

# Need of the Hour for Knowledge Human Resource Accounting for Success of an Organization

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**Abstract - Human assets are very important and vital among all other assets and resources. Right from the beginning of globalization of business and services, the human resources have become more important and decisive input for the success of any organization. HR accounting refers accounting for people as an organizational resource. It includes measuring the costs incurred by business firms and other organizations towards their HR investment and its very return in the form of output for the organization. The present paper has been dealt through introduction, objectives, methodology, approaches for a knowledge human resource accounting, HRA benefits, limitations and conclusion.**

**Keywords: Human-assets, success, accounting, measuring, score**

## I. INTRODUCTION

Human resource is a special resource featured with both natural and technical elements. Since last four decades the organizations have started believing that human assets are very important and vital among all other assets and resources. Right from the beginning of globalization of business and services, the human resources have become more important and decisive input for the success of any kind of organization. All the resources and processes of the organization are operated by human resources, hence it has become obvious that the changes in the HR cost and benefits must be considered on prime line. Where, at this juncture we see the need of HR accounting. HR accounting according to Flamholtz is “accounting for people as an organizational resource. It includes measuring the costs 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”. Though the concept of HRA has been conceived a few decades back only a very few organizations are adapting and practicing. The present paper enlight the need of adapting and practicing HRA.

*Objectives:*

The present paper has been dealt with the following objectives:

- 1) To present the general objectives of HRA
- 2) To present different approaches and benefits of HRA
- 3) To present limitations and conclusion
- 4) To offer a succinct analysis about the need of HRA adaptation.

*Methodology:*

The present paper titled as 'Need of the hour for human resource accounting for an organisation' is a secondary data based paper dealt with the information based on various references and existing experience over the topic. Only the broad elements without touching the computational aspects of HRA is covered and referred in the present paper. It is non empirical and has been carried out through introduction, objectives, methodology, approaches for human resource accounting, HRA benefits, limitations and conclusion that includes a brief need-analysis.

### *Different Approaches for Human Resource Accounting*

Different authors have determined different approaches and concepts for Human Resources Accounting, the gist of few important were given hereunder.

#### *1) Historical Cost Approach:*

This approach was found on the concept that there are certain costs incurred by the organisation with regard to human resources. Cost is a sacrifice aspect incurred to obtain some anticipated benefits or services. In this approach the actual cost incurred on recruiting, selecting, hiring, training and development of human resources, of the organisation is maintained and a proportion of it is written off to the income of the next and expected useful life of human resources. The approach of the cost of human resources is very similar to the book value of the other physical assets. This method is simple to understand and easy to work out. It is based on traditional accounting concept of matching cost with revenue.

#### *2) Replacement Cost Approach:*

This approach was developed on the concept Human resource of an organisation are to be values on the assumption that a new similar organisation has to be created from cut down and what would be the cost to the firm if the existing resources were required to be replaced with other persons of equivalent talents and experience. According to this model the value of employee is estimated as the cost of replacement with a new employee of equivalent ability and efficiency. There are two costs, individual replacement cost and positional replacement cost. The cost of recruiting, selecting, training and development and familiarisation cost are account in individual replacement cost. When an employee change the present position to another or leave the organisation then the cost of moving, vacancy, carrying and other relevant costs reflect in individual replacement cost. Positional replacement cost refers to the cost of filling different position in an organisation.

#### *3) Opportunity Cost Approach:*

This approach analyse the alternative earning sources from the productive capacity of human resources by putting some alternative use. Opportunity cost is the value of an asset (HR) when there is an alternative use of it. The perspective chances of opportunity cost are declined for those employees that are not scarce. Here, only the scarce people may be comprised the value of human resources. But the alternative use of HR within the organisation is restricted and at the same moment, the use of HR with finding out their alternative cost may not be incorporated properly.

#### *4) Standard Cost Approach:*

This approach is based on the line and staff as well as functional relationship of employees in an organisation. The employees of an organisation are categorised and divided into different groups with hierarchical levels or positions. Standard cost is fixed for each category of employees and their worthwhile role may be calculated. Due to some of the static position of employees on account of their status and position, it does not take any differences of them put in the same group.

**HRA Objectives:** Some of the broad and important objectives of Human Resources Accounting are as follows.

#### *Facilitate HR management:*

Human resource management activity is a complex process ascertaining, acquiring, managing and maintaining individuals in accordance with their respective qualifications, abilities, experience, skills in the organisation. The human resource accounting process will facilitate to take right decisions about individuals from economic perspective.

