CHAPTER – II

REVIEW OF LITERATURE

2.1 Introduction

Managers are more likely to make decisions on employees of their organization as long-term investments, when they go through the process of HRA (Human Resource Accounting) measurement; they treat human resources as capital assets. —E.Flamholtz (1997). Human resource accounting aids the management about information on the expenditure and value of human resources of the organisation, which will enhance the quality and quantity of goods and services. It facilitates the interested parties about the expenditure on human resources and respectively comparing it with the benefit obtained out of its utilization.

The human resource accounting is used to provide cost value information in taking proper and efficient management decisions about recruitment, training and development, sustaining human resources within the organization in order to achieve cost effective organizational objectives S.Mirza (2003)

Many studies, text books and articles published in different national and international journals that discussed HRA with its various issues, its application and effects were reviewed and quoted in the present study; the reviews are sorted out according to date from the oldest to the newest.

The following studies have direct relationship to the present study, matching its objectives, and they helped in setting its dimensions taking into consideration its application.

2.2 Studies on Human Resource Accounting

E.Marques (1976), Published in the journal of “Accounting, Organizations and Society” titled “Human Resource Accounting: Some Questions and Reflections”, discussed whether the people are the resource of an organization or is the organization a resource for the people. He described that some sort of recognition is sufficient to treat human resources as an asset. In general organizations will spend more money on developing the human resources to increase the efficiency of the employees finally resulting in the development of organization. The study finally concluded that there both the human resources and organisation are interdependent and cannot exist in silo.
“Human Resources are Assets” a study intended to examine the economic benefits derived by employees in an organization, published in the journal “Management Accounting”, published by the author B. Jaggi (1996), the study found that, the benefits derived by the employees is dependent upon the employee well being, which is very important to perform future services, and the employee's relationship with the firm. Thus, the study identified that, human resources as assets, and is dependent on the degree of control exercised over human resource.

A. Ferdinand Gul (1984) published in “Accounting Organization and Society”, “An Empirical Study of the Usefulness of Human Resources Turnover Cost in Australian Accounting Firm” examined from his study, how the organization derives profit from the human resources and how far human resources are useful for the organization. Employees of an organization possess skills, abilities and talents and these are necessary to perform required functions to reach the organizational goals and objectives. This paper supports, that employee contribution is essential in the revenue earned by the organization, and the human resources play a major role.

H. Steven Appelbaum, & Jamie Hood (1993) published in “Managerial Auditing Journal”, “Accounting for the Firm’s Human Resources”, the author in his study articulated that human resources add value to the firms in terms of transforming the knowledge and skills from one to other. The pool of shared knowledge leads to profitability of a firm. This paper supports, human resources should be given high priority and they must be constantly motivated and appraised in order to improve their efficiency.

Chris Dawson (1994) ”The Use of a Simulation Methodology to Explore Human Resource Accounting”, a study published in journal of “Management Decision”, illustrated a simulation methodology to explore the relation between two HRA models – the replacement cost model (RCM) and the stochastic rewards valuation model (SRVM). This study identified the operation feasibility of the two models in arriving at the value of human resources and also emphasised on advantages and disadvantages, and established relation between prescriptive and descriptive approaches to the study human resource accounting.

resources should be done by using the present value methods, which is issued by the International Accounting Standards Committee. This paper emphasised on four important methods for measuring the human assets viz., historical cost, current cost, realizable value and present value.

A study published in “Managerial Auditing Journal”, author G.S. Batra (1996) in his study titled “Human Resource Auditing as a Tool of Human Resource Valuation: Interface and Emerging Practices” aimed to explore if human resources valuation can be treated as a complete system in emerging practices. The study revealed that unless an auditing mechanism is established the valuation of human resources cannot be treated as a complete system by itself. It’s also stated in this study that the importance of a HR audit system is to smoother the applicability of valuation. He also pointed out that the importance of a separate HR audit system in order to smoother the applicability of valuation of human resources as well as to determine the performance of operational managers and other work force.

E.Karl Sveiby (1997), “The New Organizational Wealth” San Francisco: Barrett-Koehler made an investigation on valuation of human resources, and how it leads to organizational growth. The study described that many organizations are measuring their human resources but they do not present in their annual reports. Many organizations thought that, valuation of human resources do not have any exact model and as well as there is no rules and regulations for reporting them in the financial statements. However, study found that, a few organisations are afraid of providing such information, and many are facing problems to convert human elements in to monetary terms.

D.J. Cooper and T.M. Hooper (1998) in their study entitled “The Future World of Work: Implications for Human Resources Costing and Accounting”, published in Journal of “Human Resource Costing and Accounting”. The paper illustrated, human resource accounting is an integral part of the organization, and how human resource accounting has a vital role in future. The study supports that, reporting the value of human resources, motivates the workforce in terms of satisfaction of doing the job, opportunities in career as well as existing management, that which could be used by trade unions of the respective organizations. Thus, the study indicates, valuation of human resources is also helpful to the workforce in collective bargaining’s.
G. Eric Flamholtz (1999) published in “Springer”; “Human Resource Accounting: Advances in Concepts, Methods and Applications” studied the stress on human resource accounting theory, and the study indicates that, the firm’s position depends on its specific but not on their duplicated assets, and also mentioned that the specific assets of an organization is nothing but their workforce. The study emphasised on the advantage of their interdependent knowledge which is beneficial to both increase in talents of workforce and efficiency of the organization.

