

A STUDY OF HUMAN RESOURCE ACCOUNTING PRACTICES IN INDIAN INDUSTRIES

ABSTRACT:

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. The study focuses on the calculation of the value of human resources at different levels of organization & to determine the human resource efficiency quotient. Five Public Sector Undertakings are examined in the study. The present study based on the primary data related to the reporting of human resources. The incorporation of the value of HR is very expensive and not easy to calculate the value of HR and if they calculate it, then the value will not indicate the true position of human resource.

KEY WORDS:

Human Resource Accounting, Indian Human Resource Practices, Lev and Schwartz model, Human assets, Human Efficiency

1 Introduction:

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.

But there is nothing to prohibit the companies to attach information about the worth of human

resources and the results of their performance during the accounting period in notes or schedules.

The following are the general considerations in the working of the HR concept by organizations:

1. Only internal human organization (employees) is considered. External organizations like customers are not considered.
2. All categories of employees are included. The value of employee potential services is considered.
3. HR value is worked out on certain standardized formula developed by experts.
4. A 12% discount rate is adopted.
5. Employees are classified according to age and pay scales under six categories i.e. executives, supervisors, supporting technical staff, skilled artisans, unskilled and semi-skilled workers and clerical staff.
6. Weighted average is calculated for each group on information of total number of employees at each incremental stage and in each grade.
7. Future number of employees is worked out on the basis of general promotion policy.
8. Employee considerations include direct and indirect benefits.

HRM and HRA is now followed by most of the medium and large scale companies in India as there is awareness of the benefits in terms of Revenue, productivity, flexibility in skill development and so on. What used to be a designation like Personnel Management is now Human Resources Management and the manager can grow up to Director level in some companies. That is the importance bestowed by companies for the Human Resources function.

2 Research Methodology:

For pursuing any research there should be a proper research methodology. A detailed plan of the research methodology is provided below:

2.1 Research Problem:

The research problem of the study is :
"Human Resource Accounting Practices in Indian Industries -An Analytical Study"

2.2 Objectives of the Study

The main objective of the study is to measure the value of human resources in the corporate

financial statements. However, the specific objectives are as follows:

- i) To study the value of human resources at different levels of organization.
- ii) To calculate per capita value of human resources.
- iii) To study hierarchical per capita HR.
- iv) To study per capita HR v/s per capita sales
- v) To determine the human resource efficiency quotient.

2.3 Scope of the Study

The study is confined to 5 Indian Companies for reporting of present human resources. The units selected for the study of reporting are:-

1. Bharat Heavy Electricals Ltd.(BHEL)
2. Minerals and Metals Trading Corporation(MMTC)
3. Oil and Natural Gas Ltd.(ONGC)
4. Cement Corporation of India Ltd.
5. Hindustan Zinc Ltd., Udaipur(HZL)

2.4 Period of Study

The period of study is 2007-08.

2.5 Sampling Techniques

Sampling technique used is convenient sampling technique.

2.6 Sample of Study

5 Indian Companies were selected for survey.

2.7 Sources of Data Collection

The data used for this study is primary data. Questionnaires sent to selected companies and on that basis data is collected and analyzed.

2.8 Data Analysis

To process the data scientifically and to make it easily understandable statistical method of tabulation is used. Compilation of data was done with the aid of computers. MS-Excel was used for data processing and presentation.

2.9 Organization of the Study

Initially, Researcher referred the concept of Human Resource Accounting thoroughly. The next phase was to refer the existing Review of Literature. Research methodology includes need, research problem, and objectives, scope of the study and profiles of the sample companies. The Study consists of reporting of human resources in selected 5 organizations.

2.10 Limitations of the Study

Every research conducted has certain limitations. The limitations of this study are as follows:

1. Although 5 Companies are being taken into consideration, still data collected is about the present number of employees working in

organization. There is no information of past employees.

