

Impact Human Resource Accounting (HRA) in Indian Organisations

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ABSTRACT

The development of the organization is significantly influenced by its human resources. Accounting for human resources assists managers in determining the value and cost of the company's human capital and supports them in making important hiring choices. The primary focus of this study is to examine how human resource accounting affects important decisions made by HRM.

1.1 INTRODUCTION

Any organization that wants to expand and thrive must guarantee that employee productivity is increased in the right ways. Other resources cannot operate efficiently in the absence of human resources. The initial health of the company can be seen in human behavior traits including skill, motivation, group trustworthiness, and the volume for successful connection, communication, and decision-making.

An organization needs personnel, supplies, equipment, cash, and policies. The two main categories of these resources are alive and lifeless (human and bodily). Men are regarded as living resources, or human resources for short. Others fall under the category of inanimate or physical resources, including supplies, equipment, money, and processes.

It is now vital to give adequate courtesy to the appropriate progress of such an essential resource of an organization because for a long time, top management of businesses did not consider the value of human resources seriously. Our conversation will now center on the theoretical underpinnings of human resource accounting.

Although people are an organization's most significant asset, their worth is not yet shown in financial statements. Information systems for management do not contain it. All costs related to the generation of human capital were included in conventional human resource accounting, which does not seem to be accurate or reflect actual demands.

The evaluation of an individual's worth and expense to a business is known as human resource accounting. It involves figuring out how much it costs for businesses to find, choose, train, hire, and develop employees as well as assessing the workers' financial worth to the company.

1.2 THE SCENARIO

It is critical that people are acknowledged as an essential component of an organization's overall value in the knowledge-driven economies of the twenty-first century, where employees' attitudes and knowledge are valued more highly than their physical resources and the achievement of these businesses depends on the excellence of their human resources, including their inspiration, aptitude, and acceptance of the company procedure.

The "vital factors without which the unconscious resources are useless" is what a British bookkeeper once described as human resources. Therefore, in order to grow or even survive, a company needs to properly accommodate its family. The involvement of people is becoming increasingly crucial to the success of any business endeavor. In addition to financial and material resources, human resources help a firm produce more labor and goods. Without anyone else, material and financial resources cannot advance talent or raise to a higher level of project funding. The collective and intentional efforts of individuals are what allocate financial and material resources to achieve organizational goals. Thus, the organization's most valuable asset is its human capital. Unlike material resources, which degrade over an ill-defined period of time, human resources do not. Without a doubt, with extra training and expertise expanded over an ill-defined period of while, they will often advance inside the work. When preparing an association's financial record, this truth is ignored. According to W. Pyle (2016, p. 72), the preparatory interaction is where a variety of issues with traditional accounting arise. The company's capital spending plan keeps track of the actual resource uses, which are not formally backed by revenue for the current year. However, the traditional capital financial statement does not include expenditures for establishing long-term worker capacities and strong relationships through external gatherings. This training makes it stiffer for the manager to urge assets for such determinations.

1.3 MEANING OF HRA:

We have learned in economics that the primary components of manufacture are land, labor, capital, and entrepreneurs. Whereas land and capital are reported by all organizations on their balance sheet, labor and entrepreneurs are not given the same consideration and are perceived as just deducting from the organization's profit (Abubakar, 2006; Glautier, 1974). The human resources or assets of the companies are these two production factors: labor and entrepreneurs.

1.4 DEFINITION ON HRA:

The basic idea of human resource accounting can be better grasped by reviewing some of the key definitions provided by competent accounting authors.

4. Flamholtz defines,

Flamholtz (1985) defined that "HRA is the process of measurement of the cost incurred by the organizations in recruiting, selecting, hiring, training and developing the human asset." In other words, Flamholtz (1985) "the practice of measuring the economic value of employees of an organization, as HRA."

According to Stephen Knauf,

"Human Resource Accounting (HRA) is the measurement and quantification of human organizational efforts such as hiring, selecting, recruiting, training, experience, and commitment."

