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HUMAN RESOURCE ACCOUNTING AND REPORTING PRACTICES: AN OVERVIEW

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ABSTRACT

The fundamental strength of an organization is its human capital. Human capitals are the combination of energies, skill, talent, and knowledge of the people. Companies cannot be run by machines or systems alone, however efficient it may be. The human capitals are assets that appreciate through knowledge and experience which they get while working in an organization. The human capital is an inevitable element in the 21st century for an organization. Yet accounting is concentrated on physical and financial resources of an organization without bringing the vital ingredient of the social system i.e. human capital. In this paper an effort is being made to study the concept of human resource accounting and to discuss the reporting practices which should to be followed by companies.

***KEYWORDS**: Human Resource, Human Resource Accounting, Human Capital.*

Introduction

The economic growth of nation depends on proper use of physical and human resources. Both the resources should be use in proper ratio. Early man when started living in groups and business activities started, money was not in use, barter system was used for exchange of goods and there was no accounting done. With the development of trade and commerce money was introduce and the need of accounting was developed. Earlier the system of accounting that was developed in India was the bahikhata system and later on the double entry system of accounting came into practice. Accounting was done only for physical and financial resources. Hence the need for human resource accounting was developed.

Need for Human Resource Accounting and Reporting

The increasing business opportunities and simultaneous increase in the current level of performance has made organization look consciously into manpower. Under regular book keeping no data is made available about the HR used an organization and the money and physical assets cannot be operational without individual. The efficiency and productivity of a firm to a great extent depends upon the behavior, morality, degree of dedication, experience and educational qualification of its employees.

Two identical firms in the same industry may have different outcomes if Human resources lack knowledge, training and experience. Hence there is a requirement of HRA which is mentioned below:

- Failure of Conventional accounting to treat Human resources as an asset has led to the development of "Human Resource Accounting"
- At present, huge amount is incurred on hiring ,training and acquiring experience and efficient employees.
- Management is required to take important decisions regarding the appointment, promotion, transfer etc of employees. In the absence of proper accounting data sometimes the decisions may come out to be wrong and the organization may suffer a huge loss.

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Thus Human beings are an important resource in an organization and focus should be made on its measurement and communication to interested parties. Hence the idea of Human Resource Reporting was developed. Human Resource reporting involves disclosure of Human Resource information like cost of recruitment, Recruitment cycle time ,turnover rate, cost per trainee, Training ratio, Total Employee cost, Value of HR per employee. Percentage return on HR Value.Hence there is a need of Human Resource Reporting.

Human Resource Accounting and Reporting Practices

- **Human Resource Accounting**

HRA as "the process of identifying and measuring data about human resources and communicating this information to interested parties"(AAA 1973). According to Woodstuff "HRA is an attempt to identify to identify and report investments made in human resources of an organization that are presently not accounted for in conventional system that tells the management what changes overtime are occurring to human resources of the business". Human Resource Accounting is a branch of Management Accounting.HRA is of High significance as it is not only useful to the management but also for business analyst and the employees. It helps the management in better planning, utilization and management of human resources of the organization, measuring the data in terms of cost & value and communicating this information to the interested parties. Inspite of so much importance of HRA still its study has not received much attention.

- **The Evolutionary Process of Human Resource Accounting**

Although Human Resource Accounting (HRA) is a comparatively a new field but its development has already passed through several discernable phases. Research during the early stages of development of HRA was conducted at the University of Michigan by a research team including the late organizational psychologist Rensis Likert, Founder of the University of Michigan institute of social Research and well Known for his work on management styles and management theory (Likert,1961,1967),faculty member R.Lee Brummet & then Ph.D Candidates William C.Pyle & Eric Flamholtz. The group worked on a series of research projects designed to develop concepts and methods of accounting for Human resources. The first attempt to value human beings in monetary terms was made by Sir William Petty(1623-1687). He treated human being as an element of wealth. However, origin of human resource accounting is found in the work of Rennis Likert who was the first person to use the term "Human Asset" .The term was replaced by the term human by scholars. One outcome of this research (Brummet, Flamholtz & Pyle,1968a) was a paper representing one of the earliest studies dealing with human resource measurement-and the one in which the term "Human Resource Accounting" was used for first time.

The Early stages of HRA development started from 1971-1977 as noted by Flamholtz, Bullen and Hua. It was a period of rapid growth of Interest in the field and involved a significant amount of academic research throughout the western world and in Australia and Japan. Attempts were being made continuously to apply it in business organization. During this period, the American Accounting Association (1973) established committees on Human Resource Accounting in 1971-1972 and 1972-1973. These Committees published reports on the development of HRA and proved to be an impetus during that period.

