

An Analysis on Importance of Human Resource Accounting Practices in Various Indian Industrial Sectors

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Abstract – Accounting is a man-made art and its principles and procedures have been evolved along period of time to aid business in reporting for management and public. Most of the literature in the discipline of accounting is so far concentrated on the aspects of physical and financial resources, which are well, accounted universally with accepted standards of preparation and presentation. Human resource is the energies, skills, talents and knowledge of people, which could be utilized and converted into the production of goods or rendering of useful services; without human resources, the other resource cannot be operationally effective. “People are the most important asset of an organization yet, the value of this asset does not appear in the financial statements. This information has not even been included as a part of internal accounting and reporting for management purpose”.

Human Resource Accounting (HRA) includes all these human resource information in the financial statements. Hence, the success of this organization is contingent on the quality of their human resource such as knowledge, skills, competence, motivation and understanding of the organizational culture, which are used to build and support these human aspects, so Human Resource Accounting (HRA) denotes just this process of quantification/ measurement of the human resource. In today's competitive world, human resource in organizations is one of the factors that can create competitive advantage for organizations. Effective and efficient use of human resources should be developed and accurate information is needed to managers for decision-making.

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INTRODUCTION

Accounting is a man-made art and its principles and procedures have been evolved along period of time to assist business in reporting for management as internal and public. Most of the literature in the discipline of accounting is so far concentrated on the aspects of physical and financial resources, which are well, accounted universally with accepted standards of preparation and presentation. Recently the concept of accounting for human resources attracted the attentions of many researchers.

People are considered to be the key resource in the organization. They play the most significant role in achieving productivity in an enterprise. They are well above machinery, material, building, technology, money, etc., because human resource is the only asset that could make all the above mentioned assets effective and useful. Tracey (2003) defined human Resource as “The people that staff and operate an organization as contrasted with the financial and material resources of an organization”. It is a common fact that the success of any organization depends upon the utilization of its

human resources effectively. Even in the modern world, an organization may have adequate financial and physical resources and acquire physical resources with the latest technology as it needs, it would find it difficult to control its affairs, if the human organization of the concern is not strong enough. The role of labor in the production of wealth of nations is very important; which requires much attention to the analysis of the difference in the progress of wealth in different nations. Labour is the source of all wealth and it is known as the original and living factor of production. The volume of production in a country is largely dependent on the supply of labour available.

Human Resources are the skills and knowledge of people, which could be utilized and converted into the production of goods or rendering of useful services; Without human resources, the other resources cannot be operationally effective. The achievement of the organizational goal is the result of the interaction of the two factors broadly classified as physical resources and human resources (Mohan & Elangovan, 2011). According to Caplan and Landekich (1974) “People are the

most important asset of an organization yet, the value of this asset does not appear in the financial statements. This information has not even been included as a part of internal accounting and reporting for management purpose". Human Resource Accounting (HRA) includes all these human resource information in their financial statements. Hence, the progress of any organization is dependent on the quality of their human resource such as knowledge, skills, competence, motivation and understanding of the organizational culture, which are used to build and support these human aspects, so Human Resource Accounting (HRA) denotes just this process of quantification/measurement of the human resource.

At the beginning of 21st century manufacturing organizations have experienced significant changes to their surroundings. The lack of attention to the manufacturing and service organizations threatens the survival and success. This critical situation has caused corporate managers to rethink their views. In the past, successfully operating companies, have natural resources, production equipment, and the market for their produce. In the present, era of knowledge is the most valuable resource and corporate assets and character of this knowledge is human resource. In today's competitive world, human resource in organizations is one of the factors that can create competitive advantage for organizations. Human capital as a source of competitive advantage in the knowledge driven economy and as a crucial element in ensuring a successful and sustainable development of the economy (Khodabakhshi, 2014). Accountants have realized the value of human resource for around 70 years ago. Research in Human Resource Accounting began in the 1960s by Rensis Likert, which Human Resource considered as a vital asset and value creator to companies. Effective and efficient use of human resources should be developed and accurate information is needed to managers for decision-making.

Human resource accounting is recognised as utilizing accounting concepts and techniques in human resource management and it can be considered as assessing, monitoring, costing and valuating tools for human resources of every organization. On the other hand, transforming qualitative and subjective concept of human resource value in quantitative and objective form, through using human resource accounting is realized as a criterion to evaluate human resource values as human capital of organizations. Determining and recognizing the value of human resource is most important and it is difficult to provide appropriate and accurate information of human resource in organizations. The human resource cost approach involved measuring and capitalizing the cost of employees on the balance sheet with proposals based on historical cost, replacement cost, opportunity cost and contract costs.

