

**PROBLEMS IN ADOPTION AND APPLICATION OF HUMAN
RESOURCE ACCOUNTING: A SURVEY**

DR. Reeta,

Assistant Professor, Department of Commerce
Zakir Husain Delhi College, University of Delhi.

ABSTRACT

Human resources are truly the most valuable resources a firm can possess because effective utilization of physical and financial resources depend upon quality of human resources. Effective Human Resource Management is important as people produce profit whereas machines and capital merely enhance the profit making capability. Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. Basically HRA is an information system that tells management what changes over time are occurring to the human resources of the organization. Though HRA is very useful in decision making even then very few companies are coming forward to value this important asset. Many companies in India and abroad started reporting HRA but later on they stopped doing it. It was perceived that certain problems were associated with the use of human resource accounting system. The present paper summarizes the result of a survey conducted to know the perception of managers regarding problem areas in developing and instituting the HRA system.

KEY WORDS

Human Resources, Human Resource Accounting, Human Resource Management, Probable problems, Decision-Making

INTRODUCTION

Human Resource Accounting is accounting for people as an organizational resource. It involves measuring the cost incurred by business firms and organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to the organization. Human resource accounting provides monetary data regarding the human resources of the organization that is of high significance not only for the management in taking various decisions but also for the analyst and the employees. It can be useful for the management in areas of recruitment, planning, selection (Flamholtz 1971), allocation of financial resources, conservation of human resources, utilization of human resources (Gupta 1990), creation of a conducive organizational climate, better employee-employer relations etc. For the analyst it not only provides information regarding the inner strength of the organization but also helps in making decisions regarding the long term investment in that organization. This also affects bargaining power and performance of employees. Despite this importance of HRA the study of human resources of an organization has not received the attention it deserves. In India many organizations introduced the system but inspite of the benefits of HRA many organizations stopped reporting HRA information. BHEL was pioneer in the introduction of HRA in India and R.G. Barry Corporation in the USA but both stopped valuing human resources. It was perceived that certain problems were associated with the use of human resource accounting system.

REVIEW OF LITERATURE

Human Resource Accounting information can be useful for managerial decision making in different areas. Many research studies were conducted to prove this. Tomassini (1977) carried out a laboratory study to examine the effects of HRA cost data in personnel layoff decision context. He concluded that HRA cost estimates caused different managerial preferences in the personnel lay off decision context. Gul (1984) attempted to study the usefulness of human resources turnover cost information for labour turnover decision-making in a sample of Australian Accounting Firms. Bayes (1984) conducted an empirical investigation of the effects of HRA information on decision-making. Malik (1993) carried out an empirical investigation to know the impact of HRA information on decision-making. Sen et.al (2008) in their study make a scientific investigation into whether HR information has any impact on internal decision-

making i.e. in the context of personnel management decision-making related to employee recruitment and employee turnover control in banking industry of Bangladesh. There are so many studies that support the hypothesized usefulness of HRA in the process of decision making by internal and external users. Muniramappa, C.M (1988), in his paper “Human Resource Accounting: Problems in Application and Adoption” throws light on some conceptual problems in the way of HRA. Gupta D.K (1992) did a survey on “Probable Problem Areas Confronting Human Resource Accounting”. He with the help of questionnaire tries to identify the major problems that inhibit the growth of HRA despite its utility. There has also been an increasing recognition of the concept of HRA, as evidenced by the flow of literature on various aspects of HRA. But there are very few organizations involved in the systematic measurement and reporting of HRA information. Many companies started the system and stopped reporting after few years. Though the users of the information are interested and welcome HRA reporting but they fail to throw light on the vacuum created by the resistance of the organizations to adopt a system of human resource accounting. It is very important to know the perceptions of the management as to why the companies are not coming forward to adopt the system inspite of the utility of the system to the management for decision making. It is the management to decide regarding adoption of system of HRA and the form in which it should be made available to the internal and external users. The proposed work is a step forward in the direction that if it is so useful what are the problem areas confronting the growth of the HRA.

OBJECTIVES OF THE STUDY

Human Resource Accounting helps the management in taking decisions. In spite of the uses of HRA very few companies are coming forward to report HRA information in their annual reports and many companies both in India and abroad stopped reporting this valuable information in their annual reports. It was perceived that possibly certain problems were associated with the design and the use of HRA system. Keeping this in mind the present paper is prepared with the objective to have first hand information of such problems from the managers who were specifically associated with the designing of such systems in selected Indian companies.

RESEARCH METHODOLOGY

For the present study, top one hundred companies from public sector with an equal number of organizations from the private sector (as per the Economic Times rating for 2007-08 on the basis of total capital employed) were selected. These organizations had been selected on the assumption that human resource accounting being an emerging field in accounting in India large organizations might introduce it in their annual reports. The annual reports of two hundred organizations were accessed from the web sites of the respective companies and the Stock Exchange. These reports were scanned to identify the companies reporting human resource accounting. It was found that many organizations included in their annual reports some information about human resources like costs incurred on hiring, training human resources, employee compensation etc. However only ten organizations, seven in public sector and four in the private sector, reported human resource accounting in their annual reports. To understand the perception of managers regarding the problem areas a questionnaire was designed and mailed to twenty four organizations that are presently disclosing HRA information in their annual reports and others that started HRA system but had now stopped disclosure in their annual reports with a request that only those managers should respond who have knowledge of the human resource accounting system and were associated with the designing of such a system. The companies that failed to respond to the mailed questionnaire were contacted in person to seek their response to the questionnaire. Through mail and personal contact a total of nineteen responses could be collected for analysis that worked out to be 79.16 percent of the 24 companies selected for the study.

