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HUMANRESOURCEACCOUNTINGISSUESBENEFICIALPROPONENTSANDCONSTRAINTS

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Human Resource Accounting: Issues, Beneficial Proponents and Constraints

Abu Nayem Md. Rafi [α] & Md. Tanjim Hossain [σ]

Abstract- Human resources are the important assets of every Organization. Organizational success also depends upon professional skill and Knowledge of the people working in it. Human resource accounting (HRA) is the process of identifying and measuring data about human resources and communicating this information to interested parties. Financial Experts also developed human resource cost accounting method or model considering the imperatives of human resources in the organizations. HRA valuation methods have certain disadvantages or limitations but accounting for human resources attributes to the organizational development. Human resource valuation provides the management with information about the change in the structure of its labor force.

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I. Introduction

Human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. valuation model/methods of human resources available in organizations are the critical issues as the economists consider human capital as a production factor. They explore different ways of measuring its investment in the business, education, health and other areas in business organizations. The professional Accountants, the Accounting Institutes, and other stakeholders have different views on the financial value of human resources working in the organizations. Financial experts and economists all over the world have now agreed on the issue that appropriate methodology and procedures should be developed for finding the cost and value of human resources in the organizations.

Research on human resource accounting began in 1960 by Rensis Likerts where he strongly advocated forlong-term human resource planning. During the last three decades, a number of experts have worked on it and produced certain models for evaluating human resources. They developed two approach - historical cost approach and value approach. Financial experts also developed a human resource cost accounting method or model considering the imperatives of human resources in the organizations. These models are: (i) Acquisition cost model/Historical cost model, (ii) Replacement cost model (iii) Opportunity cost approach, (iv) Standard cost approach. Since the human value in the organization is an important proponent contributing productivity, so, (i) Present value of future earnings method, (ii) Reward valuation model (iii) Net benefit model (iv) Certainty equivalent net benefit model. These models/methods are not generally acceptable standard practice and also are not free from limitations. In historical cost approach, the acquisition cost of employees are considered but does not consider the aggregate value of the potential services of human resources. Financial experts point out that it is impossible to ascertain the correct replacement cost of existing human resources. The total valuation of human resources based on replacement method may be misleading because it ignores the possibility that an individual may resign from a job which creates vacancies. This affects an employee's expected service life and his future earnings.

Human resources are the important assets of every organization. Organizational success also depends upon professional skill and knowledge of the people working in it. In spite of the use of technology, human resources make the most efficient use of all resources.

II. Key Conceptual Proponents of Human Resource Capital

According to the researchers and financial experts, the key conceptual proponents of human resource capital that need to account for in the accounting system are exhibited in the following paradigm:

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Table 1

Sl. No.	Conceptual Proponents
01.	i. American Accounting Association opines that acquisition and learning costs of HR are considered as benefits that give fiscal incentives in future and hence are not seen as expenditures. ii. Learning costs comprise of direct costs concerned with official training and guidance and on-the-job instruction iii. The authors also suggested a different means for calculating intangibles termed "Intangible Assets Monitor." The 'intangible assets monitor' recommends a method for calculating intangible resources like the capability of a staff member, in-house composition like patents and patterns, and the exterior composition of the establishment like correlation with consumers and the like. This method incorporates pointers of development and restitution and pointers of competence and constancy.
02.	Flamholtz outlined that human resource outlay has two main classifications- acquisition costs and learning costs where acquisition costs comprise of direct expenses of staffing such as enrollment, choosing, appointment and assignment, and indirect expenses incurred in the process of promotion or hiring from inside the establishment.

However, utilizing Flamholtz method, Flamholtz, Bullen, and Hua (2003) developed a methodology for measuring return on investment (ROI) in human resources caused by management advancement and also pointed out that theincreased flow of funds will accrue to an establishment owing to investment in management development.

III. Research Objectives

The specific objective of this study is to focus on the beneficial proponents of Human Resources Accounting (HRA) in the organization.Other objectives:

- Issues of human resources (HR) in the organization
- Limitations/constraints of HRA.

Methodology

This article has been prepared after studying relevant articles, research papers, study reports, etc. Attributes of these documents/ papers havebeen focused in this paper.

IV. Literature Review

Human Resource Accounting (HRA) identifies, measures and communicates information about human resources with objectives to facilitate effective management of resources inthe organizations. The American Accounting Association defines HRA as:

i. The process of recognition of the contribution of human resources to the organization for the purpose of assisting the effective management.
ii. Analysis of data concerned with placement, training, and development of employees and also evaluates the financial condition of human resources.