Human resource accounting is a new concept and important step in accounting which plays an important role in valuating and recording of human assets. Human Resource Accounting principally is similar to the financial accounting. Financial accounting refers to the costs of assets (land, building, machinery and etc.), but Human Resource Accounting reflects the cost and value of human resource as capital not as expenses of an organisation.

Reporting the value of Human Resource in annual report by companies is very common phenomenon in the developed countries. But, the concept of Human Resource Accounting in India is in early stage. Human Resource Value is considered as a useful constituent of an enterprise, especially in service industries. These companies in the information technology field have included such valuation in their annual reports. Most of these companies which publish Human Resource Accounting information have implemented the Lev and Schwartz Model (1971) of economic value, and use an employee's forecasted future earnings, as its value.

REVIEW OF LITERATURE

The practice of HRA in its present form was started in the year 1960 when behavioral scientists deeply criticized the conventional accounting practices. They opined, that the value of human resource was not considered equivalent to other material resources. A number of experts have worked on developing and modifying various models for valuation of human resources. Since 1980, there has been an increasing number of significant research studies dealing with the development of HRA for possible application in real life organizations.

The researcher made an earnest effort to go through the available studies on Human Resource Accounting (HRA) to collect information regarding the models developed so far and the application of these models by corporate, in reporting the information on human resources to various interested parties. The following is a brief description of some of the major studies undertaken by earlier researchers. The researcher also, tried to identify the most important human resource accounting practices and adoption of HRA on managerial decision making, financial and firms' performance in employees' point of view

Dalvadi (2010) attempted to analyze the impact of human resource accounting practices in Indian companies. He has identified various reporting practices of selected Private and Public companies of human resource accounting in its annual report. The result showed that there was a significant difference between an average disclosures of selected companies. He also suggested that the government should frame a specific model that its

acceptable to all the companies and the government should made it mandatory to value and disclose HR related information in its annual report and to motivate companies for HRA, government should also provide incentives like subsidy, tax exemption etc.

Saini (2011) studied the intangible assets accounting practices in Infosys Technologies Ltd. He examined the intangible assets accounting practices by computing four important measures, namely; economic value added, market value added, brand value and total shareholders return and the variations of these four important indicators during the period from 2002-03 to 2008-09. The result showed that the investors are willing to pay more for its shares due to its positive growth in Economic Value Added (EVA), Market Value Added (MVA), Total Shareholders Return (TSR) and Brand Value over the years. They also have informed that some eminent companies are showing an interest in using such intangible parameters internally as a performance gauge for refining efficiency and improving disclosure practices.

Chandra et. al (2012) seek to explain the quantification of qualitative information of employees by adopting human resource accounting approach and also covered different aspects of human resource accounting. They highlighted different companies who adopted human resource accounting and different models which these companies adopted for valuation of human resource. Finally, was concluded stating that the main objective of financial statement accounting can be achieved only through adopting of a human resource accounting approach. It will reveal the "true and fair view" of the financial statements and make suggestions of incorporations of intellectual capital value as an intangible asset and in capital investment decisions as well.

Kaur et.al (2014) made an attempt to examine the extent of Human Resource Accounting (HRA) measurement and reporting practices of Indian companies. They argued that human resource accounting disclosures are low in Indian companies with only five companies reporting HRA in their annual report that was just one percent of the sample set of companies. Furthermore, human resource accounting disclosures that are made by companies are unstructured, inconsistent, and incomparable across companies and industries. Therefore, the study tried to analyze the extent of HRA in selected Indian companies and rank the companies on the basis of the extent of disclosure of HRA information in annual reports of companies. In this regard, the study employed the exploratory research designed based on secondary data contained in the annual reports of the selected set of companies. The study was conducted for the period of five years from the financial year 2007–08 to 2011–12. In the first step I tried to identify those companies which are actually

measuring and reporting HRA information by examining the annual reports of the selected companies. After that, developed a 20-item HRADI to recognize the extent of HRA disclosures and to rank the selected companies on the basis of the disclosure index. The results showed that HRA measurement methods have some limitations such as there is no suitable basis for selecting the rate of discounting of salary and companies do not have a system for proper accounting for capital costs relating to human resource therefore, these costs continue to be reported as expenses. Therefore, it can be asserted that the companies are trying to fit available models for the valuation of human resource as per their own requirements, but they don't deal with the method of recording and reporting of accounting information relating to human resource in the books of accounts of financial statements. Human resource disclosures are voluntary in nature and unstructured, inconsistent and incomparable across companies and industries. The study finally concludes that the application of human resource accounting in companies has resulted in an increase in income per employee, reduced HR costs and an increase in the value of human resource.

