
Human Resource Accounting (HRA) in India: A new Dimension

Dr. Raj A. Soshte

Asst. Prof. Accountancy, NSS College of Commerce and Economics, Tardeo, Mumbai.

ABSTRACT

The success of the any organization depends on the quality of its human resources, whether it belong to manufacturing, service or a retail outlet. Physical assets are used to increasing earning capacity of any business organization, likewise human resources are important assets and used to increase productivity, earning capacity, increasing the wealth and profit, market value, economic value added etc. Nowadays because of the global transition service industry has become one of the leading industries which are mainly based on human resources. This study focuses on the current practices in Human Resources accounting and to measure the impact of HRA on organizational performance. This paper highlights the objectives and process of HRA in the Indian context. The basic objective of the paper is to study the Human Resources Accounting, to identify the issues and challenges, to examine these issues and challenges and lastly, to give suggestions based on the findings of the study.

Keywords: *Human resources accounting, human resource valuation, cost, model, investment, Physical Assets.*

1. INTRODUCTION:

Human Resource Accounting (HRA) involves accounting for the company's management and employees as human capital that provides future benefits. In the HRA approach, expenditures related to human resources are reported as assets on the balance sheet as opposed to the traditional accounting approach which treats costs related to a company's human resources as expenses on the income statement that reduce profit. HRA suggests that in addition to the measures themselves, the process of measurement has relevance in decision-making involving organizations. Although the origins and early development of HRA occurred mostly in the United States, interest and contributions to growth in the field have been evident in a number of other countries. To ensure growth and development of any organisation, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. The original health of the organization is indicated by the human behaviour variables, like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making. 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.

Even though many efforts have been made by thinkers in this field, a suitable and fully validated model of performance based accounting in the Indian context is not available. The past few

decades have witnessed a global transition from manufacturing to service based economies. Human resource accounting is of recent origin and is struggling for acceptance. Human resource is the vital input of any organization in this era of globalization, as it pulls on all other physical and financial assets/resources towards the achievement of organizational goals. Conveniently financial assets are accounted in the books of accounts as per the general principles of accounting except human asset. Though Human Resources Accounting (HRA) was introduced way back in the 1980s, it started gaining popularity in India recently. In order to estimate and project the worth of the human capital, it is necessary that some method of quantifying the worth of the knowledge, motivation, skill and contribution of the human elements as well as that of the organizational processes like recruitment, selection, training, etc which are used to build and support these human aspects is developed. All the processes of the organization are operated by human resource, hence valuation of this resource is very necessary and information about the valuation should be given to the investors, the management and others through financial statements. Human resource accounting is basically an information system that tells management what changes are occurring over time to the human resources of the business. In the early 1990s industries were recognized the value and importance of human assets. When service sector started major contribution to a country's economy the significance of human assets got prominence. For a long period, the importance of human resource was not taken care of seriously by the top management of organizations. Therefore, at this juncture, it becomes imperative to pay due attention on the proper development of such an important resource of an organization.

2. Literature Review:

Verma S. and Dewe P. (2008)¹ has made an attempt on valuing human resources in UK companies, data has been collected with a help of a questionnaire. The purpose of the study is to identify and describe perceptions and practices in valuing human resources in three types of UK Company's i.e. traditional companies, knowledge intensive companies and local authorities. The study has found that the majority of the respondents have agreed that the measurement of human resources is important to their company, a little or moderate progress is expected in measurement practices over the next few years. The main reasons for this are lack of organisational support, uncertainties as to what should be reported, lack of precision in current measurement practices and sensitivities around what should be reported.

Syed Abdulla Al Mamun (2009)² in his study said that the companies with higher profitability intended to disclose more human resource accounting information. For his study, he randomly selected 55 listed Public limited companies in Dhaka Stock Exchange (DSE). The companies are classified under two broad headings: Financial and Non-Financial sector. Financial sector includes banks and insurance companies. Non-Financial sector includes cement, fuel & power, textile, pharmaceuticals & chemical and others.

¹ Shra Shraddha Verma and Philip Dewe(2008), "Valuing human resources: perceptions and practices in UK company", Journal of Human Resource Costing and Accounting, Vol.12, No.2, pp 102-123.

² Syed Abdulla Al Mamun (2009), "Human Resource Accounting (HRA) Disclosure of Bangladeshi Companies and its Association with Corporate Characteristics", Brac University Journal, Vol. VI .no.1, pp 35-43.