1.5 Need for HRA:

The absence of data about human resources available to the organization in traditional accounting is the reason behind the necessity for HRA. This makes it challenging for managers to achieve the organization's long-term goals. Humans are a company's most valuable asset since they enable the efficient use of financial and material resources.

The following points summarize the need of HRA for an organization:

1. The HRA can be used to gauge the level of experience held by the organization's management and

staff.

2. HRA can be used to control the actual worth of the organization's assets and liabilities. Given that the value that must be supplied to employees in exchange for their expertise is viewed as a liability and the capabilities of human resources as assets.
3. HRA has a stringent surveillance program for the company's workers.
4. It gives management a standard for HR oversight.
5. It provides accurate information to the organization's debt holders, stockholders, and investors so they can make wiser decisions.
6. Since the use of other resources is entirely dependent on HR, it aids in ascertaining the genuine nature of the business going forward.
7. As part of its corporate social responsibility, HRA informs stakeholders on the value additions that organization makes to the nation's HR.

Behavioral scientists concerned with management of organizations pointed out the following reasons for HRA

1.6 HISTORY OF HUMAN RESOURCE ACCOUNTING

Sir William Petty was one of the pioneers in this subject. He originated the idea in 1691 that labor should be considered the "father of wealth" and that, as such, it should be considered when determining the wealth of the country, without fail. Earnest Engle in 1883 and William Far in 1853 both made more attempts. The actual effort didn't begin until behavioral scientists severely criticized traditional accounting practices for failing to value human resources similarly to other physical assets. For this reason, experts in accounting and economics agreed that an appropriate framework should be developed for determining the worth and expense of the organization's workforce. Many specialists have studied this topic for a long time and developed specific methods to determine the worth of human resources. Lev and Schwartz, Flamholtz, Schultz, and others are a few of these.

1.7 THE CONCEPT: HUMAN RESOURCE ACCOUNTING

The phrase of the future in the realm of management is human resource accounting, or HRA. Human resource accounting (HRA) is the newest buzzword in the field of management. It's a cycle of calculating the net value of each organization representative. Most of the time, this is the only strategy that can offer significant financial value without requiring human interaction or humiliation. It is extremely comparable to determining the value of actual resources.

Furthermore, the cost of human resources determined by Human Resource Accounting (HRA) becomes a significant factor in administrative decision-making.

Fundamentally, HRA and financial accounting are equal. Similar to how financial accounting depicts the costs of resources like hardware and construction, human resources are shown by HRA as capital rather than as expenses. HR managers will be forced by HRA to demand judgments based on mathematical data to be supported by critical experience or qualified findings. In order to strengthen the company, this branch frequently houses the Human Resource Management, Financial Management, Accounting, Statistics, and Strategic Management groups. In this sense, HRA illustrates the presumptions that organizations make about their relatives and how their capacities evolve over an ill-defined period of time.

1.8 OBJECTIVES OF HUMAN RESOURCE ACCOUNTING

1. To increase managerial awareness of the values of human resources,
2. To facilitate the effective and efficient management of human resources (Porwal, 1993),
3. To develop management principles by classifying the financial consequences of various practices (Likert 1971) and assist in the development of effective human resource management practices (Sirisetti & Mallesu, 2014, p-49)
4. To by classifying the financial sequences of these practices. It provides the sound and effective basis of human asset control, that is, whether the assets appreciated, depleted or conserved. (Sharma and Shukla, 2014, p-131)
5. It furnishes cost/value information for making management decisions about acquiring, allocating, developing and maintaining human resources in order to attain cost - effectiveness. (Sharma and Shukla, 2014, p-131)

