



Comparative Analysis of Human Resource Accounting (HRA) Practices in Indian Companies

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Abstract : The growth of any business is unconditionally dependent on the skillful deployment of its human resources, which is globally recognised. Even in the present situation any business, by owning adequate financial properties and acquire physical properties with latest technology as it needs, found it hard to manage its affairs, if the human of a business is not adequately strong. Though, the other problem of HR is that in India most of the companies do not recognize it properly, despite of its significantly contribution. Its major contribution is also in the area of internal and external management decisions. This research paper is based upon the HR practices of disclosing the HR value and value per employee of selected 4 manufacturing companies in India. For the purpose of analysis the data of the sample companies were taken for 2013-14 periods. The analysis found that the Indian companies' are using Lev & Schwartz model for evaluating their employees and the value per employee in the companies were found to be different in sample units.

Key word: HUMAN RESOURCE, HUMAN RESOURCE ACCOUNTING, , INDIAN COMPANIES

I. INTRODUCTION

The development of human resource accounting came about as a result of an increasing recognition of the importance of human assets in economics, psychology, and personnel management. Human resource accounting involves accounting for people as organizational resources and its development has progressed through several stages. The first stage involved the recognition by academicians that a method to account for human resources was needed. The second stage involved development of concepts and models for measuring the cost and value of people as organizational resources. The third stage involved experiments to apply the measurement in actual companies. The difficulties involved in finding organizations that are willing to serve as research sites has limited the number of these types of studies. The fourth stage involved empirical testing of human resource accounting information in a behavioral context. The fifth stage like the third one involved additional experiments to apply human resource accounting technologies to a variety of managerial problems. It is noteworthy that many successful companies are increasing their activities to

achieve enterprise sustainability from a number of approaches. Sustainability has become a vital part of a competitive business strategy, and organizations that invest in strategies to increase sustainability will have a long-term competitive advantage. Responsiveness to factors which benefit the environment and social performance has been shown to also create stakeholder value.

This study introduces the field of Human Resource Accounting (HRA) and suggests that it may play a role in facilitating the goals of enterprise sustainability. It is also clarify the effect of human resource accounting information on human resource investment and its benefit to organization improvement. Whereas traditional accounting has treated costs related to a company's human resources as expenses on the income statement. That reduce profit, HRA treats these expenditures as assets on the balance sheet that have future value for the company. HRA involves accounting for the company's management and employees as "human capital" or assets that provide future benefits. An important aspect of the HRA paradigm is the process of measuring human resources, as well as the measures themselves, which have relevance in managerial decision-making. Furthermore the resulting decisions are likely to support the organization's long-term sustainability and in turn increase stakeholder value and competitive advantage. Human resource accounting is evaluated as a potential organizational measurement tool. Specifically, asset and cost models are examined in terms of reliability, validity, and usefulness. Beyond this evaluative perspective.

Search for a standard human resource account has led many researchers to focus on Accounting problems and the design of individual accounts in enterprises, and it has generally failed to link the rise of HRA to the processes of change in the labour market and in society in general. It is important to be aware of the fact that HRA is not only about putting figures on human capital; it is also about supporting human resource development/management.

No doubt that human resources are the most important resources in any business, it is obvious for any management claims that human resources are the most important, expensive, and the best asset in the entity, because it makes every entity full of active, without it everything is rigid, all other assets, activities and operations were directed by the human being, through a direct way like direct labor, or indirect way through automation that can be considered as a product of human being effort, thus HR in the business are the source of value added, by managing, using, assets and resources that guaranteed overstating and increasing the owners equity through returns on assets.

