



CHALLENGES AND DISCLOSURE PRACTICES OF HUMAN RESOURCE ACCOUNTING

Farzad Yousefi

Research Scholar, Department of Commerce, University of Kerala

&

Dr. Suresh Kumar. K.S

Assistant Professor, SDE University of Kerala

ABSTRACT

Human resource Accounting (HRA) involves accounting for expenditure related to human asset in an organization as opposed to traditional accounting which merely expenses these costs and reduces profit which to our mind sub optimizes financial reporting. In India, the practice of Human Resource Accounting is more recent. The first initiative in this direction came from the public sector giant BHEL, which started the human resource valuation and reporting, practices from the financial year 1974-75. Very few organizations are following the human resource accounting practices. The study is expected to assist the management of the companies to make informed decisions by adopting human resource accounting system. Adoption of human resource accounting system will increase the acceptance and application of the system by reporting organizations. It is also expected that the study will assist the various users of financial statements in their analysis and interpretation of companies' financial statements for informed decision making since they would have access to more useful information than before.

Keywords: Human Resource Accounting Model, Measurements of HRA, Methods of Valuation of Human Assets, Advantages, Problems, financial statement.

INTRODUCTION

In today's world of competition and free economy, even with having equal type of physical assets and amount of funds invested, business can only survive and grow on the basis of skills, talent, efficiency, ideas, energy, decision making power, technologists and managing capacity of the people; in the absence of which the growth of business cannot be thought of. Human beings with organization are identified as human capital, which is now being recognized as the human asset. The recognition of employees in an organization as an important force shifted the views from considering employees as an expense or responsibility to important resource- Human resources. Human resource of an organization is indispensable and considered as more valuable resource as compared with tangible and intangible asset. People are obviously a vital asset and even technology does not replace the people.

Review of Literature

Enyi, E. P., & Akindehinde, A. O. (2014)ⁱ in their paper on “Human Resource Accounting and Decision Making in Post-Industrial Economy”, have been searching the human resource accounting and decision-making in the post-industrial economy. In this study, they have examined 16 public sector banks, which are accepted in the stock exchange of Nigeria. In their research, they tested hypotheses by use of statistical regression and the results indicated the significant effect of human resource accounting on the management decisions. Finally, according to the findings of the investigation, they have come to this conclusion that it is necessary to measure the human resources of a company, reflect and report this valuable asset in the financial statements like other intangible assets.

Ifurueze Meshack S. Odesa Jeff & Ifurueze P. (2014)ⁱⁱ in an article titled Impact of Aggregated Cost of Human Resources for Profitability: An Empirical Study, have been mentioned that, The past decade saw a shift in the Nigerian economy from manufacturing to service-based economy. The basic difference between the two is in the nature of the assets. The previous part runs by physical assets such as machinery and plants while the next part was run with the knowledge, skills and attitude of the staff of a company or organization. This leads to a change in the model of the cost of those assets. In the same way that human resource costs are increasing, demand for

the inclusion of these resources in financial reporting is also increasing. Human resource has two components which are investment and expenses. Traditional or formal accounting considered both as revenue expenditure. This summation method has negative impact on the company's profitability. The study attempted to examine the two following cases: (1) the relationship between the total cost of human resources and profitability of the enterprise (2) the effect of the separation of human resource cost on the profitability of the company.

The results of this research show that there is a positive correlation between the profitability of the company and human resource costs. Findings also show that changes in the company can be explained by separating, the cost of human resources into two parts, capital expenditure and revenue expenditure.

