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IMPACT OF HUMAN RESOURCE COST ON HUMAN RESOURCE VALUE: AN EMPIRICAL STUDY

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ABSTRACT

Human resource is the most precious and valuable asset for any organization and successful utilization of all other resources depends directly or indirectly on the former and hence, they must be given importance and a specific position in the Balance sheet. But, in reality, they are totally ignored and are not given the value, they worth for, at most of the places. Most of the organizations are still adopting the traditional accounting practices where they consider the expenditure on human resources as revenue expenses instead of considering it as an investment under contemporary accounting, under which human resources are valued and shown in the balance sheet as 'asset'. In our present paper, an attempt has been made to show the impact of expenditure on human resources on the human resource value of the organization. The present study is based on the secondary data collected from the annual reports of the five selected public limited companies valuing Human resources constantly for the years. The data collected is tested by the by the Pearson Correlation.

KEYWORDS: *HR- Human Resources, HRC- Human Resource Cost, HRV- Human Resource Value.*

Introduction

Human assets i.e., human resources are most important asset amongst all the assets in the organization. Every organization does a lot of efforts to acquire the right human resource for their business, and to retain them is also very important which can only be done if human assets are properly valued and provided with their real position. It is said by various authors that finance is the blood of an organization, but the life of the organization is the human, who arranges all the other resources and also utilize them for the profitability of the organization. Instead, they are exploited and ignored by the organization. It is necessary to value HR properly and value them according to their knowledge, skill and expertise which make them motivated and appreciated to work towards the success of the organization. They must be reflected in the balance sheet, as an asset and expenditure made upon them should be treated as capital expenditure instead of revenue expenses. This would act as psychological impetus for the employees for improving their performance.

The concept of Human Resource Accounting

Human Resource Accounting (HRA) is the process of identifying, recording and reporting the investments made in the employees of an organization that are currently not accounted for according to the conventional accounting practices. The attempt to measure the Human Resource value facilitates the management in meeting the change in their quantity and quality to achieve the equilibrium amongst the resources required and the benefit derived from such resources.

The American Accounting Association (1973) defined HRA "the process of identifying, measuring and communicating information about human resources in order to facilitate effective management within an organization". This definition considers HRA as the process of recognition and the quantification of human resources with the objective of facilitating the effective management of an organization.

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Flamholtz (1985) gave more specific definition of HRA, as "the process of measuring the cost incurred by business firms and other organizations to recruit, select, hire, train and develop human asset". This definition gives a view as to what expenditure on the human resources should be considered for the purpose of valuation and reporting. In other words, Flamholtz (1985) considers the practice of measuring the economic value of employees of an organization, as HRA.

It is therefore concluded that HRA as the procedure of measuring and recognizing the cost and value of employees in the financial statements of an organization, as an intangible asset, with a view of ascertaining the actual value of an organization and hence helping the ultimate users of the financial statements in decision-making.

Need for Human Resource Accounting

HRA not only plays the role to assist the management in attaining its economic goals. It is also a source of significant information which is needed in investment decision-making. Including appropriate HR information in annual reports of an organization makes such statements more significant for predicting future performance in which investors are interested. (Jawahar Lal, 2009).

In this competitive business environment, firms invests huge amount in human capital. However, the problem is that these investments are either immediately treated as expense in the financial statement or amortized and hence are not fully reflected in the balance sheet. Human capital is considered as an important aspect in the attainment of organization's objectives (Guthrie and Petty, 2000). For stakeholders, to understand the organization and the efficiency of its managers, it is required that reports of the company can sufficiently reflects all resources utilized and created to boost up the organization's achievement. (Boedker et al (2008).

We all know that human life is uncertain and at any time we may lose a life. Then a company shouldn't recognize the car which it won, in the balance sheet since, since there is a risk of damage or losing the car? A corporation having a ship running on the sea can be sunk at any point of time. Still, we show the ship in the financial statements of the company. Therefore, why we can't recognize the human skills or expertise in the financial reports?