Accounting for Human Resources: According to the American Accounting Association's Committee on Human Resource Accounting (1973), Human Resource Accounting is nothing but "the process of identifying and measuring data related to human resource and communicating this information to interested parties". From this definition, we could recognize that HRA is not only involved in the measurement of data related to placement, training and development of employees but also involved in the evaluation of financial condition of people in an organization. This has been supported by Flamholtz (1971) who defined HRA as "the measurement and reporting of the economic value of people in organizational resource. "Overall, the HRA can be defined as the process of identifying and measuring data related to human resource for the development and enhancement of economic value of interested parties associated with corresponding organization. Human Resource is one of the biggest assets of an organization. Unfortunately, there's no legal regulation in any of the organization annual report. Sometimes, the HR value might increase beyond the tangible assets value of organization but conventional accounting method does not facilitate recording and recognizing the HR values. For example, the announcement of Bill Gates retirement from the Microsoft Corporation drastically reduced the share price of the company. But, firm's conventional accounting method suggests no such impact on the

financial aspect of the company while in reality the situation is completely different from what is claimed. The primary function of Human Resource Accounting (HRA) is to manage organizational expenditures which provide future benefits for the development of organization. Here the expenditure related to human resource are recorded as assets on the balance sheet contrary to the older system of accounting where these costs are considered expenses that reduce net profit of an organization. In addition, HRA process of measurement has a role to play in any decision making process related of the organization. Though the history of HRA can be traced back to USA, its contribution for the growth of HRA has come from various other countries. Considering human as assets has become morally repulsive following the abolition of slavery. As a result, it is expected that it would take more time to apply this concept in accounting agenda. With the liberation of the eighteenth century debates, humans have been excluded from financial statements. But since company's production lacks human contribution, as evidenced in the financial statements, has probably made the recognition and rewarding of employees' contributions more challenging. The present debate after the Second World War is focused on the question whether humans can be considered as assets; this contention is based on 18th and 19th century ideals. Since the labour cost is seen as an expense rather than acknowledged as an asset it could be considered to be in line with the consumer model followed by the modern capitalist economies. Accordingly, the emerging fields including HRA has demonstrated the migration of knowledge across the artificial edifices those have been erected by scientific disciplines (Daft & Lewin, 2008). Moreover, HRA assists the proponents to seek an accurate way to determine the competency of employees as well (Roslender & Dyson, 1992). In order to implement effective HRA practices, it is essential to focus three main settings: (1) profound knowledge on human resource cost, values, outcome and how to calculate these (2) high management demands (3) high target settings. Finally, it is essential to execute HRA from strategic-management prospect.

II. REVIEW OF LITERATURE

Title of article	Author	Year	Variable used	Conclusion
1) Investigation of the Influence of Human Resources Accounting Information on Managers' Decision-making in Social Security Organization of Khuzestan Province	IrajIsvan	2014	there is significant relationship between human Resources accounting information and managers' decisions in Social Security Organization in Khuzestan province.	Correlation value is positive and this shows that an increase in human resources accounting information can result In managers' decisions improvement.
2) A comparison of Similarities between Iranian and European Organizations in Terms of Lack of Attention to the Human Resources	Mohsen ASGARI	2013	The main goal of HR accounting is to describe potential capacity of the HR in providing financial report of the organization and Providing economical values of the human resource in order to	Based on ranking results, lack knowledge of managers about HRA is one of the important and essential reason of lack implementation and attention to HRA

