



## REVIEW OF RESEARCH



### HUMAN RESOURCE ACCOUNTING (HRA) PRACTICES IN ERA OF GLOBALIZATION



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#### ABSTRACT :

Human resources play the most important part in the development of an enterprise. Human resource accounting (HRA) helps to measure the value of employees, which helps management, take the vital decisions related to human resources in order to increase production. It requires the measurement of the performances of an organization and the optimum use of the resources under its direct and indirect control. Human Resource Accounting (HRA) means accounting for people as original resources. It is also a way of thinking about the management of people in formal organization. Knowledge workers are important resources for the typical modern business firm. With the growing complexities of business organization, the need and importance of competent people is increasing continuously. Yet financial reporting ignores such resources. Human resource accounting has very high significance not only for the management, but also for analyst and even for employees. It helps management in better utilization, planning management of human resources in the organization while for analyst, Even today, when a good deal of work has been done in this field, it is very much unfortunate that there is not only set pattern or generally accepted method either for valuation of human resource or for their recording in books of accounts or for the disclosure of information by means of different statements. This paper throws light on the concepts of human resource accounting. It includes an introduction to the concept of human resource accounting, various human resource accounting models, which have been adopted by number of Indian enterprises to give information for human resource in their balance sheets. This paper throws light on the concepts of human resource accounting. It includes an introduction to the concept of human resource accounting, Objectives and Limitation of the HRA and last, conclusion.

**KEY WORDS** - Human resource accounting (HRA), formal organization.

#### INTRODUCTION

Success of corporate undertakings purely depends upon the quality of human resources. It is accentuated that; Human element is the most important input in any corporate enterprise. The investments directed to raise knowledge; skills and aptitudes of the work force of the organization are the investments in human resource. In this context, it is worthwhile to examine and human resource accounting practices in corporate sector in India.

Human Resource Accounting gives information regarding inner strength of organization and helps in making decisions regarding long-term investment in that organization. The employee's bargaining power and performance are also affected by this. But, in spite of having such importance, study of human resource of an organization had not been given required attention by management thinkers for years. Under the constraints the financial statements are prepared pursuant to the Company Law in India. There is no scope for showing any significant information about human resources in financial statements except the remuneration paid to them and the number of employees getting compensation beyond certain amount per annum.

### OBJECTIVE OF THE PAPER

The main objective of the Paper is to know the concept of the human resource Accounting (HRA). However, the specific objectives is to know that the model of such accounting and practices in the India.

### RESEARCH METHODOLOGY

For pursuing any research there should be a proper research methodology. The present paper is in disruptive mode and the concern data used for this paper is collected from secondary sources like Papers, Articles, Books, Journal and Website.

### HUMAN RESOURCE ACCOUNTING

Human resource accounting is of recent origin and is struggling for acceptance. It is clearly said that, Human resources accounting is an accounting measurement system and a large body of literature has been published in the last decade setting for the various procedures for measurement. At the same time the theory and underlying concepts of accounting measurement have received sizeable attention from academics and a substantial body of literature has developed. The conventional accountings of human resources are not recognized as physical or financial assets.

Human Resource Accounting (HRA) was introduced in 1980s, it is the process of identifying, communicating, and measuring data about human resources. It is highly complicated in today's market to find well knowledge, and highly motivated people. But Human Resource is one of the most important operations for any organization or business. Without the human involvement can lose its efficiency in work, and all the areas of business and levels human efficiency is required with machine efficiency. Thus companies have to recognize and appreciate the value of their employees. It is worth and capital investments. Though Human Resources Accounting was introduced, it started gaining popularity in India after it was adopted and popularized by NLC. Human Resources accounting, also known as Human Asset Accounting, involved identifying, measuring, capturing, tracking and analyzing the potential of the human resources of a company and communicating the resultant information to the stakeholders of the company. It was a method by which a cost was assigned to every employee when recruited, and the value that the employee would generate in the future. Human Resource accounting reflected the potential of the human resources of an organization in monetary terms, in its financial statements.

Human Resource Accounting (HRA) has been defined by the Committee on Human Resource Accounting of the American Accounting Association as "the process of identifying and measuring data about human resources and communicating this information to interested parties" In the words of Eric G. Flamholtz, "Human Resource Accounting involves measuring the cost incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to organizations. In brief, it involves accounting for people as organizational resources for managerial as well as financial accounting purposes."

