
Human Resource Accounting as an Aid to Human Resource Management

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ABSTRACT

Human resources are truly the most valuable resources a firm can possess because effective utilization of physical and financial resources depends upon quality of human resources. Effective Human Resource Management is important as people produce profit whereas machines and capital merely enhance the profit making capability. Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. Basically HRA is an information system that tells management what changes over time are occurring to the human resources of the organization. Through this paper efforts have been made to explain how human resource information is relevant to an effective Human Resource Management.

Keywords: *Human Resources, Human Resource Accounting, Human Resource Management,*

INTRODUCTION

Human Resource factor is very crucial, important and sensitive factor of production. Human Resources of an organization refer to the people working in it. They are the most valuable assets of an organization because effective utilization of physical and financial resources depends upon the quality of human resources. Moreover human resource is the only resource that has an unlimited potential for the improvement and development.

Human Resources are energies, skills, talents or knowledge of people that are or can be potentially applied to the production of goods or rendering useful services. Such investment in human resources refers to all forms of investments directed to raise Knowledge, skill and aptitudes of the organization workforce. Effective human resource management is important because people produce profit whereas machines and capital merely enhance the profit making capability. It has always been argued by the corporate managers that the employees of an organization constitute a valuable resource.

Yet accounting has concentrated on the physical and financial resources of an entity without bringing this 'vital ingredient' of the social systems into its fold, forgetting in the process that performance of the enterprise itself is the product of human activities and the failure of most of the companies is because of the poor performance of its people. Even though human resources are the most important element of the business process their value is not shown among the assets in the traditional statement of financial position.

Human resource is a key element in the production of the services in an organization and efficiency and profitability

of a firm is determined to a large extent by the character and efficiency of its human elements. Effective human resource management is important because people produce profit whereas machines and capital merely enhance the profit making capability. It has always been argued by the corporate managers that the employees of an organization constitute a valuable resource. Yet accounting has concentrated on the physical and financial resources of an entity without bringing this 'vital ingredient' of the social systems into its fold, forgetting in the process that performance of the enterprise itself is the product of human activities and the failure of most of the companies is because of the poor performance of its people. Even though human resources are the most important element of the business process their value is not shown among the assets in the traditional statement of financial position.

The accountants by and large ignored the importance of human resources in the business organization as productive resources until two decades ago. During the early and mid 1960s behavioural scientists attacked the conventional accounting system for its failure to value the human resources of the organization with its other material resources. In this changing perspective the accountants were also called upon to play their role by assigning monetary value to the human resources deployed in the organization. In the management terminology this is called 'Human Resource Accounting'.

The American Accounting Association (1973) defined Human Resource Accounting as the process of identifying and measuring data about human resources and communicating this information to interested parties. Eric Flamholtz (1974) defines Human Resource Accounting as 'Accounting for people as an organizational resource. It involves measuring

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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 the organization’.

From the above definitions we may state that human resource accounting is concerned with:

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- ❖ Identification of data regarding human resources of an organization
- ❖ Measurement of data in terms of cost and value
- ❖ Communicating the results to the decision makers

HUMAN RESOURCE MANAGEMENT

The concept of modern management is primarily concerned with the planning and development of HR. The man behind the machine has rightly become the focus of attention with a sense of responsibility to make the most of the skills, experience and initiative of its employees. Manager good or bad is unthinkable without personnel. Peter Drucker (1968) is right when he calls ‘Personnel’ as the only ‘dynamics and the life giving element’ in every organization which, as he asserts plays a critical role in the desired transformation of ‘the resources of production’. HRM has a pivotal role in developing the capabilities and capacity of the organization. Management of human resources includes guiding human resources into a dynamic organization that attain its objectives.

In the words of Flippo (1984) HRM means ‘planning, organizing, directing and controlling the procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organizational and societal objectives are accomplished’. It is the strategic and coherent approach to the management of an organization’s most valued assets—the people working there who individually and collectively contribute to the achievement of the objectives of the business. In simpler terms HRM means employing people, developing their resources, utilizing, maintaining and compensating their services in tune with the job and organizational requirement.

PHILOSOPHY OF HUMAN RESOURCE MANAGEMENT

The major outcomes of HRM are:

1 Adequate Economic Leverage

In the present world of competition organizations realize that human resources provide the sharpest competitive

edge needed for success. It is only the human resource that permits the optimum utilization of other resources in a business, thus providing adequate economic leverage

2 High Productivity

Effective and efficient HRM strives to satisfy the growing expectations of employees in an organization, which in turn results in a motivated and committed work force and it leads to high productivity.