2. The study being corporate sector or company specific cannot be generalized.

3 Data Collection & Interpretation:

In India, the financial statements of the companies are prepared as per the provisions of the Companies Act, 1956. The act does not provide for disclosure of any significant information about human resources employed in a company except that the companies have to give by way of a note to the profit and loss account. However, there is nothing in the act which prevents a company from giving details about its human resources by way of supplementary information attached with its financial statements. A number of people have contributed to the development of models for the purpose of evaluating the human resource. They do not deal with the mode of recording and reporting of accounting information relating to human resource on the books of accounts of financial statements of a firm. This has been left to the description of the accounting bodies that have got to develop a generally accepted basis for valuation, recording and reporting of human resources information.

Prof. Chakraborty has also suggested that the recruitment, hiring, selection, development and training cost of each employee should be recorded separately. This should be treated as deferred expenditure and may be written-off over the expected average stay of the employee in the organization. The deferred portion, not written-off, should be shown in the balance sheet of the organization. If there is premature exit of an employee on account of death, retirement etc. the balance of the deferred revenue expenditure attribution to that person should be written-off against the income of the year of the exit itself.

As regards disclosure of accounting information relating to the human resources, Prof. Chakraborty has suggested that 'human assets' should be shown under the heading "investment" in the balance sheet of an organization. He has not favored its inclusion under the heading "fixed assets" since it would cover problem of depreciation, capital gains and losses in the event of their exit. Similarly, he has not favored their inclusion in current assets on the ground that this will not be in conformity with the general meaning of the terms.

3.1 HR Reporting Practice

Very few companies in India, particularly in the public sector, are at present reporting human assets

valuations. Most significant among them are: Bharat Heavy Electricals Ltd.(BHEL), Minerals & Metals Trading Corporation(MMTC), Oil & Natural Gas Commission Ltd.(ONGC), Cement Corporation of India Ltd. and Hindustan Zinc Ltd, Udaipur(HZL).

3.1.1 BHARAT HEAVY ELECTRICALS LTD.(BHEL)

BHEL was set up in Nov.1956 at Bhopal to cover conversion, transmission, utilization and conservation of energy in core sector of the economy like power industry and transportation and fulfils vital infrastructure needs of the country. Today, the company has 14 manufacturing divisions of service centre and 4 power sector regional centers spread all over India and abroad to provide prompt and effective service to customers. Human resources have been valued on the model based on Lev and Schwartz with the following assumptions:

- " Present pattern in employee compensation, including direct and indirect benefits, including the effect of provision for wage division.
- " Normal career growth as per the present policies with vacancies filled from the levels immediately below.
- " Weightage for changes in efficiency due to age, experience and skill.
- " Application of a discount factor of 12% per year on the future earnings to arrive at the present value.

3.1.2 MINERALS AND METALS TRADING CORPORATION(MMTC)

It was incorporated in 1963 and has grown as India's premier company in the field of international trade to export the minerals and to import the raw material for the domestic industry with the expansion and diversification of its trade portfolio. It has a corporate head quarter in Delhi and regional offices and 44 sub-regional offices spread all over the country to carry out its business.

In MMTC, human resources have been evaluated by working out the present value of the anticipated future earnings of the employees after taking into account the present pay scales and the promotional policies. For arriving at the present value of future earnings of the employees, a discount factor of 12% per ann. has been applied. The computation has been based on the guidelines and principles enunciated in Lev and Schwartz model. The present value of human earnings per employee amounted to Rs.1.153million and the value added per employee of human capital is Rs.0.870million.

3.1.3 OIL AND NATURAL GAS COMMISSION LTD.(ONGC)

ONGC was established as a statutory corporation on 23 June, 1993 at New Delhi and its corporate headquarter at Dehradun with project centre office located throughout the country. Intellectual capital is considered one of the most valuable assets of this organization. It is the key to its success. Development of human resources facilitates an organization to meet the challenges of the ever changing business scenario. For valuation of human assets, SAIL has adopted the ECONOMIC VALUATION MODEL METHOD and the basic model as conceived by Lev and Schwartz. Minor modifications have been made to suit special requirements. Discounting has been done at 15%. SAIL has classified human assets into following categories i.e. managers, executives, supervisors, semi-skilled and unskilled workers. ONGC has always given the highest priority to human resource development by formulating enlightened personal policies from time to time in order to achieve its goal objectives.

