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An Analysis Of Indian Human Resource Accounting Practices

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Abstract: The process of identifying, quantifying, and sharing information about human resources with interested parties is known as human resource analysis (HRA). The goal of classifying human resources as an organization's asset led to several initiatives in the field of human resource accounting. Numerous researchers created various techniques for calculating HRVs. This paper will examine the need and growth of human resource accounting, as well as the models and techniques employed in the field, the HR accounting practices of a few Indian companies, and the difficulties associated with implementing HR accounting.

Index Terms - Human Resource Accounting Practices, Models and Methods, Challenges.

I. INTRODUCTION

An organization's investment in its workforce and the fluctuations in this value over time are the subjects of human resource accounting. The process of identifying, quantifying, and sharing information about human resources with interested parties is known as human resource analysis (HRA). HR considers the expenses incurred by a company in the recruitment, selection, hiring, training, and development of its human resources accounting. HRA is a process for carrying out and keeping track of financial evaluations of workers in a company. Many think tanks introduced HRA, and most of its components can be found in a wide range of techniques, instruments, and analytical frameworks. It integrates information needs from both internal and external sources regarding human resource management and the costs and benefits of investments. The goal of classifying human resources as an organization's asset led to a number of initiatives in the field of human resource accounting. Numerous researchers created various techniques for calculating HRVs. Others, however, worked on the corporate sector's operationalization of these techniques. These approaches can be

broadly classified into two categories: monetary models and non-monetary models. Techniques grouped. Determine the monetary value of human resources using the Monetary Model. The two subcategories of the monetary model are value-based methods and cost-based methods. The entire capitalized cost incurred by employees is considered as Human Resource Value by the cost-based methods. The Standard Cost Model, Opportunity Cost Model, Replacement Cost Model, and Historical Cost Methods are the most widely used cost-based approaches.

Review of Literature

Karen Harris, Michael Mankins, and others (2017): In this article, the author describes how human capital has surpassed financial resources in importance. Global financial capital currently exceeds global GDP by a factor of ten. In numerous big businesses, the after -cost of The cost of borrowing is almost zero since it is close to the rate of inflation. Effective financial capital allocation is no longer a source of long-term competitive advantage. In the 1980s and 1990s, the weighted average cost of capital was 10%; today, it is between 5% and 6%. Global financial assets are predicted to rise by 40% between 2010 and 2020. Additionally, studies have shown that people between the ages of 45 and 59 play a crucial role in determining the amount of savings.

Fathima, P. Dyana, Nancy (2014): Finding the type and traits of voluntary human resource accounting disclosures in Indian companies' annual reports was the first goal of the study. To assess the degree to which HRA data is beneficial to make sensible choices. To investigate how management and staff view human resource accounting. To examine how human resource accounting affects Indian companies' financial statements. To examine a company's profitability using disclosures from human resource accounting (HRAD). Using the "convenience sampling" approach, the researcher gathered viewpoints from managers, accountants, and staff members of the corresponding companies. The businesses that use human resource accounting have been chosen as the study's sample unit. primary information.

Majid Bajlan, Hushang Mohagheghi, Hossain Abdi, and Abolfazl Danaei (2014): In addition to providing opinions on the global need for HRA, the author of this paper draws on the Human Capital Theory of Labor Economics, which promotes human capital. The study concluded that managers are more likely to concentrate on the human side of the organization and view human resources as valuable organizational resources when they go through the process of measuring them. As you correctly stated, we only view human capital as a valuable organizational resource when we acknowledge its significance.

Raghuvanshi, Dinesh B. (2014): The purpose of this study was to determine how HR accounting might be used in educational institutions. There are not many difficulties with using HR accounting, according to the author. In contrast to commercial organizations, the majority of educational Institutions are operated as nonprofit organizations. The lack of a profit motive discourages management from effectively managing its human resources. The government sets employee salaries and the fee schedule. The author concludes by expressing his opinion that there will be a more rational appraisal of human resources once corporations get involved in the education sector. Since educational institutions do not yet include the element of profit, the same concept of human resource accounting is not thought to be applicable to businesses or educational institutions.

G. Barzegar and H. Haghshenas (2014): In this paper, the author examines the definition, history, and constituents of intellectual capital. Furthermore, an analysis is conducted on the measurement aspect of intellectual capital. It is determined that even though human assets are not displayed on the balance sheet, an organization must manage all forms of human resources, and in order to do so, human resources must be analyzed from both an organizational and social perspective. Human resource accounting has undoubtedly not advanced to the point where it can be displayed on a balance sheet, but in order to better manage it, it should be considered from all relevant perspectives.

