

Human Resource Accounting: Interests and Conflicts

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Abstract

In today's highly competitive and globalised knowledge era, human resource is the most important asset in any organisation. There is no dearth of financial and technical resources, but the biggest problem is the talented workforce. Talent has become the driving seat and one who possess the seat it dictates. Therefore the investors before investing in any company consider mainly the human resource available with the business. But the major challenge is how to assign monetary value to such talented people in balance-sheet? Though worldwide knowledge has become the key determinant for economic and business success, but Indian companies focus on ROI with a very few concrete steps being taken to track ROK.

KEYWORDS: e-commerce, impact of e-commerce, advantages, limitations.

1.0 INTRODUCTION:

“Human resource accounting is basically an information system that tells management what changes are occurring over time to the human resources of the business. It involves accounting for investment in people and their replacement costs and also the economic value of people in an organisation”. (P.K.Gupta, Director, Strategic Development-intercontinental operations of Legato Systems India.)

Until recently, the "value" of an enterprise as measured within traditional balance sheets, e.g. buildings, production plant, etc., was viewed as a sufficient reflection of the enterprise's assets. However, with the growing emergence of the knowledge economy, this traditional valuation has been called into question due to the recognition that human capital is an increasingly important part of an enterprise's total value.

Though attempts are made in conventional accounting system to give valuation to such human asset, recognising and quantifying the abilities and calibres of human resources is very difficult. Hence a new branch of interdisciplinary accounting known as human resource accounting is developed. It is a combination of both accounting and personnel management. Three major aspects of HRA are valuation of human resources, recording of valuation in the books of accounts and disclosing the information in the financial statements of the business. HRA is concerned with accounting of the following expenditure.

Attaining	Recruiting, planning, rewards and recognition for Human Resource
Training	Career development, leadership development, workforce planning, performance appraisal
Retaining	Employee relations, providing welfare facilities, career advancement and research culture, promotion

2.0 OBJECTIVES:

1. To study the human resource accounting.
2. To study the role of human resource accounting.
2. To explain important issue of related subject.
4. To evaluate the deterrents of human resource accounting.

2.1 METHODOLOGY:

The article is based on the secondary information. The secondary information is collected from published books, journals, research papers, and official statistical documents.

3.0 ROLE OF HUMAN RESOURCE ACCOUNTING:

- The information generated by HRA systems can be put to use for taking a variety of managerial decisions like recruitment planning, turnover analysis, personnel advancement analysis and capital budgeting, which can help companies save a lot of trouble in the future.
- Company can measure the return on capital employed on total organisational assets (including the human assets) and the resources can also be planned accordingly.
- When a company is able to assess an individual's worth, it helps in increasing its own worth," as rightly said by Ajay Sharma, senior HR manager of Cadence Systems.
- HRA also helps in examining expenditure on personnel and in re-appraisal of expenditure on services and training.
- HRA can also serve as a key factor in case of mergers and takeover decisions, where the human asset value becomes a relevant factor.
- HRA can help in creating, is goodwill for a company. The company can project itself in having best practices with superior policies in place. Experts believe that this may help the organisation attract more investments.

Realising this, many companies world-over are making HRA as a necessary element on their balance sheets. One of the best examples is of the Denmark Government. The Danish Ministry of Business and Industry has issued a directive that with effect from the trading year 2005, all companies registered in Denmark will be required to include in their annual reports information on customers, processes and human capital. Figures for investment in intellectual capital must be shown and compared with the previous two years.

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

4.0 METHODS FOR VALUATING HUMAN RESOURCES:

Basically HRA can be tracked through two methods—cost-based analysis and value-based analysis. The cost-based approach focuses on the cost parameters, which may relate to historical cost, replacement cost, or opportunity cost. The value-based approach suggests that the value of human resources depends upon their capacity to generate revenue. This approach can be further sub-divided into two broad categories:

non-monetary and monetary. The disposition of resources can also be examined by allocating relative human asset values to different job grades.

4.1 IMPORTANT ISSUES RELATED WITH HUMAN RESOURCE ACCOUNTING:

Providing adequate and valid information on human resources in statistical terms and within traditional balance sheets has proved extremely difficult. Following are some of the important issues in this regard.

Basic Issues -There are some basic questions and dilemmas concerned with measurement of human resources such as

- Whether HRA is only for internal use in enterprises?
- Whether HRA should have a standard format for comparability purposes?
- Whether HRA should be included in traditional financial statements?

4.2 METHODOLOGICAL AND TECHNICAL ISSUES:

- Is it possible to obtain reliable and comparable data on human resources?
- Whether the cost of gathering and processing the information exceeds the benefits?
- How to link reporting on human resources with improved human resource management?
- How to establish a coherent terminology?

4.2.1 Policy dimensional Issues - The main stakeholders, such as the enterprises, investors, employees, trade unions and governments, are therefore gradually becoming aware of the potential of HRA, albeit from different perspectives such as -

- Should HRA be mandatory for enterprises alongside financial statements
- If mandatory, what kind of information should be included in such statements?
- If voluntary, how to secure the interests of, say the employees, at enterprise level?

5.0 DETERRENTS TO HUMAN RESOURCE ACCOUNTING:

- While HRA as a concept has been present in India for more than a decade, in terms of awareness and acceptance, the level is still low as many companies take little initiative to make the numbers public to shareholders, despite having the data.
- Another major deterrent is the lack of an industry standard. Every company has to evolve its own standard, which can become a tedious process, considering that most of them are still involved in improving their business.
- There is the need for extensive research regarding HRA. Many companies do not want to go into the intricacies of finding the value of their human resources. "While most big companies (with a large manpower) can afford to dwell into such best practices, it is not an economically viable option for small and medium companies.
- Many companies do not take HRA very seriously as it is not directly related to RoI.
- There is likely possibility of manipulations in employees.
- Human resources are intangible and treating them as asset could not be appropriate.

- Placing the value on employees would prompt the trade unions to seek reward compensation based on such valuation.
- There is no clear idea about how the depreciation/amortisation of human resources should be made.
- Tax laws don't recognise human resource as asset.
- The concept of HRA is still in infant stage. There is no universally accepted method of human asset valuation. But there is a need to develop the proper model in the coming years.

6.0 CONCLUSION:

Building infrastructure in the form of superior human resources is the need of the hour. A brigade of talented workforce can only win the competitive corporate war. Spotting, nurturing and preserving the best talent and keeping their proper accounting will only lead the business towards success. But one can't rely totally on the concept of HRA.

“Considering the dynamism of this industry, it is very difficult to predict as to what is going to be your future requirements and how technology is going to shape in the near future.”
-Naresh Taneja, the head of human resources of HCL Technologies.

However, in the past few years organisations have been investing a lot on improving their systems and infrastructure. And the next obvious step would be measurement of human assets. It's ultimately the people who deliver results. Realising the benefits, which it can provide, the responsibility lies on the companies, as to how much importance can they or do they give to their Human Resource.

“The future is now for HRA technologies. Many global technologies are engaging proactive strategies to protect themselves by re-examining their HRA practices with the well publicized war for talent. Of course ICT will also provide the framework for HRA practices.”

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