development of HRA :

Form the observation of Indian History; it is evident that Emperor Akbar gave importance to the nine jewels. Freedom fighters in India like Shri Motilal Nehru, Mahatma Gandhi, Sardar Vallabh Bhai patel, Pandit JawaharLal Nehru cannot be removed from the historical pages of freedom movement of India. In spite of the uncountable sacrifices made by the above individuals, no one made efforts to allocate any monetary values to such individuals in the Balance sheet of India. The suitable work was started to determine the cost and value of human beings by behavioral scientists from 1960 onwards.

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 (Likert 1961, 1967). He, along with faculty member R.Lee 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 60sth and early 70sth, 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.

Objectives of HRA

Rensis Likert described the following objectives of HRA -

1. Providing cost value information about acquiring, developing, allocating and maintaining human resources.
2. Enabling management to monitor the use of human resources.
3. Finding depreciation or appreciation among human resources.
4. Assisting in developing effective management practices
5. Increasing managerial awareness of the value of human resources.
6. For better human resource planning.

Benefits of HRA

- **Cost of developing Human Resource :** HRA will give the cost of developing human resources in the business. This will enable the management to ascertain the cost of labor turnover also.
- **Proper Investment :** It can be seen whether the business has made proper investment in human resources in terms of money or not.
- **Calculate Return on Investment (ROI) :** The return on investment can realistically be calculated only when the investment on human resources also is taken into account.
- **Improving employee efficiency :** It helps in improving the efficiency of employees. The employees come to know of the cost incurred on them and the return given by them in the form of output, and so on, which will motivate them to increase their worth.
- **Planning and executing personnel policies :** The management can also make use of it in taking decisions regarding transfers, promotions, training, retirement and retrenchment of human resources.

World Demand For Human Resource Accounting

It is a fact that the 21st century is the era of human demand. Countries that have labour quality ruling the world with dominant technology, like China and Japan, is all result of work force performance. Hence the whole world realized that human resource is the real investment into business ventures that can create the success waves. Even in India, companies like INFOSYS, Bharat Heavy Electrical Ltd (BHEL), DR.REDDY'S and Steel Authority of India Ltd (SAIL) are ever profit generators as they recognized value of quality of labor and ordered peak priority so as company's yields ripped fruits with assistance of ripped force (quality employees) and can stand against any business storm and cope up effectively.

Indian companies practicing HRA

Even though, several benefits are contributed by HRA, yet its development and application in different industries has not been encouraging for the reason that Indian companies act 1956, does not provide any scope for showing any information about human resources in financial statement. Some of the companies, who are presently reporting human assets valuation, these includes:

1. Bharat Heavy Electrical Ltd (BHEL).
2. Steel Authority of India Ltd (SAIL).
3. Oil and Natural Gas Commissioning (ONGC).
4. Oil India Ltd
5. Project and Equipment Corporation of India.(PEC).
6. Engineers India limited
7. Mineral and Metal trading Corporation of India.(MMTC).
8. Electrical India Ltd.
9. Hindustan Shipyard Ltd.
10. Cement Corporation of India. (CCI).
11. Infosys Technologies Ltd.
12. Tata Engineering and Locomotive Works
13. Southern Petrochemicals Industries Corporation Ltd (SPIC).
14. Associated Cement Company Ltd (ACC).
15. National Thermal Power Corporation Ltd (NTPC).

Human Resource Valuation Approaches followed by Indian companies :

Human resources have been given much priority in the present service sector due to its identified 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 :

1. **Historical Cost Method:** This method calculates actual cost incurred on recruiting, selecting, hiring and training and development of human resource.
2. **Replacement Cost Model:** According to this model the value of employee is estimated as the cost of replacement with a new employee of equivalent ability and efficiency. There are two costs, individual replacement cost and positional replacement cost in this model.
3. **Opportunity Cost Model:** Opportunity cost is the maximum alternative earning that is earning if the productive capacity or asset is put to some alternative use. Quantifying HR value is difficult under this method.
4. **Stochastic Rewards Model:** This Model was developed by Eric G.Flamholtz. This model identified some major variables that help to determine the value of an individual to the organization. He determined the movement of employees from one organization to another as Stochastic Process
5. **Sk.chakra borty Model :** Sk. Chakraborty of Indian Institute of Management, Calcutta was the first Indian to attempt at valuation of resources This model is similar to the historical cost model .He noticed that the cost of recruiting ,learning, selection, training and development of each employee should considered for acquisition cost method of valuation and be treated as different revenue expenditure.
6. **Lev and Schwartz compensation model :** This model was developed in the year 1971 by Lev and Schwartz for valuing human resources and used by public sector like SAIL and BHEL. It is based on future earnings of an employee till his retirement. According to the model value of human assets is estimated for a person at a given age which is the present value of his remaining future earning from his employment. Infosys in partnership with GIST advisory have developed a new model based on Lev & Schwartz model known as 'The INFOSYS GIST-HCX model' and reports the valuation of its employees.

Limitations of Human Resource Accounting

Human Resource Accounting is used to describe the accounting methods, systems and techniques, which coupled with special knowledge and ability, assist personnel management in the valuation of personnel in financial terms. It Presumes that there is great difference among the personnel in their knowledge ability and motivation in the same organization as well as from organization to organization. HRA facilitates decision making about the personnel i.e. either to keep or dispense with their services or to provide training. There are many limitations which make the management reluctant to introduce Human Resource Accounting. Some of the limitations are :

1. The period of existence of human resource is uncertain therefore valuing them under uncertainty in future seems to be unrealistic.
2. There is no proper and specific procedure or guidelines for finding cost and value of human resources of an organization.
3. There is fear that HRA may be de-moralize and manipulate employees.
4. In what manner the value to be included in the financial statement is the question yet to be classified on which there is no consensus in the accounting professions.
5. As human resources are not capable of being owned, retained and utilized, unlike the physical assets, there is problem for the management to treat them as assets in the strict sense.
6. There is constant fear of opposition from trade unions as placing a value on employees.
7. Tax laws do not recognize human beings as assets.
8. There is no universally accepted method.
9. The Human resource accounting is still at the developmental stage. Additional and proper research is necessary of its effective application.

CONCLUSION

Looking at the importance of Human Resource in the organizations, there is need to practice suitable approaches for human resource valuation. If done with preciseness and use of expertise guidance, HRA would result into best possible outcomes. Even valuing human resource appear to be important to Indian organizations, most organizations do not value their human resources and plans to implement valuation of human resource at a very early stage.

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