Mrs. Lakshmi T. and Dr. N.K. Sharma (2013): This study's main goal was to investigate how organizational capabilities affect performance in relation to the community. It is based on an analysis of 44 Bangalore and Mumbai-based businesses. This study concluded that HR practices are implemented in Indian MNCs and that they produce positive business outcomes. The application of HR practices is said to improve business performance, and this is true.

P. Usha (June 2013): This paper argues that modern accounting will gradually replace traditional accounting, with the International Financial Reporting Standard encouraging and recommending alternative measurement and reporting standards that also comprises accounting for human resources. Financial statements will undoubtedly present accurate and fair information thanks to the acknowledgement of human resources as an asset and other advancements in contemporary accounting.

Research Methodology

1. To research the evolution and necessity of accounting for human resources.
2. To research human resource accounting modalities and techniques.
3. To research the accounting procedures for human resources in a few Indian businesses.
4. To research the difficulties in implementing accounting for human resources.

Data collection

The annual report serves as the primary source of secondary data for this study, with additional sources including books, journals, research papers, websites, and newspapers. The researcher also benefited greatly from using the internet.

Models and Techniques for Accounting for Human Resources:

Given their importance, human resources have been given a lot of attention in the current service industry. Several models were proposed to measure the workforce's or employees' talent, skills, and knowledge. The following is a presentation of some human resource valuation models:

- A. Monetary Methods Cost of Production Method Capitalized Earning Method Other Methods.
- B. Non-Monetary Method Skill or Capability Inventory Performance Evaluation Measures Attitude Measurements Assessment of Potential.

Historical Cost Approach or Acquisition Cost Method: Another name for this strategy is an acquisition cost model. The five criteria—acquisition, formal training and familiarization, informal training and familiarization, experience and development, and recruiting—are used to gauge the organization's investment

in its workforce. Approach to replacement costs: This method calculates the expense of replacing a worker. Likert (1985) defined replacement cost as the sum of the costs of hiring, choosing, paying, and training (including lost wages during the training phase). The standard cost method Determining the overall cost of hiring and recruiting each employee, along with the cost of any training or development, is part of the standard cost method of human resource accounting. The method of current purchasing power (CPPM): Using this approach, the historical costs The Opportunity Cost method was initially promoted by Heckiman and Jones. Another name for this is the "Market Value Method." The value of an asset when there is another chance to use it is known as the opportunity cost. Competitive bid price method: Hekimian and Jones proposed using opportunity pricing to get around the drawbacks of the replacement cost method. Cost method that calculates a human resource's worth based on how valuable an employee is for other purposes. Approach to Capitalized Earnings Method of capitalization of salaries: This approach, which is founded on the economic notion of value, is also well-known as the Lev and Schwartz Model. Abaa Schwartz and Baruch Lev proposed this model.

Need for Human Resource Accounting:

The 21st century is undoubtedly a time of human demand, with nations with high labor standards dominating the global technology market. Worker performance is the reason why nations like China and Japan are leaders in technological advancement. Thus, the entire world came to understand that the best way to invest in business endeavors is to use human resources, which should only be used to capture and hold onto success waves. One definition of human resource accounting is the use of financial expertise and an attitude of inquiry into unsolved problems, carried out in accordance with the rules of evidence.

In recent years, HRA reports have gained a lot of attention for two main reasons. There is a clear need for trustworthy, enhanced, and assessed HR management, according to early advancements in contemporary organization theory. Second, a far wider range of measurements than were previously deemed feasible or desirable are being added to the traditional accounting framework. It aids in planning: Human resource cost acting facilitates the creation of future forecasts and budgets by providing the cost information needed for the human resource planning process. It facilitates decision-making because human resource accounting offers information in areas where there are other options, such as whether to hire a trained worker or train one internally, or whether lay off or keep a worker. The economic value of recruits will be a better criterion for selection and optimization of the organization's expected value of human resources, and subsequently for evaluating the sufficiency of return on investment in human resources, as opposed to using non-monetary measures of potential ability. It facilitates capital budgeting, which is the current method for making capital budgeting decisions.