- **Reporting Practices**

Human Resource reporting involves disclosure of Human Resource information like cost of recruitment, Recruitment cycle time ,turnover rate, cost per trainee, Training ratio, Total Employee cost, Value of HR per employee, percentage return on HR Value. Reporting practices are very essential for companies, public and private large and small to protect the environment and improve the society. Certain Standards have been developed which are referred to as GRI Standards. The Initiative to develop these standards was taken since 1997.The GRI sustainability Reporting standard are developed and rooted in public interest. The GRI standards aim to uplift humanity and try to enhance the resources on which all life depends. These standards help in developing governance & stakeholder's governance enhancing reputation and building trust.

Review of Literature

The concept of Human capital is not a recent discovery. Sir William Petty first attempted to estimate the monetary value of the population of England in 1681.He considered labour as the Father of Wealth and stressed that it should be included in the estimate of the total wealth.

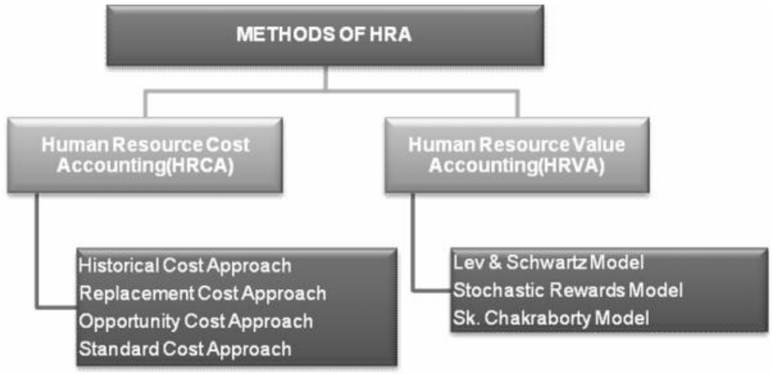
Paton (1962) commented “in a business a well organized and loyal personnel may be a more important asset than a stock of Merchandise”. Hekiman & Jones (1967) gives an opportunity cost approach based on the principle that human assets will be valued while it is scarce. Flamholtz(1971) developed Stochastic Rewards Valuation model and determined the value of human assets by aggregating the present value of human assets by aggregating the present value of expected future services of employees. Likert (1967), Flamholtz (1972),Myer’s and Flowers(1974)suggested the non-monetary approaches for assessing the economic value of human resources that measures the human resources not in dollar or money terms rather than rely on various indices or ratings or rankings. These studies show the importance of HRA information in various decisions. Gupta(1990),Bhatia & Singh(1992), Rao (1993), Batra and Bhatia(1994), Prakash (1997), Verma(1999), Patra and Khalik (2003), Sonara &Patel(2009) conducted a study to know the current status of human resource accounting in Indian Context. The Inference drawn from these studies said that reporting of HRA is not compulsory for companies and to disclose its human resource information in their Annual reports.

Human Resource Accounting in India

Human Resource accounting has started gaining importance in India. A number of organizations are practicising HRA and reflecting it in their annual accounts as supplementary information or as a part of social accounts. It was pioneered by BHEL back in 1970’s.Infosys was the first software company to value HR in India, followed by many other leading software companies. The companies who are presently reporting human assets valuation are BHEL, SAIL, ONGC, OIL, PEC, EIL, MMTC, CCI, ACC, NTPC etc.

Methods of Human Resource Accounting

Human Resource Accounting (HRA)have proposed different models and approaches of Human resource accounting. Some are cost based while others are value based models.



Human Resource Cost Accounting

- **Historical Cost Approach**: Historical cost is based on actual cost incurred on human resources. Such cost may be Acquisition cost & Learning Cost. Acquisition cost is the expense incurred on recruitment, selection & Placement, Learning cost involves expenses incurred on training and development.
- **Replacement Cost Approach**: Replacement Cost method takes into account the actual cost incurred on employees, replacement cost takes into account the notional cost that may be required to acquire a new employee to replace the present one. In calculating the replacement cost, different types of expenses are taken into account which may be in the form of acquisition & learning cost.
- **Opportunity Cost Approach**: Heckiman and Jones first advocated this approach. Opportunity Cost is the value of an asset when there is an alternative opportunity of using it. In this method there is no opportunity cost for employees who are not scarce .In this method the employee is considered as scarce only when the employment in one division of an individual or group denies this kind of talent to another division.
- **Standard Cost approach**: This approach was given by David Watson .For using standard cost; employees of an organization are categorized into different groups based on their Hierarchical positions. Standard cost is fixed for each category of employees put in the same group.

