

An Empirical analysis on Importance of Human Resource Accounting (HRA) Practices in the Organizations

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This study attempts to analyze the importance of Human Resource Accounting (HRA) practices for corporate financial reporting. This paper is both a theoretical and empirical exploration, aimed to explore previous literature review with some suggestions of new thoughts, methods, techniques and applications of HRA. Various MNCs in the field of HRM provide different types of thought about the practices of personnel management with different systems and aims of financial analysis and reporting. HRM has been and remains one of the most powerful and influential ideas to have emerged in the field of business and management. Effective practices of human resources in the accounting statement can ensure long-term benefits to the employees of the corporations and it also increases quality, performance, values, and commitment to future need. The data of this study was collected from secondary sources only. Very few corporations are practically practices this concept in their accounting and financial report. Some findings and suggestions are addressed in the study that may be the prerequisite for organizational growth and development.

Keywords: HRA, HRM, Effectiveness, HR Capital, Decision-making, Financial Reporting

Abbreviations: HRM = Human Resource Management; HRA = Human Resource Accounting

1. Introduction

Human Resource Accounting (HRA) is the process of identifying, measuring data about human resources and communicating this information to interested parties. The major benefits of such accounting are that it develops effective managerial decision making, quality of management, prevents misuse of human resources, increases human asset productivity, improves morale, job satisfaction, performance appraisal, motivation and creativity, etc. To ensure growth and development of any organization, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. The original health of the organization is indicated by the human behavior variables, like group loyalty, skill, motivation, quality and capacity for effective interaction, cooperation, communication and decision making. Men, materials, machines, money and methods are the resources required for an organization. These resources are broadly classified into two types such as human and physical resources. Men, otherwise known as the human resources, are considered to be animate resources. Others, namely, materials, machines, money and methods are considered to be inanimate or physical resources. Human Resource Accounting (HRA) is a new concept of accounting. It follows the traditional theory that all expenditure on human capital formation is taken as a charge against the revenue of the period as it does not create any physical asset. But modern view is that cost incurred on any asset as human resources need to be capitalized as it provides benefits measurable in monetary terms. Measurement of cost and value of the people to organizations is highly important, costs incurred in recruitment, selection; hiring, training and development of employees along with their economic values

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are very much relevant for Human Resource Accounting. All the processes of the organization are operated by human resource, so valuation of this resource is very necessary and information about the valuation should be given to the investors, the management and others through financial statements. Human resource accounting is basically an information system that explains management what changes are occurring over time to the human resources of the business. In the early 1990s industries were recognized the value and importance of human assets. Skillful and specialized human resources are of vital importance for an organization just like its physical properties and investments. Managers of the organizations spend a lot of money for training and educating their workers and employees in order to increase the efficiency of the organization under their control, but human resources accounting system which should be used for human resources information processing have not been used practically by any organization. In this study, an alternative to the traditional methods of accounting for human worth has been proposed. The concept of Human Resource Accounting was developed to give management an accurate estimation of the value of people to the organization. The HRA is being developed to provide a system that the goals are to define present human resource value and to predict future human resource value to the organization. To illustrate applications of the technology of HRA five examples are cited, each of which deals with a basic management dimension return on investment (ROI) from human resources as program justification, evaluation of promotion policies, prediction of human asset costs associated with new construction overruns, estimation of personnel costs associated with adjusting of a organization and evaluation of detailing and assignment procedures. However the Human Resources are yet to get recognition in Balance Sheet. Businesses are not properly accounting for it in Books of Accounts. Auditor certifies in the report that balance sheet shows true position of business in spite of the fact that it is not showing the value of human resources. Researches in this field have been slow and researchers are not able to develop a successful model which is free from major limitations and are not able to identify two effects on Human Capital creation which is back bone of accounting.

