



Our Main Asset is Our People

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Abstract:

As we know that profit earning is an ultimate motive of any organization. To earn this profit organization has two kinds of resources (1) Human resources and (2) All the assets i.e. tangible or intangible assets, all this assets are grouped under physical resources. In fact human resource is the most important factor in giving stability, development and at most profitability of an enterprise. But this most important resource is not shown in the financial statements as an asset. For valuing different assets(physical resource) we have different systems but for valuation of this resource is not ever done by any system of accountancy; to overcome from this limitations the traditional accounting system has led to the development of new field of accounting, which is known as 'Human Resource Accounting'. Now it is necessary for every company/organization to give priority to make investment in human resources.

Keywords: *Asset, Human Resource Accounting, Resource*

1. Introduction

The past few decades have witnessed a global transition from manufacturing to service based economies. The fundamental difference between the two lies in the very nature of their assets. In the former, the physical assets like plant, machinery, material etc. are of utmost importance. In contrast, the latter, knowledge and attitudes of the employees assume greater significance. For instance, in the case of an IT firm, the value of its physical assets is negligible when compared with the value of the knowledge and skills of its personnel. Similarly, in hospitals, academic institutions, consulting firms etc., the total worth of the organization depends mainly on the skills of its employees and the services they render. Hence, the success of these organizations is contingent on the quality of their Human Resource-its knowledge, skills, competence, motivation and understanding of the organizational culture. In knowledge driven economies therefore, it is imperative that the humans be recognized as an integral part of the total worth of an organization. However, 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, skills, and contribution of the human element 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. Human resource accounting (HRA) denotes just this process of quantification or measurement of the Human Resource.

1.1 Concept of Human Resource Accounting

Human Resource Accounting is a method to measure the effectiveness of personnel management activities and the use of people in an organization.

The American Accounting Association's Committee on Human Resource Accounting (1973) has defined *Human Resource accounting* as "the process of identifying and measuring data about human resources and communicating this information to interested parties". HRA, thus, not only involves measurement of all the costs/investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in organizations.

In the words of R.L. Woddruff Jr., Vice President, R.G. Barry Corporation, the company which undertook pioneering work (1960s) in developing human resource accounting-"human resource accounting is an attempt to identify and report investment made in resources of the organization that are not presently accounted for under conventional accounting practice". Woodruff further considers it to be an information system that tells management what changes over time are occurring to the human resources of the business.

2. Objectives of HRA

The utmost objective of HRA is to facilitate the management of people as organizational resource. Rensis Likert has listed the following objectives of HRA.

1. To furnish cost value information for making decisions about acquiring, allocating, developing and maintaining human resources in order to attain cost effectiveness.
2. To provide a sound and effective basis of asset control.
3. To allow management personnel to effectively monitor the use of human resource.
4. To assess the efficiency of human resources.
5. To assist the management in taking suitable decisions regarding investment on human resources.

3. Need for Human Resource Accounting

The need for human resource accounting arose primarily as a result of the growing concern for human relations management- in industry, academic institution, firm's etc. Behavioral scientist concerned with the management of organization pointed out that the failure of accountants to value human resources was a serious handicap for effective management:

- a. It facilitates the application of accounting to the management of human resource.
- b. It furnish cost value of information for making management decisions for planning, acquiring, developing and maintaining human resources in the organization's.
- c. It monitors effective use of human resources.
- d. It remediates informational deficiency by indicating the degree to which human capabilities are being acquired, developed, maintained and utilized.
- e. It provides a sound basis of control over human assets.
- f. It improves the quality of human resource decisions, in the area of recruitment, planning, selection and allocation of financial resources among human resources development programs.
- g. It provides comparative information to all concerned regarding the earning potential of human resources.
- h. It evaluates the effects programs concerning human resources.
- i. It develops standards to measure the value of human resources.
- j. It makes financial statements more informative, by reflecting the value of human resources.

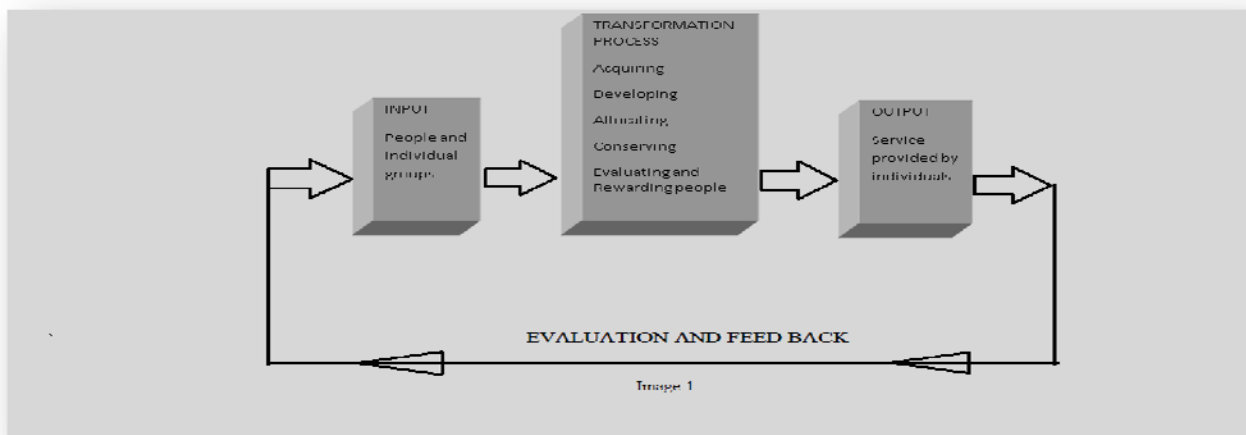
4. Criticism of HRA

The disadvantages or demerits of Human Resource Accounting (HRA) are:-

- a. 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.
- b. 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.
- c. 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 HRA. So, there are no uniform standards for HRA. Therefore, the HRA of two organizations cannot be compared.
- d. 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.
- e. The life of a human being is uncertain. So its value is also uncertain.

