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HUMAN RESOURCE ACCOUNTING PRACTICES IN INDIAN COMPANIES- A STUDY

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ABSTRACT:-

It is highly complicated in the today's market find well knowledge, coached, and highly motivated people. Human resource is one of the most important back office operations of any organization or business. The Human Resource (HR) is one of the most neglected aspects of Financial Statement disclosures of corporate entities in India. The managements avoid to disclose the facts about HR, whether they are pleasant or unpleasant facts. However, it is worthwhile to mention here that success of every organisation largely depends on the effective and significant utilisation of men, machinery, materials and money. It is against this background that the present study was undertaken to make an assessment of Human Resource Accounting (HRA) practices in Indian companies.

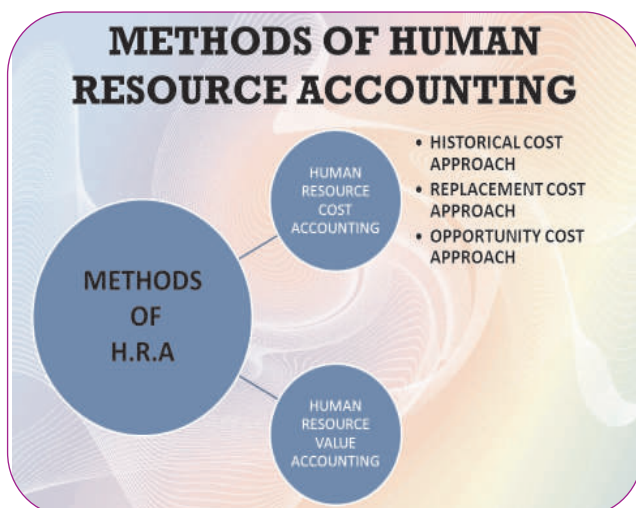
KEYWORDS: Human resources accounting, Human Resources, Human Resource Practices.

INTRODUCTION

Human resources of the enterprise are its most important asset, because without human resources other factors of production cannot be utilised. Thus, this feature of the human asset places the human resources at a higher level than the non-human assets. Therefore, the investment on human resources has become an important factor in accounting systems. In fact, in the present accounting system, the investment on human resources is considered as only revenue expenditure and not as capital expenditure. Hence, the amount invested on human resources is not shown in the balance sheet along with other assets. This deficiency can be very well rectified through the concept of Human Resource Accounting (HRA).

HRA is proposed by its advocates as a logical and significant extension of the scope of enterprise accounting. It is the process of measuring and reporting the human dynamics of an organisation. It is the assessment of the condition of human resources within an organisation and the measurement of the change in this condition through time which matters a lot not only for the management and the employees but for the society as a whole. HRA is the process of providing information about individuals and groups of individuals within an organisation to decision makers both inside and outside the organisation.

Though significance of human resources in an organisation or at the enterprise level has been recognized in accounting literature throughout history,



the accounting process has been limited largely to financial and physical resources. It was not until the early 1960's that specific suggestions started to appear for inclusion of human resource representation in routine assessments of enterprise condition or within the structure of accounting systems of enterprises. During the past two decades emphasis on recruiting, training, employee motivation and work environment, and on the use of employee attitude and perception surveys, attest to the increasing, recognition of the role of human resources in organisational effectiveness. Substantial identifiable outlays in these areas may account, in part, for the increasing consideration of accountant's involvement in this new subject of human resource accounting.

HUMAN RESOURCE IN ACTION

It is well known that Human Resources constitute the core element of an organisation. They are the most sensitive, reactive and pro-active resource. There is growing awareness of the importance and role of HR in defining an organisation's cutting edge. It is mainly due to the fact that HR is the mother resource of all other resource because it is only the human being who produces all the other means of production such as machinery, material, money and finally the management. Success of any organisation or business depends, to a great extent, on the quality, calibre and character of the people working in an organisation having vast physical resources.

HR ACCOUNTING NEED

The greatest assets of an organisation are the human resources and not the buildings, plants, machinery, equipments, furniture etc. it owns. Hence, amount invested in human beings can give a better result to a business unit. However, it is unfortunate that the balance sheets do not exhibit this most vital asset, while capital invested in other assets is shown. This information has not even been included as a part of internal accounting and reporting for management purpose so far.