2. Rationale and Scope of the Study

Management of human resources in any organizations is very much important from accounting point of view. Valuation of human resources, recording the valuation in

accounts and fair disclosure of such information in financial statements are the demand of the stakeholders to enhance managerial performance and employees' productivity. Investment in developing human resources is not revenue expenditure. Its impact on developing the capability of employees provides benefits for a long period. There is a genuine need for reliable and complete information that can be used in improving and evaluating human resource management. HRA is actually a part of social accounting in which accountants need to apply their specialized abilities to help find solutions to our social problems. We know that accounting is a science of measurement, analysis and communication. The designing of proper accounting system for providing information to the stakeholders is also a difficult task. The information concerning human assets is more relevant to a great variety of decisions made by external and internal users. Accounting for human asset constitutes an explicit recognition of the premise that people are valuable organizational resources and an integral part of a mix of resources. This study will be helpful for the different users of accounting information for their day to day decision making. This study, therefore, will help to presents a critical assessment of the concept of HRA thereby unveiling its strengths and weaknesses. The study also presents the likely impact that reporting human resource as assets will have on the quality and quantity of companies' corporate financial reports.

The basic premises underlying the practices of human resource accounting are:

- a. People are valuable physical resources of an organization.
- b. The usefulness of HR as an organizational resource is determined by the management and
- c. Information on investment and value of human resource is useful for decision making in the organization.

3. Objectives of the Study

This study is an attempt for achievement of two major objectives of the human resource accounting practices in national and multinational corporations.

A. General Objective

To analyze the importance of HRA in HRM decision from an organizational perspective by increasing the transparency of human resource costs, investments and outcomes in profit and loss accounts, balance sheets and investment calculations.

B. Specific Objectives

The specific objectives are:

- a. To analyze and evaluate the HRA plans and policies from previous literature review and applications of HRA in different organizations.
- b. To evaluate the execution of HRA programs in financial statements and to identify the strength and weakness of HRA practices in the organizations.
- c. To provide information to all people concerned regarding the efficiency of HR in obtaining productivity and profitability.
- d. To facilitate valuation of human resources, recording the valuation in the books of account and disclosure of the information in the financial statement.
- e. To provide some arguments and suggestions with a view to increasing the use of HRA in most of the corporations in Bangladesh and overseas.

4. Literature Review

Over the last two decades the idea of accounting for human resources is gaining active consideration. So, HRA is not a new issue in economics. Economists consider human capital as a production factor, and they explore different ways of measuring its investment in business, agriculture, education, health, and other areas. Accountants have recognized the value of human assets for at least 50 years ago. Research into true HRA began in the 1960s by Rensis Likert (Bowers, 1973). Likert defends long-term planning by strong pressure on human resources' qualitative variables, resulting in greater benefits in the long run. American Accounting society on HRA defined HRA as the process of identifying, measuring data about human resources and communicating this information to interested parties. Stephen Knauf states that HRA is the measurement and quantification of human organizational inputs like recruiting, selecting, hiring, training, experience and communications. The experts in the field of HRA were Shultz (1960), William Pyle (1967), Flam Holtz(1973), Kenneth Sinclare (1978) and Dr Roa (1983), etc who contributed appropriate methodology and correct methods for finding out the value of the employee to the organization. Accounting has special position and plays an important role in economic, trade and manufacturing development (Tomassini, et al. 1977). It is a man-made art and its principles, techniques and procedures have been evolved over a long period to aid business in reporting for the management and public. The four factors of production man, money, material and land, the last three of them are amenable to conventional accounting, but the

first one, the human resource has not been subject to such accounting (Carne, Barcons et. al 1995).

Business enterprises often proclaim that their labor force is their most important asset, while at the same time they fail to recognize it in managerial planning, decision-making and in published annual reports. Most of the time HRA attempts have been directed to an internal, management control perspective. However, the potential usefulness of HRA information would seem to be even greater for the external decision-makers than for the company's management (Jan Bratton, 2003). Human resources are now widely accepted as one of the most important assets possessed by organizations. The initial obstacles encountered in the recognition of human resources as an asset rest largely on its characteristics, quantification in monetary terms and the mode of reporting. Prior researches (see Kodwani & Tiwari, 2007; Roslender, 2004; Ramakanta & Khatik, 2003; Lev, 2001; Rao, 1993) were conducted towards finding solutions to these problems but the concept still remains unapplied by many organizations around the globe. HRA is the source of important information for investment decision purposes. The inclusion of appropriate human resource data in published financial statements would, in all likelihood, make such statements for more meaningful in predicting future performance which is, the principal concern of investors (Jawahar Lal, 2009). Human Resource Accounting Information of an organization is very important factor to decision makers in the era of knowledge based economy. As a result, each organization takes serious attempt to disclose its HRA information to insiders and outsider decision makers. In fact, it is becoming an integral part of management report. This is because there are only few evidences of its application worldwide.