3 Improvement in the Quality of Work Life.

When employees are fully trained, well equipped, then obviously quality of work life is bound to improve.

4 Increased HR Satisfaction Levels

Ajit Haksar (1988) has rightly put it that we do not want human resource management. We want competitive people productivity, and we want this to be self generated, not by virtue of handouts, not by charity given to those who have to produce and be productive and certainly not by the carrot and stick in the longer term. The people productivity can only come about by changing our definition from human resource management to human happiness via human satisfaction. Thus HRM is relevant so long it gives happiness and satisfaction to employees while doing their jobs.

5 Overall Preparedness for Change

HRM aims at preparing the employees to meet the future challenges.

HRA as an Aid to HRM

From the above it can aptly be concluded that HR is the most important asset of an organization and there is a need for evolving a yardstick by which the institute can objectively judge the performance and growth of HR. The cost incurred on procurement of manpower can be used in the performance evaluation of employees and can be carried out by comparing the costs incurred on employees with the benefits expected and/or received. HRA can thus provide a scientific and realistic basis for both short and long term manpower planning and utilization. HRM if effectively used can contribute greatly to organizational growth.

No meaningful programme for employees training and development can be pursued unless we have extensive data pertaining to profiles of various categories of employees, training needs, modules, feedback about training programmes, and translation of acquired abilities into shop floor practices. Now we shall examine some of the specific uses of HRA information in the context of model of HRM process. This model provides a framework for analyzing management issues from a HRA perspective.

HR acquisitions. It can provide measurement of the standard costs of recruiting, selecting and hiring people, which can be used to prepare human resource acquisition budgets. Again in making selection decisions, managers need measurements of the value of the candidates for particular jobs, so that the person selected is one who possesses the greatest future value to the organization. Instead of using non-monetary measures of potential abilities derived through qualitative tests, the potential economic value of candidates may be a better criterion for selection. Using monetary measurements of the expected value of people, decision rules may be designed to optimize the expected value of the firm's human resources.

❖ Allocation of human resources:

The allocation of human resources is the process of assigning people to various organizational roles and tasks. HRA provides a more adequate basis for decisions on allocation of resources and express them in terms of the common denominator of monetary units. The management may thus be enabled also to apply linear programming for an optimal solution of the manpower allocation problem. Otherwise, allocation decisions may be costly to individuals as well as to the organization.

❖ Conservation of human resources:

This is one another area in which HRA can be of great assistance to management. Conservation of human resources is the process of maintaining the capabilities of people as individuals and the effectiveness of the human system developed by an organization. The valuation of human resources is of importance in view of the fact that it reveals whether the management is building up human resources or depleting them. The management of an organization might have achieved good physical results for a temporary period but due to unrealistic policies might have simultaneously caused grievous loss for the future by demoralizing the workers, and leading them to leave the concern. If the turnover of personnel is high at various levels, valuation of human resources will help to highlight the cost of such turnovers. Through monetary measures and reporting of socio-psychological indicators of the Condition of human organization, HRA can help management by providing an early warning system to take care of human resource conservation.

❖ Utilization of human resource:

A well developed HRA system can theoretically aid

managers in becoming more effective and efficient in managing and utilizing the resources that are available to them by providing a conceptual framework, so as to develop strategies with respect to acquisition, development, allocation and conservation, designed to influence the value of people.

❖ Evaluation and reward of human resources:

Human resource evaluation involves the measurement of productivity and promotability of people. HRA can be useful in the evaluation of human resources by developing appropriate methods including both monetary and non-monetary measurements. They permit human resource management decisions to be made on a cost-value basis.

HRA will also have an impact on the administration of reward system. These systems are intended to motivate and reinforce the optimal performance of people in achieving organization objectives. Rewards include compensation, promotions and performance appraisals. Moreover human resource valuation can be used for organizational rewards in relation to an employee's value to the organization.

Further to judge the efficiency of personnel management function HRA can help to establish standard cost of acquiring and developing people, which may be compared with the actual costs incurred for the purpose, and the variances from the standard may be analyzed to identify the possible lapses in the personnel management function.

HRA FOR HRM: ON THE BASIS OF OIL AND NATURAL GAS COMMISSION VALUATION OF HR'S.