HUMAN RESOURCE ACCOUNTING PRACTICES IN INDIA

Since 1978-79 trend of valuation of HR was started on a minor scale. Infosys Technologies became the first software company to value its human resources. The concept of HRA was not new in India. HRA was pioneered by public sector companies like Bharat Heavy Electricals Ltd. (BHEL) and Steel Authority of India Ltd. (SAIL) way back in the 1970s. The concept did not gain much popularity and acceptance during that time. It was only in the mid 1990s, after Infosys started valuing its employees, that the concept gained popularity in India. The Accounting Standards Board of the Institute of Chartered Accountants of India has issued several Accounting Standards on most of the areas in accounting. But it has not formulated any specific Accounting Standard on measurement and reporting of cost and value of human resources. The Indian Companies Act, 1956 has also not formed any rules regarding the valuation of human resources and presentation of significant information about them in the financial statements of companies. In practice, however, a few companies which presently report valuation of human resources include BHEL, SAIL, MMTC, ONGC, ACC, HMT, CCI, Hindustan Shipyard Ltd., Oil India Ltd., EEI, Electrical India Ltd., Cochin Refineries Ltd., Madras Refineries Ltd., TELCO Project and Equipment Corporation of India. Southern Petrochemical Industries Corporation, NTPC Ltd. Satyam Computer Services Ltd. etc.

The human resource accounting has thus an important role to play in management functions bearing on planning and control. Measurement of the value of human resources, is maintainable, can assist the management in recognizing and defining problems connected with the people at work. Trends in the human-asset investment ratio (i.e. the ratio of investments in human assets to total assets) may be a useful predictor of future profit performance. Changes in the value of human resources may indicate the cost of turnover of employees. Certain leadership styles may result in long run liquidation of human assets, while showing immediate increase in earnings. Managers, who put pressures on employees for cost reduction, may experience increases in current net income as measured by conventional practice; but it may also result unmeasured deterioration of employee-attitude, motivation and other psychological variables adversely affecting the level of profits in future periods.

SIGNIFICANCE OF HUMAN RESOURCE ACCOUNTING

- 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 rates, and
- Employee turnover rate and retention rate.
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PUBLIC SECTOR COMPANIES:-

1. National Thermal Power Corporation Ltd. (NTPC).
2. Bharat Heavy Electricals Ltd. (BHEL).
3. Steel Authority of India Ltd. (SAIL).
4. Oil and Natural Gas Corporation (ONGC).
5. Minerals and Metals Trading Corporation of India Ltd. (MMTC).

PRIVATE SECTOR COMPANIES:-

1. Infosys Technologies Ltd. (ITL).
2. Satyam Computer Services Ltd.

REVIEW OF LITERATURE

Gupta (1999) "Third Wave and Human Resource Accounting", highlighted that accounting is a social science and it has to respond to the expectations of the society. As the global system is getting a splash of 'third wave ' the accounting system has to confront with intangible variables which were forbidden in the first and second wave accounting systems. One such important intangible variables happens to be the human resource. Human resource accounting attempts to assign cost value figures to human resource using different methodologies. However, value based methodology has found greater acceptance in India and abroad.

Shankaramarayana (2000) "Pedagogical Paradigm for Human Resource Accounting: A Case for Consolidation", explained that the accounting treatment of resource to the organisation cannot be made in vacuum. The changed role of human resource to the organisation should get the required status in the balance sheet. Accounting for intangibles like goodwill appears in the balance-sheet. In the era of mergers and acquisitions, patenting for intellectual property right the ignored asset, i.e. human resource should appear in the balance sheet.

Sinha and Gahlot (2000) "Human Resource Accounting Explained", concluded that using different models, accounting of human resource is a fairly simple affair. Since we are dealing with human resource, there will naturally be certain limitations and deficiencies in different models of HRA. A high turnover of employees in every company also possess problems for HRA.

Jain and Mangal (2002) "Accounting For Human Resource Development", evaluated different approaches to human resource valuation. They analysed that human resource accounting has become very popular in the last few decades. It is the process of measuring and communicating the data relating to human resources.

OBJECTIVES OF THE STUDY

1. To highlight the various monetary and non-monetary models of human resource accounting.
2. To examine the application and progress of human resource accounting in public sector companies in India.
3. To study the application of human resource accounting practices in private sector companies in India.

RESEARCH METHODOLOGY

The major chunk of the portion based on the secondary data has been obtained from annual reports of the selected companies, government publications. News papers, journals, magazines.

NTPC

NTPC was a set up in November 1975 by the Government of India with the objectives of planning, design, construction, operation and maintenance of large-capacity pit head power stations. Singrauli, Korba, Ramagundam and Farakka were the first four large Super Thermal Power Projects (STPP) commissioned during early and mid 80's on regional considerations. Initially, nobody had a clear idea about NTPC's growth plans. In the beginning, NTPC concentrated on construction of projects only and there was no Long Range Plan (LRP). In the initial years, the focus was not on recruitment, selection, procurement, quality assurance etc. rather as mentioned, the focus was on erection and commissioning of STPPs.

BHEL

BHEL had started providing information related to Human Resource Accounting (HRA) in its annual report from the financial year 1974-75 by using Lev and Schwartz model. It is the first company in India who provided HRA. BHEL also started considering efficiency factor for the purpose of Human Resource Valuation from the year 1980-81. BHEL divides total employees of the organization according to group wise, category wise and also as per physically challenged employee. The company followed the 12% as discount rate. Company provide the information regarding particular of employee under section 217(2A) of the companies Act, 1956 with companies rules 1975.

