

Human Resource Accounting in India

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Abstract—Effective and rational use of human resources is of utmost importance in taking vital managerial decisions. Human Resource Accounting being an information system considers human resources as assets and places its monetary values recorded in corporate books of accounts and thus, provides valuable information relating to human resources to all interested parties. Despite the importance of human resources to the prosperity of corporate cannot be denied in corporate pronouncements, it does not find proper place in the traditional accounting practices prevalent in India mainly due to insufficiency of their quantification. In a developing country like India with abundant human resources, paying inadequate attention and keeping their contribution outside the financial status of corporate sector evidence the lack of transparency in books of accounts. With the advent of scientific management with emphasis on quantitative methodology to make rational use of all the resources, an attempt has been made in this paper to examine the scope of human resource accounting practices as well as its usefulness in decision making for the management of corporate sectors in India. The study aims at examining the human resource accounting in India from the author's own perception and finds that most of the organizations do not satisfy all the requirements of human resource accounting models.. A great deal of further research work relating to the application of human resource accounting is of paramount importance in the process of human resource development.

Keywords: Human resource accounting, Traditional accounting, Human resource, Corporate, Financial status.

1. INTRODUCTION

Of late, human resource development has been the centre of attention of both academicians as well as practicing managers all over the world. However, the recognition of importance of this resource in organization as one of the productive resources has been accepted by all for taking effective managerial decisions. But unfortunately, failure of accountants to keep valuable contribution of human resources outside the financial record of an organization is a serious obstacle for impressive management. The academics, practitioners and institutes in the accounting world are deeply engrossed in the issue and have shown increasing interest in the application of the models, developed so far into practice. Although the technique of measuring human resources and development on the issue is still in developing stage, the subject has created a widespread appeal and potentiality. The present study is a

modest attempt to review and appraise the human resource accounting (HRA) practices in India.

2. LITERATURE REVIEW

Badiyani (2012)^[1] described the brief history and the popular models of assessing the value of human resources in the organization. He observed the importance of human resource for an organization. Gradual developments were found in the field of HRA and new approaches. Different organizations started adapting models according to its need and the nature.

Hosseini (2012)^[2] studied the concept of HRA and found that the promotion of human capital and its effect on different aspects of organization operation and in more extended level on economic and social development was clear to everybody. Promotion of this capital was found including a collection of competences for applying knowledge and skill for achieving results of programs. Creativity, flexibility, capability of conducting, solving problem and making relation with others, job making and complex skill such as knowledge of learning method were the features embracing in the competences.

Pandey (2012)^[3] analyzed HRA practices of fifty selected Nifty companies. Content analysis was used for the study. He found that out of 50 leading companies of India, only one (ONGC) company follows HRA practices. Due to growing importance of intangible especially human resources, extent of reporting was found utmost interest to a large number of stakeholders.

Ratti (2012)^[4] determined the human resource efficiency quotient taking the sample of fifteen Companies for the measurement of human resources with the help of primary data and revealed that the value of human resources were not dependent on the number of persons employed.

Micah, Ofurum and Ihendinihee (2012)^[5] conducted a study to examine the relationship between firms' financial performance and Human Resource Accounting Disclosure of companies in Nigeria. They took the five years financial data from 2005-2009 of 52 companies across all sectors which are listed in Nigeria Stock Exchange. The study shows positive correlation between returns on equity and human resource accounting disclosure. The study concludes that human resource accounting information of an organization is very

important factor for decision makers in an era of knowledge based economy.

Cherian and Farouq (2013) ^[6] examined the relationship among HRA and organizational performance and observed reluctance of the company management to implement HRA. Further, organization faced several challenges during HRA implementation but disclosures on human assets showed evidence for wealth creation and helped in calculating the human resources capital worth for management development and enhanced the value of management accounting.

Kesavan and Dayana (2013)^[7] while analyzing HRA disclosure in the selected 20 Indian companies found that out of that only 6 companies (3 Public and 3 Private sector companies) were following Human Resource Accounting and independent 't' test was used to find the difference in the disclosure of Human Resource variables in the companies. A significant difference had been found between human resource disclosers of public and private sector banks.

Pandurangarao, Basha and Rajasekhra (2013) ^[8] carried out a study to examine the methods and models followed by the Indian companies for the Human Resource Accounting. The study shows that a few companies follow the proper methods of the Human Resource Accounting.