Saini A. and Saini R. (2011)³ in their study on Intangible Assets Accounting Practices in Infosys Technologies Ltd, 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. They calculated the Mean, Standard deviation, Coefficient of Variation for EVA, MVA, TSR and Brand Value and concluded that Infosys Technologies Ltd has a very good image in the capital market and such as its shares are quoted in the Stock Exchange at a very high price.

Sharma N. And Shukla H. (2012)⁴ attempted an evaluation of Human resource accounting disclosure practices in Indian Companies. Purposive sampling technique is used for the selection of sample units. Sample is taken from both Public and Private sector companies. The study has been carried out based on secondary data. Data have been collected from Annual reports of the selected companies; they have applied one sample test and concluded that the level of disclosure of HRA is not high but appreciable. The companies selected for the study have adopted more or less Human Resource Accounting in practice.

Sharma A. (2012)⁵ has selected the sample size of 400 employees, and adopted Convenience random sampling method for the study. The employees include executives, managers, investors and shareholders. She has collected both the primary and secondary data. The primary data has been collected directly from target respondents through structured questionnaire and the secondary from Annual report of different companies of different industry. For the study the independent variables are profit, growth, recruitment, efficiency, turnover, development, acquisition, evaluating performance; the dependent variable is Human resource valuation. The study reveals 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.

Badiyani B. (2012)⁶ in her study about human Resource Accounting history and she has focused on the popular models for assessing the value of human resources in the company. The author concludes that different companies are using various models according to their need and the nature of their human resources and now-a-days no economic growth can be made without giving importance to the human resources and without considering them as an asset.

Joshi U. and Mahei R. (2012)⁷ in their work entitled Human Resource Accounting system in selected Indian companies, has used the purposive sampling technique for the selection of the

³ Aruna Saini & Ramdhan Saini (Oct 2010- March 2011), "Intangible Assets Accounting Practices in Infosys Technologies Ltd: A Case Study", Journal of Accounting and Finance, Vol.25, No.1, pp.54-63.

⁴ Dr. Nidhi Sharma and Hitendra Shukla (July 2012) "An evaluation of Human Resource accounting disclosure practices in Indian Companies", Indian Journal of Applied Research, Vol.1, Issue 10, pp11-13.

⁵ Dr. Asha Sharma (Sep-Oct. 2012), "Impact of Human Resources Accounting on Organizational Performance", Journal of Business and Management, Vol 5, Issue 1, pp 25-31.

⁶ Bhavin M. Badiyani (2012), "Human Resource Accounting: Brief History and Popular Models", Quest International Multidisciplinary Research Journal, Vol.1, pp 155-158

⁷ Upasna Joshi and Reeta Mahei (Sep 2012), "Human Resource Accounting System in Selected Indian Companies", International Journal of Research in Commerce and Management, Vol.3, Issue No.9, pp 77-79.

companies. Two companies from Public sector and two from Private sector are selected for the purpose of study. They collected the secondary data from the intangible asset of Goodwill, Incorporate intellectual capital value measures in capital investment published Annual reports of the selected companies. The Annual reports of the selected companies were scanned for the period ranging from 2006-07 to 2010-11 to find out the HRA system of the sample companies. HRA information thus would be of immense help in decision making both for internal and external users; therefore, companies should adopt HRA system. Considering the significance of human resources in knowledge based sectors initiatives should be taken by the government along with other professionals, researchers and accounting bodies both at the national and international levels for the measurement and reporting of such valuable assets.

2. OBJECTIVES OF THE STUDY:

The study based on the following objectives:

1. To study the Human Resources accounting practices in India
2. To study the Role and Importance of HRA in India
3. To identify the issues and challenges

3. METHODOLOGY OF THE STUDY:

The study is based on secondary source of data collected through various books, articles and research papers published in various national, international journals, websites.