Models of HRA

For valuing human resources, different models have been developed. Mainly, there are two approaches to HRA. Under the cost approach, also called human resource cost accounting method or model, there is a) Acquisition cost model and b) replacement cost model. Under the value approach there are: a) present value of future earnings method, b) discounted future wage model, c) competitive bidding model.

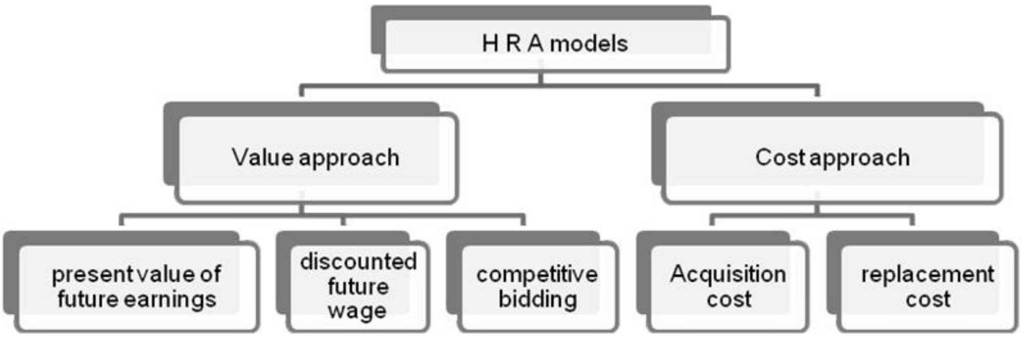

Fig.1: Models of HRA

Brief Introduction of the Companies under Study

- **Oil and Natural Gas Corporation Ltd.(ONGC)**

It is an Indian multinational oil and gas company headquartered in Dehradun, India. It is a Public Sector Undertaking (PSU) of the Government of India, under the administrative control of the Ministry of Petroleum and Natural Gas. It is India's largest oil and gas exploration and production company. It produces around 69% of India's crude oil (equivalent to around 30% of country's total demand) and around 62% of its natural gas. It has been ranked 357th in the fortune global 500 list of the world's biggest corporations for the year 2012. It was founded on 14 Aug, 1956 by Government of India, which currently holds 68.94% equity stake.

- **Infosys Technologies Ltd**.

It is an Indian multinational corporation that provides business consulting, information technology, software engineering and outsourcing services. It is headquartered in Bangalore, Karnataka. It is the second largest India based IT Services Company by 2014 revenues. On 15 February, 2015, its market capitalisation was Rs.263,735 crores making it India's sixth largest publicly traded company.

- **Hindustan Petroleum Corporation Ltd. (HPCL**)

It is an Indian state-owned oil and natural gas company with its headquarters at Mumbai. It has been ranked 260th in the Fortune Global 500 rankings of the world's biggest corporations (2013) and 4th among India's Companies for the year 2012. It has about 25% marketing share in India among PSUs and a strong marketing infrastructure. The President of India owns 51.11% shares in HPCL.

Research Methodology

- **Statement of the Problem**

Whatever is the asset it should yield income to the owner if it is incurring some costs. Since, human resource is the vital intangible assets for any organisation and cost incurred on acquisition, development and replacement of human resource, must yield value to the organization. In respect of incurring these costs, the organisation expects return from these resources and for this purpose it tries to value its human resource.

In this paper, an attempt has been made to study whether there is any relation between HRC and HRV. The study will help to find out that whether the cost incurred on HR affects the HRV.

Objectives of the study

The objective of the study is to establish the relationship between HRC and HRV.

Hypothesis of the study

- Ho1: There is no positive relationship between HRV and HRC.
- Ha1: There is positive relationship between HRV and HRC.

