

LITERATURE REVIEW OF HUMAN RESOURCE ACCOUNTING: A STUDY

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Abstract

Accounting from the very beginning is confined to record only those business transactions which can be expressed in monetary terms. It was not a problematic issue till business meant dealing in tangible items. Gradually with the passage of time business shifted from production of goods to providing services to the customer. It was the time when it was felt that the most important asset of a company is human beings. They cannot be ignored in accounting. Without recording them the balance sheet of the company does not depict the true picture of the concern. That was the time when the concept of human resource accounting came and academicians started giving their theories and views regarding recording of this most important asset.

Keywords: HRA, Organisation Culture, Human Capital, HRV, HRM.

Introduction

There is end number of researchers working on different topics. They have contributed in the development of that concept in different ways. Therefore when a person goes for research it is required to look at the previous studies. It helps the researcher to understand the concerned problem in different ways. Different researchers have used different methods, tools, data analysis to study the problem and they arrived at different conclusions. It gives the researcher enough idea to understand the problem and find the research gap and work upon the area which is not yet touched.

Review of Literature

Shri Pragnesh B. Shah (2004): This was the study carried by the research scholar in his thesis by study of two different private and public sector organisation by using correlation and regression analysis. Further a questionnaire was also circulated to know the relevance and applicability of the subject. It was concluded that HRA is still in infancy and there is strict need of some unification of presentation of such information. Human Resource is at the stage of development and still a lot is required to be done to make it completely usable.

Aditi Dixit (2005): In this Ph.D. thesis in order to know the Human Resource Accounting of BHEL questionnaire was circulated and chi-square test was applied. It was found that as such there was no proper accounting of Human Resource but it is useful to know the impact of training to employees. HRA lacks support from top management and it is confined to training and development only. It is further recommended that value of Human Resource Accounting should be based on the form of contribution made by employee. At last

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there shall be some statutory body to make some regulatory framework for HRA. It is indeed needed to have some accounting standard to bring unification in presentation of Human Resource Accounting and support of higher level is also needed for its proper implementation.

Eric Flamholtz (2005): The paper draws the attention that total value of Human Capital is greater than its individual value and the corporate culture has a significant impact on the Human Capital and in turn it has impact on financial performance. This paper was conceptual in nature. According to the paper all organizations have cultures or set of values that influence the way people behave in a variety of areas, such as treatment of customers, standard of performance, innovation etc. The study was conducted on medium sized industrial enterprise (Banner Corporation) of US. The research was to design a common Banner Corporation Culture. Questionnaire was circulated to collect information. Questionnaire was designed with two objectives (1) To determine the extent to which people throughout Banner Corporation agreed with the stated or desired culture and (2) To determine the extent to which people perceived that each division, as well as the corporate office (headquarters) was behaving in ways consistent with the desired or ideal corporate culture. The paper concludes that the results provide statistically significant evidence of the impact of culture as a component of Human Capital. I unconditionally accept that positive culture affects the contribution of the employees.

Dr. Arindam Ghosh and Prof. Asit Gope (2009): The article specifies the need of Human Resource Accounting by giving reasons for developing Human Resource accounting that is to overcome problems arising from the valuation of intangible assets, to focus on employees as assets, to retain eminent and qualified workforce and to attract future employees. The article assumes Human Assets are as valuable in the organisation as other assets in the accomplishment of organisational goals, the acquisition of Human Asset involves cost, it provides economic benefit to the organisation. Information regarding Human Resource Cost and benefits can be useful in the process of planning, controlling, evaluating and predicting organisational performance. The author concludes that the information regarding investment in Human Resource is valuable for the human resource management personnel to determine how well the investment in Human Resource is utilised by the management in producing income for the organisation. Indeed the development in this field is due to such need and benefits.

Yagnesh M Dalvadi (2010): In this study the author throws light on Human Resource Accounting in public and private companies in India. The study is on four companies" i.e. BHEL, SAIL, INFOSYS and ACC. According to the study BHEL started using reporting Human resource in its annual report in 1974-75 by using Lev and Schwartz model. It uses 12% as discount rate. It started using efficiency factor for the purpose of Human Resource Valuation from the year 1980-81. SAIL started reporting Human Resource Accounting from the year 1983-84. It uses 15% as discount rate. It provides information regarding number of employees and category wise distribution of employees. Infosys uses Human Resource Accounting with different discount rated in different years. ACC started using Human Resource Accounting in the year 1983-84. It also provides information regarding number of

employees, basic earnings per share, capital employed and total asset and employee cost. The author used 't' test to know that there is any significant difference in companies using Human Resource Accounting which was concluded that there is significant difference in use of Human Resource Accounting. The author further gives suggestions which are ACC should provide more information regarding its Human Resources. The author also gives suggestion to the government to bring some specific model for valuation of Human Resources. Government also should make it mandatory for companies to disclose Human Resource related information. To encourage companies to use Human Resource Accounting government must provide some tax exemptions and subsidies. Because of lack of some standard guidelines from government and accounting standard making bodies there is difference in accounting of Human Resource in public and private organisations.