RESEARCH TECHNIQUE APPLIED

Likert Five-Point scale was applied in order to analyze the results. The percentage response for each category was calculated and the various weights assigned to different opinions as per Likert Five Point scale i.e. Strongly agree =5, Agree= 4, Neutral = 3, Disagree = 2, Strongly disagree = 1. The mean scores and standard deviation scores were calculated for the same. The result of the study is summarized in Table I.

PERCEPTION OF MANAGERS REGARDING PROBLEM AREAS

The results of manager's perception regarding the problem areas in developing and instituting the HRA system are summarized in the following Table I.

Table I Perception of the Respondents to Various Problem Areas

Sl. No	Response Questions	5	4	3	2	1	Mean	Standard Deviation	Ranks
1	It is the organizational system and not the individual human element that is the prime determinant of the value of human resources	15.79%	73.69%	5.26%	5.26%	0.00%	4.00	0.58	1
2	Lack of symmetry with traditional accounting procedures	0.00%	78.95%	5.26%	15.79%	0.00%	3.36	0.76	8
3	Lack of agreement concerning the procedure of accounting	0.00%	89.74%	10.53%	0.00%	0.00%	3.89	0.50	2
4	Difficulty in determining the norms for amortization	0.00%	73.69%	21.05%	5.26%	0.00%	3.68	0.58	6
5	Calculation of Discount Rate	15.78%	42.11%	42.11%	0.00%	0.00%	3.74	0.73	4
6	Non preparation of Employee Career Growth Plan	10.53%	42.10%	47.37%	0.00%	0.00%	3.63	0.68	7
7	Disastrous impact on the attitude of employees whose values are declining	0.00%	68.42%	31.58%	0.00%	0.00%	3.68	0.48	5

8	Unwillingness of the organizations to introduce system at huge cost	21.05%	47.37%	31.58%	0.00%	0.00%	3.89	0.54	3
---	---	--------	--------	--------	-------	-------	------	------	---

Conceptual Problem

HRA has the capacity to provide the cost and the value measures of employees depending on the design of the system. In the case of value based measurement of HRA it is assumed that an individual or a group of individuals is the prime determinant of value. The first question addressed to the managers was that it is the organizational system and not the individual human element that is the prime determinant of the value of human resources. HRA, in contrast to this, assumed that it is the individual or a group of individuals that is the prime determinant of value. To this statement 89.48 percent of the respondents agreed (it includes 15.79% that strongly agreed), 5.26 percent remained neutral and same percentage showed disagreement. This conceptual problem scored mean 4.00 with the standard deviation 0.58.

Lack of Symmetry with traditional accounting system

The concept of resistance to change is also one of the problems. Traditional accounting system that has been followed from a long time needs some changes if human resource accounting is to be applied in the real sense. Thus the traditional accounting system needs modifications as it fails to accept human resources as assets.

The second question to the managers concentrates on the issue that lack of symmetry of HRA with traditional accounting procedures inhibits the growth of the concept. To this view 78.95 percent of the respondents agreed with the issue and 15.79 percent disagreed. The mean score against this was 3.63 with the standard deviation of 0.76.

Lack of agreement concerning the procedure

Many organizations who propose to introduce human resource accounting find it difficult to arrive at a generally agreeable method of valuation and reporting of human resources. There is a

broad classification of cost and value approaches. All valuation methods are based on certain assumptions that may or may not be true.

The third question was related to the problem of agreement concerning the procedure of accounting for human resources. The majority of the respondents agreed on this issue i.e. 89.74 percent agreed on this issue while the others remained neutral. The mean score was 3.89 with the standard deviation 0.50.

Amortization Rate

As per the historical cost approach for measurement of the human resources amortization rate provides the figure of amortization. This amount has to be charged to the profit and loss account every year. It is very difficult to develop appropriate norms in this regard. It is attributed to the difficulty in determining the norms for amortization under original cost approach that adversely affects the growth of human resources accounting. The fourth question was concerned with this problem. Of the total respondents 73.69 percent agreed, 5.26 percent disagreed whereas others remained neutral. The mean score was 3.68 with standard deviation of 0.73.

Calculation of Discount Rate

Another issue that has not been settled so far is about the calculation of the discount rate because in order to find the present value of future earnings of an employee the earnings have to be discounted at a particular discount rate. A number of options are available to the organizations for using different discount rates. In response to the fifth question that concentrates on calculation of discount rate, 42.11 percent of the respondents remained neutral whereas all the others agreed that calculation of discount rate was also one of the problems.