SAIL

SAIL started valuation and reporting of its human resource from the financial year 1983-84. SAIL follows the human resource valuation model suggested by Lev and Schwartz by accommodating some adjustments suggested by Flamholtz and Jaggi and Lou. SAIL uses the constant rate of discounting the future expected return at 15%. Company provide the information regarding employee under section 217(2A) of the Companies Act 1956 with Companies Rules 1975. SAIL provides the information regarding No of Employee, as well as Category wise Distribution of Employee. Company also provides the information about Turnover, Value Added, and Capital Employed, EPS, Net worth per Share, Employee Remuneration and Benefit. It also communicate different ratio like PAT/Average Capital Employed.

ONGC

ONGC is manned by a team of nearly 40,000 professionals. Their toil is amply reflected in the performance figures and aspirations of ONGC. The company has adopted progressive policies in scientific planning, acquisition, utilisation, training and motivation of the team. Needless to emphasise, over 18,000 experienced and technically competent executives, mostly scientists and engineers from distinguished universities/institutions of India and abroad, form the core of manpower of ONGC.

MMTC

MMTC has always recognised that every member of the company whether a manager or staff, is an essential ingredient of the total HR of the corporation. Unlike those trading organisations whose business consists mainly of purchase and sales transactions, MMTC's business includes customer servicing and, therefore, implies field operations, MMTC has distribution centres in Madras, Bangalore, Hyderabad, Cochin, Calcutta, Haldia, Bombay, Ahmedabad, Delhi, Ludhiana, Kanpur, Jaipur and Yamuna Nagar. Of total working strength, about one-third are involved in aforesaid field operations.

INFOSYS

Infosys provide additional information of the firm from intangible assets score sheet, Human Resource

Accounting and Value- Added statement. Infosys provide the information regarding particular of employees under the provision of section 217(2A) of the Companies Rules 1975. Infosys used the Lev & Schwartz model. The future earning have been discounted at 14.09 %, 13.63%, 12.96%, 14.97% and 13.32% in the year 2003-04,2004-05,2005-06,2006-07 and 2007-08 respectively. Infosys provide the information like Income, value added, No of Employee, Age wise Distribution and Category wise Distribution of Employee.

SATYAM COMPUTER SERVICES LTD

SCSL was set up in 1987 with the primary objective to achieve excellence in the IT arena. By 1992, Satyam had established its status as one of the pioneers in offshore software development in India. Satyam's multi-faceted activities include Software Services & Engineering Services, Systems Integration, Electronic Commerce, Software Product Development and Management Consulting. Satyam offers software services covering a broad band of industry segments such as telecom, manufacturing, financial services, insurance, banking, industrial, health and transportation sectors.

BENEFITS OF HRA

Cost of developing human resources:

HRA will give the cost of developing human resources in the business. This will enable the management to ascertain the cost of labor turnover also.

Proper investment:

It can be seen whether the business has made proper investment in human resources in terms of money or not. If the investment is in excess, efforts should be made to control it.

Planning and executing personal policies:

It will help the management in planning and executing personal policies. The management also makes use of its help in taking decisions regarding transfers, promotions, training, retirement and retrenchment of human resources.

Improving employee efficiency:

It helps in improving the efficiency of employees. The employees come to know of the cost incurred on them and the return given by them in the form of output, and so on, which will motivate them to increase their worth.

Calculate Return on Investment (ROI):

The return on investment can realistically be calculated only when the investment on human resources also is taken into account. The ROI is may be good because there is an investment on human beings.

CONCLUSION

HRA is emerging as a new concept being developed to assess the value of HR involved in production and service of an organisation. The non-disclosure of HR information will have a negative impact on the decisions of several parties to the enterprise including the investors. Undoubtedly, in the absence of any legal enforcement there is no compulsion or motivating force behind the adoption of HRA practices in Indian companies except image building and fascination towards the latest accounting system. It is sincerely hoped that in the years to come this aspect would be reflected in the financial statements of all the organisations and its relevance and scope would be recognised by all concerned. Overall, even valuing human resources appear to be important to Indian organizations, most organizations do not value their human resources and plans to implement valuation of human resources are at a very early stage. Despite the interest in valuation there will be little or moderate progress in the area over the next five to ten years. In order to show greater progress, more needs to be done at both the theoretical and practical level. More search into valuation methods and models, and the practical

implication of these, is needed together with the engagement of both human resource and accounting professionals in the debate on valuation and its implementation in practice. Therefore whatever the tool or approach to HRA, much of the potential for developing human resource accounting capability and gaining its advantage depending upon the availability of and accessing to the required data. In those organizations, where the data is not readily available or routinely maintained, the first step towards human resource accounting (HRA) will have to be Human Resource Information System (HRIS).

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