Raunak Narayan (2010): The aim of this paper was to study the Human Resource Accounting practices, to identify the issues and challenges, to examine these issues and challenges and to give suggestions based on the findings. According to the author the major issues of Human Resource Accounting are it lacks symmetry in the valuation as compare to the other assets. Various approaches given are criticised on one or other ground which is the root cause of its slow development. Like other assets the rate of amortisation is also not developed, Human Resource Accounting is also not accepted by the people who are going to be valued in addition to it; Human Resource has no realisable value rather retirement benefits are given to human beings at the time of retirement. The challenges of Human Resource Accounting are to have the problem of ownership, subjectivity, it is not economical for small scale businesses and it is not recognised by taxation authority. The author in its findings advocates that company while adopting and implementing Human Resource Accounting the following information could be obtained.

- Cost per employee.
- Human capital Investment ratio.
- The amount of wealth created by each employee
- The profit created by each employee
- The ratio of salary paid to the total revenue generated
- Average salary of each employee
- Employee absenteeism rate.
- Employee turnover rate and retention rate.

The writer concludes that HRA would give an organisation a correct vision to the way forward. No doubt so far this subject is not fully developed it has issues and challenges in its use. Research Executive Summaries Series (2010)The paper explains the impact of Recruitment, Training and Job for life and Teamwork and Organizational culture on the performance of an organization. Six case studies Companies were taken up for study in this paper (2 in Canada, 2 in Japan and 2 in the UK) and 100 telephonic interviews (40 in Japan, 30 in Canada and 30 in the UK) were conducted. The paper concluded in its findings that recruitment, training, teamwork and organizational culture were the four HR policies affecting organizational performance. The conclusion of the author is very relevant as the correct

recruitment, training and teamwork along with good corporate culture are key determinants in organisational performance Samuel P D Anantadjaya (2011) Based on the knowledge based economy theory of firm, this paper attempts to study the connection between the quality of employees and ratio analysis for the purpose of study the quality of employees are measured on the basis of skills and abilities and he ratio analysis are also limited to the growth ratios (sales growth, net profit growth and cost reduction).

It is expected that higher the quality of employees higher is the growth ratio of any given firm. This paper attempts to perform ratio analysis on the quality of employees inside an organisation the concludes that training influences the quality of employees, bonus and incentives relates strongly to the quality of employees, recognition to employees increases the quality of work, length of education relates to the quality of employees, salary influences employees working harder, sales growth, cost reduction and net income growth is related to the quality of employees. Quantification of information is always helpful to analyse a situation and to take correct decisions otherwise the abstract information does not help in taking right decision.

C.A. Vikas Jain (2011): According to the author success of any service industry totally relies upon the quality of Human Resources it possesses. The increasing awareness and recognition of Human and intellectual capital as core economic resources of the current era have forced the firm to shift their focus from investment only in traditional physical assets to the investment and development in Human Capital. The article focuses on the concepts of „Human Resource Accounting” and various techniques to determine the value of Human Resources. He author concludes that HRA in any organisation should be designed to serve two functions, first Human Resource must be recognised as a critical success factor for any organisation and secondly HRA must provide an alternative accounting system designed to measure the cost and value of Human Asset to an organisation. The author gives suggestion that there is an urgent need to develop a new accounting standard for valuing Human Resources of the organisation. The application of HRA also needs support from the professional bodies and government.

Amitava Mondal and Santanu Kumar Ghosh (2012): The objective of this paper was to search the link between intellectual capital and corporate financial performance. Corporate performance measures used in this analysis are profitability and productivity. The intellectual capital and physical capital of selected companies have been analysed and their impact on corporate performance has been measured. It has been concluded that the efficient management of company’s intellectual capital can explain corporate value creation. The management of intellectual asset is important but author does not give due focus on uniformity of valuation of intangible assets i.e. Human Resource for the comparable financial statements.

Dr. Sandeep (2012): The article reviews the contribution of Human Resource to an organisation and its valuation thereof. Accounting of Human Resource is required to provide complete picture of the organisation, to exercise better control, it assist management in better decision making and it also shows whether Human Resources have been properly utilised and allocated in company or not. The author finds the hurdle in the area of development of

Human Resource Accounting is that it is very complex, lack of interest of management and investor and the ownership on such asset cannot be claimed. At the end it is concluded that Human Resource Accounting must be given utmost importance as it is vital in contributing to the company's success. I support the conclusion of the author according to which Human Resource Accounting has relevance but it also has hurdles in its adoption that is within the organisation and outside the organization.