1.9 Assisting in developing effective management practices

Any organization's human resources, if they are used for administrative purposes, for-benefit purposes, or both, are considered a critical asset. At that moment, the effective management of these resources gives the organization the upper hand and helps it succeed in its endeavors. Studies have indicated that the adoption of a set of interconnected HRM practices leads to success rather than the adoption of a single strategy. Superior Implementation Work Frameworks (HPWS) is the term given to these. They consist of many HRM tasks such as hiring, selecting, organizing, putting the board into action, and paying employees. In general, HPWS are good HRM practices that aim to improve organizational execution by increasing staff members' commitment to and involvement with the company and its goals (Chen, Huang, Lee, Hsieh, and Ahlstrom, 2015). Studies have indicated that as compared to standard HR practices, HPWS is illegal. Instead of seeing HR departments and other specialized divisions inside a company as separate entities, HPWS aims to create integrated business cycles. Managers and staff members are encouraged to participate in work practices under an HPWS in order to foster teamwork that benefits the organization as a whole (Riaz, 2015). Good human capital is important because HPWS makes it widely available to the wealth of an organization. Improved performance, more noticeable growth, and a positive work environment have all been attributed to HPWS.

In order to demonstrate our ability to provide clear instructions for implementing HRM practices in non-industrialized nations' administrative affairs, this chapter delves into the main component of an HPWS: hiring.

1.10 HUMAN RESOURCE ACCOUNTING MODELS

Researchers such as Lev and Schwartz (1974), Flamholtz (1999 and 1985), Brummet (1985), Likert (1985), and others attempted to devise a method for calculating an employee's HRA value. Their contributions have resulted in several techniques such as the replacement cost model, acquisition cost model, historical cost model, discounted future wage approach, and stochastic rewards valuation model.

1. Cost Models

The amount that any business spends in the hopes of receiving a benefit or receiving services is considered the cost in the cost-based approach. Therefore, cost can be seen as both an asset and an expense component. What separates the two is that although an asset element is expected to help the business in the future, an expense may benefit it during the present accounting period. Thus, four more models are included in the

cost-based approach.

2. Historical cost model

Pyle, Flamholtz, and Brummett created this technique. It is based on the true costs associated with using human resources. These expenses can be divided into two categories: learning and acquisition costs.

Acquisition Cost: The cost of hiring and selecting candidates is known as the acquisition cost; all costs, even those incurred by individuals who are not chosen, are included.

Learning Cost : Expenses for training and development are included in the learning cost. Although this approach is incredibly straightforward to use, it undervalues human capital. An experienced worker, for instance, would not need as much training, giving the impression that his worth is low even though his true value is far higher than what the historical cost method suggests

3. Standard Cost Method :

This strategy has been proposed by David Watson. Many businesses employ standard cost, which is the same method used for financial and physical assets, to value human resources rather than historical or replacement costs. “Employees of an organization are divided into various groups” according to their hierarchical levels in order to use standard cost.

1.11 Case Studies of Best HRM Practices

Investigating both weak and strong models is important to understand and create appropriate HRM recruitment strategies. This section of the text will focus on a couple of the top HRM recruitment frameworks that are available to the general public worldwide. The examples are meant to stand out from the ones that came before them by showcasing a few approved practices that are used in nations with strong public administrations. Then, the most effective recruitment strategies that are typically noticed will be discussed and looked at. Despite the context-driven nature of recruitment, empathetic success from a variety of environments can nevertheless be helpful in determining an organization's future course of action.

The idea of HRA appears appealing when considered theoretically. If human resources had a monetary value, both internal management and outside investors might base their decisions on it. However, we are compelled to caution against further research on potential HRA benefits until proponents of HRA can demonstrate that there is a trustworthy and widely applicable method to measure the value of human resources.

1.12 HUMAN RESOURCE ACCOUNTING IN INDIA

Early 1960s human resources accounting (HRA) was first announced, that time few Indian businesses companies are integrated it into their operations. Regarding the process of accounting for human assets, there isn't much consensus. The many techniques, such as the cost and value approaches, have supporters and detractors. The idea of human resource accounting has developed slowly, and this element is now to blame. It is regrettable that, despite much research in this area even today, there is no widely acknowledged approach for either the assessment of human resources or their accounting for in the books of accounts.