Think of the human element as a qualitative component. This is unrealistic given the current situation, where significant investments are being made in staff development. As a result, a human resource accounting system would fairly evaluate how capital budgeting affects both human and non-human assets. Control is aided by human resource accounting, which provides the data required to carry out the control function and guarantees that human resource objectives are met effectively and objectively. To find any potential gaps in the personnel

management function, the standard cost of acquisition and development is compared with the actual cost incurred, and any discrepancies are examined. It aids in performance evaluation; managers are encouraged to use their human resources to measure return on investment because the current convention ignores changes in human resources.

Development of Human Resource Accounting:

Sir William Petty created HRA for the first time in 1691. However, Rensis Likert, who founded the University of Michigan Institute of Social Research and is renowned for his work on management theory and styles, started the real HRA research in 1960. He collaborated on several research projects aimed at creating ideas and procedures for human resource accounting with faculty member Brummet, Ph.D. candidates William C. Pyle and Eric Flam Holtz, and others. Therefore, the development of HRA measurement models was inspired by early HRA work. Several researchers in the late 1960s and early 1970s suggested that some human resource costs should be classified as investments rather than expenses due to their capital nature. This idea was known as Human Resource Accounting. Eric G. Flam Holtz claims that the development of HRA started in the 1960s and is a methodical, in-depth academic endeavor. **First stage (1960–1966):** This is when scholarly interest in HRA first emerged. The economic theory of capital, psychological theories for effective leadership, and the emerging concepts of human resources were distinct from those of personnel or human relations, as well as the measurement of corporate goodwill. Nevertheless, the focus was on drawing HRA concepts from other studies.

Second stage (1966–1971): Here, the development and validation of various HRA models were the main priorities. These models addressed the cost of human resources as well as their monetary and non-monetary worth. The goal was to create some tools that would assist organizations in more realistically evaluating and managing their assets and human resources. Only a few research projects were conducted at this point by the researchers to advance the ideas and procedures of human resource accounting.

The third stage, which lasted from 1971 to 1976, was notable for the broad interest in HRA that resulted in a sharp increase in the field's research. In the majority of cases the application of HRA in business organizations was the main focus.

Fourth Stage (1976–1980): The main reason for this downturn in HRA was that the intricate problems that needed to be investigated necessitated far more in-depth empirical research than the earlier simple models did. However, one organization was not ready to fund this kind of study. Although they thought the HRA concept was intriguing, they did not see much value in spending a lot of money or time to support the study.

Fifth Stage (1980 onward): Most developed economies have transitioned from manufacturing to service economies and have realized the importance of human capital for their organizations, which has led to a sudden resurgence of interest in the field of HRA. More precise metrics for HR expenses, investment, and value were deemed necessary since it was believed that a company's ability to survive, expand, and make money depended more on its intellectual assets than on its physical assets. At this point, behavioural scientists criticized the traditional accounting system for failing to value the company's human resources in addition to its other tangible assets.

The Rationale behind creating HRA

Table:1

Motives behind creating HRA in-house	Motivations for creating HRA from both an internal and external perspective	Motives behind creating HRA externally
To enhance the management of human resources	To solve issues resulting from intangible asset valuation	To get around the challenges of giving investors adequate information about traditional balance sheets
To emphasize workers as resources	Redistributing the public and private sectors' share of social responsibilities	High Reputation to Company
To keep skilled workers on board	To Increase Employee Engagement.	To inspire employees

Table-2: Human Resource Accounting Practice in selected companies

Sl. No	Company Name	Model used by them
1	Infosys Technologies Limited	Lev & Schwartz
2	Hindustan Petroleum Corporation Limited (HPCL)	Lev & Schwartz
3	Oil and Natural Gas Corporation Company (ONGC)	Present value by discounting the estimated earnings
4	National Thermal Power Corporation Limited (NTPC)	Lev & Schwartz
5	Metals and Minerals Trading Corporation (MMTC Ltd)	Lev & Schwartz

Conclusion

The development and necessity of human resource accounting, the modalities and methods used for HR accounting, the HR accounting practices of a few Indian companies, and the difficulties in implementing HR accounting are the main topics of this study. Implementing successful HRA practices requires a focus on key areas, such as in-depth understanding of human resource costs, values, result and how to compute these high target settings and management demands. Executing HRA from strategic management perspectives is crucial, to sum up. All of this human resource data is included in their financial statements by Human Resource Accounting (HRA).

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