

# Human Resource Accounting Practices in Selected Companies – Indian Scenario

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**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. Fifteen Companies are examined for the measurement of human resource measurement. The present study based on the primary data related to the measurement 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.*

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

## I. 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. However, despite 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.

## **II. 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:

1. To study the value of human resources at different levels of organization.
2. To study hierarchical per capita HR.
3. To determine the human resource efficiency quotient.

## **III. RESEARCH METHODOLOGY**

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

**Period of Study:** The period of study is confined to 2007-08 as no data is available after this period, of the selected companies.

**Sampling Techniques:** Convenient sampling.

**Sample of Study:** The overall study is confined to 15 Indian Companies which are: -

1. Gillette India Ltd.
2. Guru Gobind Singh Thermal Power Plant
3. HNT International
4. Haryana Milk Foods Ltd.
5. Ind. Chenial Health Spl. (P) Ltd.
6. Keniform Chemicals Pvt. Ltd.

7. Mahaan Proteins Ltd.
8. Nibson India Ltd.
9. OST Electronics Ltd.
10. Poorva Consultants
11. Ranbaxy
12. M/s Saint Gobain Diamat Winter Ltd.
13. Sagar Electricals
14. Tata Consultancy Services
15. Vedilal Chemicals Ltd.

**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.

#### **IV. 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.

**A. Measurement of Human Resources:** Human beings are the dynamic elements of every organization. The success of any organization, to a great extent, depends upon the quality and caliber of the people working in it. In other words, human resources are the most important asset of an organization. Thus, in spite of all technological developments, the importance of human resources has in no way diminished. With the advent of scientific management, which emphasis on quantitative methodology to make a most efficient use of all resources, also it includes the computation of the human resource capital.

**Table-1** indicates the value of employee's vis-à-vis total no. of employees as per Lev and Schwartz model. The total value of employees of sampled organizations is about 15crores. According to this table, TCS indicates the highest value of employees i.e. 87.09% and it also have highest percentage among total number of employees 53.9% (17,000 employees).

The second company which have highest value is Gillette India Ltd. i.e. 4.22% value. But the table shows that there are some companies in sample that have higher number of employees but value of their human resources is not higher like as Guru Gobind Singh Thermal Power Plant that has employed 11.46% (3,620 employees) but their human worth is only 2.3% that is too much less than number of employees.

Thus, inspite of large number of employees, value of human capital is not high. Sager Electricals, which employed 0.063% employees, represent the lowest value of human capital and their human worth is only 0.004%.

**Table-1: Total Value of HR as per Lev and Schwartz Model**

Sl. No.	Name of the Company	No. of Employees*	Value of employees**
1.	Gillette India Ltd.	1,568 (4.96)	664.6(4.22)
2.	GGs, Thermal Power Plant	3,620(11.46)	373.6(2.37)
3.	HNT International	53(0.167)	6.69(0.04)
4.	Haryana Milk Foods Ltd.	190(0.60)	14.71(0.09)
5.	Ind Chenial Health Spl(P) Ltd.	900(2.85)	90.85(0.57)
6.	Keniform Chemicals Pvt. Ltd.	32(0.10)	2.98(0.018)
7.	Mahaan Proteins Ltd.	26.0(0.82)	41.8(0.26)
8.	Nibson India Ltd.	60(0.190)	25.61(0.162)
9.	OST Electronics Ltd.	300(0.95)	33.03(0.20)
10.	Poorva Consultants	40(0.12)	14.27(0.090)
11.	Ranbaxy	915(2.89)	31.58(0.20)
12.	M/s Saint Gobain Diamat Winter Ltd.	200(0.63)	92.86(0.59)
13.	Sagar Electricals	20(0.063)	0.69(0.004)
14.	Tata Consultancy Services	17,000(53.9)	13,700.55(87.09)
15.	Vedilal Chemicals Ltd.	122(0.38)	18.32(0.11)

**Source:** Data Compiled from questionnaire

(\*) The figure in parantheses is the percentage of the number of employees as compared to the other resources used by that company.

(\*\*) The figure is parentheses is the percentage of the amount spent on the human resources as compared to the expenditure for remaining factor of production by the company.