Chouhan & Naghshbandi (2015) pointed out that Human Resource (HR) is most crucial, very important and sensitive factor used as an input for production. This factor was overlooked earlier for accounting purposes due to the availability of excess and unorganized manpower and relatively low cost. But after liberalization of Indian economy (in 1991), the importance of human resource were recognized. They presented a brief description of concepts of human resource accounting and analyzed the disclosure in five major companies in India. They analyzed & established the relationship between profitability and human resource value with other predictor values like net worth, sales and earnings per share. They found out that the Lev & Schwartz model is being used foremost by both public and private sector companies. Human resource value and sales are the predictor of profitability in selected companies in India. Thus, the study revealed the importance of HRV as a major and significant factor of profitability.

Dhar et.al (2017) investigated the impact of human resource accounting practice on organizational performance by reviewing the existing literature. The main purposes of this investigation were to describe and summarize the practice of human resource accounting and organizational performance and to establish the relationship between organizational performance and human resource accounting practice. The finding showed that the application of HRA has the major impact on organizational performance.

Monday (2017) studied the issues of human resource accounting. The term HRA refers to

measure economic value of people to the organizations. The main objective of this study was to examine the issues involved in valuing human resource as the most valuable assets in business organizations. This study argued that one of the most important issues in human resource accounting is the valuation methods of human resource available in organizations which has been regarded as the most valuable assets in business organizations. The professional bodies were not able to agree on the financial value of human beings working in various organizations. The accountants and economists all over the world became aware of the fact that appropriate methodology and procedures have to be developed for finding the cost and the value of the people to the organization. The measurement models are another issue in HRA. Human beings are the most important asset of every organization. The success of any organization depends upon the quality of the people working in it. Thus, in spite of all technological developments, the importance of human resources has in no way reduced. Another issue of human resource accounting is the recording and disclosure of value of HR in the financial statement of the organizations. This research noted that Lev and Schwartz model has been found to be the most popular method of valuing human resource. Finally, the author emphasized that significant research has done due to the increasing importance of human capital in the economy to develop the concepts and methods of valuing human resource and that there is a great need for evolving a system of accounting for human resource that is acceptable to professional bodies.

HUMAN RESOURCE ACCOUNTING PRACTICES: THEORETICAL PERSPECTIVES

In the era of knowledge economy, human resource played a vital role in the achievement of any corporate undertaking. It encourages the enterprise to outline the compelling arrangements of HR. Without HR, the other resources cannot be utilized effectively in an organization. Their most significant role is for the achievement of productivity in an enterprise. Physical asset like machinery, material, building, technology, money, etc. are are vital asset, but human resource is the only asset that could make all the above mentioned assets effective and useful.

Human resources are considered as the skills and knowledge of people, which could be turned in to the creation of goods or delivery of services. Human resources comprise the value of productive capacity of a firm's human organization. The human behaviour variables viz. Group loyalty, additionally and administration for experts are the indicators of the health organization. The achievement of the organizational objective is the result of the interaction of physical resources and human resources.

Human resource accounting gives quantitative data regarding the estimation of human resource, which will help them to channelize the accessible aptitudes, abilities, learning and experience of their workers more effectively. Along these lines, human resource accounting has high noteworthiness not just for the future potential. But legitimate valuation of HR encourages enterprises to wipe out the negative impacts of excess work.

American Accounting Association (AAA) has defined HRA as the process of identifying and measuring data about human resources and communicating this information to interested parties. Human resource accounting principally is similar to the financial accounting. Financial accounting refers to the costs of assets (land, building, machinery and etc.), but human resource accounting reflects the cost and value of human resource as capital not as expenses of an organization.

Thus, human resource accounting indicated the investment in human resource, which the organizations create in their people and how these values will be changed. HRA is a best way to gauge the efficiency of personnel performance and the utilization of people in an enterprise. According to Flamholz HRA is accounting for people as an organizational resource. It involves measuring the costs incurred by an organization to recruit, select, hire, train and develop the human assets.

HRA involves accounting for the organization's management and employees as human resource that ensured future benefits. In the human resource accounting approach, expenditures associated to human resources are reported as assets on the balance sheet, but in traditional accounting approach expenditures associated to a company's HR are reported as expenses on the income statement which decrease profit.