Bloom and Kamm (2014) ^[9] conducted a study for analyzing the human resource costs incurred by organizations under U.S. generally accepted accounting principles and observed the impact of the Balanced Scorecard and recent literature on the valuation of human capital. The study concluded that superior performing companies recognized and rewarded their best employees to highlight the value of human capital.

Kaur et. al. (2014) ^[10] attempted to evaluate extent of HRA measurement and reporting practices of selected Indian companies with the aiming at analyzing these companies and ranked the companies on the basis of the extent of disclosure of HRA information in their annual reports. They concluded that measurements and reporting were highly subjective and the companies were trying to fit available model for the valuation of HR as per their own requirements.

Madhumalathi et. al. (2014) ^[11] identified the objectives of HRA and various HRA models required for arriving at HR value. They emphasized on the application of HRA in various corporate sectors in India with special reference to Infosys and concluded that HRA in Infosys helped in identifying the right person for right job based on the person's specialized skills, knowledge, capabilities, experience, etc. The Government along with other professional and accounting bodies can take proper initiatives globally for the measurement and reporting of such valuable assets.

Sharma and Kumar (2014) ^[12] compared the disclosers practices adopted by selected public and private sector banks and revealed that public sector banks disclosed more quality

information of human resource practices than the private sector banks.

Sharma and Lama (2014) ^[13] highlighted the growth and development made in the field of HRA taking the examples of some Indian companies. Further, the validity of the misleading financial statements was examined. The Indian companies were found conscious about HRA and for encouraging the development and application of HR, the Regulatory Bodies for Accounting Standards in both the National and International levels had to focus on the measurement and reporting aspects of HRA and enforce sound standards for it.

Stanko et. al. (2014) ^[14] examined the history of human asset accounting and its feasibility in current financial reporting environments. Additionally, the importance of human asset accounting, different approaches towards human asset accounting, and how beneficial an accurate method could prove to be in financial reporting was demonstrated. They found that as a foregoer to measure the development of general quantitative & qualitative human capital disclosure with real company examples be included in a company's sustainability reporting.

3. Objective of the Paper

I. To study the significance of human resource accounting for smooth functioning of business organization.

II. To examine the human resource accounting practices in India.

4. Hypothesis of the Paper

H_0 : Human resource accounting practices do not help to smooth functioning of business concern.

H_1 : Human resource accounting practices help to smooth functioning of business concern.

5. Research Methodology

The present paper is based on mainly secondary data. The secondary data has been collected from annual reports of the corporate, various reference books related to E-Commerce, M-Commerce, Information Technology, Human Resource, Human Resource Accounting, Finance, Commerce, Marketing, Banking, and Management etc. as well as collected from the various National and International Research Journals of related fields.

6. Significance

The rationale behind introduction of HRA lies in the fact that human resources should be treated as physical assets and should be shown on the asset side of the balance sheet. Failing to exhibit such assets on the face of the balance sheet in the traditional accounting system indicates lack of reliability of the financial picture. Recognition of human resource as asset removes the obstacles of traditional accounting practice and

reflects the actual financial status of an organization. HRA deserves the following benefits: -

- i. Any change in the investment in human resources affecting the earning capacity and growth of an organization cultivates the concept of HRA in which assets status is accorded to human resources and accordingly brought into account like other assets.
- ii. Acquisition, training and placement costs of human resources for productive purposes should be capitalized. HRA first justifies this truth. It will help the management in planning and executing personal policies.
- iii. Expansion of building, plant & machinery etc. obviously leads to enhancement in human resources. Hence, information in the form of HRA is necessary.
- iv. Additional information in the form of HRA inspires the shareholders and creditors to make long-term investment with confidence.
- v. Cordial relationship among the employees in an organization is possible only when management realizes the importance of contribution made by the employees and workers in an organization.
- vi. HRA can be used as a tool in detecting the spirit of labor turnover, return on investment and utilization of potential capacity of an organization.
- vii. HRA helps in solving industrial disputes and collective bargaining process as management representative can put forward data in a systematic manner.