Jariwala, P. T. (2015)ⁱⁱⁱ in his paper entitled “Human resource accounting application analytical study of HRA with special reference to power generating companies of Gujarat” argued that, it is accepted by all that without the help of human resources, business organizations do not gain anything. If an organization has sufficient and efficient human capital so, it can achieve maximum profits. The use of human resources does not care for money, machinery and materials without human resources do not have any importance, but unfortunately they did not find any place of traditional accounting. In the USA and other advanced countries such as Japan, human resource, accounting, has a great importance. Many companies approved to have the value of human resources in the financial statements of their annual reports, but in India, especially in Gujarat, there is no scientific human resource management and its importance is ignored. The findings indicate that many managers, even in India believe that the evaluation of human resources is useful not only for management but also for employees and other stakeholders of the company. In fact, human resources, helps the management of companies to take proper decisions and assist the staff in getting a decent salary, in addition to these, human resources are helpful and useful to investors to make good decisions in investment, as well as bankers to determine the credit for lending to companies.

EMERGENCE OF HUMAN RESOURCE ACCOUNTING

With the development of white-collar economy; skills, talent, efficiency, ideas, energies of people have collectively created productivity and performance of the organization. Without having all these merits of people, other assets cannot be operated efficiently. A Company can set

up a factory with all the latest equipment and have all the raw materials required for producing the best products, but if there is no intellectual capital, skilled labor or strategic thinkers on board, it is destined to fail. Thus the human resources are the only active resources in the organization, which operate all other assets.

Human Resource Accounting (HRA)

Nadler (1984)^{iv} noted that, Human resource is relatively modern and developed management, which was invented in the early 1960s, when humanity during the Vietnam War gain more attention as human rights. The origins of the function arose in organizations that introduced Welfare management practices as well as in those which has been adopted principles of "scientific management". The emergence of a largely administrative management activity, coordinating a range of worker related processes and then at that time becoming known as “performance of employees.

HRA VALUATION AND DISCLOSURE PRACTICES IN INDIA

In India, the practice of human resource accounting is more recent. The first initiative in this direction came from the public sector giant BHEL, which started the human resource valuation and reporting, practices from the financial year 1974-75. Very few organizations are following the human resource accounting practices. In this part of the study we have identified variable relating to valuation practices and reporting practices which has been applied by the companies in India.

STATEMENT OF THE PROBLEM

Human resource constitutes a valuable resource to every organization whether manufacturing-oriented, service-oriented or knowledge based oriented. It is as important as the machines, materials and money without whom other resources cannot be blended and coordinated for the purpose of achieving profitability. Characteristics such as experience, skill, knowledge, and age affect the productivity of human resource. Reporting information on the value of a company’s human resource via the use of a standard and realistic model could add value to the information content of financial reports of organizations and hence assist users in making informed decisions.

SIGNIFICANCE OF THE STUDY

Accounting had generally been confined to the financial record keeping function of the accountant. The role of an accountant changed over a period of time from a mere recording of transactions to that of providing information to shape not only routine but also strategic decisions. Further, the mode of communications to the internal and external users is through periodic financial reports. They provide fairly bulky information which is related to the past and not to the future, and is not wholesome measure keeping in view of the changing nature of the business entities. Much of the information relates to operations, managerial persons, employees, financial results in terms of profit and loss and movement in share prices. But such information conceals the most important and critical information with regard to the quality and quantity of human resources at the command of the organizations, either at the point of time or its potentials to gain command over such resources, which will not ignite the physical resources but also make them more valuable by enhancing the value of enterprise, the most critical in any restructuring, merger, takeover, acquisition, disinvestment, decisions of the top management.

Till date, a number of models for monetary as well as non- monetary valuation of human resources have been developed and suggested; still one does not find a generally accepted approach, as all the models/ approaches for valuation have their own limitations. All the models emphasize only few aspects and none of these models appears to be having the qualities to enable to fit into all situations and varied organizations. Thus, in spite of its existence as a concept, the human resource accounting is still in its infancy. Till date a generally accepted systematic accounting process has not been developed. Therefore, there is a need to study the theoretical underpinning of propound method of valuation of human resources as also the problems and challenges encountered by the corporates in generating and reporting the information with respect to human assets. Hence the present study also seeks to ascertain the role of HRA in decision making process and challenges of HRA practices.