The definition does not specify the items of expenditures concernedwith human resources and how these could be recognized. Different authors have different conceptual views on HRA.

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a) Mapping of the Conceptual Views of Authors

The following paradigm maps the conceptual views of the authors:

Table 2

Sl. No.	Author	Conceptual View
01.	Lev, B.	Since human resources contribute to organizational development, it is imperative to incorporate the economic benefits attributable to the human resources in addition to recognizing their cost implication.
02.	Dr. M. Hossain, A. R. Khan, I Yasmin	HRA outlines the changes occurring in human resource position of the business. It attributes to accounting for investment in people and their replacement costs, and also the economic value of people in an organization. Hence, HRA provides a comprehensive look at one method of using human resource cost and value information in the decision-making process.
03.	American Accounting Association	HRA measures the abilities of all employees in a company - management, supervisory and ordinary employees-to ascertainthe value of their knowledge and capabilities. Newman considered the current growth in the service industry where the knowledge and intellectual capabilities of employees are the keysto success.
04.	S. A, Sackman, E.G. Flamholtz, Bullen	HRA accounts for costs incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. The authors pointed out that expenditures on the human resources should be recognized for valuation and reporting purposes. In other words, HRA measures the economic value of people in the organizations. The authors conceptually articulate HRA as the process of recognition and the quantification of human resources for the purpose of assisting the effective management. This process involves analysis of data related to placement, training, and development of employees and evaluates the financial condition of people in an organization. The definition is incomplete as it does not specify as to what constitutes the human resource expenditures and how these should be recognized.
05.	Dobija	Value of human resources is determined bykeeping the natural and the societal circumstances of the surroundings. Applying multifaceted interest attitude, three features of valuing the human resources are considered. These are: – The capitalized value of living expenses; – Educational expenses to get professional qualifications and – The value attained with experience.
06.	L. Brumet, E G, Flamoltz, W.C. Pyle	Conceptual intrinsics of HRA: Value of human resource is calculated on the basis of pointers, such as -innovation; – Personnel attitudes and – The record of well-informed staff members.
07.	L. Basi, Benson, G. Van Buren, M.	The concept integrates both financial and nonfinancial performance measurement in a framework. Conceptual imperatives of the approach are: (i) The Financial Proponents: how do we measure financial performance? Possible performance measures include operating profits, return on capital employed, and unit costs. (ii) The Customer Perspective: how do we measure customer satisfaction? Possible performance measures include customer profitability, customer satisfaction, and market share. (iii)The Internal Business-Process Context: what must we excel at? Possible measures include time to develop new products, defect rates, and product returns. (iv) Learning and Growth Potents: how can we continue to improve and create value? Possible measures include employee satisfaction and employee productivity.

b) Flamholtz has a different approach of HRA in business policies. Intrinsic of this approach are

i. One can note six important features of institutional functioning, comprising of markets, goods, assets, functioning structure, management structure, and tradition;

ii. HRA would be a helpful instrument for assessing human capital that willhelp tocontrol and manage human capital efficiently.

c) International Financial Reporting System (IFRS) have a different view on HRA where human resources are reflected/appeared in organization's statement of financial position as an asset. It opts that the value of human resources does not depend upon the number of human beings employed. The propositions of IFRS

Value of human resources may be higher in spite of less number of human capitals because of the amount paid by the organizations to their employees. The higher amount of salary to humanresources attributes toa higher value and lower scale of pay attributes to lower value. That is why companies employing higher number of human resources are less valued than thecompanies employing less number of employees with high pay. Another major issue of

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HRA is the recording and disclosure of the value of HR in the financial statement. Still, human resource valuation depends on discretion of the accounting bodies that are yet to develop a generally accepted basis for valuation, recording and disclosure of human resources accounting information in the financial statements of an organization. Dasgupta (1978) in his total cost approach opined that humanresources should be shown both in the "asset" as well as "liabilities" sides of the statement of financial position. On the assets side, it should be shown after the fixed assets as Human Assets classified into two parts: Value of individuals and Value of organization's investment on the "liability" side. He opted that human resources are considered as assets and should be taken out of profit and loss account/income statement and brought to the statement of financial position. HRA expert Wright proposes that:

- Top management must be willing to adopt the human resource philosophy;
- The organization must be willing to invest in money and time for human resources;
- There must be well knowledgeable people and they should have a positivemind set to learn.

The proposition of capitalizing investment in human resource will lead to a new way of thinking about managing man as capital. Thus, accounting treats of investment made in man as assets rather than as expenses.