7. Major Issues

The following major issues should be considered for implementation of HRA:

- i. The traditional accounting procedures which have been practiced since long have come to stay as acceptable norms. As a result, whenever a new accounting system is developed, it is pitted against the strength of the traditional system which is considered to be comparatively objective and free from any bias. Similarly, in the case of HRA also, it is argued that it lacks symmetry with traditional resource as it cannot be incorporated within the traditional definition of an asset.
- ii. There is little agreement concerning the procedure in accounting for human assets. There are proponents and critics of the various approaches like cost and value approaches. This factor has become responsible for the slow development of the concept of HRA.
- iii. The historical cost approach to develop measures of HRA uses an amortization rate which provides the figure of amortization to be charged to the profit and loss account every year. But it is very difficult to develop norms in this regard. Physically and mentally, individuals grow and deteriorate at different rates. Some grow with more

capability as a result of their work experience, while others do not. Given the difficulty of predicting such changes, it is even more difficult to find out a means of writing off an individual's value. So far, precise measures for amortization of human assets have not been developed.

- iv. In the recent past, it has been observed that the value based measures of HRA are finding more acceptances with Flamholtz approach being progressively used. However, this approach depends heavily on the measurement of an individual's or a group's contribution of valuation. But, measurement of contribution, especially at the managerial levels, is quite a difficult task. As a result, this factor proves to be a hindrance in the development of the concept of HRA.
- v. Another issue which has not been settled so far is about the rate at which the prospective stream of contribution is to be discounted or compounded to calculate its present and future value to the organization. A number of applications are available in this process.
- vi. If an individual is to be valued normatively, the model given by Flamholtz expects that the career path of individuals should be plotted over the span of his probable stay with the organization in the light of the current promotion and retirement policies of the organization. But such exercise is tedious.
- vii. It is possible that apprehension regarding the effect of HRA on human behavior may have forced the organization to be reluctant to use this system. HRA may lead to alienation as the people might feel that they have been reduced to as industrial input commodity. Publicizing of human resource data could have disastrous effect on the attitude of employees.
- viii. The physical assets can be owned and traded by an organization but the human assets cannot be. The physical assets have some realizable value of retirement but the human resources do not have any such value. They may involve payments of retrenchment, compensation, gratuity and other benefits. Human resource is an appreciating asset since manpower improves with time; with due regard to their ageing constraint; but for physical asset, its increasing value at the time of its installation starts immediately depreciating.

8. Challenges

- i. The ownership of human resources is practically impossible, therefore, it cannot be considered at par with other assets.
- ii. The concept of HRA is not recognized by Tax authorities and therefore, it has only academic utility. If the accounting standards board makes it mandatory to disclose the values of Human or Human Assets, then only the Direct or Indirect Tax Authorities will take into concern of HRA.

- iii. There are a number of specific objective procedures for the selection of the factors to be included in the valuation of human resources. Therefore, the subjective approach of the value in this regard makes it less reliable.
- iv. Employees and unions may not like the idea, because HRA may lead to division among the ranks of employees. A group of employees may be valued lower than their real worth owing to reasons beyond the control of management. The employees may resist the idea of being treated like second class citizens, despite their contribution over a period of time.
- v. The measurement of Human Resources is subjective as different corporate use different methods for this purpose. Till date there is no model for valuation of Human Assets which is widely acceptable and used worldwide.
- vi. It is not economical for small business units as it involves heavy costs if the firms desire to install the HR accounting package in their organization.
- vii. There is no empirical evidence to support the idea that HRA is an effective tool to measure the economic value of people to their organization. There is very little data to support the contention that it facilitates better and effective management of human resource.

9. Limitations of HRA

- I. 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.
- II. 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.
- III. 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 effectively compared.
- IV. There are no specific and clear cut guidelines for 'cost' and 'value' of human resources of an organization. The present valuation systems have many limitations.
- V. The life of a human being is uncertain. So its value is also uncertain.

10. HRA Practices in India

An annual report in Indian corporate usually contains the Chairman's report invariably highlighting the significance of human resources. The Chairmen of the corporate make their remarks at the annual general meeting of the shareholders that their employees are their most important assets and without their significant contribution, the present growth in the operation would not have been achieved. "I wish to place it as record of my sincere gratitude for the hard work done by the

employees of our company". "I thankfully acknowledge the contribution made by our company". These qualitative pronouncements are the reflections of the importance of human resources in an enterprise but the quantitative information relating to their contribution or their value is nowhere recorded or shown in the financial accounts. However, in practice, a few enterprises value their human resources and report this information in their annual reports.