4. ORIGIN AND DEVELOPMENT OF THE CONCEPT OF HUMAN RESOURCE ACCOUNTING IN INDIA:

In India, HRA is still in the early stage of development. Even though HRA was introduced before 1980s, it started gaining popularity in India after it was adopted and popularized by Neyveli Lignite Corporation (NLC) and Bharat Heavy Electricals Limited (BHEL)⁸. Mahalingam (2001 p.19) notes "Pundits of today, asset that while the other forms of capital including material, equipment, tools and technology, only represent inert potentialities, it is human capital that converts this potential and energies for the creation of wealth."⁹. The Indian Companies Act does not provide any scope for furnishing any significant information about human resources in financial statements¹⁰. HRA has not been introduced so far in any legislation and thereby Human Resources are not yet recognized as 'assets' neither in the Balance sheet nor in the Annual Report of many of the Public or Private companies in India. Even in the new Companies Act 2013, there is no specific provision regarding the accounting and reporting requirement of Human Resource in Annual Report of Indian Companies. The Institute of Chartered Accountants of India (ICAI) has issued Accounting Standard (AS) on various aspects of accounting but it is not possible for ICAI to bring any exact accounting standard for measurement and reporting of human resource of an organisation. This was the greatest drawback relating to HRA. However there is a growing trend towards the measurement and reporting of human resources in Indian companies, it could be

⁸ Srinivasan.R, Mohan.S, Elangovan.R (2011), "Human Resource Management Text and cases", Regal Publication, Chapter 33- pp.569.

⁹ Maria L.Bullen- "Human resource accounting and international developments: implications for measurement of human capital"- Journal of International Business and Cultural Studies- pp-10.

¹⁰ Narayanamurthy.M-"The role of human resource accounting in human resource management".

noticed during the past few years, sensing the benefits from valuing and reporting the human assets, many Public companies have voluntarily disclosed all relevant information related to human resource in their books. In recent years some Private companies also have started to disclose information about their work force along with the financial statement. HRA has become a separate section of Annual accounts of Indian companies like Steel Authority of India Ltd., Minerals & Metals Trading Corporation Ltd., Oil India Ltd., Hindustan Unilever Ltd., Hindustan Zinc Ltd., Cement Corporation of India, ONGC, Engineers India Ltd, National Thermal Power Corporation Ltd., Minerals and Metals Trading Corporation, Madras Refineries Ltd., Hindustan Petroleum Corporation Ltd., Indian Oil Corporation, Associated Cement Corporation , Infosys Technologies Ltd., Hindustan Copper Ltd., Rolta, Wipro, Satyam Computer etc¹¹, have started disclosing some valuable information regarding human resources in their financial statements. Thus it is observed that Human Resource Accounting Disclosure (HRAD) in Annual reports of Indian companies provides useful information to the management, shareholders, Public and even government. Thus in the contemporary scenario, there is an urge to know about human resource accounting, before following human resource accounting each and every company should know about HRA. The present study is an attempt to identify the nature and characteristics of HRA, to analyse the ability of users to make wise decisions with the help of HRA, to examine the perception of management and employees on HRA, to determine the contribution of HRA on the financial statements of Indian companies and to analyse the profitability with human resource accounting disclosures in Indian Companies.

5. IMPORTANCE OF HUMAN RESOURCE ACCOUNTING:

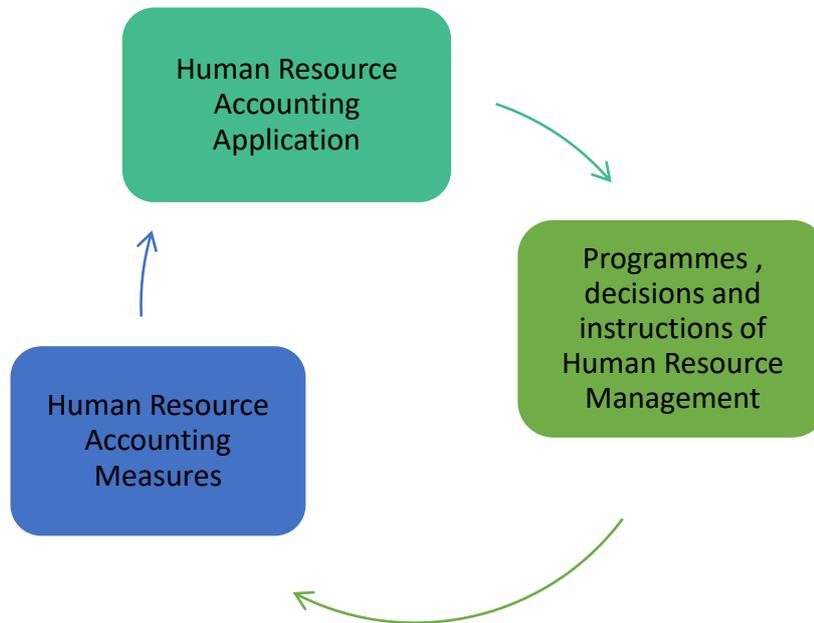
Human Resource Accounting provides useful information to the management, financial analysts and employees as stated below:

