

HUMAN RESOURCES ACCOUNTING: ROLE & PRACTICES IN INDIAN ORGANISATIONS

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ABSTRACT

Human Resource is a valuable asset for any organization, it includes employees, their skills, knowledge and contribution as intangible assets to the organization. Human Resource Accounting has emerged as one important tool through which the personnel of an organization is valued. Accounting is a discipline used to keep record and measure the value of assets over its liabilities in financial terms. HRA is what a company is getting in return after investments on its employees by training, development programs, compensation, incentives etc. HRA measures the value of employees by measuring their contribution to the company. If cost becomes more than the contribution then performance of the employee is considered as negative whereas if contribution is more than cost it will be positive performance.

INTRODUCTION AND DEFINITION

HUMAN RESOURCES ACCOUNTING (HRA) measures the cost and value of employees. It measures how much investment a company is doing on its employees and in return what value or worth they are gaining out of their employees? The worth of an employee can be measured in terms of skills, knowledge they possess and utility of an employee for the company.

The companies' main emphasis lays on ROI (Return on Investment) rather than return on Knowledge they possess in the form of their employees. HRA has changed company's views and encourage them to consider their human resource as valuable assets but not the liabilities. HRA was introduced in 1960s but its proper implication is understood after so many years when

companies came to know about its importance. It is easy to measure tangible assets but how to measure value of employees was a tough job as it is a time consuming and tedious job to be performed. **According to Stephen Knauf**, “HRA is the measurement and quantification of human organizational input, such as recruiting, training, experience and commitment.

Eric Flamholtz defined “Human Resource Accounting as accounting for people as organizational resources. It is the measurement of the cost and value of people for the organization.”

Recognizing human being as asset as old one. From 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 forgone by the above individuals, no one make efforts to allocate any monetary values to such individuals in the Balance sheet of India.

OBJECTIVE OF RESEARCH WORK

The objective is to study about the Human Resource Accounting (HRA) and to understand the basic idea or the concept of HRA, its need objectives, benefits, limitations, and to study the Monetary and Non Monetary valuation approaches of Human Resources and to examine the implementation process and their consequences in an organization.

The idea of measuring human resource for managerial purposes stems not only from accountants but also from psychologists and sociologists e.g., Likert (1967) has also proposed that the financial utility of different activities in the field of human resource management ought to be measured. In 1965, Cronbach and Glaser and Naylor and Shine (1965) developed models for estimating the financial utility of personnel selection. They used the concept ‘utility analysis’ (UA). To embrace both HRA and UA, Grojer&Johanson (1996) use the concept Human Resource Costing and Accounting (HRCA).

The three important areas of Human Resources are skill, ability, and knowledge. Knowledge plays most vital role in the modern industry **According to P.F. Drucker, “knowledge is the only meaningful resource today”. All other resources flow freely across borders.”**

Modern business has been undergoing changes at a fast rate due to change in technology, liberalization of economies etc. The changes in the business resulted in severe competition. The business should have knowledgeable employees to have competitive advantage over the competitors. In the words of Thaygarajan, former Managing Director, GSL “organization that have world class ambitions will need to nurture knowledge workers. As Adi B. Godrej, Chairperson of Godrej Group, puts it, “All corporate strengths depend on people”.

In India, there are very few companies like BHEL, Infosys and Reliance Industries, which have implemented HRA and some are working on it. Infosys, which started showing human resource as an asset in its balance sheet, has been reaping high market valuations. NIIT has been following a similar method called Economic Value Addition (EVA), which also helps in assessing the real value that an employee can fetch for the company.

Prof. Rensis Likert (one of the pioneer proponents of the principles of human resources accounting) had the following objectives of HRA in his mind:

- (i) To furnish the relevant information to the management, whereby the cost-benefit analysis of its human resources could be undertaken, and the cost-effectiveness could be ensured, in respect of its human resources, too.
- (ii) To enable the management to make the most effective and optimal utilisation of the talents and potentials of its human workforce, as also to enable it to monitor the performance of its human resources periodically, on a regular basis.
- (iii) It also helps the management to ascertain, whether its human resources are steadily appreciating or depreciating over the years.
- (iv) To provide a sound and suitable system, with a view to exercising effective management and control, the deployment and conservation, of the human capital of the organization.
- (v) To facilitate the development and evolution of some suitable managerial principles of HRA, based on the study and scrutiny of the various systems and practices of the human

resources accounting, adopted by the various organisations, from time to time, and their results and ramifications in terms of productivity and profitability.