Career-plan

The growth of human resource accounting has been adversely affected due to the non-preparation of the employee's career growth plan on which the value based models depend. It is difficult to make an employee's career plan. Around 63 percent of the respondents agreed

whereas 37 percent remained neutral. The mean score was 3.63 percent with the standard deviation of 0.68.

Behavioural aspect of human resources

Another problem related to the application of human resource accounting is concerned with the behavioural aspect of human resources. It is possible that apprehensions regarding the effect of the HRA on human behaviour may have forced the organizations to be reluctant to use this system. The HRA information may have a disastrous impact on the attitude of employees whose values are declining. Question seven seeks the perception of managers with regard to behaviour impact. Of the total respondents 47.37 percent remained neutral whereas the remaining expressed their agreement.

Cost involved in designing the system

Certain basic requirements are necessary for the adoption of human resource accounting. In addition to the capacity of the organization to design a suitable system and continue it over a long period of time sufficient enough to bring the desired results is also important. The cost involved in designing a system and its adoption is a major limiting factor in an attempt to introduce HRA in industrial situation in India. The unwillingness of the organization to introduce the system at a huge cost has adversely affected the growth of HRA. 68.42 percent of the respondents agreed with this while others remained neutral. The mean score was 3.89 with standard deviation of 0.54.

Other issues

None of the respondents gave their opinion to any other problem related with the application of human resource accounting.

CONCLUSION

On the basis of the mean score and standard deviation earned by every statement we can conclude that the managers associated with the design of the system of human resource accounting feel that the conceptual issues is the most important problem area. The inability of the

integration of human resource accounting system with the traditional accounting is also one of the major problems as it gained the second highest mean score. The eighth question concerned with unwillingness of the organizations to introduce the system at a huge cost gained the third rank. This problem arises because it is not compulsory to disclose the HRA information and organizations take their own liberty. They don't want to introduce the system as it involves huge cost.

The least weightage was assigned to the problem of lack of symmetry with traditional accounting procedures. Calculation of the discount rate is also one of the problems and it was ranked at fourth position as per its mean score and standard deviation.

Finally we can conclude that the perception of the managers gives different weightage to different aspects of the uses of human resource accounting and their problem areas. With the time and development of the human resource accounting concept, the weightage assigned to some aspects differ as per the survey conducted by Dinesh Gupta. To find a solution to the problem the researchers should come forward and focus on the various specific problem areas based on ranking and should provide a feasible solution to the same to make the concept widely acceptable and practicable because HRA information is very useful in managerial decision making.

REFERENCES

1. Bayes, Paul Eugene. (1984): An Empirical Investigation of the Effects of Human Resource Accounting Information on Decision-Making: Results of Mail Survey, Thesis, University of Kentucky, U.S.A.
2. Brummet, R.L., Flamholtz, E.G., Pyle, W.C. (1969), "Human Resource Accounting: A Tool to Increase Managerial Effectiveness", Management Accounting, p.p.12-15.
3. Flamholtz, Eric. G. (1971), "Should Your Organization Attempt to Value its Human resources?" California Management Review, Winter, pp. 40-45.
4. Flamholtz, Eric. G. (1979), "Human Resource Accounting: State of the Art and Future Prospects", Annual Accounting Review, Vol. 1, p. 219.

5. Framholtz, Eric. G. (1999), "Human Resource Accounting: Advances in Concepts, Methods & Applications", Kluwer Academic Publishers, Third Edition, p.12.
6. Gul, Ferdinand A. (1984), "An Empirical Study of the Usefulness of Human Resources Turnover Cost in Australian Accounting Firm", Accounting, Organization and Society, Vol. 9, pp. 233-239.
7. Gupta, D.K. (1990), "Human Resource Accounting In India: A Perspective", ASCI Journal of Management, Vol.20, No.3, September, pp-1-9.
8. Gupta, D.K. (1992), "Probable Problem Areas Confronting Human Resource Accounting: A Survey" Journal of Accounting and Finance, Vol. VI, No. 1, spring, pp71-78.
9. Levine, Marc. (1980), "Perspective in Accounting for Human Resources", The Chartered Accountant, October, pp. 295-97.
10. Malik, R.K. (1993), "Human Resource Accounting and Decision-Making", Anmol Publishers, New Delhi.
11. Muniramappa, C.M., "Human Resource Accounting: Problems in Application and Adoption" Accounting for Human Assets, 1988, pp 260-65.
12. Prabhakar Rao D., "Human Resource Accounting" Inter- India Publications, New Delhi, 1986, Reeta, Upasna, "Managerial Uses of HRA: A Survey", IJRCM, Vol. 3 No.9, September 2012, pp. 77-79.
13. Sen, D.K., Jain, S.C., Jat, S.L and Saha, R.K. (2008), "Human Resource Accounting Information: It's Impact on Internal Decision-Making", The Journal of Accounting and Finance, Vol. XXII, No. 1, Oct-March, pp. 23-56.
14. Tomassini, Lawrence A. (1977), "Assessing the Impact of Human Resource Accounting: An Experimental Study of Managerial Decision Preferences", The Accounting Review, Vol. 52, No. 4, October, pp. 904-914.