- Human Resource Accounting helps in locating the real cause for low return on investment, like improper or under-utilization of physical assets or human resource or both.
- It helps in understanding and assessing the inner strength of an organization and helps the management to steer the company well through most adverse and unfavourable circumstances.
- It provides valuable information for persons interested in making long term investment in the firm.
- It helps employees in improving their performance and bargaining power. It makes each of them to understand his contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on him.
- It helps the management in the Employment, locating and utilization of human resources.
- It helps in deciding the transfers, promotion, training and retrenchment of human resources.
- It provides a basis for planning of physical assets vis-à-vis human resources.
- It assists in evaluating the expenditure incurred for imparting further education and training in employees in terms of the benefits derived by the firm.

¹¹ Narayanamurthy.M-“The role of human resource accounting in human resource management”.

- It helps to identify the causes of high labour turnover at various levels and taking preventive measures to contain it.

Figure 1 : Role of Human Resource Accounting



As you can see in Figure 1 for three human resources accounting determine three main tasks of for human resources specialists, accountants, Provides framework to facilitate decision making about human force, and compute Information required for cost people value as assets to the organization and cause for the motivation of line management with considering the perspective of human resource management in decisions making about the organization' people.

6. MAJOR ISSUES OF HUMAN RESOURCE ACCOUNTING:

The following are the major issues which should be considered for implementation of HR accounting. They are as follows:

- 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 strengths of the traditional system, which is considered to be comparatively objective and free from any bias. Similarly, in the case of HR accounting also, it is argued that it lacks symmetry with traditional resource as it cannot be included with in the traditional definition of an asset that of a human
- 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.
- The physical assets can be owned and traded by an organization but the human assets cannot and can be only utilized in this regard. 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

resources 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.

- 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.
- 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.
- 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.
- 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. HR accounting 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 attitudes of employees.

7. CHALLENGES OF HUMAN RESOURCE ACCOUNTING:

- The measurement of Human Resources is subjective as different firms will use different methods for this purpose. Till date there is no model for valuation of Human Assets, which is widely acceptable and used worldwide.
- 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.
- The concept of human resource accounting 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 capital or Human Assets, then only the Director Indirect Tax Authorities will take into concern of HR Accounting.
- 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 their regard makes it less reliable.
- 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.
- 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.
- The ownership of human resources is practically impossible, therefore, it cannot be considered at par with other assets.

8. CONCLUSION:

HR Accounting is very much needed to provide effective & efficient management within the organization. If there is any change in the structure of manpower, it is HRA which provides information on it to the management. HRA provides qualitative information & also assess the cost incurred in personnel. It gives a platform to the management by providing factors for better decision-making for future investment. The return on Investment on human capital is best evaluated through HRA. HRA communicates to the organization & public about the worth of human resources & also its proper allocation within the organization. HR helps the management in developing principles by classifying the financial consequences of the various practices. The basic reason for developing HR Accounting is to overcome problems arising from the valuation of intangible assets. We know that many organizations do not provide sufficient information to invest investors in traditional balance sheet & HRA is a device to overcome this difficulty. HRA provides an insight on employees as assets. HRA provides a profile to the enterprise & thus improves its image. HRA probes to retain intelligent human capital. The very importance of HRA in developing countries like India can be best judged through government report which shows that in India; approximately 73 per cent of National Income is utilized to compensate employees. In addition to wages and salaries, organizations often make other sizeable investments in their human resources. Despite all this, the concept of HRA in India is a recent phenomenon & struggling for its acceptance. In India, HRA has not been introduced so far as a system. The Indian companies act does not provide any scope for furnishing significant information in this regard in the financial statement. To conclude, the HR Accounting system tries to evaluate the worth of human resources of an organization in a systematic manner & record them in the financial statement to communicate their worth with changes in time & result obtained from their utilization to the users of the financial statement. Hence, looking at the importance of HRA, now it is required under law & Government guidelines, for undertakings, to maintain a separate item in their balance sheet about such HR activities undertaken by them. Hopefully in future the HR practioners like us & the budding leaders of future enterprises would work together to use HRA in every organization, which has helped to a great extent in differentiating humans from mere operators of machines to intellectual capital. The journey has thus begun as HRA is in its infancy & there are miles to go.

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