1) *Better decisions:*

It helps the management in making better decisions keeping in view the monetary intervention about procurement, allocation, development, compensating and maintaining human resources. It enable to keep control on human resource cost.

2) *Organised focus on performance appraisal, training, development and performance management:*

The chief effort towards yielding better results depends on better performance of individuals, owing to performance management techniques. Better performance will be the outcome of better training and development activities. The talents, for better performance, can be recognised through proper appraisal. All these aspects would be prioritized in chief manner as all these would be measured in commensuration of economic viability and affordability.

3) *Effective utilisation of human resources:*

Owing to the cost perspective it always make us cautious in utilizing the human resources through apt monitoring and supervision, which in turn the extracting and channelizing the resources will be taken more care, considering the monetary aspects.

4) *Valuation of outcome and results from individuals:*

Human resources accounting enables the organisation to check whether the human resources are producing a return on the investment, whether the individuals are interested in the organisation or not. Hence it is useful to make comparisons between cost and returns.

5) *Information and details:*

Human resource accounting will enable the management regarding cost and value of human resources and it will provide details to outsiders in need of the same such as bankers, financial institutes, creditors etc.

*Human Resource Accounting – Benefits*

A few chief benefits of HRA have been given as follows.

1) *Information for Manpower Planning - Basis for HR planning*

Human Resource Planning anticipates not only the required kind and number of employees but also determines the action plan. It provides scope for advancement and development of employees by effective training and development. HRA provides useful information about the cost and value of human resources. It shows the strengths and weakness of the human resources. All this information helps the managers in planning and making the right decisions about human resources. Thus, it provides useful information for Manpower Planning and Decision Making.

2) *Basis for making HRM Policies:*

HRA provides useful information for making suitable personnel policies about promotion, favorable working environment, job satisfaction of employees, etc. It check the corporate plan of the organisation. The corporate plan aiming for expansion, diversification, changes in technological growth etc. has to be worked out with the availability of human resources for such placements or key positions. If such manpower is not likely to be available, HR accounting suggests modification of the entire corporate plan.

3) *Right Placements:*

It aims to see that the human involvement in the organisation is not wasted and brings high returns to the organisation. HRA helps the organisation to place the right man in the right post depending on his skills and abilities. It offsets uncertainty and change that enable the organisation to have the right person for the right job at the right time and place

4) *Right Transfer and Promotions:*

It helps to take steps to improve employee contribution in the form of increased productivity. It provides different methods of testing to be used, interview techniques to be adopted in the selection process based on the level of skill, qualifications and experience of future human resources, which are most useful in transfers and promotions.

*5) High Morale and Motivation:*

HRA initiatives show that the organisation cares about the employees and their welfare. This increases their morale and it motivates them to work hard and achieve the objectives of the organization. It helps individual employee to aspire for promotion and better benefits. It can foresee the change in value, aptitude and attitude of human resources.

*6) Attracts Best Human Talent:*

Only reputed organisations adapt HRA. So, competent and capable people will join these kind of organisations. Therefore, it attracts the best employees and managers to the organization, as HRA is well practiced.

*7) Planning for Training and Development Programs:*

HRA helps the organization by giving a clear picture about the monetary interventions to plan a suitable training and development program for its employees and managers for the future requirements of the organization.

*8) Provides Valuable Information:*

HRA provides valuable information to present and future investors. They can use this information to select the best company for investing their money.

*Human Resource Accounting – Limitations*

The important limitations are as under.

*1) Uncertain Assumptions:*

The valuation of human assets is based on the assumption that the employees are going to remain with the organisation for a specific period. However, assumption is wrong because employee mobility cannot be predicted.

*2) May lead to Dehumanization:*

The human resource accounting may lead to the dehumanization in the organisation. If the valuation is not done perfectly or the results of the valuation are not used properly.

*3) Lack of Uniform Standards:*

In the case of financial accounting, there are certain specified accounting standards which every organisation must follow. However, there are no uniform standards for HRA as each organisation has its own standards. Therefore the HRA of no two organisations can be compared.

*4) No clear cut guidelines for Cost and Value:*

There are no specific and clear cut guidelines for computation of 'cost' and 'value' of human resources of an organisation. The present valuation systems have many limitations in this aspect.

*5) Uncertain Human Futurity:*

The life of a human being is uncertain. So its value is also uncertain.

*6) Complexity in calculation of Human variables:*

Calculation of the value of human resources is not so easy because it is most difficult to calculate the value of the quality of any

person. What worth will be of honesty, morality, benevolence and generosity? But these moral values are so important for developing any company from bottom point.