OBJECTIVES OF THE STUDY

The study is undertaken with the following specific objectives:

1. To obtain the views and ideas of managers and accountants with regard to the disclosure practices of Human Resources Accounting of selected companies in India.
2. To find out the challenges in human resource accounting practices.

HYPOTHESES

The following hypotheses are formulated based on the objectives set for the study.

H0₁: There is no significant difference in the views and ideas of managers and accountants with regard to the disclosure practices of Human Resources Accounting of selected companies in India.

H0₂: There is no significant difference of the opinion of managers and accountant about challenges in human resource accounting practices.

RESEARCH METHODOLOGY

This part provides details on the design and methodology applied in this study. It provides discussions on the methods adopted in carrying out the study. It also provides discussions on the various sources and methods through which the data for this study were acquired, the techniques used in the analysis of such data, and the justification for the selection of the methods and techniques.

- The study is based on primary and secondary data. Primary data for the study were collected from the respondents, including managers, accountants and staff.
- Secondary data for the study were collected from publications, annual reports of companies, records of various government departments, libraries, national institutions, journals and the internet.

RESEARCH DESIGN

This study employed a synthesis of descriptive and survey research methods with the population of BSE listed companies in India.

The study examined the utility of human resource values as assets in decision making process and their disclosure practices in financial reporting of selected Indian companies. Data were collected from the administration of questionnaire to obtain evidence of patterns amongst the population of the study.

STUDY POPULATION

The population of this study consisted of the total number of listed companies in the Bombay Stock Exchange (BSE). There is no systematic record available of the companies

practicing HRA and in the absence of a system like annual reports library in India; it is very difficult to collect the information about the Indian companies practicing HRA. There is no compulsion on the part of companies to record and communicate HRA data because it is purely on the discretion of a company to maintain and communicate the information related to HRA. Therefore to collect the information about the corporate practicing HRA in India, a survey of listed companies of Bombay Stock Exchange (BSE) was undertaken. In the next stage the top hundred companies which has been classified by BSE based on their share value has been taken. Out of these 100 companies, finally identify 10 companies practicing/ reporting HRA presently or earlier. The detail of the Indian companies which applying HRA system is presented in Table 1.

Table 1: Name of the companies practicing HRA

Number	Name of the company	Type	Headquarter
1	Hindustan Petroleum Corporation Ltd (HPCL)	Public	Mumbai
2	Hindustan Zinc Limited (HZL)	Public	Udaipur
3	Infosys Technologies Limited (INFOSYS)	Private	Bangalore
4	National Thermal Power Corporation (NTPC)	Public	New Delhi
5	Steel Authority of India (SAIL)	Public	New Delhi
6	Associated Cement Companies (ACC)	Public	Mumbai
7	Oil India Limited (OIL)	Public	Assam
8	Bharat Heavy Electrical Limited (BHEL)	Public	New Delhi
9	Oil and Natural Gas Corporation Limited (ONGC)	Public	Uttarakhand
10	Indian Oil Corporation (IOC)	Public	New Delhi

Source: Bombay Stock Exchange

After identifying the HRA practicing companies, the study evaluated the quality of HRA information published by these Indian corporate. For this purpose, certain common and more effective variables were identified. This set of information was collected from the published annual reports of the companies, besides the extensive literature survey.

The next part of the study deals with the qualitative analysis. On the survey of Indian companies practicing HRA, a very few companies are following HRA in India. Basically, the HRA is in its infancy in India. In order to get the views of managers, accountant and staff of the companies about the HRA system, a questionnaire was canvassed to 410 respondents keeping in view their willingness to participate in the research and obtained the responses from 385 respondents.

Furthermore, the study focusses on collecting and analyzing opinions received from the respondents through a survey method. The questionnaire employed the Likert method. To circulate questionnaires wherever it was possible a personal approach was made to reach the respondents. In some case questionnaires were also sending to the respondents by post and also E-mail. In response a three hundred eighty five questionnaire were received back from the respondents. On the basis of responses and information collected through the survey, data have been analyzed to identifying the utility of HRA information in decision making and challenges of HRA practices in India.