Dr. Nidhi Sharma and Hitendra Shukla (2012): This paper also compares the public and private companies in context of Human Resource Accounting. The period taken for the study was 2006-07 to 2010-11 and the companies taken up were ONGC, BHEL, INFOSYS and RELIANCE. Data collected was analyzed by using t-test and conclusion was made that there is significant difference between Public and Private in context of Human Resource Accounting. The author has rightly concluded that there is difference in Human Resource Accounting practices in private and public organisations as there is no set uniformity in guidelines for the use of Human Resource Accounting.

Mamta Ratti (2012): The author in this paper studies the value of Human Resources at different level (higher, middle and lower level) to determine the value of employees at different levels. Fifteen companies were examined through primary collection of data. In this study only employees were considered. It is concluded that value of Human Resource does not depend upon the number of employees. The reason for higher value may be the amount paid to the employees. The writer concludes that the special studies are needed periodically to calculate cost of turnover, cost benefit analysis of training and the cost of labour etc. To take more correct decision it is required to quantify the information related to Human Resource like cost of turnover, cost benefit analysis of training and cost of labour etc.

Rakholiya Nisha Rasikbhai and Dr. Prashant Makwana (2012): In this paper it was highlighted that Human Resources are the most valuable resources a firm can possess because effective utilization of physical and financial resources depends upon the quality of Human Resources. In this study 24 companies were selected, a questionnaire was sent and it was concluded that Human Resource Accounting is useful in providing the estimates of the cost of recruitment from outside and development from within the organization. HRA also helps in providing information in recruitment planning. The study is quite relevant as the quantification of information certainly helps in taking correct decisions.

Daarsari Pandurangarao, Dr. S. Chand Basha and Devarapalli Rajasekh (2013): The article describes the relevance of Human Resource above the other factors of production as the skills, creativity and ability of Human being can not be replaced by the machines. The paper studies the various models of Human Resource and comparative study of Human Resource Accounting of INFOSYS was undertaken for the year 2011 and 2012. The authors Concludes that despite of many advantages the implementation of Human Resource Accounting is at very early stage in Indian organizations. No doubt the non standardisation of information regarding Human Resource gives companies option either to give such information in books of accounts or not.

Md. Amirul Islam, Md. Kamruzzaman and Md. Redwanuzzaman (2013): The author in this paper studies the models of HRA, identifies the Human Resource Value, measures the cost and value of people to organization and investigates the cognitive and behavioural impact of such information. The author concludes in the paper that there is a need to prescribe the specific provisions for valuing Human Resources and disclosing the details of investment in Human Assets in the form of training and development expenses, salaries and other allowances through annual reports. I fully support the author that there is an urgent need for specific provisions to be framed in the field of Human Resource Accounting.

Dr. Ankita Chaturvedi (2013): The above paper throws light on accounting practices in SAIL. Calculation of various ratios viz. Revenue factor, Expense Factor, Income factor and Production factor along with its diagrammatic analysis reveals the correct picture of Human Resource in SAIL. At the end the author suggested to the company that beside technological up-gradation and modernization the company should also make efforts towards competency development. The company should continue to work for developing capabilities and realization of best potential of the people. No doubt the most important asset of an organisation is Human Asset and their development ultimately will lead the organisation to greater heights.

Dr. N.K. Sharma and Mrs. Lakshmi T (2013): The focus on this study was to study the effect of organisational capabilities on community related performance. It is based on the survey of 44 companies in Mumbai and Bangalore. In this study it was concluded that HR practices are done in MNCs in India and they are resulting in favourable business performance. It is rightly said that applications of Human Resource practices are favourable for business performance.

P. Usha (June 2013): According to this paper traditional accounting is going to be replaced gradually by modern accounting where International Financial Reporting Standard proposes and encourages alternative measurement and reporting standard which also includes Human Resource Accounting. Certainly the recognition of Human Resource as an asset and other developments in the field of modern accounting is going to present true and fair information in financial statement.

Khadijeh Khodabakshi Parijan and Dr. C. Sumangala (2013): This is a study of ONGC firm where value of Human Resource is studied with respect to financial performance of the company. The objective of the paper was 1. To analyse the relationship between number of employees and sales revenue, net income and Human Asset Value. 2. To measure the relationship between Human Asset Value to fixed assets, current assets and total assets. The author used different statistical techniques and concluded that HRV is significantly and positively related with turnover per employee, net income per employee, total asset per employee and is negatively related with total numbers off employees and return on HRV per employee. Very truly author conclude that HRV is positively related with turnover per employee, net income per employee and negatively related with net income per employee and total asset per employee.