BENEFITS OF HRA

In view of the foregoing discussions on the nature and objectives of the Human Resources Accounting (HRA), we may attempt to list some of its distinct advantages hereunder:

- (a) Through the application of the Ratio Analysis Technique, the management can derive some very vital and useful information, which may facilitate its decision-making process, in regard to its human resources management and accounting, and to assess their potential and prospects, for generating profit for the enterprise. The following meaningful data could be arrived at, by computing the relationship between the organisation's 'total investment in human assets' as compared to its 'total assets':
 - (i) Total investment per employee
 - (ii) Value added per employee
 - (iii) Productivity ratio per employee, etc.
- (b) During the course of the capital budgeting exercise, the management could use the HRA data to evaluate the various alternatives available, and thus, to take the most gainful decision, especially when such alternatives would involve the investments, both in the human resources as also in the other capital assets.
- (c) While calculating the return on investment (ROI), the value of the human assets could as well be included, for establishing the rate-base.
- (d) The information, regarding the investments in the human resources, for the various categories of the personnel separately, could prove to be very useful for the purpose of the human resources planning, especially for establishing the standards, and for estimating the replacement cost, of the personnel.

- (e) The other added advantage of the HRA is to undertake a meaningful cost-benefit analysis, by way of the post-training evaluation of the various in-house and external programmes of training and development, organised for the various categories of the officers and the employees.
- (f) The HRA may also help in estimating and evaluating the ramifications of the employees' turnover, and the replacement cost that goes herewith.

LIMITATIONS OF HUMAN RESOURCES ACCOUNTING (HRA)

The HRA suffers from some inherent limitations too, some of which have been listed hereunder:

- (i) The valuation of the human resources in monetary terms is a rather difficult task. The lack of any universally accepted and specific guidelines or accounting principles in regard to the measuring process for the human assets, and rate of amortisation of the human capital, for the different classes and categories of the staff, etc. makes the task even more compounded and complex.
- (ii) The problem of high rate of employees' turnover makes the situation even more uncertain, so much so that some segment of the high-value and well-trained professionals (the intellectual human capital of the organisation) may disappear overnight, to its utter loss and disadvantage, when its people, involving huge investment in their training and development, may leave the organisation, and switch over to some other company, with better prospects or for whatever reasons.

MONETARY MEASURES OF (OR VALUATION APPROACHES TO) THE HUMAN RESOURCES

The methods and approaches, for the valuation of the human resources, in terms of monetary measures, can be broadly bifurcated under the two distinct categories, viz.

- (i) Cost Approach, and

(ii) Value Approach.

i. Cost Approach

The cost approach obviously involves the study of the cost that is incurred in the process of recruitment and appointment, selection and placement, training and development, of the human resources. Such costs are capitalised (and not expensed), and are, thus, shown as assets in the company's balance sheet. The costs, pertaining to the routine matters, like the reimbursement of the travelling bills and medical bills, etc., are shown as the expenses incurred during the current period, and are accounted for in the company's profit and loss account for the current year itself. The basis for such costs could be either the

(a) Historical cost, or the

(b) Replacement cost, that is, the cost that would be incurred for the replacement of the old person(s) with the newly recruited person(s), with equivalent qualifications and experience, suitable for the jobs in question.

ii. Value Approach

Under such an approach, a specific value is assigned to the human resources, on the basis of one of the following criteria:

a. **Opportunity cost at the market value** Under this system, the value is assigned to the human resources on the basis of the price for the services of the employees, keeping in mind that they are expected to generate super profits for the division. Such criteria can be applied only in the cases, where the supply of the personnel, with the required qualifications and experience, is comparatively scarce.

b. **Adjusted present value** Under this method, the human resources are valued on the basis of the present value of their estimated earnings for the period, suitably adjusted for some efficiency factor. The Lev-Schwartz Model, is based on the principle of the 'discounted present value of future earning method'.