Many authors and scholars conducted researches on how humans within an organization can be valued and reported in the financial statements of such organization. Valuable suggestions were made but still under criticism. These contributions increase the number of applications of the concept but largely voluntary. An evidence of mandatory accounting and reporting of human resources by organizations was pronounced recently in Denmark commencing from the year 2005. Some of the companies that applied human resources accounting recently in one way or the other include the R. G. Barry Corporation, BHEL, Infosys and Reliance Industries in India (Jasrotia, 2004; Ramakanta, & Khatik, 2003; Rao,

1993; Gupta, 1991) and other companies in the United States, Canada and Australia. The wide increase in service companies globally where personnel knowledge, skills, expertise and experience are the key to their success makes the human resource accounting a necessity. Organizations do report on capital and other assets in their financial reports but reporting nothing regarding human resources except as a charge in their income statements. Money spent on hiring, recruiting, training and developing human resources, compensation and reward are expensed rather than capitalized. The financial information contained in the financial statements of organizations is considered inadequate because of many reasons, which inability to account and report human resources is one? In addition, the research will focus on emphasizing new developments and trends in the application of HRA needs assessment. Employees are the most valuable resources of comparison in the services (software, Banking, Management Consultancy, etc) sectors. Like all other resources in the company, the employees possess value because of providing future services” (Samarat Gupta, MIS Manager, DSQ Software Ltd). Human resource accounting is an attempt to identify and report investment made in resources of the organization that are not presently accounted for under conventional accounting practices in most of the organizations.

4.1 The Concept of Human Resource Accounting

Accounting is viewed as a baby of production. Production can be either the creation of tangible goods or the provision of services to satisfy human wants. The major factors of production are the land, labor, capital and entrepreneur. While every organization reports on and includes land and capital in its financial statements, labor and entrepreneur are not given much attention and hence, they only represent a charge to the profit and loss account made by the organization (Abubakar, 2006; Johnson, 1999; Glautier, 1974). The two factors, labor and entrepreneur, are the human resources of the organizations. It seems unfortunate that in recent years while there has been a flurry of interest in the valuation of human resources in the accounting literature. The American Accounting Association (1973) defined HRA as 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 involving recognition and the quantification of human resources for the purpose of assisting the effective management of an organization. The definition is somehow

crude as it is not specific as to what constitute the human resources expenditure and how it is to be recognized.

HRA considers human resources as equivalent to other assets in the organization. They require investment over time to make them productive. Such investment relates to the hiring, training, and development costs, which are capitalized and amortized over an assumed probably productive life for the human resource, taking into account attrition and eventual deterioration (Myers, 1976). The concept of HRA has been defined in so many ways but the basic feature of the system remains the same in every definition. A more specific definition of HRA is the one given by Flamholtz (1974), which refers HRA as the process, which involves measuring the cost incurred by business firms and other organizations to recruit, select, hire, train and develop human asset. This gives a view as to what expenditure on the human resources should be recognized for valuation and reporting purposes. This definition is the measurement of economic value of people to the organizations. At best, for many firms, human resource accounting amounts to valuing its individual members on the basis of recruiting costs, training and development costs with some attention to depreciation and life expectancy with the firm [Hopwood, 1976]. HRA is also seen as an important aspect of management information system. In this view, Gupta (1991) defines the concept as basically an information system that explains management what changes are occurring overtime to the human resources of the business. It involves accounting for investment in people and their replacement costs, and also the economic value of people in an organization. This definition assists the management in effective decision-making relative to the hiring and retention of employees. Therefore, HRA provides a comprehensive look at one method of using human resource cost and value information in the decision-making process.

Jasrotia (2004) also views HRA as a measurement and reporting of the cost and value of people as organizational resources. The uniqueness of this definition is on the reporting aspect of the HRA. This definition rests on the premise that knowledge and intellectual capabilities of employees are becoming more and more important in corporate investment decision-making. The concept of human resource accounting is that human expected realizable value can be assessed using traditional accounting methods and that its relation to human potential realizable

value can be displayed for managerial consideration. Likert [1967] pointed out that in many firms; the human assets are far more valuable and marketable. According to Newman (1999), HRA refers to the measurement of the abilities of all employees of a company, at every level management, supervisory and ordinary employees to produce value from their knowledge and the capabilities of their minds. This definition considers the current growth in the service industry where the knowledge and intellectual capabilities of employees are the key for success.