### OBJECTIVES OF THE HUMAN RESOURCE ACCOUNTING

- To outfit cost estimate data for settling on legitimate and successful administration choices about getting, allotting, creating, and keeping up HR so as to accomplish financially savvy authoritative destinations.

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- To screen viably the utilization of HR by the administration.
  - To have an investigation of the Human Asset, for example regardless of whether such resources are monitored, exhausted, or acknowledged.
  - To help in the improvement of the executives standards and legitimate basic leadership for the future, by ordering money related results of different practices.

#### **HUMAN RESOURCE ACCOUNTING MODEL:**

For valuing human resources, different models have been developed. Some of them are opportunity cost Approach, standard cost approach, current purchasing power Approach, Lev and Schwartz present value of future earnings Model Flam holtz's stochastic rewards valuation Models etc. Of these, the model suggested by Lev and Schwartz has become popular. Under this method, the future earnings of the human resources of the organization until their retirement is aggregated and discounted at the cost of capital to arrive at the present value. All the models stressed that human capital was considered an investment for future earnings, and not expenditure. Human resources accounting system consists of two aspects namely - The investment made in human resources and The value human resource.

Measurement of the investments in human resources will help to evaluate the charges in human resource investment over a period of time. The information generated by the analysis of investment in human resources has many applications for managerial purposes. The organizational human performance can be evaluated with the help of such an analysis. It also helps in guiding the management to frame policies for human resource management. The present performance result will act as input for future planning and the present planning will have its impact on future result. The same relationship is also applicable to the areas of managerial applications in relation to the human resource planning and control.

#### **MODELS TO IDENTIFY HUMAN RESOURCE**

- a. Replacement cost Model
- b. Historical Cost Method
- c. Opportunity Cost Model
- d. Stochastic Rewards Model
- e. Lev And Schwartz Compensation Model

#### **HUMAN RESOURCE ACCOUNTING PRACTICES IN INDIA:**

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 health of the organization is indicated by the human behavior variables, like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making. Men, materials, machines, money and methods are the resources required for an organization. These resources are broadly classified into two categories, viz., animate and inanimate (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. The success of an organization depends on how best the scarce physical resources are utilized by the human resource. Therefore, the efficient and effective utilization of inanimate resources depends largely on the quality, calibre, skills, perception and character of the people,

Yet, a growing trend towards the measurement and reporting of human resources particularly in public sector is noticeable during the past few years. BHEL, Cement Corporation of India, ONGC, Engineers India Ltd., National Thermal Corporation, Minerals and Metals Trading Corporation, Madras Refineries, Oil India Ltd., Associated Cement Companies, SPIC, Metallurgical and Engineering consultants India Limited, Cochin Refineries Ltd. Etc. are some of the organizations, which have started disclosing some valuable information regarding human resources in their financial statements. The importance of human resources in business organization as productive resources was by and large ignored by the accountants until two

decades ago. It is felt that, Human resource accounting provides quantitative information about the value of human asset, which helps the top management to take decisions regarding the adequacy of human resources. Hence, It is Concluded that, the Human Resources are an indispensable but often neglected element is thus to be fore grounded into the industrial area for the betterment of the economy.

### **HUMAN RESOURCE ACCOUNTING PRACTICING COMPANIES IN INDIA**

HRA has been contributed many benefits, but many different industries its applications and development has not been encouraging because Indian Companies Act 1956 it does not provide any scope in financial statement. If we look at the annual reports of public sector undertakings and private enterprises in India, we find that chairman's reports invariably contain the statements highlighting the significance of HRs. Bharat Heavy Electricals Ltd., a leading public enterprise had introduced HRA in its Annual Report of the financial year 1974 – 75 for the first time in India. In the subsequent years twenty one organizations belonging to the public sector and seven belonging to the private sector had adopted such a practice. They are as follows:

1. Steel Authority of India Ltd. (SAIL)
2. Hindustan Machine Tools Ltd. (HMTL).
3. Oil & Natural Gas Corporation Ltd. (ONGC)
4. National Thermal Power Corporation Ltd. (NTPC)
5. Hindustan Shipyard Ltd. (HSL)
6. Oil India Ltd. (OIL)
7. Minerals and Metals Trading Corporation of India Ltd. (MMTC)
8. Cement Corporation of India Ltd. (CCI)
9. Engineers India Ltd. (EIL)
10. Electrical India Ltd. (ELIL)
11. Project and Equipment Corporation of India (PEC)
12. Metallurgical and Engineering Consultants Of India (MECON)
13. Canbank Financial Services Ltd.(CFSL)
14. Southern Petrochemical Industries Corporation Ltd. (SPIC)
15. Cochin Refineries Ltd.(CRL)
16. Madras Refineries Ltd. (MRL)
17. Associated Cement Companies Ltd. (ACC)
18. Tata Engineering & Locomotive Co. Ltd. (TELCO) and
19. Infosys Technologies Ltd. (ITL) <sup>7</sup>
20. Bharat Heavy Electricals Limited (BHEL)
21. Global Tele Limited (GTL)
22. Hindustan Petroleum Limited (HPL)
23. Hindustan Zinck Limited
24. Indian Drugs and pharmaceuticals Limited (IDPL)
25. Indian Oil Corporation (IOC)
26. Rolta India Limited
27. Satyam Computers Limited (SATYAM)
28. U.P State Cement Corporation Limited (UPCCI)

### **LIMITATIONS OF THE HUMAN RECOURSE ACCOUNTING**

Human Resource Accounting is the bookkeeping strategies, frameworks, and methods, which combined with exceptional information and capacity, help staff the board in the valuation of work force in their insight, capacity and inspiration in a similar association just as from association to association. It implies that a few representatives become a risk as opposed to turning into a human asset. HRA encourages basic leadership about the faculty for example either to keep or to get rid of their administrations or to give super

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preparing. There are numerous restrictions that make the administration hesitant to present HRA. A portion of the properties are:

- There are no obvious and explicit techniques or rules for discovering expenses and estimation of HR of an association. The frameworks that are being received have certain downsides.
- The time of presence of HR is questionable and henceforth esteeming them under vulnerability later on is by all accounts unreasonable.
- The much required exact proof is yet to be found to help the theory that HRA as an apparatus of the executives encourages better and powerful administration of HR.
- Since HR are unequipped for being claimed, held, and used, in contrast to physical resources, this represents an issue to regard them as resources in the exacting sense.
- There is a consistent dread of resistance from the worker's guilds as putting an incentive on representatives would make them guarantee prizes and remunerations dependent on such valuations.
- In resentment of all its criticalness and need, Tax Laws don't perceive individuals as resources.
- There is no generally acknowledged technique for the valuation of HR.

### CONCLUSIONS:

Human resources accounting is an accounting measurement system. Human Resources Accounting was introduced way back in the 1980s, it started gaining popularity in India. Human resources play the most important part in the development of an enterprise. Human resource accounting (HRA) helps to measure the value of employees, which helps management, take the vital decisions related to human resources in order to increase production. It requires the measurement of the performances of an organization and the optimum use of the resources under its direct and indirect control. Human Resource Accounting (HRA) means accounting for people as original resources. It is also a way of thinking about the management of people in formal organization. Knowledge workers are important resources for the typical modern business firm. With the growing complexities of business organization, the need and importance of competent people is increasing continuously. Yet financial reporting ignores such resources. Human resource accounting has very high significance not only for the management, but also for analyst and even for employees. It helps management in better utilization, planning management of human resources in the organization while for analyst, Even today, when a good deal of work has been done in this field, it is very much unfortunate that there is not only set pattern or generally accepted method either for valuation of human resource or for their recording in books of accounts or for the disclosure of information by means of different statements. This paper throws light on the concepts of human resource accounting. It includes an introduction to the concept of human resource accounting, various human resource accounting models, which have been adopted by number of Indian enterprises to give information for human resource in their balance sheets. Human resource accounting (HRA) or human resource valuation is an attempt to identify and quantify the investments made in human resource of an organization. HRA helps to measure the value of employees, which helps management in decision making. The Indian Companies Act does not provide any scope for furnishing any significant information about human resources in financial statements. For valuing human resources, different models have been developed. BHEL, Cement Corporation of India, ONGC, Engineers India Ltd., National Thermal Corporation, Minerals and Metals Trading Corporation, Madras Refineries, Oil India Ltd., Associated Cement Companies, SPIC, Metallurgical and Engineering consultants India Limited, Cochin Refineries Ltd. Etc. are some of the organizations, which have started disclosing some valuable information regarding human resources in their financial statements.

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