3.1.4 CEMENT CORPORATION OF INDIA LTD.(CCI)

It was set up in January 1965, with the objectives of exploration and providing limestone reserves and getting up sufficient manufacturing capacity of cement so as to help in achieving targets of domestic diamond. CCI is fully conscious towards human activities and gives almost attention and priority to maintain the human assets in the fine fertile. The procurement, development, compensation, integration and maintenance of human resources are thoughtfully planned, skillfully organized, carefully controlled and directed so that individual's needs, organizational goals and social objectives are successfully accomplished. Balance sheet of CCI says, "In the absence of clear cut, well-defined and universally accepted model for evaluation of the economic worth of human assets of a company, an attempt has been made to assess the same by working out the present value of the anticipated future earnings of the employees taking into account the present pay scales and the promotional policies followed". The computation has been based on the guidelines and principles enunciated in the economic models developed by Lev and Schwartz, Eric Flamholtz and Jaggi and Lew with appropriate modifications.

3.1.5 HINDUSTAN ZINC LTD., UDAIPUR (HZL)

It is one of India's leading base metal producers.

HZL was incorporated on 10 January, 1966 after takeover of erstwhile Metal Corporation of India to develop mining and melting capacities to substantially meet the domestic demand of zinc and lead metals. HZL does human resource accounting and uses Lev and Schwartz model with the following assumptions:

The present pattern of employee compensation has been taken into account.

Career growth has been projected as per present policies with vacancies filled from the level immediately below.

Present value of future earnings is calculated assuming a discount factor of 12%.

4. Findings

All the organizations have applied basically Lev and Schwartz Model for assigning value to their human resource. A number of organization adopted HRA practice and started reflecting the value of human resources in their annual accounts as supplementary information or as a part of social accounts. All the organizations are more conscious and elaborative in regard to HRA.

The forms of accounting and various components of accounting are not uniform in all the organizations. All the enterprises follow someone similar practice evolved out of the synthesis of the three approaches based on economic value as advocated by Lev and Schwartz, Flamholtz and Jaggi and Lew may appear to be an improved version. The present value approach to HRA is still in the experimental stage. But, it is already required in valuing some specific under general accepted human accounting standards. HR value may reflect the present value of future liability of an organization towards employer wage payment. It does not reflect the value of HR as an asset, nor does it facilitate to manage the same as an asset as against expense in the traditional accounting practice. The cost of the wages may have to be judged in relation to the services they render to access their value and improve organizational productivity. Besides the wages as a servicing cost of employees, the cost of manpower acquisition may be no less relevant.

Formulation of generally accepted human accounting standard is essential at this juncture. It may not represent the value of the HR as proposed in the historical cost based HRA, but the same cost elements may have to be recognized while judging the extent of the services, the employees render to the organization to reflect their value. The value assigned by Indian companies to their human resources just denotes the present value of the costs

with respect to remaining service life of an employee in the organization rather than their contribution that it will receive from HR. It appears that the organization have stressed more upon the Human capital Accounting rather than Human Asset Accounting.

Until now, the efforts made are to value human resources and to integrate and present their value in the conventional financial statements. But, if the reality of HRA is to be derived, the concept of preparing financial statements has to be changed. Financial statements have to be prepared with a view which is based on human beings. Instead of the present view based on capital, the financial statements so prepared to show the human resources as assets to be termed as human based financial statements. Now, it is required under law for undertakings to maintain a separate item in their balance sheet about such HR activities undertaken by them. So, undertakings must implement HRA with vigor and clear directions.

The present study based on the primary data related to the reporting of human resources. It can be inferred on the basis of different information that the value of human resources not depend upon the number of persons employed or in other words, it is not necessary that if the number of persons are higher than value will be more. The reason for higher value may be the amount paid to the employees. The manufacturing companies are paying fewer amounts to their employees so their value of human resource is less in spite they employed large number of workforce. The value of IT Companies is higher because the salaries at higher level and middle level are higher in relation to lower level. On the other hand, technical companies having the less worth at lower level in comparison to the manufacturing companies because these companies employed more work-force at top and middle level, that is why they have highest value at the top level.

It can also be inferred that value of employees is higher than sales per employee. If there is reverse situation, companies need not pay much amount to their employees because they are not much efficient to receive such a large amount. Employees should try to improve themselves to increase the profit of the companies, otherwise it will effect negatively not only to the organization but also to the employees.