Whereas the above definition of HRA centered on the cost incurred in improving and developing human resources, another definition considers the contribution aspect of human resources. Thus, Friedman and Lev (1974) and Lau and Lau (1978) consider HRA as a method for systematically measuring both the asset value of labor and the amount of asset creation that can be attributed to personnel activities. This definition incorporates the economic benefit attributable to the human resources in addition to recognizing their cost implication. Looking at the trend of definitions in the field of HRA, as highlighted above, we therefore define the concept as the measurement process which recognizes cost and value of employees in the financial statements of an organization, as an intangible asset, so that the true value of the organization can be established thereby assisting the various users of the financial statements in making their respective decisions. In short, human resource accounting is the art of valuing, recording and presenting systematically the worth of human resources in the books of account of an organization.

4.2 Theoretical Framework of Human Resource Accounting

Likert (1967) stressed that short-term company profits are too often result in the wastage of human resources through neglect of training and development, turnover, reduced co-operation, etc. His argument was that conventional accounting procedures ignore human assets. He challenged the accountants to develop measures for valuing the human resources so that changes could be recorded on the scorecard that counts, the profit and loss statement. In response to Likert challenges, many accountants conducted researches on how best to measure human resources in monetary terms. Prominent among them are Flamholtz (1999 and 1985), Lev and Schwartz (1974), Sadan and Auerbach (1974), Schmidt et al (1982). Their contributions led to the suggestion of various methods of valuing

human resources such as replacement cost model, stochastic rewards valuation model, historical cost model, competitive bidding method, and capitalization of future benefit. Strauss (1976) cautioned that numerous conceptual and practical problems must be solved before human resource accounting is widely accepted.

Lau and Lau (1978) identified two major unresolved problems in accounting for human resource. They are whether and how human resource assets should be recorded in the accounting system and once they are recorded, how they should be written off. The researchers made a brilliant attempt in developing human resource amortization procedures that are economically and statistically justifiable. Also, they re-affirm the Jaggi and Lau's (J-L's) (1974) implication that human resource capitalization is statistically meaningful only if the employees are located in large homogeneous groups. Dawson (1992 & 1994) conducted a rather similar research on the more scientific method of valuing human resources. He used the simulation methodology to explore human resource accounting. The aim of his research basically centered on the exploration of the relationship between the measures of the value of employees obtained from the application of the replacement cost model and the stochastic rewards valuation model. A year after Dawson's research, Mainona (1995) conducted a research on whether or not reporting human resources by organization can have a significant effect on the investors' decision. The researcher assumed that human resources are adequately measured and hence concentrated on its report and how it affects investors' decision making. His findings and conclusion improves on the conclusion made by Craft and Birnberg (in Strauss, 1976) that human resource accounting may eventually prove to be useful internally, as a means of evaluating the effectiveness of personnel and managerial programs; and they are less optimistic as to its value for external reports for use by shareholders and the public.

Jasrotia (2004) stressed the need for human resource accounting with particular emphasis on India. The researcher concentrated on the dramatic shift from manufacturing to service rendering in the Indian economy where success of organizations depends on the knowledge and intellectual capabilities of personnel. The research was that Indian government should make the accounting and reporting of human resources mandatory for every organization just like as it is adopted in Denmark from the year 2005. Our societies are now beginning a 10 to

50 year transition to a knowledge-based economy (von Krogh, Roos and Kleine, 1998) and enterprises are discovering terms such as knowledge, intellectual capital and knowledge management, in other words ‘brain power’ (Stewart, 1991). The more critical implication of these emerging concepts is that theoretical frameworks, especially in the corporate world, become obsolete and are no longer able to describe accurately.

4.3 HRA in Managerial Reporting and Decision-Making

In addition to external financial reporting, HRA may be useful as a managerial tool to aid in making managerial decisions that will benefit the long-run strategic goals and profitability of the company. As opposed to external financial reporting, managerial reporting does not require adherence to a strict set of GAAP in specific financial statements in acceptable format reported to the public (Bullen, 2007, p. 89). However even if human assets are not reported on the face of external financial statements, HRA can play a crucial role in internal managerial decision making, and HRA measures can be used to show that investments in a company’s human resources may result in long-term profit for the company (Bullen, 2007). Moore (2007) suggests that the value of human capital should be more fully considered when making decisions about the acquisition and disposal of people—and notes that the accounting practices currently employed by companies can have an undue influence in driving the strategic decisions of these companies.