The enterprises Act, 1956 does not necessitate the disclosure of HRA connected information in the monetary accounts of the enterprises, given the statutory obligations. The Indian Institute of Chartered Accountants has also failed to introduce any conclusive benchmark or assessment for the disclosure of human resource expenses.

Furthermore, the HRA is largely dependent on the availability of correct and pertinent data, just like other

accounting exercises. Since this information is primarily provided indirectly, implementing HRA will be difficult.

The difficulties are greater than anticipated. The Literature Review Chapter discusses it in full.

Advantages of Human Resource Accounting (HRA)

1. There are no precise rules or criteria for figuring out how much an organization's human resources will cost or be worth.
2. Because human resources have an unknown lifetime, it appears illogical to cost them in an uncertain future.
3. There is concern that HRA might influence and demean workers.
4. There is currently insufficient empirical data to substantiate the claim that HRA, as a management tool, promotes more efficient and actual HRM.
5. The accounting profession is divided on the issue of how employee value is executed in financial statements. This is a topic that has to be further investigated.

There is a dearth of evidence supporting the use of human resource accounting. As a result, there is very little expansion and receipt of HRA. The application of HRA is entirely optional; no governmental entity has mandated that HRA be followed.

Numerous studies and surveys on HRA have been undertaken by researchers, and while many of their findings are insightful, they have also drawn criticism.

1.12.1 Increased Importance of HRM in organization:

The caliber of a corporation's workforce is what sets it apart from its competitors. Employers are realizing more and more that their workforce can provide a competitive edge. The management of a company have always maintained that its workforce is a significant resource. The well-organized and purposeful use of an organization's three resources—men, materials, and money—is essential to its success. Organizations today firmly understand the value of human resources.

When William Paton (1920) said that "in a business well organized and loyal personnel may be more important asset than a stock of merchandise," he deserves credit for first recognizing human resources as a "asset."

People's efficiency needs to be increased from the appropriate perspective for any organization to thrive and develop. The other resources cannot function effectively in the absence of human resources. The quality, typical, abilities, perspective, and disposition of the human resources used in the process play a major role in how well and efficiently inanimate resources are utilized.

1.12.2 Growth of Service Industry:

An additional justification for human resources the shift in our economy from a manufacturing to a service-oriented one is the source of accounting. Organizational effectiveness will be reduced if human resources are not valued and accounted for appropriately, since people are now the most important component of service firms.

India has not been an exception to the global shift occurring over the last few decades from industrial to service-based economies. The essence of the assets in the two industries differs fundamentally from one another. The greatest asset in the service sector is its human resource base, unlike any other industry. With the growth of the service industry and the rising demand for intellectual workers, it has become necessary to measure and value these resources. With the advent of the Knowledge Era, an individual's intelligence-

based value has a fresh start. The growth of the service industry contributed to the gratitude of human resources, which are among the several types of prosperity that include cash, stocks, and physical capital.

1.13 IMPORTANCE OF HUMAN RESOURCE ACCOUNTING

As stated below, Human Resource Accounting (HRA) delivers the following valuable factual information to the management, financial specialists, and employees:

1. HRA, or human resource accounting, helps managers employ more people and use them more wisely. It also assists the organization in assigning the most qualified individual to the most suitable role.
2. It aids in personnel preparation, development, and maintenance as well as exchange selection.
3. It enables an organization to allocate material resources in opposition to human resources.
4. It helps investigate the reasons behind high employee turnover and visits to defensive lengths.
5. It helps identify the real cause of a low return on investment.
6. HRA is only directed by expected organizations. Talented and physically fit people must join these groups in this manner. As a result, it attracts the top managers and workers to the company.
7. HRA helps the company prepare effectively by offering managers and employees a program for progress and practical preparation.

Research on HRA's early stages was headed at the University of Michigan by a team that included employee R. Lee Brummet, and later up-and-coming Ph.D. candidates William C. Pyle and Eric Flamholtz. The group worked on developing research projects intended to replace concepts and accounting frameworks for human resources. One outcome of the research conducted by Flamholtz, Pyle, and Brummet was a chapter that addressed one of the most timely reviews of managing human resource measurement. It was also the chapter wherein the intriguing application of "Human Resource Accounting" was demonstrated.

