



HUMAN RESOURCE ACCOUNTING: AN EMERGING TOOL FOR MEASURING PERFORMANCE

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ABSTRACT

Human resource plays the most important role in the growth of an enterprise. Human element is the most important input in any enterprise. The investments directed to raise knowledge ; skills and aptitude of the work force of the organization are the investments in human resource. Human resource accounting is of recent origin. Human resource accounting is an accounting measurement system. The importance and value of human assests were recognized in the early 1990s when there was a major increase in employment in firms in service, technology and other knowledge-based sectors. Human resources, contributed significantly to the building of shareholder value. The critical success factor for any knowledge based company was its highly skilled and intellectual workforce. Human Resource Accounting has not been introduced so far as a system. The Indian Companies Act does not provide any scope for furnishing any significant information about human resources in financial statements. The manufacturing industry also seemed to realize the importance of people and started perceiving its employees as strategic assets. Due to the above development, the need of human assets besides traditional accounting of tangible assets was increasingly experienced. Knowledge workers are important resources for the typical modern business firms. With the growing complexities of business organization, the need and importance of competent people is increasing continuously.

Key Words : Human Resource, Human Resource Accounting, Emerging Method, Performance, Investment in Human Resource.

INTRODUCTION:

Human resource plays the most important role in the growth of an enterprise. Human resource accounting (HRA) or human resource valuation is an attempt to identify and quantify the investments made in human resource organization. HRA helps to measure the value of employees, which helps management in decision making. We see that services and benefits rendered by employees are not physical as that cannot be touched so it should be taken in account as an intangible assets for the company. However the human resources are still to get place in balance sheets of the companies, hence human resource valuation activities should be taken in account which can improve the efficiency of human resource in the changing business scenario. Yet financial reporting ignores such resource.

Human Resource Accounting involves the dimension of cost incurred by the organization for all the personnel function. Hence the issue is to be addressed is how to measure the economic value of the people to the organization and various cost based measures to be taken for human resources. The two main components of Human Resource Accounting were investment related to employees and the value generated by them. Investment in human capital included all costs incurred in increasing and upgrading the employees skill sets and knowledge of human resources. The output that an organization generated from human resources was regarded as the value of its human resources. Human Resources accounting is used to measure the performance of all the people in the organization and when this was made available to the stakeholders in the form of a report, it helped them to take critical investment decisions.

Human resources being “Intellect resources” are capable of exploiting other resources in a best possible way. That makes it one of the valuable assets for the organization. HRA is one of the emerging areas in HR. HRA is focused on return on knowledge rather than return on investment about which most of the companies are today concerned. It is focused on the measurement of abilities of all the employees of the company at every level, to produce value from their knowledge and capabilities.

CONCEPTUAL BACKGROUND :

Human Resource Accounting is the process of identifying and reporting the Investments made in the Human Resources of an Organization that are presently not accounted for in the conventional accounting practices. In simple terms, it is an extension of the Accounting Principles of matching the costs and revenues and of organizing data to communicate relevant information in The Quantification of the value of Human Resources

helps the management to cope up with the changes in its quantum and quality so that equilibrium can be achieved in between the required resources and the provi Human Resource Accounting provides useful information to the management.

American Accounting Society Committee on Human Resource Accounting Define as Follows :

“Human Resource Accounting is the process of identifying and measuring data about Human Resources and communicating this information to interested parties.”

Mr.Woodruff Jr.Vice President of R.G.Barry Co-operation define :

“Human Resource Accounting is an attempt to identify and report investment made in the human resource of the organization that are presented not accounted for conventional accounting parties. Basically it is an information system that tells the management what change overtime are accuring to the human resource of the business.”