Accounting			eliminate the shortcomings traditional accounting.	
3) Problem with Human Resource Accounting and A Possible Solution	Md. Mustafizu rRahaman	2013	The existing models proffered under the HRA were adequately reviewed and objectively criticized so that more comprehensive could be developed.	As an employee of an organization will not merely work for a single year, it seems rational to account for employee as an asset in the balance sheet on the ground that they will provide future economic benefit to the entity.
4) The Role of Human Resource Accounting Information on the Accounting Information System	Dr. Adel M Qataweh	2013	The statistical analysis showed that human resource accounting information had a positive impact on the AIS and that human resource accounting information has a significantly statistical relationship with AIS itself	Human resource accounting information had a statistically significant influence for ability to reduce cost, Improve operational performance of through accounting information systems.
5) A Review of Human Resource Accounting and Organizational Performance	Jacob Cherian	2013	There is no legal regulation for accounting human resources in any of the organization's annual report. The main aim of this review is to study the benefits of HR practices to the firm.	Human resources are considered as building blocks for any organization. it is necessary to identify the Contribution of the employees to the firm. Then, the evaluation measures of "human resources" are carried out.
6) The Role of Human Resources Accounting at Research & Development Centers	MeysamE ivazi	October 2013	Human resources accounting will provide required information for the manager in order to find and modify any allocation and maintenance and utilization, evaluation and compensation of human resources.	It was obvious that after all studies and researches companies may realize the real value of Human Resources Accounting. Up to now we found out a part of advantages of this resource including providing required information for different sections of an organization including financial department.
7) Human Resources Accounting Disclosures in Nigeria Quoted Firms	Augustine , O. Enofe	2013	This study was carried out to ascertain the relationship between firms' financial performance and human resources accounting disclosures on one hand, and the differences in human resources accounting disclosures reporting level between financial sector and non-financial sector companies quoted in the Nigerian Stock exchange.	Findings of the study indicate that financial companies such as banks and insurance companies in Nigeria are disclosing human resources accounting information than non-financial companies
8) Human Resource Accounting: Recognition and Disclosure of Accounting Methods & Techniques	Md. Admiral Islam	2013	To understand the needs and significance of HRA inThe context of business performance measurement. To provide suggestions for developing such Accounting practices in our business enterprises.	Human resources are the energies, skills and knowledge of people which are applied to the Production of goods or rendering useful services.

9) Human Resources Accounting Between Recognition and Measurement: An Empirical Study	Khaled Jamal Jaarat	2013	researcher discussed and investigated the possibility of including the human resources within the definition of asset, and also, the possibility of measuring the human resources, and as a result recognizing it	The possibility of measuring human resources, by using one of the generally accepted bases in Accounting that included in conceptual framework of financial reporting issued by IASB.
10) Practice of human resource accounting in banking sector of Bangladesh	Syed Moudud-ul- Huq	June 2012	By the practicing of HRA an organization can be benefited in case of.a)Cost effectiveness b)ensuring the best use of human resources c)sound & effective basis for human asset control d)The productivity of human resources	Bangladesh bank provides guidelines towards to practicing HRA, IASB issues a standard for implementing HRA, then the problems of practicing HRA can alleviate soon and commercial banks in Bangladesh may continue to boost the economy.

Need & Problems of HRA

It is fact that the 21st century is era of Human demand, countries those have labor quality ruling the world with dominant technology. Countries like china and Japan forerunners in technology advancement, is all result of work force performance. Hence whole world realized that human resource is the real investment into business ventures that should only catch and stick the success waves. Human Resource accounting can be defined as an application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence. As a discipline, it encompasses financial expertise, fraud knowledge and a sound knowledge and understanding of business reality and the working of the legal system.” This implies that the Human Resource accountant should be skilled not only in financial accounting, but also in internal control systems, the law, other institutional requirements, investigative proficiency, and interpersonal skills. Corporations can rely on these skills for developing a consistent system of corporate governance, disseminating such information within and outside the company, ensuring that governance policies and objectives are interwoven into the internal control system, setting up fraud prevention systems, and investigating any existing fraud.