Human Resource Value Accounting

- **Lev and Schwartz Model:** This model was developed in the year 1971 by Lev & Schwartz for valuing Human resources. Lev & Schwartz model is popular for calculating the value of HR used by public sector like SAIL and BHEL. It is based on future earnings of an employee till his retirement. According to the model value of human assets is estimated for a person at a given age which is the present value of his remaining future earning from his employment & this is represented by the following:

$$V_\tau = \sum_{t=\tau}^{T} \frac{I(t)}{(1+r)^{t-\tau}}$$

Where,

V_τ	=	value of an individual or r years
I(t)	=	The individuals annual earnings upto retirement age.
T	=	Retirement age
r	=	Discount rate specific to the person
t	=	Active year f service

This model categorized whole work force in the various homogenous groups such as unskilled, semi-skilled, technical staff, managerial staff & so on and also different age groups.

- **Stochastic Rewards Model**: Stochastic Rewards Model was developed by Eric.G.Flamholtz. This model identified some major variables that are helpful to determine the value of an individual to the organization. He determined the movement of employees from one organization to another as a stochastic process.
- **Sk Chakraborty Model**: Sk.Chakraborty of Indian institute of management Calcutta was the first Indian to attempt at the valuation of resources. This model was similar to historical cost model, he noticed the cost of recruiting, learning, selection, training & development of each employee should considered for acquisition cost method of valuation & treated as different revenue expenditure, this is subject to gradual written off. The balance, not the gradual written off amount, should be shown separately in the balance sheet under the head of investment.

Global Reporting Standards

The GRI Standards are classified into two Categories:

- **Universal Standards**: The Universal Standards are applicable for every organization preparing a sustainability Report. They guide reporters in using the standards, reporting an organizations relevant contextual information & Reporting how its material topics are managed. The Universal Standards are:
  - **GRI 101: Foundation 2016:** Foundation is the starting point for an organization to use the GRI Standards. The GRI standards creates a common language for an organization of any size, type, sector or geographic location that wants to report it economic ,environmental or social impacts.
  - **GRI 102**: **General Disclosures 2016:** General Disclosures is used to report contextual information about an organization and its sustainability reporting practices. This includes information about an organizations profile, strategy, ethics & integrity, governance, stakeholder engagement practices and reporting process.
  - **GRI 103**: **Management Approach 2016:** Management Approach disclosures enable an organization to explain how it manages the economic, environmental and social impacts related to material topics. This provides narrative information about how the organization identifies, analyzes & responds to its actual and potential impacts.
- **Topic Specific Standards:** The Economic Standards, Environmental & Social Standards are topic specific standards. The 200 series of GRI standards include Economic Standards, the 300 series of the GRI deal with Environmental Standards and the 400 series of the GRI deal with Social Standards.

- **Economic Standards (GRI-200):** The 200 series of the GRI report about Economic performance, Market Presence, Indirect Economic Impacts, Procurement Practices, Anti Corruption, Anti- Competitive Behavior.
- **Environmental Standards (GRI-300):** The 300 series of the GRI report about Material, Energy, Water effluents, Bio-diversity, Emissions, Effluent waste, Environmental Compliance etc.
- **Social Standards (GRI-400):** The 400 series of the GRI report about Employment, Labour & Management Relations, Occupational Health & Safety, Training & Education, Diversity & Equal Opportunity, Non- Discrimination.

Issues and Challenges on Human Resource Accounting & Reporting

Despite of the growing importance of Human Resource Accounting, it is very unfortunate that there is no generally accepted model /method neither for the valuation of Human resource nor for reporting of information by means of different statements. However another challenge faced in this context is the difficulty in making a comparative study of human resources of two companies. Many companies in the absence of any compulsion fail to disclose the details regarding the human resources in their Financial Statements. Other issues involved are the period of existence of Human resources is uncertain. As human resources are incapable of being owned, retained & utilized unlike the physical assets hence it is difficult for the management to treat them as assets in the strict sense. Inspite of all its significance & necessity, the tax laws don't recognize human beings as assets. The Central problem in Human Resource Accounting & Reporting is the recognizing of Human Resources. The Companies Act 2013 does not provide for the valuation of Human Resources. As a result of this there is a voluntary disclosure of Human Resource information by the companies.

Conclusion

From the above study it is evident that there are several approaches or models for valuation of human resources. Many organizations are trying to introduce HRA but are finding it difficult to arrive at a agreeable method of valuation and reporting of Human resources. All the models are based on certain assumptions, which may not come to be true. There is no universally accepted model for valuation of human resources. There should be a focus for developing a preeminent model for valuing Human Capital, establish guidelines for reporting & encourage compliance with said guidelines.

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