4.4 Nature of HR Expenditure and Necessities for Capitalization

From the point of advertisement for a particular post to the point when an employee leaves an organization, organizations do commit some financial resources to the employee. Many reasons culminated into the spending nature of organizations on their human resources. Abubakar (2006) reveals as some of the reasons why organizations do invest a lot of financial resources on their human capital. These are to get the best human brain, to achieve the pre-determined objectives of the organization, to command respect in the eyes of stakeholders, to gain competitive advantage and to become the pace setter and market leader. However, Lau and Lau (1978), Steffy and Maurer (1988), Roslender and Fincham (2001), and Leffingwell (2002) also revealed areas through which organizations invest money relative to their human resources. The areas are advertisement,

recruitment and selection, familiarization and training, training and development and medical and entertainment.

4.5 The Need for Human Resource Accounting

It will be seen that the inability of an organization to accurately account for its human resources has more effect than simply its publishing of an incomplete statement of its assets and liabilities. The absence of human resource accounting affects the manner in which managers regard their human resources and influences the nature of organizational climate. The human asset accounting will represent one of the following two major innovations in accounting.

a. **Acquisition and Development** and

b. **Evaluation:** Evaluation innovations in accounting involves with the level of intelligence and aptitudes, level of training, performance levels, degree of motivation, quality of leadership, innovativeness, communication skills, decision making abilities, ability to integrate and coordinate and ability to apply past experience to present problems.

4.6 Implementing Human Resource Accounting System

There are three principal steps in implementing a human resource accounting system:

a. **Definition of objectives:** The objectives of the system should be an outgrowth of management's requirements for human resource information.

b. **Development of a data base with accounting measurements:** It is possible to begin the process by collecting only the most basic data, such as salaries, recruiting costs, and training and employee benefits. On an as needed basis one might include items such as employee appreciation, turnover costs, and living expenses, costs of personnel evaluation, incentive plans, and travel and retirement benefits.

c. **Actual employment of the system in the organization at all levels of management:** it is best to begin with but one department or division of an organization to initiate this system.

4.7 Application of Human Resources Accounting

In the 1960s, companies in the United States found themselves in a fierce competition with the Japanese companies. The competitive edge in productivity of the Japanese companies was seen in the protection of the human capital (Gebauer,

2002). This incidence arose multiple interests in the United States relative to the human resources accounting. The Americans policy of hire and fire philosophy with employees and workers affects their productivity negatively compared to the policy of the Japanese of long-life engagement in one enterprise. A celebrated example of applying human resources accounting by an organization is the one applied by R. G. Barry Corporation. This Corporation is referred to as the pioneer in human resources accounting. Its approach was to capitalize the outlay costs of recruitment, acquisition, training, familiarization and development of management personnel only. The objectives of R. G. Barry Corporation in developing a human resource accounting system were to find answers to the following questions:

- a. What is the quality of profit performance?
- b. Are sufficient human capabilities being acquired to achieve the objective of the corporation?
- c. To what degree are they being maintained?
- d. Is the corporation properly utilizing these capabilities?

After the successful implementation of human resources accounting system by R. G. Barry Corporation many organizations in the United States, Canada and Mexico follow suit. Organizations like Milwaukee Braves Inc., USA (1963), Touche Ross and Co; Montreal (1971), Texas Instruments (1971), Witte and Co (1975), the U. S. Navy (1984) all have experimented the concept using either historical cost, replacement cost or other valuation models. Furthermore, football clubs in Europe and Latin America have since adopted the idea of human resource accounting. This is because they keep record for each player relative to his signing fees and transfer fees. Each player has a target or expectation of his performance set by the club managers. At any point in time, the records reveal the amount a player cost the club. A number of companies adopted the concept of human resources accounting in India for external reporting. The nature of human resources accounting system in India included the profile of human assets, the compensation pattern, training and development, human asset productivity, human asset value and the total wealth of the organization. Moreover, realizing the immense benefits associated with HRA many companies world-over is making the concept a necessary element in their balance sheet (Jasrotia, 2004). Also, governments of many nations are reacting positively towards accounting and reporting of human assets. One of the best examples is of the Denmark Government. The Danish Ministry of Business

