

HRA: A VALUABLE TOOL FOR THE CORPORATES

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ABSTRACT

The key strength of an organization comes out of its human capital. It is the basis of the creation of customer and structural capital. Human Capital is a combination of four key elements, namely knowledge, skill, talent and behaviour. Due to globalization, the business organization would over are experiencing immense competitive pressure. As a result they are striving to achieve operational efficiency, productivity, improvement, cost reduction, increased connectivity, organizational restructuring and reengineering business processes. The need to meet the increasing business opportunities of future and simultaneously to improve upon the current level of performance has made organization's look consciously into the manpower as the future leverage for success. So human resource accounting is most valuable and inevitable instrument for the corporate. HRA is a branch of managerial accounting. It involves application of accounting concepts and methods to the management of human resource.

KEYWORDS: *Human Capital, Organizational Restructuring & Reengineering Business Processes and HRA.*

Introduction

Background

The economic growth of any nation depends upon the harnessing and exploitation of human resources as well as non-human resources along with their blending in a proper ratio. The key strength of an organization comes out of its human capital. It is the basis of the creation of customer and structural capital. Human Capital is a combination of four key elements, namely knowledge, skill, talent and behaviour. When a man 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 need of accounting. With the development of trade and commerce, money was introduced and need for accounting also developed. The system of accounting developed in India for account keeping is known as Bahikhata System or Deshi Nama System. During the Maurya period in Indian history, Chanakya in his book Arthashastra devoted a separate chapter on accounting, in which he discussed the method of keeping accounts about expenses and profit and also about the checking of accounts. Due to globalization, the business organization would over are experiencing immense competitive pressure. As a result they are striving to achieve operational efficiency, productivity, improvement, cost reduction, increased connectivity, organizational restructuring and reengineering business processes.

Need for HRA

The need to meet the increasing business opportunities of future and simultaneously to improve upon the current level of performance has made organization's look consciously into the manpower as the future leverage for success. In case of two identical firms using similar machinery, employing identical amount of capital, producing similar product with equivalent number of employees may have different results. One of the important reasons for this may be attributed to the difference in the quality, behaviour, morality, degree of dedication, experience, and educational qualification etc. of employees. The need for HRA in a developing country like India is explained below:

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- The balance sheet and the profit and loss account of a firm cannot show the true & fair view of its affairs unless all the resources and the assets including the human resources are properly shown.
- At present, huge amount is incurred on hiring, training and acquiring experience and efficiency on the human element. So, it is essential that the true position regarding the nature of this expenditure and its role is prominently highlighted for the benefit of all concerned.
- 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 are faulty and the organization suffers on this account.

HRA: An Overview

HRA as “the process of identifying and measuring data about human resources and communicating this information to interested parties” (AAA, 1973) has engaged the minds of a number of researchers. Though there have been early accounting theorists (Paton, 1922, Scott, 1925) who recognized human resource as an asset and commented on importance of human asset. According to Woodsuff “HRA is an attempt 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 over time are occurring to the human resources of the business”.

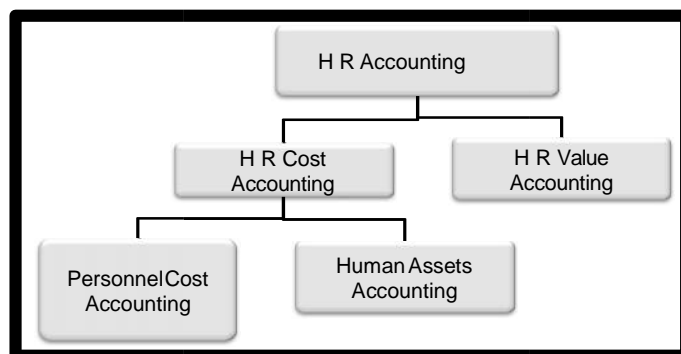
HRA means accounting for people as an organizational resource. It involves measuring the costs incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value to people to organizations. The primary purpose of HRA system is to help management plan and control the use of human resources effectively and efficiently. In addition, some human resource accounting information may also be reported in financial statements for use by investors and other outsiders. The basic premises underlying the theory of HRA are:

- People are valuable resource of an enterprise.
- The usefulness of manpower as an organizational resource is determined by the way in which it is managed.
- Information on investment and value of human resource is useful for decision making in the organization.

HRA is a branch of managerial accounting. It involves application of accounting concepts and methods to the management of human resource. It helps management in better utilization, planning and management of human resource in the enterprise. The HRA endeavors to obtain a direct inclusion of the human resource value in the accounting statement. Performance of the human asset is not predictable and therefore, the human asset management is always a challenging job for any organization and hence the development and harnessing of human resource is badly needed. The emerging trend in HRA is clearly towards the adoption of the HRA approach, through which organization benefit in two significant ways: an increase in organizational effectiveness and the satisfaction of each employee's needs, rather than addressing organizational goals, human needs are compatible; one set need not to be gained at the expense of the other. There are two major aspects of HR accounting:

- Human resource cost accounting
- Human resource value accounting

Figure1: Major Aspects of HR Accounting



Review of Literature

Farzaneh Rahmanizadeh and Mahesh.R (2014)¹ have made an attempt on "Human Resource Accounting: Disclosure of Indian Companies", they collected the data from the Annual reports of selected for five years (2007- 2011). Sixteen companies from Public and sixteen companies from Private were taken up for the study. Out of which only two companies from Public i.e. ONGC and BHEL and two companies from Private Infosys and Reliance Industries Ltd were following HRA and hence four companies were take for the analysis. The study found that the concerned sources that HRA could be used as an effective tool for strategic Human resource management , despite the difficulties associated with HRA, in India, some giant Public sector companies as well as Private sector enterprises of international repute have been continuing their HRA practices. Iraj Isvand and Najaf Gharachorlu (2014)² Investigating the Influence of Human Resources Accounting Information on Managers Decision Making in Social Security Company of Khuzestan Province, by collecting data with the help of questionnaire and used descriptive statistics and correlation analysis, and the result proved that there is positive and direct relationship between human resource accounting information with improvement of managers decision making related to staffing, application, education and development, performance evaluation, reward and maintenance.

HRA in India

HRA has started gaining ground in India as well. Along with significant research studies towards development of HRA, there have been an increasing number of attempts to apply HRA in many organizations. A number of organizations adopted HRA practice and started reflecting the value of HR in their annual accounts as supplementary information or as a part of social accounts. It was pioneered by BHEL and SAIL back in the 1970's. The service, technology and other knowledge based sectors recognized the importance of the contribution of HR. Infosys technologies was the first software company to value HR in India, followed by many other leading software companies. Now a day's many other public and private sector undertakings are reporting HRA information in their financial statements. They are ONGC, HPCL, CCI, KRL, OIL, MMTC, NTPC, EIL, HSL, IOC, HZL etc.

Human Resource Valuation Models

Human Resource Accounting (HRA) have proposed different models and approaches, of which some are cost-based using historical, replacement or opportunity cost principles, while others are based on economic principles of value, and still others are based on psycho-social measures of organizational human resources (Kolay 1991).The few important different models and their relevance of human resources value measures are presented below:

- **Cost Based Approaches / Models**
 - **Historical Cost Approach:** Under this method, the cost of acquisition, i.e. selection, hiring, training costs of employees are capitalized and written off over the expected useful life of the employees. If employee leaves the company before the anticipatory period of service, the remaining unamortized costs will be written off against the profit and loss account in the corresponding year. If the service period exceeds the anticipated time them the amortization of costs is rescheduled.
 - **Replacement Cost Approach:** Replacement cost refers to the sacrifice that would have to be incurred by a given organization in order to replace an existing resource with another, capable of providing equivalent set of services. In short replacement cost is the current entry cost of a new person with same capabilities. Rensis Likert and Eric. G. Flamholtz developed this approach. In this approach they consider the cost incurred in replacing the employee with its substitute having same efficiency and experience.
 - **Opportunity Cost Approach:** The concept of opportunity cost has advocated by Heikeman and Jones (1967) by developing what is known as 'the competitive bidding model'. It means that opportunity cost of an employees or a group of employee in one

1 "Human Resource Accounting Disclosure of Indian Companies", Tactful Management Research Journal, Vol. 2, Issue 5, pp 1-8.

2 "Investigation of the Influence of Human Resources Accounting Information on Managers Decision-Making in Social Security Company of Khuzestan Province", Journal of Applied Environmental and Biological Sciences, Vol 4(3), pp. 253-260.

department is calculated on the basis of the bids (offers) by other departments for those employees. Thus the value of human resources is determined on the basis of the value of an individual employee in alternative use.

- **Standard Cost Approach:-** This approach was given by David Waston. In this method the standard cost of recruiting, hiring, training and development is accumulated every year for each grade of employees.
- **Economic Models**
 - **Goodwill Method:** It is also called as Hermanson Model. According to this model the extra profit generated by an organization during a specified period is compared to the industry's average rate that is goodwill credited to the organizational human resource for its valuation.
- **Behavioral Model**
 - **A Model on Valuation of Human Organization–Likert (1967):** It was developed by Rensis Likert. This model established a set of casual variables through which the psychological and sociological conditions of the employees in the organization determines their productivity. In the long run, the performance of the organization is decided by these psycho-social conditions. The investment in HR is integrated with psycho-social conditions of the employees in the organization and to be amortized during a particular period in harmony with the condition of the human organization. The model aims to establish through psycho-social test results how a set of casual variables reflecting the management system adopted by an organization determine the appreciating or depreciating condition of the human organization, as reflected by a set of intervening variables, which in turn likely to result in the achievement of end result variables over time.

Conclusion

It is evident from above; there are several approaches or models for valuation of human resources. All these models have different backgrounds and different theoretical foundations. The cost, value and behavioural based HRA approaches (including other surrogate measures) are diverse in nature, contributing differently towards accounting of the organizational human resources. The contributions and/or the limitations of all the approaches/models must be clearly studied. HRA practices in India have been evolved out of the synthesis of three approaches and may appear to be an improved version. Here, it is has to be noted that, before selecting the model every enterprise should take into consideration the advantages and disadvantages of all models, because every enterprise is a separate entity, and it has different levels of intelligence background, interest and mobility.

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