Human Resource is a term which refers to the set of individuals who make up the workforce of an organization or a business entity. According to Syed (2009), it comprises the energies, skills, talents and

knowledge of people which are, or which potentially can be applied to the production of goods or rendering useful services. The success of any organization depends on the ability of the human resources to effectively and efficiently optimize other resources such as land, equipment and money hence human resources are the greatest assets at the disposal of businesses. This is why the statement “our greatest assets are our people” is declared in most companies’ annual reports. The work of Bassey & Tapang (2012) points to the fact that human resources .have been identified as one of the main sources of competitive advantage by many organizations in today’s economy. Particularly, the private sector organization is widely diverse and has focused on human resources as having special strategic value for organization development. Abdullahi & Kirfi (2012) maintain that the quantification of the value of Human Resources helps the management to cope up with the changes in its quantum and quality so that equilibrium can be achieved in-between the required resources and the provided human resources. As a result, it becomes imperative to put measures in place to effectively manage people with their needs and expectations to enhance Productivity. Therefore, proper appreciation of human resource accounting will enable managers take appropriate decisions regarding investment in human resources. It will also provide comparative information regarding costs and benefits associated with investments in human assets. HR Accounting is very much needed to provide effective & efficient management within the organization.

Table-1: Profile of Sample companies

S. No.	Name of company	Head Quarter	Year of Establishment	Market Capitalisation in 2014	EPS of 2014
1	Hindustan Petroleum Corporation Limited (HPCL)	Mumbai	1974	Rs. 105.7075 billion	Rs. 51.2
2	Rolta India Limited	Mumbai	1989	Rs. 17.7543 billion	Rs. 48.32
3	Oil and Natural Gas Corporation Company (ONGC)	Dehradun	1955	Rs 3006.8270 billion	Rs. 26
4	National Thermal Power Corporation Limited (NTPC)	New Delhi	1975	Rs.1185.69.78 billion	Rs. 12.40

III. DISCLOSURE OF HUMAN RESOURCE ACCOUNTING (HRA) IN SELECTED INDIAN COMPANIES:

India like the rest of the country has not given much consideration to issues related to human resource accounting. In India this concept is struggling for acceptance and has not been introduced so far as a system. Indian companies act does not require company to furnish information related to personnel cost in their annual report. However in the past decade there has been a growing trend toward measurement and reporting of human asset. It is a universally accepted fact that the progress of any organization is absolutely dependent on the skillful utilization of its human resources. Even in the modern world an organization may own adequate financial resources and acquire physical resources with latest technology as it needs, it would find it difficult to manage its affairs, if the human organization of the concern is not strong enough. However, the strange irony is that in India most of the organizations do not recognize it properly. They do not adopt human resource accounting (HRA) although it could contribute significantly both to internal and external management decisions. HRA also helps the people of the organization in improving their performance and bargaining capacity. Particularly with liberalization of the Indian economy and its gradual integration with the world economy, India as a developing nation, has realized the importance of its human resources. Perhaps due to the abundant manpower available and relatively low cost, this area of accounting was overlooked earlier. But now the importance of human element in an organization has been realized and Indian companies are now considering human resource factor just like another factor to production. most of the human resource accounting developments in India have taken place amongst public sector undertakings who have made pioneering attempts by disclosing human asset values in their published annual reports and financial statements although a little interest has been shown by professional accountancy bodies in Indian human resource accounting.

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been realized and Indian companies are now considering human resource factor just like another factor to production. Indian organizational and Human Resource Dynamics are different from that of other part of the globe. The government report shows that approximately 73 per cent of national income is utilized to compensate employees. In addition to wages and salaries, organizations often make other sizable investments in their human resources.

Table-2: Human Resource Accounting Models used by selected companies

Company name	Model used
Hindustan Petroleum Corporation Limited (HPCL)	Lev & Schwartz
Oil and Natural Gas Corporation Company (ONGC)	the present value by discounting the estimated earnings
Rolta India Limited (present value of the future earnings of the employees)	Lev & Schwartz
National Thermal Power Corporation Limited (NTPC)	Lev & Schwartz

Table-3: Characteristics of HRA in sample companies

S. No.	Name of company	No. of employees	Operating Profit of 2014 (in Rs.)	Profit per employee's (in Million Rs.)
1	Hindustan Petroleum Corporation Limited (HPCL)	11027	26.7388 billion	2.42
2	Rolta India Limited	3500	15.326 billion	4.38
3	Oil and Natural Gas Corporation Company (ONGC)	33988	54.4489 billion	1.60
4	National Thermal Power Corporation Limited (NTPC)	23411	20.7163 billion	0.88