It can be inferred that the value of human resources does not depend upon the number of human beings employed or in other words, it can be said that if the number of employees are higher than the value will be higher. The situation may be that value of human resources may be higher in spite of less number of human capitals. So, another factor that increases the value of human capital is amount paid by organizations to their employees. If companies pay higher amount on salaries to their human resources then value will be higher, and if companies will pay less, human capital will be low. This is why, companies have higher number of human resources but their value is less than the companies which employed less number of employees. If companies paid higher salaries to their employees, human capital worth is higher. On the other hand, the manufacturing companies are paying less amount to their employees so their value of human resources is less inspite they employed large number of work force. The second reason is IT Companies employed most of the workforce at higher and middle level and salaries at both levels are higher in comparison to lower level. The manufacturing companies paid employed larger workforce at lower level and salaries at lower level is also less. That is why; human capital worth is less in manufacturing than in the IT Companie.

**B. Per Capita Value of Human Resources:** High performing organizations in order to keep performing on a continuous basis must treat their human capital as the most important and valuable asset. They should treat them as adults, as partners and with dignity and respect.

As we all know that ‘People who feel good about themselves produce good results’ and ‘People who produce good results feel good about themselves’. Such a healthy and virtuous cycle goes on and on, satisfying the individual goals and organizational goals too at the same time, in that the individual drives the job satisfaction, which in turn induces him to reach out for excellence, culminating in the all round development of the performing organizations. In recent years, India has evolved from an inward looking economy to one with a global orientation. Today, the company exports large number of products to various destinations than ever before. Sound human resources not only facilitate to improve a firm’s long run responsiveness and flexibility also thereby competitiveness. Organizational structure strategy, technology and physical assets cannot guarantee sustainable competitive advantage for an organization in the era of globally competitive business environment in which not only companies but entire product categories can disappear over night. This is because of the fact that competitors can done all of the traditional benchmarks of success. Human resources provide an organization a sustainable competitive advantage through the creation of superior quality intellectual assets.

**Table 2: Value of HR per employee as per Lev and Schwartz Model**

Sl. No.	Name of the Company	No. of Employees*	Value of employees**
1.	Gillette India Ltd.	1,568	42.3
2.	GGs, Thermal Power Plant	3,620	10.3
3.	HNT International	53	12.6
4.	Haryana Milk Foods Ltd.	190	7.7
5.	Ind Chenial Health Spl(P) Ltd.	900	10
6.	Keniform Chemicals Pvt. Ltd.	32	9.3
7.	Mahaan Proteins Ltd.	26.0	16
8.	Nibson India Ltd.	60	42.6
9.	OST Electronics Ltd.	300	11
10.	Poorva Consultants	40	35.5
11.	Ranbaxy	915	3.4
12.	M/s Saint Gobain Diamat Winter Ltd.	200	46.4
13.	Sagar Electricals	20	0.3
14.	Tata Consultancy Services	17,000	80
15.	Vedilal Chemicals Ltd.	122	15

*Source: Data Compiled from questionnaire*

Table-2 indicates the value per employee and number of employees working in organization. TCS have the highest number of employees i.e. 17,000 and value per employee is also very high i.e. 80 lakh. The table shows that this is one of the biggest IT Company. After TCS, M/s Saint Gobain have the highest value 46.4 lakh of each employee that is very high in comparison to the number of employees i.e only 200 but the value shows that human resources are very important for these organizations. After that comes Nibson India Ltd. and Gillette India Ltd. which have approximately same value of human resources but there is very much difference among the number of employees. On the other hand, there are many companies in which number of employees are very high but their value is very low like as Guru Gobind Singh Thermal Power Plant with 3620 employees and per employee value is only Rs.10.3

**C. Hierarchical Per Capita Human Resources:** Human beings are the dynamic elements of the organization. The success of an enterprise will depend upon the caliber and motivation of persons working in it. The success of an organization depends upon the effective and meaningful utilization of men, materials and money. Infact, business is a system, which consists of elements and inter-connections between elements. One cannot simply say that the value generated by a business consists of the sum of the value generated by individual elements. Value arises because each of the element performs various functions and because these functions interact. Human resources is a key element in the production or services in an organization. Efficiency and profitability of a firm is determined largely by the character and efficiency of its human elements. Although investment in physical capital may indirectly achieve some lessening of backwardness of the human resources, the direct and more decisive means is through investment in human beings. An advance in knowledge to instil the human. 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 work force acquisition may be no less relevant. Formulation of generally accepted human accounting standard is essential now. 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. However, 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 vigour and clear directions. The present study based on the primary data related to the reporting of human resources. It can be inferred based on 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. 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.

## **V. LIMITATIONS OF THE STUDY**

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

- 1 Although 15 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.

## **VI. 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.

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