H. Haghshenas, G. Barzegar (2014): The writer in this paper studies the history, definition and components of intellectual capital. In addition to it the measurement aspect of intellectual capital is also analysed. It is concluded that although Human Assets are not shown in the balance sheet but an organisation must manage all types of Human Resources and for that Human Resource must be examined through different angles that is social and organizational aspect. There is no doubt that Human Resource Accounting has not developed to the level where we can show it in balance sheet but so far its relevance is concerned it should be examined from all the angles to manage it more properly.

Enyi Pateick, P Enyi Patrick Enyi, Adebawojo Oladipupo Akindehinde (February 2014): The authors in this paper highlight the findings of 16 publically quoted Nigerian Banks where questionnaires were sent Simple Regression and ANOVA as statistical tools were used to study the data and it was found that Human Asset significantly affects management decisions. It is recommended to capitalize all relevant recruitment, training and development expenditure in line with the treatment of all other assets. The study of above literature shows that some work on Human Resources accounting has been done but it was confined only to one or two companies. No attempt has been made to make a comparative study between public and private sector companies.

Abolfazl Danaei, Hossain Abdi, Hushang Mohagheghi and Majid Bajlan (2014): The author in this article gives views regarding world demand of HRA and also takes help of Human Capital Theory of Labour Economics which supports the Human Capital. It is concluded in the paper that when managers go through the process of measuring Human Resources then they are more likely to focus on the Human Side of organization and consider Human Resources as valuable organizational resources. Very rightly said it is only when we recognize the importance of Human Capital then only we consider Human Asset as valuable organizational resources.

Dinesh B. Raghuwanshi (2014): This study was under taken in educational institution to know how HR accounting can be applied there. The author finds few challenges in the application of HR accounting. Unlike business organisation most of the educational institutions are run as charitable institutions. Absence of profit motive does not encourage management to manage its Human Resource efficiently. Salaries of employees and fee structure is determined by the government. The writer gives his views at the end that when the corporate will participate in education industry then there will be more logical valuation of Human Resources. The same concept of Human Resource Accounting is not seen applicable for companies and educational institutions so far the element of profit is missing in educational institutions.

Ms. Shripada Dinesh Patil (2014): The researcher in this study studies the overall analysis of HRA practices in IT Sector in India, to find the impact of HRA in Strategic decision making, to find the link between HRA and HR practices, to find the impact of HRA on motivation level of employees, to prove the role of HRA practices in profitability of the organization. To collect information questionnaire was circulated and information collected were analysed by using

statistical tools which showed HRA information proved helpful in taking decisions pertaining to framing recruitment budget, selecting a suitable candidate for job, HRA information helps in better performance decisions and compare employees of different designations and across different departments. It helps to select a correct training program for employees and get ROI of each program; HRA information helps HR managers to decide the salary of an individual during the interview and during the promotion, It helps to predict the organizational performance and enables to save cost otherwise invested in incorrect decisions and Implementation of HRA in the organization motivates the employees to perform better. The author very correctly says that quantification of HR information is of immense help to managers for decision making.

P. Fathima Nancy Dyana (2014): The objective of the research was 1. To identify the nature and characteristics of Human Resource Accounting disclosures voluntarily, in the Annual reports of Indian companies. 2. To analyze the extent in which HRA information help to make wise decisions. 3. To examine the perception of management and employees on Human Resource Accounting. 4. To analyze the contribution of Human Resource Accounting on Financial statement of Indian companies. 5. To analyze the profitability of a company with Human Resource Accounting disclosures (HRAD). The researcher used "convenience sampling" method and opinions have been collected from managers, accountants and employees in the respective Companies. The companies which follow Human Resource Accounting have been selected as a sample unit for the study. Primary data was collected through questionnaire and secondary information was collected through annual reports. Collected data was analyses and conclusion was given that information regarding Human Resource certainly helps in taking decisions.

Michael Mankins, Karen Harris et al (2017): The author in this article explains how the Human Capital has taken more importance than financial resources. Presently global financial capital is 10 times of global GDP. In many large companies the after cost of borrowing is close to the rate of inflation which means borrowing cost is near zero. Skilful allocation of financial capital is no longer a source of sustained competitive advantage. Weighted average cost of capital was 10% in 1980s and 1990s and at present it ranges from 5-6%. It is expected that global financial asset will increase by 40% from 2010 to 2020. It has also been researched that population of the age of 45-59 years are critical in determining the level of savings. These peak savers will represent a large and growing percentage of global population until 2040. Because of financial capital abundance the companies have started buy backs as they do not have better investment opportunities. According to author at present the company must learn to quickly spot and get out of the losing venture while aggressively supporting the winners like Alphabet the parent company of Google did. Today productive means working smarter than working harder. In the new era the time, talent and energy of the people of the company along with the ideas they generate is the foundation of the superior performance. The companies that apply real discipline in their management of Human Capital are on average 40% more productive than the rest. The author hence supports that present age is the age where the value of Human Capital outweighs the importance of financial resources which further supports the requirement of research in the field of Human Resource Accounting.

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