SAMPLE SIZE

Multi stage sampling technique was used for selecting sample from the listed companies on Bombay Stock Exchange (BSE).

The following procedure was used for sample selection:

A survey of listed companies of Bombay Stock Exchange (BSE) was undertaken. In the next stage the top hundred companies which has been classified by BSE based on their share value has been taken. Out of these 100 companies, finally identify 10 companies practicing/ reporting HRA.

SOURCES AND METHODS OF DATA COLLECTION

This study used both primary and secondary data in an attempt to achieve the set objectives of the study and to solve the problem under study. The study recognized the importance of primary data and used them in making conclusion about the problem under study.

Well-structured questionnaires were used for collecting the primary data. For this purpose, two structured questionnaires were developed after reviewing the significant literatures. The first questionnaire was developed to the managerial level as well as accountants and staff for covering all objectives of the study. Five point Likert scale questionnaires were used, with choices of “strongly disagree” to “strongly agree”. The questionnaire involved sixty-two questions for all categories of respondents which were carefully designed to collect relevant data.

MANNER OF DISCLOSING HUMAN RESOURCE ACCOUNTING INFORMATION

- 1) Part of audited financial statements in the annual reports
- 2) As an unaudited supplement to the annual reports
- 3) Separate statements parallel to annual reports

MAIN CHALLENGES OF HUMAN RESOURCE ACCOUNTING PRACTICES

Six major problems have been identified in applying human resource accounting which is as follow:

- 1) Professional institutions have not issued laws, standards and guidelines, backing and enforcing the application of human resource accounting system.
- 2) Tax laws do not recognize human resources as assets because the accounting standards board did not make it mandatory to disclose the value of human asset.
- 3) There are no specific and clear guidelines for finding cost and value of human resources of an organization.
- 4) There is no specific form and manner in the value of human resources as an asset be included in financial statements
- 5) The life of human resources is uncertain and therefore valuing them under uncertainty seems unrealistic
- 6) Appropriate accounting tools are not available.

ANALYSIS OF DATA

Along with the usual statistical tools such as tables, percentages, mean, standard deviation, parametric tests such as t-test, F test (ANOVA), Multiple Classification Analysis, etc. was used for analyzing the data which helps in arriving at sound conclusions.

LIMITATIONS OF THE STUDY

The present study suffers from the following limitations:

1. The present study is being affected by the inherited limitations of primary data in the sense that the employees were answering to the queries of the investigator from their

memory and the mood at the time of interviews. There is every chance of bias for such responses.

2. Possibility of hiding certain facts on the part of the respondents could not completely rule out, although all possible efforts have been made to elicit authentic information.
3. The present study assumed to conduct a comparative investigation on the various HRA practices of listed companies in India. However, comparison could not be possible in all area of HRA, because of the fact that there were no generally accepted principles and practices.
4. This research only considers ten companies in the BSE, and most of them are from public sectors.
5. Since the study is based on the opinion of the key players in the field of HRA, i.e. Managers and Accountants, consistency in views cannot be ensured

However, great care was given for pilot study, designing questionnaires, refining the questions, and rechecking of answers, and hence, make the findings of this research meaningful and reliable. Thus, within the limitations of the research, it is felt that the objectives have been achieved.

MANNER OF DISCLOSING HRA INFORMATION

Table.2: Distribution of Sample by their Opinion Regarding Manner of Disclosure

statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	SD	T	Sig.
Part of Audited financial statement	13	109	117	70	76	3.23	1.16	3.827	0.000
	3.38	28.31	30.39	18.18	19.74				
As an Unaudited financial statement	14	74	166	23	108	3.36	1.18	5.908	0.000
	3.64	19.22	43.12	5.97	28.05				
As a Separate Statement parallel to annual reports	10	145	14	107	109	3.42	1.31	6.213	0.000
	2.60	37.66	3.64	27.79	28.31				

Source: primary data

From the above table it can be seen that most of the respondents agree and strongly agree with the facts that HRA information must be disclose as a separate statement parallel to annual reports

of the companies. A few people were disagreeing and strongly disagree regarding the manner of disclosing HRA information.