The Objectives of Human Resource Accounting are as under :

- 1) To furnish cost value information for making proper and effectinve management decisions about acquiring, allocating developing and maintaining human resources is order to achieve cost effective organizational objectives.
 - 2) To monitor effectively the use of human resources by the management.
 - 3) To have an analysis of the Human Asset. i.e. whether such assets are conserved, depleted or appreciated.
 - 4) To aid in the development of management principles and proper decision making for the future by classifying financial consequence of various practices.
- 1) “HRA is the human resources identification and measuring process and also its communication to the interested parties.” – American Accounting Association.
 - 2) The American Accounting Association defines human resource accounting as “measuring data of human resources and communicating the information to the interested parties.” It has rightly pointed our that human resource accounting.
 - 3) Eric Flamholtz (1971) has offered a similar definition for HRA as “the measurement and reporting of the cost and value of people in organizational resources.”

OBJECTIVES OF RESEARCH STUDY :

The present research study was carried out with following objectives in view:

1. To study the importance of human resource accounting for smooth functioning of business organization.
2. To examine the human resource accounting practices in India.

3. To give some recommendations for better utilization of human resource accounting practices.

HYPOTHESIS OF THE RESEARCH STUDY :

The said research study is carried out with the following hypothesis in view:

- H-1** Implication of human resource accounting practices are increasing day by day in Indian business organization.
- H-2** Human resource accounting practices helps to smooth functioning of business concern.

RESEARCH METHODOLOGY :

The present research study uses the most recent available published secondary data. To achieve the above stated objectives, the secondary data was used. The secondary data that are mainly used are published in annual reports of various banks and survey reports of leading business magazines. The secondary data was also used from various reference books related to Human Resource, Human Resource Accounting, E-Commerce, M-Commerce, Information Technology, Marketing, Banking, Finance, Commerce, Management etc. For the said research study the secondary data is also collected from the various National and International Research Journals which are related to Commerce, Management, Marketing and Human Resource.

For the said research study the data pertaining to the above objectives was collected and reviewed the literature on the topic concerned. The literature was thus collected by visiting various libraries. The Secondary data is also collected from various websites.

IMPORTANCE OF HUMAN RESOURCE ACCOUNTING :

Human Resource Accounting provides useful information to the management, financial analysts and employees as stated below :

- 1) Find out the true value of the assets and liabilities hold by the organization. As the expertise of the employees is considered as assets and value to be provided to the employees are considered as liabilities.
- 2) Applying a strong monitoring process on the human resources of the organization.
- 3) If helps in deciding transfers, promotion, training and retrenchment of human resources.

- 4) Find out the true picture of the future prospects of the organization, as the utilization of other resources are fully depend on the human resources.
- 5) It helps to identify the causes of high labour turnover at various levels and taking preventive measures to contain it.
- 6) It helps in locating the real cause for low return on investment, like improver or under-utilisation of physical assets or human resources or both.
- 7) It helps in understading and assessing the inner strength of an organisation and helps the management to steer the company well through the most adverse and unfavorable circumstances.

Importance or benefits of human resource accounting cam explained as and under :

1) Information for making personnel policies :

HRA provides useful information for making suitable personnel policies about promotion, favorable working environment, job satisfication of employees etc.

2) Proper placements :

HRA helps the organization to place the right man in the right post depending on his skills and abilities.

3) Attracts best human resources :

Only reputed organization conduct HRA. So, competent and capable people want to join these organizations. Therefore, it attracts the best employees and managers to the organization.

4) Valuable information to investors :

HRA provides valuable information to present and future investors. They can use this information to select the best company for investing their money.

5) Information for manpower planning :

HRA provides useful information about the cost and value of human resources. It shows the strengths and weakness of the human resources. All this information helps the managers in planning and making the right decisions about human resources. Thus, it provides useful information for Manpower Planning and Decision Making.

6) Utilization of human resources :

HRA helps the organization to make the best utilization of human resources.

7) Increases morale and motivation :

HRA shows that the organization cares about the employees and their welfare. This increases their morale and it motivates them to work hard and achieve the objectives of the orgazation.

8) Designing training and development programs :

HRA helps the organization to design (make) a suitable training and development programme for its employees and managers.