Human resources accounting provides required information to the management regarding the cost and value of HR which will raise the quantity and quality of services and goods. It is also, used to provide cost and value information associated to human asset for making effective management decisions about allocating, acquiring, maintaining and developing HR in order to achieve cost effective organizational objectives.

Human Resource Accounting was first proposed by Sir William Petty in 1691. However the research in HRA began in the year 1960 by Rensis Likert which was well known in management and accounting fields. Likert along with his colleagues (Brummet, Pyle and Flamholtz), studied series of research works intended to develop concepts and procedure of accounting for human resources. Thus, work in human resource accounting encouraged researchers to develop HRA measurement models. Since 1960s, a number of

studies suggested that the capital nature of human resource costs was considered as investments rather than as expenses, which was collectively known as human resource accounting. According to Flamholtz (2012) the development of human resource accounting models is a systematic and detailed academic activity which began in the sixties.

HRA reports provide helpful information to the company management, investors and employees. The application of human resource accounting is very less in India. Indeed, the 21st century is the period of human demand and countries having labor quality ruling the world with dominant technology. In India, HRA is still in the early stage of development. The Companies Act 1956 does not assign any scope for reflecting any information regarding HR in the financial statement of the companies. The Institute of Chartered Accountants of India has not designed standard model for the measurement and reporting of the human resources. Therefore, The application of HRA is not compulsory in India. However, accepting the arguments raised in favor of the human resource accounting (HRA) and with global developments, many Indian corporate and researchers were willingness to move toward Human Resource Accounting (HRA) and it was started by public sector company. Even HRA idea was introduced before 1980s, it becomes popular in India after adopting and popularizing by Neyveli Lignite Corporation (NLC) and Bharat Heavy Electricals Limited (BHEL). Steel Authority of India Ltd. (SAIL), Oil and Natural Gas Commission (ONGC), Cement Corporation of India Limited (CCI), Oil India Ltd. (OIL), Hindustan Petroleum Ltd. (HPCL), National Thermal Power Corporation (NTPC), Rolta India Ltd. (ROLTA), Infosys Ltd. (IL) and etc. are other organizations adopting HRA practices.

HUMAN RESOURCE ACCOUNTING PRACTICES IN PUBLIC SECTOR COMPANIES

Human Resource is a valuable and vital resource because it provides services for the growth of an organization. The valuation of HR generally known as Accounting for HR but it has not been utilized as a standard system by Indian corporate sector.

The lack of this practice is attributable to a variety of reasons. But the most specific reason is the Indian companies Act, 1956 which does not make any provision for furnishing any significant information about the HR in the financial statements of the companies. The Indian companies Act, 1956 does not make it obligatory for the companies to publish information regarding valuating human resource and to present an assessment in the form of their performance in accounting year in the form of note and schedule. If we consider the annual reports of Indian public enterprises, it is observed that chairmen's report invariably includes the statements

highlighting the importance of human resource. The chairmans usually notes at the annual general meeting of the shareholders that 'our employees are most significant assets and without their contribution, the present progress in the operations would not have been achieved'. 'I wish to place on record my sincere gratitude for the hard work, done by employees of our company'. 'I thankfully acknowledge the contribution made by our employees' etc. These qualitative pronouncements show the major role of HR in an enterprise but the quantitative information of their contribution or their value is not reflected in the financial statements. However, a few enterprises value their HR and reflect this information in their annual reports. The Government of India has taken the initiative way back in 1968 by issuing the guidelines for incorporating the required information in the annual reports of the public sector enterprises.' The relevant guidelines for human resources are: employee-employer relations, strikes. Lockouts, incentive schemes, training, staff welfare activities such as township, education, health facilities, etc. The above information can be called as part of HR information.

CONCLUSION

Human resource is the most valuable asset in an organization and plays a vital role in developing an organization. It is concern with measurement and reporting of the cost and value of people as an organizational resource. The success of any organization is depend upon the attributes of human resource such as knowledge, skills, competence, motivation and understanding of the organizational culture, which are used to build and support these human aspects Human Resource Accounting (HRA) denotes the process of quantification/ measurement of the human resource.

Human resource accounting provides quantitative information about the value of human asset, which helps the management to take decisions regarding the adequacy of human resource. Determining and recognizing the value of human resource is the most important and difficult stage to provide appropriate and accurate information of human resource in an organization. Hence, it is concluded that, the human resource are an indispensable but often neglected element in most of the organization. HRA are needed by every institution that is interested in stabilization, growth, diversification and renewal so as to improve its competitive advantage. Human resource in organizations is one of the factors that can create effective managerial. Effective decision, maybe is possible with accurate information about human resource.

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