and Industry has issued a directive that with effect from the trading year 2005, all companies registered in Denmark are required to include in their annual reports information on human capital, among others. Thus, a minimum of five measures is required for the inclusion of the human capital or asset in the annual reports, and comparison with the previous two years must be shown. This means that figures for investment in intellectual capital must be shown and compared with the previous two years (Jasrotia, 2004). In addition, the Danish Government required that at least one-third of the report should be occupied by the information for investors about intellectual capital, both current and future. In addition to the Danish Government, other countries like the United Kingdom, Australia and the Netherlands have taken very significant steps towards a wider application of HRA.

Even though, many benefits have contributed by HRA, yet its development and application in different industries has not been encouraging. Because Indian companies act 1956, does not provide any scope for showing any information about human resources in financial statement. Due to the development of business and industries, some of the Indian companies, both public and private, value their human resources and report this information in their annual report. 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. It can be say that INFOSYIS, Bharat heavy Electrical Ltd (BHEL), DR.REDDY`S and Steel Authority of India Ltd (SAIL) are ever profit generators because recognized value of quality of labor and ordered peak priority so as company`s yields ripped fruits with assistance of ripped force (quality employees) and can stand against any business storm and cope up effectively. The Indian companies, which are presently reporting human assets valuation, include:

- a. Bharat heavy Electrical Ltd (BHEL).
- b. Steel Authority of India Ltd (SAIL).
- c. Oil and Natural Gas Commissioning (ONGC).
- d. Oil India Ltd.
- e. Project and Equipment corporation of India.(PEC).
- f. Engineers India limited

- g. Mineral and Metal trading Corporation of India.(MMTC).
- h. Electrical India Ltd.
- i. Hindustan Shipyard Ltd.
- j. Cement corporation of India (CCI).
- k. Infosys Technologies Ltd.
- l. Tata Engineering and Locomotive Works
- m. Southern Petrochemicals Industries Corporation Ltd SPIC).
- n. Associated Cement Company Ltd (ACC).
- o. National Thermal Power Corporation Ltd (NTPC).

4.8 HRA and Human Resource Development

The usefulness of a HRA model in the process of HRD would depend upon how best it meets certain basic requirements. These requirements are:

- a. The model should identify the factors which determine the value of human resources.
- b. The model should identify the factors which can improve the value of human resources.
- c. The model should be capable of measuring the value of human resources operationally.
- d. The information generated by the model should help users to make decisions relating to the process of human resource development.

4.9 General Obstacles in HRA

Although, the theory of HRA appears to be useful, there is still lack of adequate standards for the valuation of HR. The mere process of putting number to things can easily be taken outside the context of their proper use. It is likely that managers will treat human quantitative data regarding the physical plant and machinery. The managers may use HRA as a means of manipulating the employee. She/he may decrease the value of an employee as a form of punishment or control. This may be done by altering the variables like the probability of an employee being promoted to the next stage, future increments etc., determining the value of HR. The employee's bargaining power might be increased if his/her value was known. However, power might be increased if his/her value was known.

4.9.1 Arguments against the Concept of Human Resource Accounting

Many factors serve as deterrents to the application of HRA. According to Gates (2002) and Akinsoyinu (1992), the problems of HRA rest majorly on the reporting companies themselves. Based on his research, the following are the obstacles that make it difficult to report human capital values by companies.

- a. Not something that can be shared externally for reporting human capital.
- b. Measurement of human assets not first priority for the company
- c. Not enough time and resources to the measurement aspect of the human capital.
- d. Human resource professionals unaware of return on investment value.
- e. Lack of clear guidance and universal practice to the application of HRA.
- f. The issue of autonomy in global and group companies in the application of HRA.

From another perspective, Jasrotia (2004) looked at the trends in the field of HRA and came up with some factors in the application of the concept. The problems of the research were the level of awareness and acceptance of HRA is still low, lack of an industry standard, extensiveness of the research involved and dynamism of some industries. On another perspective, human resources, according to Kodwani and Tiwari (2007), Abubakar (2006), Roslender (2004), Jasrotia (2004), and Flamholtz (1985), have some special attributes, which in turn make their valuation so peculiar. These attributes include the uncertainty of the service period, uncertainty of the contribution level of recruits and external factors influence on the employee future reward etc.