Human resources are of vital importance and significance to an enterprise and constitute a primary segment of the total resources held. A peculiar aspect of human resources is that while these have infinite potential yet whatever is realized out of this resource is usually akin to the "top of the iceberg" the remaining whole lot lying submerged untapped. Deliberate efforts have, therefore, to be made to augment the gap between "Actual" and "Potential". "Human Resource" may also be branded, as "Mother Resource" through the medium of which other scarce resources viz., machines, materials, money, are organized, co-ordinated, directed and controlled. Maximum realization of the potentialities of this "Mother Resource" is of crucial importance for the success of an enterprise. The in-house management and leadership styles and the participative, collaborative and supportive climate, the motivational environment, care, concern and fellow feelings for each other, the freedom and flexibility to operate within the given framework of organizational goals and objectives, productivity-oriented performance yardsticks and continued management's positive awareness for training and development efforts to keep the threat of human adolescence at bay are some of the essential inputs for tapping this resource of human assets. Besides, the human resources are highly perishable by mere efflux of time unless these are effectively and meaningfully put to use continually.

Giant unit like CCI is fully aware of these phenomena and pays adequate attention and priority to maintain the human assets in fine fettle. The procurement, development, compensation, integration and maintenance of human resources are carefully planned, skillfully organized, controlled and deftly directed to secure the meaningful end that individual requires, organizational targets and social objectives are successfully accomplished.

The dichotomy in accounting between human and non-human capital is rather fundamental in that while latter is recognized as an asset and recorded as such in the financial statements, the former is totally ignored. With the accelerated growth in science and technology, the value of human capital is gradually increasing and hence it is essential for a company to reflect the investment in human resources.

The most regretting fact is that the Institute of Chartered Accountant of India (ICAI) has not been able to bring any definitive accounting standards on measurement and reporting of human resources accounting information in financial statements distorts net income disclosed by profit and loss account, total assets figure in balance sheet and also distorts

computation of rate of return on capital employed because its components namely net income and total assets are distorted. The study observes: i) No harmony in reporting practices relating to human resources; ii) Comparatively, less attention has been given to the factors which can be more relevant to the users for decision making purpose; iii) No harmony in discount rates applied by different corporate in converting the future expected return of employees into present value; iv) No well-defined recognized system for the corporate exists that can be followed meticulously; v) A large number of corporate has discontinued HRA reporting practices.

11. Current Status of HRA in India

HRA reports provide useful information to the company management employees and investors. In India, very few leading companies like Infosys Technologies and BPL use HRA. It is fact that the 21st century is era of Human demand; countries having labor quality are ruling the world with dominant technology. Countries like china and Japan forerunners in technology advancement, is all result of work force performance. Hence, whole world has realized that human resource is the real investment into business ventures that should only catch and stick the success waves. It can be said that INFOSYIS, Bharat Heavy Electrical Ltd (BHEL), DR.REDDY'S and Steel Authority of India Ltd (SAIL) are ever profit generators as they have recognized the value of quality of labor and ordered peak priority so as company yields ripped fruits with assistance of ripped force (quality employees) and can stand against any business storm and cope up effectively. Even though, many benefits are contributed by HRA, yet its development and application in different industries have not been encouraging. Due to the development of business and industries nationally and internationally, few Indian companies, both public and private, have started valuing their human resources and reporting the information in their annual reports.

12. Evaluation

It is observed that a few enlightened corporate in India have reported HRA in their annual reports. The Indian corporate sector has still a long way to go in this field. Since none of the corporate have mentioned the purpose for which HRA information is being used by them, it seems that their objective of introducing HRA has been image building and there, they have been successful in this as CCI, BHEL, etc. have received the awards from the ICAI for best presented published accounts. This information may be significant for the investors and other external users of the financial statements. The prospective investors and leaders are interested in knowing about the organization, investment in human resources and their value to the firm for the purpose of their investment decisions.

A critical appraisal of the HRA information reported by these corporate reveals the following observations:

- All the corporate have adopted primarily Lev and Schwartz model for assessing their human resource. The value of an individual computed by using this model is the value of an individual to the individual himself rather than to the organization. Because the remuneration paid to an employee does not indicate his/her contribution of the organization, as the value computed represents future commitments of an organization. Hence, the value which the organizations assign to human resources cannot be considered as the real value to the organizations.
- HRA has been reported by these corporate as supplementary information in the annual reports and is unaudited. The value assigned to the human resources has not been depicted in the financial statements. So HRA has not been considered an integral part of the whole accounting system.
- Discount rate used for the purpose of calculating the present value of future earnings of employees is debatable. Very few corporate have mentioned the discount rate.
- ONGC and CCI and like companies have reported "Social Accounts" in their annual reports and have also shown in their annual reports the value of human resources both on the assets side as well as on the liabilities side of the social balance sheet. This means that their value is **ZERO**.
- Though the above-mentioned corporate have valued their human resources and have reported such values in their annual reports, it has not been mentioned clearly as to how they are treating the huge expenditure incurred by them on hiring, training and developing their employees. Obviously, they are charging such expenditure entirely to the profit and loss which is against the accounting principles.