As we know HRA system consists of two aspects namely

❖ The investment made in human resources

❖ The value of human resources

Measurement of the investment in human resources will help to evaluate the changes over a period of time. The performance of human resources and organizational performance can be judged with the help of such analysis. The investment pattern includes expenditure on advertisement, cost of selection, training cost, and contribution towards provident fund, medical expenses, exgratia payments and employee's welfare fund. All those influence human resources and the production of organization. Current cost incurred on human resources to derive current benefits like salary and wages, dearness allowance, overtime wages, bonus, house rent allowance etc are to be considered for various decision.

Table 1: Statement Showing Total HR Cost made by ONGC

Year	THRC (In million of Rupees)	No. of Employees
2002-03	25921	39352
2003-04	25619	38033
2004-05	30147	34722
2006-07	48333	33810

Source: Annual Reports of ONGC.

If we divide this total human resources cost into different categories of employees we will be in a position to find out the co-efficient by dividing the share of each class of human resources with the total cost of human resources. With the help of co-efficient management will be in a position to know how the investment in human resources is spread among the different classes of human resources.

VALUE OF HUMAN RESOURCES

The management for the purpose of planning and control can use value of Human Resources. ONGC used Lev and Schwartz model 1971 for the valuation of their human resources covering regular technical and non- technical categories taking aggregate future earnings during remaining employment period of employees, discounted @8%p.a and future earnings based on current emoluments with normal incremental profile

As per the annual reports of the ONGC the value of human resources was stated in millions of rupees. In 2003-04 it was 247782, 2004-05 its 240586, in 2005-06 the value was 274974 and in 2006-07 it was 285118 and value per employee is 24.4, 24.90, 30.5, and 30.3 for these years respectively. This information is useful for the management for taking various decisions.

With the help of human resources value management is in a position to calculate the various ratios that can be used for different decisions regarding human resources by the management. The ratios are:

- ❖ Human Resources /No. Of employees
- ❖ Turnover/Human Resources
- ❖ Turnover/ Total Resources
- ❖ Value added/ Human Resources
- ❖ Value added/ Fixed Assets

- ❖ Value Added/ Total Resources
- ❖ Human resources/ Total Resources

This shows that various decisions taken by the management will be varied if human resources data is available. Therefore HRA helps human resource management by supplying valuation information for various decisions like the amount of investment made in HR's and its value can be used by the HRM personnel to evaluate how far the management in producing income for the organization utilizes the investment made in human resources.

The role of HRA does not stop here in making HRM a success. In addition to provide useful information about HRM components it aims at:

1. To facilitate the effective and efficient management of human resources.
2. To help the persons interested in the organization to know whether the human resources are giving a return equivalent to their worth or not.
3. To communicate the worth of human resources to the organization and public.
4. To assist the management in recognizing and defining problems connected with the people at work.
5. To provide information of changes in the structure of manpower.
6. To help in creating a sense of belongingness to the institution by winning employee loyalty and devotion. Employee initiative is also promoted, which will increase institution productivity etc.

CONCLUSION

The above discussion shows the need and important role played by HRA in making HRM effective and efficient. In absence of HRA if we considered the traditional way of thinking about people in organizations, all funds required to recruit, train and compensate people are treated as expenses while much of those expenditures represent investments in building assets that will provide future value to the organization. Accordingly management either consciously or unconsciously tends to think people as expenses to be minimized rather than as assets to be optimized. Thus Human Resource Accounting motivates management to adopt a human resource perspective, either explicitly or implicitly in their decisions.

Today when only an efficient organization whether it is a profit or a non profit one can survive, we need to follow the asset management approach for managing the human resources to improve its value. Because investors would like to know about an organization's investment in human

assets, as suggested in a poem by Sir Matthew Webster Jenkinson:

Though your balance sheet's a model of what balance sheet should be, Typed and ruled with great precision in a type that all can see;

Though the grouping of the assets is commendable and clear,

And the details which are given more than usually appear;

Though investments have been valued at the sale price of the day,

And the auditor's certificate shows everything O.K;

One asset is omitted---and its worth I want to know,

The asset is the value of the men who run the show.

Investors need this information for making decisions to acquire, retain, or dispose of stock. Because investors may be interested to invest in a company with lower net income at present but which is growing in HR rather than with higher net income but depleting its HR. Hence with the help of HRA management can effectively utilize its human resources and able to enhance the value of its people to win the favour of investors. HRA plays an important role in HRM. Be it training and development or organizational development or human resource planning or personnel research and information or any other sub system of HRM, all are directly or indirectly linked with HRA. HRA is currently not used for the external reporting of HR value in the balance sheet, but as a way of managing the most important resource, namely people in an organization and the need is felt to develop and implement HRA for managerial planning and control.

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