5. Methodology of the Study

The study is exploratory in nature based on extensive review of relevant studies done earlier. This study was conducted rely on secondary data only. The secondary sources of information have collected from various publications of HRA, journals, books, newspapers, magazines and websites about human resource accounting. The data analyzed by applying statistical formulae. However, the information of different famous MNCs has a great confidentiality as a result the participants ignored to disclose some information. Therefore, the researcher has tried to maintain confidentiality in the data analysis section.

6. Limitations of the study

Researcher was really unable to collect enough information due to proper guidance and relevant information. To the best of knowledge of the research very little study was conducted on this specific area, that's why there is lack of guidance. This study was based on the importance of HRA in corporate financial reporting, so information was designed on the basis of the specific area of HRM only.

7. Findings and Observations

Human is the father of wealth and it should be taken in to consideration in estimating wealth. Cost incurred on any human resources need to be capitalized as it gives benefits measurable in monetary terms. The major findings and observations of HRA are as follows:

- a. It develops effective managerial decision making.
- b. It enhances the quality of management.
- c. It prevents misuse of human resources.
- d. It helps the efficient allocation of resources.
- e. It increases human asset productivity.
- f. It improves their morale, cooperation, job satisfaction and creativity.
- g. It develops human efficiency.
- h. It influences the individual behavior, attitude and thinking in desired direction.
- i. It helps in long term investment decisions.
- j. It facilitates good performance measurement assessing strengths and shortcomings of an organization.
- k. The success of an organization depends on quality working force at all levels. It develops business success rapidly.
- l. It provides good basis of human asset control.
- m. It helps the development of management principles.
- n. It ensures good monitoring of effective uses of human resources.

8. Recommendations and Suggestions

The main goals of this research is to build upon the previous HRA literature by providing a detailed examination of needs assessment, its importance, evaluation practices, theoretical framework and provide suggestions for maximum success of the organizations. In order to accelerate the success of HRA practices in the organizations, the following lines of recommendations are suggested in the study:

- a. Financial Accounting report should identify the asset's cost and estimate the period of amortization and differentiate in opinion in calculating intangible assets, deferred charges in international accounting literature.
- b. The uses of acquisition costs and learning costs, substitution costs, opportunity costs and replacement costs, economic value models, standard cost method, competitive bidding method, non monetary measures etc. should be practiced properly.
- c. The approaches used for measuring HR cost approach and the economic value approach of HRs of the organizations.
- d. Human resource value concepts should be based on practical management accounting.
- e. Flamhotz's Model provides a measure of individual value is created from the interaction of two variables like the individual's expected conditional value and the probability that the individuals maintain membership in the organization.
- f. The steps should be taken to determine what HR costs are to be capitalized. This is essentially matter of classification HR costs into asset and expense components.
- g. Other steps should be taken to amortize the cost incurred by a organization on its employees for recruiting, hiring, orienting, familiarizing, training and developing them.
- h. Recording of social cost, acquisition cost; costs of recruitment, hiring, selection and placement of employees; orientation and on-the-job training costs; formal training development costs of employees; separation costs of employees; costs incurred for gravid female employees; rewards for extra ordinary performances and extra ordinary health costs needed to be “assetized” since the benefits from them are expected to be derived for more than one year.

9. Conclusion

Human resources are the energies, skills and knowledge of people which are applied to the production of goods or rendering useful services. HRA is the method of identifying and measuring data about human resources and communicating the information to interested persons. Our Companies Act 1994 does not provide for valuation of human resources. As result disclosure of such information has become voluntary to our business management. There is 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 etc through annual reports. The ideas and ideologies behind the conceptualization of HRA are no more hypothetical. The volume of investments on human resources usually made by corporate entities and the impact of such investments on the productivity level of the humans justify their treatment and recognition as assets rather than expenses. Additionally, the arguments against the concept of HRA and its application are issues that can be solved significantly. When human resources are quantified and reported as assets in the balance sheet of corporate entities, the multiple users of the reports will be awarded with more qualitative and quantitative information, which will boost their decision making abilities. Reporting HRA will also bring out the truest and fair value of the organizations.

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