1.14 EMPLOYEE MOTIVATION

According to Guay et al. (2010), p. 712, "motivation" refers to the causes behind activity that is willing and vocal. Differentially from extrinsic motivation, which is driven by reinforcement contingencies, intrinsic motivation is driven by personal delight, interest, or pleasure.

Offering the greatest benefits to staff members is the aim of any HR manager who wants to retain top talent. Now and then, though, they forget that joining an organization is really more of an internal decision driven by self-interest.

1.14.1 MASLOW'S THEORY OF HUMAN MOTIVATION

The following is a discussion of the levels of desires according to Maslow's systematic hierarchy:

1. **Needs for love, affection, and belongingness** The third class of needs—those for love, affection, and belonging—can arise once the needs for safety and physiological well-being are met. People strive to get over feelings of alienation and loneliness, according to Maslow. This entails feeling loved, cared for, and like you belong on both sides.
2. **Needs physiologic** These are physiological needs, which include the requirements for food, drink, oxygen, and a reasonably stable body temperature. These physiological wants are the strongest because, in the event of one's complete deprivation, one's quest for fulfilment would prioritize these needs above all others.
3. **Needs for safety:** The wants for security might become active once all physiological requirements

have been satisfied and are no longer in charge of thoughts and actions. Children frequently show signals of insecurity and the need to be protected, although adults are rarely conscious of their own security requirements outside of emergencies or times when the social order is disrupted, like during widespread rioting.

4. **Needs for esteem :** Desires for respect Esteem requirements can take center stage once the demands of the first three classes are met. Both one's own self-esteem and the respect one receives from others are at stake in these. Respect—both from others and from oneself—must be strong, steady, and at the core of human existence. The person has a sense of self-worth and confidence when these demands are met. The person experiences inferiority, weakness, helplessness, and worthlessness when these demands are not met.
5. **Biological needs:** The requirements for food, water, oxygen, and a relatively constant interior temperature are examples of biological needs, which are natural necessities. These are the most fundamental needs since they would initiate the process of a person seeking fulfilment if they were deprived of all other needs.

1.15 ORGANISATIONS SHOULD IMPLEMENT HUMAN RESOURCE ACCOUNTING

Every organization must develop and implement its own human resource administration system. It can be tailored to match the specific needs of the organisational structure. The most well-known models are the Flamholtz model and the Lev and Schwartz model. Ray S. (2006, page 240) described the procedure used to incorporate HRA in SAIL. The process of valuing anything consists of four steps:

Step one is to organize all of the staff members into the various service states.

Various personnel have different ranks within each firm. These levels are further subdivided into a variety of classes according to particular criteria, which might vary from business to business. The term "service state" refers to the constellation of these levels together with a certain grade. After then, these service states are re-grouped into different segments based on the ages of the workers in each of those segments.

1.16 CONCLUSIONS

The analysis's findings will be detailed in the last chapter. The study's results will be summed up in this chapter. After that, it will go on to give the study's conclusion. The government, businesses, and models will all receive significant recommendations at the end of the chapter, and the researcher will also offer some recommendations for the future research.

The basic objective of the study is to study the HRA practices adopted by the selected IT companies and make comparison between them. In other words, whether there is any difference in the disclosure of HRA information and its valuation amongst the selected IT companies in India which shows HRA information in their annual reports, thus this research attempted to find out the relationship between HRA practices of selected IT companies. Taking the objective of the study as base, the hypothesis was formulated by the researcher and is tested in the previous chapter.

The complete thesis is summarized in this chapter in order to address the study topic and problems, offer theoretical, practical, and policy implications, and help close research gaps.

Throughout this inquiry, the researcher made a number of observations and reached a number of findings. The conclusions below summarize the observations made by the researcher. These results indicate whether or not the research objectives and study questions have been addressed. The main conclusions drawn from the secondary data-based empirical study.

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