- c. **Economic value** The economic value of the human resources to the company can be estimated on the basis of their costs (like their salaries and allowances, perks and other benefits), and the expected contributions that they are likely to make to the company, during the course of their tenure within the company. The present value of the expected future earnings, during the remaining working life of the employees concerned, is estimated with some suitable estimate for the changes in the services, and the status and eventuality of an early (premature) retirement.

The economic value method takes the cost of the employees as the value to the firm, in the cases where the cost and value usually differ. This method does not take into account the fact that the employees, particularly at the top-management level, work in a team, and thus, they have the multiplier effect. It may become far too difficult to accurately quantify the value of such individual employees, in monetary terms.

- d. **Asset Multiplier Method** Under this method, all the employees, working in the enterprise, are classified under the following four different categories:
- (i) Top management,
 - (ii) Middle management,
 - (iii) Supervisory management, and
 - (iv) Operative and clerical staff.

Thereafter, the salary bill of each category of the staff is multiplied with a suitable multiplier, to arrive at the total value of the staff, falling under each of these four categories. The multiplier is the basic instrument for assessing and valuing the personal worth and value of the employees, to the total asset value of the enterprise.

NON-MONETARY MEASURES OF THE HUMAN RESOURCES

Besides the monetary measures of the human resources, there are some non-monetary measures of the human resources too, some of which have been discussed hereunder:

a. Expected Realisable Value Method

Under this method, the various elements of the expected realisable value, like the productivity, transferability, and the probability of promotions of the employees, could be measured by empirical /study and personal research or through the performance appraisal techniques, and such other objective and scientific methods and approaches. For example, the productivity of the staff can be measured through the objective indices and the managerial assessment and evaluation. The probability of transfers and promotions of the employees could be measured, in terms of their potentials, ability and capability for shouldering the new and higher responsibilities, through the various available techniques, like psychometric tests and subjective evaluations. For the purpose of measuring the level of the employees' satisfaction, motivation and rewards, etc., the attitudinal surveys may prove to be of immense use.

b. Discounted Net Present Value (NPV) of Future Earnings

Rensis Likert has suggested the following three sets of variables:

- (i) Causal variables, like the leadership styles and the behavioural effects;
- (ii) Intermediate variables, such as the level of the employees' morale, motivation and the commitment to the organisation's goals, as also their sense of belonging thereto,
- (iii) Output variables, like the production and sales, income and net profit, etc. These variables are referred to as the output variables, inasmuch as, these happen to be the after-effects and the end-results of the above noted two variables, viz. the 'causal variables' and the 'intermediate variables'.

These three variables may help us in measuring the personnel effectiveness over a period of time.

HUMAN RESOURCE ACCOUNTING PRACTICING COMPANIES IN INDIA

Few of the companies, who are presently reporting human assets valuation, include:

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)

CONCLUSION

Despite the interest in valuation there will be little or moderate progress in the area over the next five to ten years. In order to show greater progress, more needs to be done at both the theoretical and practical level. More search into valuation methods and models, and the practical implication of these, is take together with the engagement of both human resource and accounting professionals in the debate on valuation and its implementation in practice.

HRA information is properly developed will be useful to managers at all levels regarding cost of turnover and inefficient utilization of human resources. Such information will enable managers to take better decisions regarding human resources.

In 2013-14 IT major HCL technologies has rewarded 130 performing employees with a Mercedes or an all expenses paid holiday abroad as a token of appreciation for their contribution to the company.

In a bid to retain talent in a resurging job market, corporates are going out of the way and are thinking out of the box to reward the talent apart from offering higher compensation and doling out hefty annual bonuses.

Last year, 1201 employees of Rs. 6000 cr. Hare Krishna Exports in Surat rewarded the employees with cash, jewellery and flats. The company approximately spent Rs.45 Crores on these gifts. While technology is a huge hit with employees several companies are now doling out gift like I-phones, or online vouchers, while in some instances, the titles of a company's old flats are transferred to senior executives as a retention mechanism.

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