Employee efficiency plays a very important role to increase the production, sales and profits of the company. Employee efficiency means how effectively and efficiently employees are working. If employee works properly with caliber and interest, it will be

profitable for any organization and if they will not work properly then it leads to failure of the organization. Human capital is the most important asset for any organization because all other resources of production directed by human resources. So, success or failure of any organization depends upon the efficiency of employees.

On the basis of response of questionnaire, it can be inferred that companies want to report human resources in their financial statements but according to them the incorporation of the value of HR is very expensive and not easy to calculate the value of HR and if they calculate it, then the value will not indicate the true position of human resource. The annual reports of the companies each from the public and private sector were reviewed to find the organizations reporting HRA information in their annual reports.

These organizations mainly apply Lev and Schwartz Model for valuation of HR. This model calculates the value of HR in terms of the present value of future earnings of HR. The model has calculated the potential costs associated with HR rather than worth of investment in HR.

The HRA information in the annual reports of these organization forms a part of supplementing information. It lacks authenticity since it is unedited. Moreover, the organizations do not disclose in their annual reports all variable which have been considered by an organization in the valuation of HR.

5. 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 not different from 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 state, 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.

6. Conclusion:

HRA being an emerging area in accounting has greater potential for further research. The model devised so far, for the valuation of HRA, has been

developed in USA keeping into consideration the environments prevailing there. There is a great need to review their applicability in India, a country which is substantially facing different environments.

The special studies needed periodically to calculate cost of turnover, cost-benefit analysis of training and the cost of labor etc., must be a joint effort since many value judgments and assumptions must be made and understood by the prepares of data as well as the user. HRA has a promise; it has not yet met the test of usage. Much more research is necessary before HRA can possibly be useful to operating managers.

7. Bibliography

ARTICLES

- Das Hari - Refining Human Resource Management. The Management Accountant, July 1998.
- Gupta, Dinesh K. - ' Third wave and human resource accounting' , The Management Accountant, December 1999.
- Hendrick James, Arden - The impact of human resource accounting information on stock investment decision. An Empirical Study. The Accounting Review 51, April 1976 pg-292-305.
- Jaggi B and Lau - Towards a Model of Human Resource Valuation, Accounting Review October, 1974.
- Kumar Ashutosh - Human Resource Accounting - An Overview, The Management Accountant, August 1999.
- Milost Franko - ' The Attitude Towards Human Resource Accounting in Solvency Company' , The Management Accountant, August 1999.
- Morse W.I - Estimating the Human Capital, Accounting and Business Research, Winter 1975, pg.48-56.
- Rensis Likert, Human Organization, its Management and Value, McGraw Hill, New York 1967.
- Raul, R.K. - ' A Behavioural Approach to Human Resource Accounting' , The Management Accountant, July 1996.
- Schman E.S - The Effect of Human Resource Accounting data on Financial Decisions. An Empirical Test. Accounting, Organizations and Society 1976, pg.219-237.
- Tomassini L.A - Assessing the Impact of Human Resource Accounting. An Experimental Study of Managerial Decision. Preferences The Accounting Review 1972, pg.904-914.
- Verma Siwalia Bihari - Human Resource Accounting Practices in Public Undertakings in India - The Management Accountant - August 1998.

JOURNALS

- Gurasamy, Accounting and Reporting for human resources, The Journal of Indian Management Strategy.
- Jena R.K - Some Aspects of Human Resource Accounting, The Indian Journal of Commerce, March 75, pg.44-51.

BOOKS

Das Gupta, N. Human Resource Accounting, Sultan Chand & Sons.

Human Resource Accounting - A Study Material of Company Sectrial Practices in India.

Porwal, L.S. Accounting Theory, Tata McGraw Hill, Company, New Delhi.

Rao, Prabhakar D, ' Human Resource Accounting' Inter India Publication, New Delhi.

Sharma, R.K., Gupta Shashi K., Management Accounting, Kalyani Publishers.

Kothari, C.R.(1990), Research Methodology; methods and Techniques, Wishwa Prakashan, New Delhi.