LIMITATIONS OF HUMAN RESOURCE ACCOUNTING :

Limitations of human resource accounting are as under :

- 1) The human resource accounting may lead to the dehumanization in the organization. If the valuation is not done correctly or the results of the valuation are not used properly.
- 2) There are no specific and clear cut guidelines for 'cost' and 'value' of human resources of an organization.
- 3) The life of a human being is uncertain. So its value is also uncertain.
- 4) The valuation of human assets is based on the assumption that the employees are going to remain with the organization for a specified period. However, this assumption is wrong because employee mobility is very high.
- 5) In the case of financial accounting, there are certain specified accounting standards which every organization must follow. However, there are no standards for HRA. Each organization has its own standards for it. So, there are no uniform standards for it. Therefore, the HRA of two organizations cannot be compared.
- 6) The present valuation systems have many limitations.

HUMAN RESOURCE ACCOUNTING PRACTICES IN INDIA :

The health of the organization is indicated by the human behavior variables, like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making. To ensure growth and development of any organization, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. Men, materials, machines, money and methods are the resources required for an organization. These resources are broadly classified into two categories, viz, animate and inanimate (human and physical) resources. Men, otherwise known as the human resources, are considered to be animate resources. Others, namely, materials, machines, money and methods are considered to be inanimate or physical resources. The success of an organization depends on how best the scarce physical resources are utilized by the human resource. Therefore, the efficient and effective utilization of

inanimate resources depends largely on the quality, caliber, skills, perception and character of the people.

Yet, a growing trend towards the measurement and reporting of human resources particularly in public sector is noticeable during the past few years. BHEL, Cement Corporation of India, ONGC, Engineers India Ltd., National Thermal Corporation, Minerals and Metals Trading Corporation, Madras Refineries, Oil India Ltd., Associated Cement Companies, SPIC, Matallurgical and Engineering consultants India Limited, Cochin Refineries Ltd. Etc. are some of the organizations, which have started disclosing some valuable information regarding human resources in their financial statements. The importance of human resources in business organization as productive resources was by and large ingored by the accountants until two decades ago. It is felt that, Human resource accounting provides quantitative information about the value of human asset, which helps the top management to take decisions regarding the adequacy of human resources. Hence, It is concluded that, the Human Resources are an indispensable but often neglected element is thus to be fore grounded into the industrial area for the betterment of the economy.

RECOMMENDATIONS :

- 1) HRA contributes towards employee's performance appraisal.
- 2) It helps ht employees in improving their performance and bargaining power. It makes each employee understand his contribution towards the betterment of the firm vis-a-vis the expenditure incurred by the firm on him.
- 3) HRA is growing with changing times as human resources are gaining importance. HRA must be adopted by most of the companies to know the actual value of their human resources.
- 4) HRA should be shown in the financial statement of the company like financial resources.

CONCLUSION :

Human Resource Accounting is the process of identifying and reporting the investments made in the Human Resources of an Organization that are presently not accounted for in the conventional accounting practices. Approaches to Human resource accounting was first developed 1691 ; the next stage was during 1691-1960 and third phase post-1960.

Human resources accounting is an accounting measurement system. Human Resource Accounting was introduced way back in the 1980s, it started gaining popularity in India. Human resource accounting (HRA) or human resource valuation is an attempt to identify and quantify the investments made in human resource of an organization. HRA helps to measure the value of employees, which helps management in decision making. The Indian Companies Act does not provide any scope for furnishing any significant information about human resources in financial statements. For valuing human resources, different models have been developed. BHEL, Cement Corporation of India, ONGC, Engineers India Ltd., National Thermal Corporation, Minerals and Metals Trading Corporation, Madras Refineries, Oil India Ltd., Associated Cement Companies, SPIC, Metallurgical and Engineering consultants India Limited. Cochin Refineries Ltd. Etc. are some of the organizations, which have started disclosing some valuable information regarding human resources in their financial statements.

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