With respect to table 4.11, disclosure of HRA information as a separate statement parallel to annual reports acquired the highest mean score (3.42) among the others. Disclosing HRA information as a part of audited financial statement has got the lowest mean opinion score of 3.26. It is also shows that there is significant difference among the respondents opinion regarding the manner of disclosing HRA information as the significance level of t-test is less than 0.05.

Table 3: Distribution of Sample Regarding Manner of Disclosure by their HRA Knowledge

Statement	HRA knowledge			ANOVA		MANOVA	
	Average	Good	Total	F	Sig.	F	Sig.
Part of Audited financial statement	3.00	3.26	3.23	2.347	0.126	9.639	0.000
	1.29	1.13	1.16				
As an Unaudited financial statement	2.60	3.48	3.36	26.549	0.000		
	1.15	1.14	1.18				
As a Separate Statement parallel to annual reports	3.40	3.42	3.42	0.013	0.908		
	1.04	1.35	1.31				

Source: primary data

Table 5: Main aspects of HRA information

Characteristics	HRA information helpful in addressing the need of users	Information required to be disclose	Manner of disclosure
Job Responsibility	✓	✓	✓
Gender	✓	✓	✓
Age	✓	✓	✓
Academic qualification	x	X	x
Experience	✓	✓	✓
Company Type	✓	✓	✓
HRA Knowledge	✓	✓	✓

In the above analysis three main aspects of HRA information such as helpfulness of HRA information in addressing the need of users, the requirement of Information to be disclosed and the manner of disclosure of the information studied with the help of views and ideas of managers and accountants with regard to the disclosure practices of Human Resources Accounting of selected companies in India. With the help of MANOVA the opinions of managers and accountants were analyzed with respect to their characteristics. The result of MANOVA indicated that there is significant difference in the level of the agreement of managers and accountants on the elements of the studied aspects of HRA information with respect to all of their characteristics except academic qualification. Hence the result reject the null hypothesis that “There is no significant difference in the views and ideas of managers and accountants with regard to the disclosure practices of Human Resources Accounting of selected companies in India” and accept the alternate hypothesis that “There is significant difference in the views and ideas of managers and accountants with regard to the disclosure practices of Human Resources Accounting of selected companies in India”.

PROBLEM REGARDING ADOPTING HRA SYSTEM

Table.3: Distribution of sample by their opinion regarding Problems of HRA system

Statements		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	T	Sig.
Professional institution haven't issued laws	n	8	13	26	179	159	4.22	0.87	27.394	0.000
	%	2.08	3.38	6.75	46.49	41.30				
Tax laws do not Recognize HRA	n	7	12	21	333	12	3.86	0.60	28.302	0.000
	%	1.82	3.12	5.46	86.49	3.12				
No specific and clear guidelines	n	15	31	38	125	176	4.08	1.11	19.153	0.000
	%	3.9	8.05	9.87	32.47	45.71				
No specific form	n	17	26	41	119	182	4.10	1.11	19.358	0.000
	%	4.42	6.75	10.65	30.91	47.27				
Uncertain life	N	13	21	46	285	20	3.72	0.79	18.025	0.000
	%	3.38	5.46	11.95	74.03	5.20				
Not availability of appropriate tools	N	12	23	31	146	173	4.16	1.01	22.371	0.000
	%	3.12	5.97	8.05	37.92	44.94				

Source: primary data

On the issue of identifying the problems in practical implementation of the HRA, the following inferences were drawn: in response to the main issue related to why HRA practice is not much accepted or what is the main challenge of HRA, majority respondents with a mean opinion score of 4.22, identified that the professional institution and mandatory authorities have not taken interest in development of HRA and did not issue necessary guidelines and forms for HRA practices. Non availability of the appropriate accounting tool is also identified as an equally responsible obstacles or barrier in the practice of HRA.