*7) Possibility of Jealous:*

Jealousy to see the high value of other employee can show impact on demoralization in efficiency of any employee because he can think why my price is so low and other employee's price is so high.

*8) Can't expect short period benefits:*

From human resource accounting, we cannot get short period benefits like general historical accounting system. It is useful in long run while taking decisions.

*9) No formal provisions:*

Indian company law 1956, Indian Income tax law 1961 and other legal laws have not framed rule for showing human assets in the balance sheet.

*Conclusive Analysis:*

Men, materials, machines, money and markets are the important elements focussed by any organisation. Man power resources are considered to be the chief and very vital among other four resources. To ensure growth and development of any organisation, the efficient utilisation of human resources are very essential to utilize the other resources optimally. The very strength and growth potency of any organisation is indicated by human behavioral variables such as knowledge, individual integrity, team play, group norms, loyalty, ability, motivation, capacity for effective communication, interaction, critical thinking skills, decision skills, performance competencies etc. But still, critical evaluation of HR contribution is not being adapted and undertaken by majority organizations. As a matter such organizations may be far from properly achieving objectives and deriving benefits as well.

Referring to the accounting of HR, as it was not taken care of seriously by organisations except a few corporate organisations and a rare from others are bringing out the details of per person human resource cost against the total production cost. The AI has also been introduced to the needy areas of HRM by a few organisations, where the adaptation of HRA has not been fully reached as to its potential spread capacity. It is most vulnerable for HR related cost aspect decisions. Barring certain limitations, to optimally utilize the HR in the present volatile, uncertain, complex and ambiguous job market conditions it has to take informed decisions to retain the HR, considerably for a long period of time. Decisions to select, train, optimize and progression(STOP) of HR is to be essentially viewed from standard, cost, opportunity, replacement and economic(SCORE) perspectives under the back drop of financial competency and viability by all kind of organizations, having deserving scope and competencies. If the need is identified under the advent of global competition and adopted human resource accounting techniques through a strategic and knowledgeable approach, owing to the broad objectives and benefits of the organization, will stand as an effective data and navigating device in achievement of desired results through its human talent in a most cost effective manner.

*Practicing organizations in India:*

The Human Accounting practicing organizations in India are very low in number. So far as the data variable prior to 2019 they were in twenty-eight prime organizations, we can find. The details are as follows:

<p><b>a)</b></p> <ul style="list-style-type: none"> <li>• Steel Authority of India ltd. (SAIL)</li> <li>• Hindustan Machine tools ltd. (HMTL)</li> <li>• Oil &amp; natural gas corporation ltd. (ONGC)</li> <li>• National thermol power corporation Ltd. (NTPC)</li> <li>• Hindustan shipyard Ltd. (HSL)</li> <li>• Oil india Ltd. (OIL)</li> <li>• Minerals and Metals Trading Coropration of India Ltd., (MMTC)</li> </ul>	<p><b>b)</b></p> <ul style="list-style-type: none"> <li>• Cement Corporation of India Ltd., (CCI)</li> <li>• Engineers India Ltd., (EIL)</li> <li>• Electrical India Ltd., (ELIL)</li> <li>• Project and Equipment Corporation of India (PEC)</li> <li>• Metallurgical and Engineering Consultants of India (MECON)</li> <li>• Canbank Financial Services Ltd., (CFSL)</li> <li>• Southern Petrochemical Industries Corporation Ltd., (SPIC)</li> </ul>
<p><b>c)</b></p> <ul style="list-style-type: none"> <li>• Cochin Refineries Ltd (CRL)</li> <li>• Madras Refineries Ltd (MRL)</li> <li>• Associated Cement Companies Ltd (ACC)</li> <li>• Tata Engineering and Locomotive Co. Ltd (TELCO)</li> <li>• Infosys Technologies Ltd (ITL)</li> <li>• Bharat Heavy Electricals Ltd (BHEL)</li> <li>• Global Tele Ltd (GTL)</li> </ul>	<p><b>d)</b></p> <ul style="list-style-type: none"> <li>• Hindustan Petroleum Ltd (HPL)</li> <li>• Hindustan Zinc Limited</li> <li>• Indian Drugs and Pharmaceuticals Ltd (IDPL)</li> <li>• Indian Oil Corporation (IOC)</li> <li>• Rolta India Ltd</li> <li>• Satyam Computers Ltd (SATYAM)</li> <li>• U.P State Cement Corporation Ltd (UPCCI)</li> </ul>

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