V. Beneficial Proponents: Imperatives

It is agreed by all that human resources are the key players to the success of every organization. HRA valuation methods have certain disadvantages or limitations but accounting for human resources attributes to the organizational development. The following paradigm maps the beneficial proponents outlined by the financial experts:

Table 3

Sl. No.	Accounting and Financial Expert	Benefit Imperatives outlined by the Financial Experts
01.	American Accounting Association	i. Help proper integration of Return on Capital Employed (ROC E) in the disclosure of the value of human resources in the long-term perspective of the business performance.
		ii. The maintenance of a detailed record of internal human resources will improve the managerial decision-making process in Recruitment Vs Promotion, Transfer Vs Retention, Retrenchment Vs Retention.
		iii. Facilitate efficient use of Human resources and allocation of resources in the economy
		iv. Help proper understanding of the evil effects of avoidable labor unrest or disputes on the quality of internal human resources
02.	Tomassini, L. A	v. Point out the need for Human resources accounting that provides useful information to the management, financial analysts, and employees and also outlined that:
		vi. Human resources accounting helps the management in employment and utilization of human resources) It helps to identify the causes of high labor turnover at various levels and makes preventive measures to contain it.
		vii. It helps in deciding transfer, promotion, training, and retrenchment of human resources.
		viii. It provides a basis for the planning of physical assets vis-à-vis human resources.
		ix. It evaluates the expenditure incurred for imparting further education and training of employees in terms of the benefit derived after the capacitybuilding of human resources.
		x. It assesses the inner strength of an organization and supports management to steer the company well during the most averse and unfavorable circumstances.
		xi. It helps in locating the real cause of low returns on investment, like improper or underutilization of physical assets or human resources or both.
		xii. It provides valuable information for persons interested in making long-term investments in the organization.
		xiii. It supports the employees in improving their performance and bargaining power. It makes each employee understand his contribution towards the betterment of the organization vis-à-vis the expenditure incurred by the organization on him.

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Human Resources accounting is intended primarily to be used as a management tool. It has significant uses for present and potential investors and other users of the financial statement. Human resource valuation provides the management with information about the change in the structure of its labor force. For the external purposes, the value of an organization's human resources is helpful to prospective investors and other users in making long-term investment decisions. It provides the organization with a more accurate accounting of its return on the total (financial, physical and human) resources employed. The rate of return calculated in this manner will be more realistic. Those interested in making a long-term investment decision in an organization will be interested in having an insight into its inner strength. It provides useful information for the management, financial analysts and employees as stated by experts that worked on human resources accounting (Oluwatoyin),

VI. Limitations

The following limitations affect Human Resource Accounting:

i. Organizations lack of clear - cut and specific procedure or guideline for finding cost and value of human resources. The systems that are being adopted have certain drawbacks;
ii. Tenure of human resources in organizations is uncertain and hence valuing them under uncertainty in the future seems to be unrealistic;
iii. Since human resources are incapable of being owned, retained, and utilized, unlike the physical assets, there is a problem for the management to treat them as assets in the strict sense;
iv. There is a concept that attributing value to employees would make them claim rewards and compensations based on such valuations;
v. In spite of the significance and necessity of HR, the tax laws don't recognize human beings as assets;
vi. There is no universally accepted method for the valuation of human resources. From another perspective, Jasrotia (2004) looked at the trends in the field of HRA and came up with some factors that deter the progress in the area and the application of the concept.

a) Other Problems

a. Level of awareness and acceptance of HRA is still low as many companies have little imitative to make the information available to the shareholders despite having the data;
b. Every industry lack standard. Most of them are still involved in improving their business;
c. Another aspect of working against the acceptance of HRA is the intricacies of finding the value of their human resources;
d. Certain industries, like the information technology, are very dynamic due to frequent discoveries and technological advancement. In these types of industries, it is very difficult to predict as to what is going to be future requirements and how technology is going to be shaped in the near future.

VII. Conclusion and Recommendations

Human resource valuation models, in most cases, lack articulation of the mode of recording and disclosure of the accounting information relating to human resources in the books of accounts or financial statements of the organization. Accounting bodies have discretion that are yet to develop a generally accepted basis for valuation, recording, and disclosure of human resources accounting information in the financial statements of an organization. In financial statement, human resource accounting information are given in the form of supplementary information. Accounting professionals and practitioners have serious concern on the issue. The paper has propositions that considerable research should be conducted givingmuch emphasison humancapital.There is a great need for evolving a system of accounting human resources where willbe acceptable to professional accountants, mangers and other decision makers – investors, creditors and other stakeholders. Standard of HRA valuation should be developed and used for human resource identification and measurement.

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