Table 4: Distribution of sample regarding Problems of HRA system by their HRA knowledge

Problems		HRA knowledge		ANOVA		MANOVA	
		Average	Good	F	Sig.	F	Sig.
Professional institution have not issued laws	Mean	4.60	4.15	12.586	0.000	7.823	0.000
	SD	0.69	0.88				
Tax laws do not recognize HRA	Mean	3.89	3.86	0.126	0.722		
	SD	0.61	0.59				
No specific and clear guidelines	Mean	3.40	4.19	24.953	0.000		
	SD	0.91	1.10				
No specific form	Mean	3.38	4.21	27.570	0.000		
	SD	0.88	1.10				
Uncertain life	Mean	3.75	3.72	0.106	0.745		
	SD	0.98	0.75				
Not availability of tools	Mean	3.85	4.20	5.697	0.017		
	SD	0.89	1.03				

Source: primary data

With the help of MANOVA the opinions of managers and accountants were analyzed with respect to their characteristics regarding the Challenges in human resource accounting practices of selected companies in India. The result of MANOVA indicated that there is significant difference in the level of the agreement of managers and accountants on the elements of the studied aspects of HRA information with respect to all of their characteristics except academic qualification. Hence the result reject the null hypothesis that “There is no significant difference

of the opinion of managers and accountant about challenges in human resource accounting practices of Indian selected companies” and accept the alternate hypothesis that “There is significant difference of the opinion of managers and accountant about challenges in human resource accounting practices of Indian selected companies.

The importance of HRA is also reflected in the opinions of the respondents, as they suggest a separate HRA disclosure statement parallel to the annual report. A large number of respondents agree on the issue of lack of proper institutional guideline, authoritative mandate and appropriate accounting tools. These factors required to be developed.

CONCLUSION

Human Resource Accounting aims to provide the management timely with relevant information about human resources to improve the quality of managerial decisions. The materials and machines which exist in an organization can produce nothing without help from human hands. The greater the efficiency of the human forces; the greater the profit earning’s capacity of a firm. There are several management bases for human assets. However, no single method is suitable for all purposes and under all circumstances. Historical costs method may be suitable for external reporting purposes, but any of the other methods may be suitable for internal management decision makers. It may only reminded at the end that this lack of general unanimity should not stand in the way of practical use of Human Resource Accounting. The human resource accounting is very important for the management as well as for the outsiders specially investors. From management point of view, it is useful to plan and control the human assets on a more scientific basis. Accurate and reliable information help to monitor the efficiency of these resources in a better way. From the investor’s point of view, it is useful because it will give the real picture of the organization including human assets. The concept of Human Resource Accounting itself represents a new way of thinking about the people as asset. It has a great potential for future businesses to understand the value of human resource and the same should mentioned in the financial statements.

Finally, it can be said, if human resource accounting is adapted, it would provide an information system to the management by which they can make informed decision about the future activities of an organization. But unfortunately in India, the concept of human resource accounting is still in its infancy. It is a challenge before the accounting profession to develop a scientific method of

human resource accounting, but it is hoped that some workable solution would be brought out in near future.

Reference

-
- ⁱ. Enyi, E. P., & Akindehinde, A. O. (2014). Human Resource Accounting and Decision Making in Post-Industrial Economy. *International Journal*, 2(1), 19-35.
 - ⁱⁱ. Ifurueze, P. C. (2014). Impact of Aggregated Cost of Human Resources on Profitability: An Empirical Study. *Journal of Business and Management*, 3(2), 30-43.
 - ⁱⁱⁱ. Jariwala, P. T. (2015). Human resource accounting application analytical study of HRA with special reference to power generating companies of Gujarat.
 - ^{iv} Anderson, K. C., Bates, M. P., Slaughenhaupt, B. L., Pinkus, G. S., Schlossman, S. F., & Nadler, L. M. (1984). Expression of human B cell-associated antigens on leukemias and lymphomas: a model of human B cell differentiation. *Blood*, 63(6), 1424-1433.