13. Conclusion and Recommendation

HRA has great potential in the modern age of profession 01onalization and particularly in case of labor intensive service industries where human resources play a major role. This information may be useful both for its internal and external users. In India, HRA has not been introduced so far as a system. The Companies Act and the ICAI have given sufficient guidelines about human resources, but they have not been able to bring any definitive accounting standards for measurement and reporting of cost and value of human resources of an organization. The study has also brought to light that unorganized and unregulated disclosures do not fully satisfy the decision maker's expectations. Significant relationship exists between HRA and smooth running of the corporate.

The existing accounting standards, however, fully support the adoption of human resources for the purpose of meeting their own requirements in true sense. The result of non-disclosure

of human resources cost and value information in financial statements do not reveal quantitative information on human resources side and the statement of affairs is improperly reported to different parties. It is difficult to interpret the information in proper context as the human resource valuation and disclosure practices make it complex for the users to retrieve the necessary information for decision making. Lack of comparability of voluntary disclosures concerning HRA has an effect on reliability and, therefore, reduces the relevance. On a close scrutiny, it is observed that although initially a large number of public sector undertakings took this earnestly but with the passage of time, these reporting practices have deteriorated. Well-managed information technology corporate having intangible worth are imbedded in the human power and have started arising the tool to inform those taking care to study the balance sheet as to what is their asset or investment.

In the absence of HRA, the management cannot realize negative effects of certain programmes aimed at improving profits in the short-run. Such programmes may result in decreased value of human assets due to fall in the productivity levels, high labor turnover, low morale, etc.

The success of an organization largely depends on the build-up of quality workforce at all levels. The success stories of BHEEL, ITC, HL, L&T and several other enterprises are largely due to the emphasis on human resource development. The trend to satisfy the legal compulsions through the current disclosure norms should be changed. Impact of human resources to the organization and the functional impact of the organization towards the resource will be ascertained and accounted. Researchers, accountants and managerial consultants should face challenge. Positive indication is that to some extent impact of human resource development and its relationship to earning is calculated and reported.

The application and usefulness of HRA depends on future efforts, experiments and supports to be made by practicing managers, accountants, academicians, professional bodies and governments. Even valuing human resources appear to be important to Indian organizations, most organizations do not value their human resources and planning to implement its value is at a very infancy stage. There is little or moderate progress in the area. To show more progress, more needs to be done at both the theoretical and practical levels. Proper initiative should, therefore, be taken by the Governments and the professional bodies in India in respect of formulation of specific accounting standard and suitable valuation models on the measurement and reporting of human resource values.

14. Research Scope

There is a dire need to review HRA applicability in India which is substantially facing different environments. The special studies need periodically to calculate cost of turnover, cost-benefit analysis of training and the cost of labor etc., must be a joint effort since many value judgments and assumptions must be made and understood by the prepares of data as well

as the users. HRA has a promise; it has not yet met the test of usage. We see that some of the studies have been conducted to analyze the impact of HRA information on certain specific decision areas. Some of them are basically case study and that too even in the public enterprises. Recently, some studies have been carried also on HRA practices in the private sector companies like Infosys, but they are not in depth study. Much more research is necessary before HRA can possibly be useful to operating managers. Hence there is a dearth need for a comprehensive study which may help us identify the areas where the managers can use the HRA information for their effective decision-making.

15. Concluding Comment

HRA is a gesture to demonstrate organization's commitment towards its responsibility and sustainability. The awareness on research behind the study for HRA is well defined amongst industrial and professional circles. In a labour abundant country like India, human resource value and efficiency and productivity disclosures are not seriously considered and reported. Lack of standardized uniform reporting practices makes HRA disclosures hardly comparable amongst the corporate in India. Modified version of HRA to make quantitative presentation in lieu of qualitative aspects may become practical as well as popular. It may lose some of the ingredients of accounting but may ascribe a new name. ***Let us hope HRA will bring a new area in accounting and control in near future.***

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