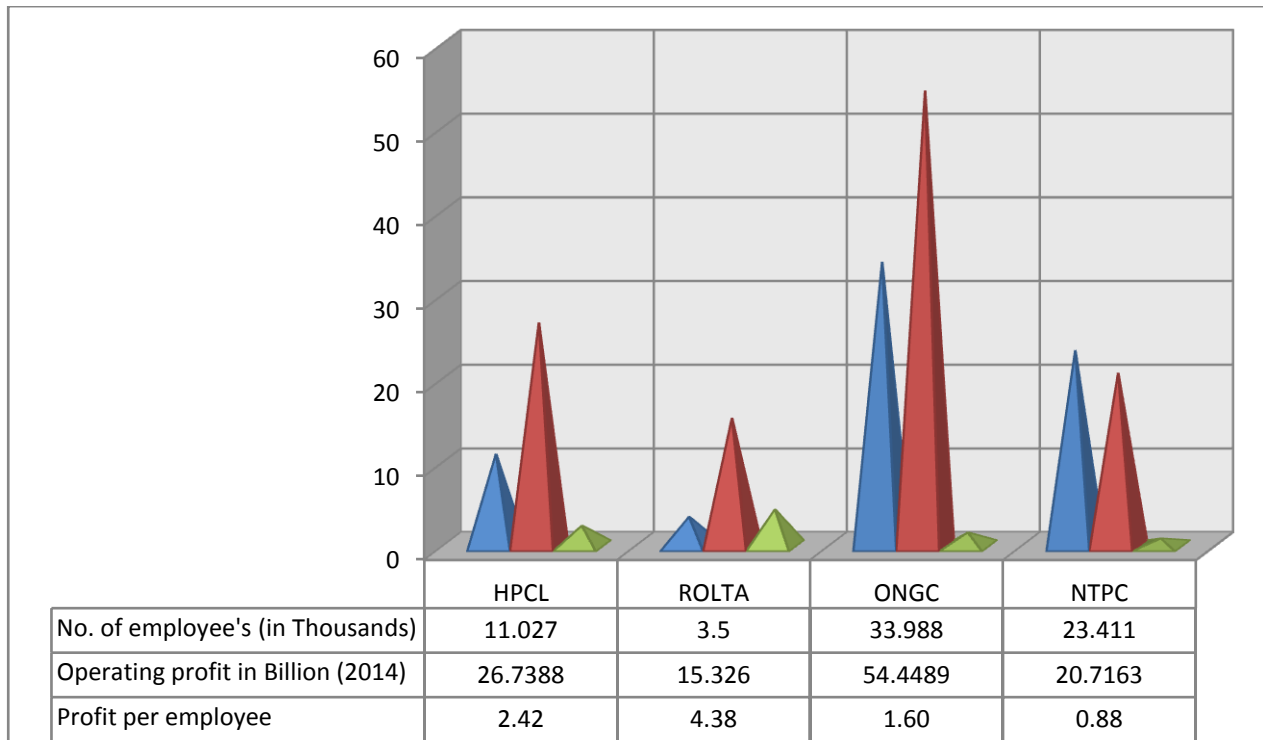


Diagram-1: Characteristics of HRA in sample Companies

IV. CONCLUSION

It was found in the study that out of 4 companies 3 were using Lev & Schwartz model while ONGC was using the present value by discounting the estimated earnings method for evaluating their employees. The analysis has shown that the number of employees was highest in ONGC (33988), followed by NTPC (23411), HPCL (11027), and least in Rolta India (3500) but in terms of the profit per employees of four selected companies difference exists as it was highest in Rolta India (4.38 million) while lowest was in NTPC (0.88 Million).

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