5. HR Accounting and its relation with the Process of Human Resource Management

The point has been made that human resource accounting is a tool designed to assist in the effective and efficient use of management of human resources. Let us now consider the managerial role of human resource accounting more fully. The models shown in image 1 indicate that human resource management is a system designed to convert human resource inputs into outputs in terms of human service.



6. How Human Resource Account is measured

The biggest challenge in HRA is that of assigning monetary values to different dimensions of HR costs, investments and the worth of employees. The two main approaches usually employed for this are as follows.

1. The **cost approach**: This approach involves methods based on the costs incurred by the company, with regard to an employee. **Cost** is a sacrifice incurred to obtain some anticipated benefit or service. All costs have two portions, viz., the expense and the asset portions. The expense portion is that which provides benefits during the current accounting period (usually the current financial year), whereas the asset portion is that which is expected to give rise to benefits in the future.

2. The ***economic value approach***: This approach includes methods based on the economic value of the human resources and their contribution to the company's gains. This approach looks at human resources as assets and tries to identify the stream of benefits flowing from the asset.

7. Human Resource Accounting (HRA) Practices in India

Success of corporate undertakings purely depends upon the quality of human resources. In India, the Companies act 1956 had laid down provisions for the preparation of financial statement for companies registered under the Act. As per the Section, companies have to prepare financial statement, i.e. Balance Sheet and Profit and Loss Account. In these statements, there is no provision for disclosure of information of human resources. However for employees who are drawing more than Rs.2 lakh per annum, disclosure has to be made by way of footnote to Profit and Loss Account. Apart from this, there is no special provision for disclosure of human resource. If a company wants to show the value of its human resource in its financial statements, Companies Act doesn't stop them, but this information has to be given by way of additional statement along with financial statement.

A few companies in India have started recognizing the importance of human resources but the number is too small, i.e. around 15 only. These companies are from the public sector like Bharat Heavy Electricals Ltd., National Thermal Power Corporation, Oil and Natural Gas Commission etc. which started voluntary disclosure of human resource in their financial statements. BHEL can be called as the pioneer for HRA in India because they first started the disclosure of human resource in mid-1970s. Generally these companies have been valuing HR based on the Lev and Schwartz Model. Following table exhibits the HRA models and discount rate applied in public sector companies in India.

HRA System Practiced in India					
Sr. no	Name of the Public Enterprise	TIRA introduced Year	Model Adopted	Discount Rate Applied in percentage	
1	BHEL	1974-75	Lev and Schwartz Model	12	
2	SAIL	1983-84	Lev and Schwartz Model	15	
3	ONGC	1981-82	Jaggi and Lev and Schwartz Model	11	
4	HPCL	1981-82	Lev and Schwartz Model	11	
5	CCI	1979-80	Lev and Schwartz Model	11	
6	NTPC	1986-87	Lev and Schwartz Model	15	
7	OIC	1982-83	Lev and Schwartz Model	12	
8	MMTC	1982-83	Lev and Schwartz Model	15	
9	MELON	1984-85	Lev and Schwartz Model	12	
10	EIL	1980-81	Jagi and Lev and Schwartz Model	13	
11	ELIC	1983-84	Lev and Schwartz Model	10	
12	KRL	1987-88	Lev and Schwartz Model	12	
13	MRL	1985-86	Lev and Schwartz Model	15	

Source: Consolidated Annual Reviews of the companies

8. Rationale

“Our main asset is our people!”

How true is this often-repeated statement made by the management of all knowledge-driven companies, institutions, private as well as public sectors, schools, colleges. The problem in fact starts when it comes to assessing the real value of human assets. While most organizations can

readily give detailed information about their tangible assets like plant and machinery, land and buildings, transport and office equipment, there is no formal record of investment in employees. Human assets accounting or human resource accounting (HRA), which stands for measurement and reporting of the cost and value of people as organizational resources, is still to become an accepted trend in the Indian present organizational society.

It is true that worldwide, knowledge has become the key determinant for economic and business success, but Indian companies focus on 'Return on Investment' (RoI), with very few concrete steps being taken to track 'Return on Knowledge'.

What is needed is measurement of abilities of all employees in a company, at every level, to produce value from their knowledge and capability. "Human Resource Accounting (HRA) is basically an information system that tells management what changes are occurring over time to the human resources of the business. HRA also involves accounting for investment in people and their replacement costs, and also the economic value of people in an organization," says P K Gupta, the director of strategic development-intercontinental operations, of Legato Systems India. The current accounting system is not able to provide the actual value of employee capabilities and knowledge. This indirectly affects future investments of a company, as each year the cost on human resource development and recruitment increases.

Experts point out that 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. Naresh Taneja, the head of human resources of HCL Technologies (Mumbai, formerly Gulf Computers), believes that one cannot totally rely on this concept. "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. This only raises the question on the benefits of HRA." However, 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 HR.

9. Conclusion

Human resource is the heart of any organization, thus making it crucial for organizations to pay attention to its every pulse. During the past decade, the concept of HRA has been tuned to the requirements of knowledge economy by focusing on such intangible assets as intellectual capital, relationship capital, etc. Amongst many new announcements and policy initiatives, 2011 brought with it the news of expected increments and salary hikes of almost 12.9% for 2011. But did all employees feel their pockets swelling based on return of knowledge?

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