Period of the study

The present study aims at studying the impact of HRC on HRV of the selected companies in India which will be mainly based on secondary data that will be collected from the annual reports of the selected companies in India. The proposed study covers a period of seven years from 2008-09 to 2014-15.

Scope of the Study

Very few researches have been undertaken in this field as it is an emerging trend in contemporary accounting. Public Limited companies which are constantly disclosing HR values in their annual reports for the past few years have been selected for the study.

The companies selected are:

- ONGC Ltd. (Dehradun)
- Infosys Technologies Ltd. (Bangalore)
- HPCL (Mumbai)
- CCI Ltd. (Mumbai)
- Rolta India Ltd. (Bangalore)

Universe: It consists of all public limited companies practicing HRA in India.

Sample: For the present study, 5 public limited companies have been selected. Out of these two is from IT sector viz., Infosys Technologies Ltd. And Rolta India Ltd. and three are from manufacturing sector viz., ONGC Ltd., HPCL, CCI Ltd. The selected companies have been constantly practicing HRA for the past few years which form the basis of their selection.

Method of Data Collection

This study is based on secondary data which will be collected from the annual reports of the companies, websites and books.

Tools of Data Analysis and Hypothesis Testing:

Both statistical and financial tools have been used for testing hypothesis and data analysis. Those are:

- Correlation coefficient
- Tables
- Charts

Analysis and Interpretation

In order to find out the relationship between HRV and HRC of the selected companies, Pearson Correlation has been applied. HRV has been considered as independent variable and HRC viz., Salary & Bonus, Provident Fund, Gratuity and Staff Welfare Expenses has been considered as dependent variable. The results are as follows:

Table 1: Relationship Between HRV and HRC

Company	Factor	Name of technique	Salary & Bonus	Provident Fund	Gratuity	Staff Welfare Cost
CCI	HR Value	Pearson Correlation	.791**	.711	-.293	.906**
		Sig. (2-tailed)	.034	.073	.523	.005
		N	7	7	7	7
HPCL	HR Value	Pearson Correlation	.887**	.903**	.594	.689
		Sig. (2-tailed)	.008	.005	.160	.087
		N	7	7	7	7
Infosys	HR Value	Pearson Correlation	.948**	.893**	.004	.080
		Sig. (2-tailed)	.001	.007	.994	.864
		N	7	7	7	7
ONGC	HR Value	Pearson Correlation	.196	.066	-.685	.560
		Sig. (2-tailed)	.673	.888	.089	.191
		N	7	7	7	7
Rolta	HR Value	Pearson Correlation	.855**	-.822**	.338	-.402
		Sig. (2-tailed)	.014	.023	.458	.371
		N	7	7	7	7

Interpretation

It can be concluded from the above table that in case of CCI, there is a significant association between HR Value and Salary & Bonus and HR Value and Staff Welfare expenses. Further, for HPCL, there is a significant high degree of correlation between HR Value and Salary & Bonus and HR Value and Provident fund. Moreover, in case of Infosys, significant high degree of positive correlation found between HR Value and Salary & Bonus and HR Value and Provident fund. Lastly, in case of Rolta, significant high degree of positive correlation found between HR Value and Salary & Bonus and HR Value and Provident fund. So, it is evident from the results of Pearson correlation that in most of the cases, there is no significant association between HR Value and provident fund, gratuity and staff welfare expenses. On the contrary, HR Value is associated with Salary & Bonus significantly in all cases except ONGC.

Conclusion

It can be concluded that there is direct relationship between HRV and salary & bonus. The HRV can be increased with increase in the salary payment to the employee. In the present study, except ONGC, all the selected companies show such a relationship between the two variables. Other variables of HRC viz., Provident Fund, Staff welfare expenses and Gratuity, do not affect HRV, significantly.

Manpower costs are the major element in operating cost. Those companies which can control these costs and use the workforce optimally become the ultimate winners with crowning glory. It further facilitates the management in finding out that how far profits can be used for making investment in people in an organization.

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