L. Maria Bullen & A. M. Novin (2000) "Human Resource Accounting and the Balanced Scorecard" in the Journal of “International Business and Cultural Studies”, investigates how Human Resource Accounting (HRA) may be helpful as a constituent of the Balanced Scorecard. The authors believe that Human Resource Accounting measures incorporated in a Balanced Scorecard performance measurement system can help an organization define and arrange its strategy for success, it was conducted in Georgia, also discussing layoff decisions using HRA and balanced scorecard. This research recommended that HRA may best be used as a managerial tool to aid in making decisions that will help in taking long-run strategic goals and profitability of the company.

“The Need of Human Resource Accounting”, published in “IT People Supplement of Express computer Weekly” , author J. Punita (2001), in her study, she emphasised on a detailed information of the organization’s physical assets like plant and machinery, land and buildings, furniture, other equipment, and revealed that, there is no well set standard measure for valuing human resources. The study stressed on the importance of valuation of human resources and reporting them in the financial statements, and also found that, this scenario yet to be acceptable in Indian Organizations

G. Eric Flamholtz et. al (2002) "Human resource accounting: a historical perspective and future implications", published in “Management Decision”, studied insights into the implications of measuring the human capital for managerial uses and financial reporting. It provides an important element to HRA in its usage in industrial applications. This paper found that HRA is an interesting area and it helps in effective managerial decision making.

India, displaying the benefits of the HRA, and what items can be included in the calculation of HR investment. The paper revealed that, the amount of investment made in the Human Resources and its value can be utilised by the Human Resources management personnel to determine how far the investment in Human Resources is utilised by the management in producing income for the organisation. Such information will be in the best interest of the Management Human Resources and the Society.

E.G. Flamholtz et. al (2003), in their study “Measuring the ROI of Management Development: An Application of the Stochastic Rewards Valuation Model” published in the Journal of “Human Resource Costing and Accounting”, aimed at understanding the system through which HRA can be used as an important measure to calculate cost and values of the people of an organisation. The study found that, the employee participation in the organization leads to the increased value of individuals to the firm, and as well as firms performance.

R.K. Gupta (2003) published in a book titled “Human Resource Accounting” published in the “Anmol Publications” tried to examine, the valuation of human resources and significance of manpower from the management point of view, he stressed on the external party i.e. the providers of capital to the organization. He studied the valuation of human resources for internal decision making. Through a survey which made using questionnaire the author analysed the practicability of adopting the human resource valuation in Indian context. Finally the study provides an insight into the impact of valuation of human resources data on the managerial decision making.

H. Campbell & P. Derose (2004) in this research paper "Accounting for Human Resources in Dynamic Resource Allocation” which is published in Journal of “Human Resource costing and Accounting”. This research paper introduces the idea of using existing psychology research in the area of human factors to improve dynamic allocation of human resources. It was conducted in Illinois with a primary focus to discuss and demonstrate how these psychological principles can also be applied towards efficiently allocating dynamic tasks to human resources. The above research study resulted in human attributes and elements of the organization’s system can be improved through learning skills and concluded that human attributes are difficult to quantify and compare.

namely 1. What is the importance of measuring human resources? 2. What is the credibility of measuring the human resources? And they found from the study by answering the above said questions viz., the measurement of human resources is very much important and it affects the strategic and competitive advantage to the firm and second suggests that to get the credibility, human resources should be expressed in monetary terms.

T. Tang (2005), “Human Resource Replacement Cost: Measures and Usefulness”, published in “Cost Engineering”, the study emphasised on HRA practices in Nigeria and as well as current practices worldwide, and how the HRA plays an Important role in line with the growth of businesses. The study reveals that, how HRA practices in organizations leads to increase in strengthening the investment related decisions. HRA may be useful as a managerial tool to aid in making managerial decisions that will benefit the long-run strategic goals and profitability of the company. Over the years of its development, HRA has been shown to be useful tool in measurement and management in organizations. Finally they found that, there should be a separate legislation for Human Resource Accounting for its acceptability worldwide.

“Human Resources Accounting”, Published in “The chartered Accountant” authors are R. Parameswaran, & K.Jothi (2005), the study concentrated on proper valuation of human resources and its importance to the management in taking effective decisions concerning about human resources. Proper valuation of human resources leads to systematic insights for recruitment and selection of employees in an organization. If the proper valuation of human resources are not been done in an organization, it may not be able to identify the negative impacts of such programmes. However the study, supports that proper human resource valuation should be done on time, so that it could lead to increasing in productivity and the morale of the employees in the organization and vice versa

K. Amitabh Deo & R.Tiwari (2006) published a paper entitled to “Human Resource Accounting - A New Dimension” published in “Canadian Accounting Association (CAAAC) Annual Conference”. In the paper, the authors described their opinion on Human resource accounting (HRA), it is an effort for identification and quantification, and as well as record of investment which is made on human resources of the organization, but that which is not currently accounted under traditional accounting practices. Human resources should be recognized as an asset in balance sheet. There are several models existing for Human Resource Accounting, but still there is no such model which acceptable by the criticizers. The
paper found that, there are many models existing for HRA, there is no well set standard to measure.

M. Singh (2008), “Human Resource Accounting Challenge For Accountant”, “Shodh, Samiksha aur Mulyankan International Research Journal” mentioned in his study, that there is no accounting standard for the valuation and reporting of human resources value in external reporting either in the Indian Companies Act 1956, or Institute of chartered accountants of India. As of now no statutory requirement is concerned about the valuation of human resources in reporting the human resources value in financial statements. As the double entry book keeping system records those transactions which have monetary value. Human attributes like sincerity, skills, knowledge, honesty etc., cannot be measured in terms of monetary value. This study found that, few organizations are including Human resources value in their financial statements, and there is need for every organization to recognize the importance of valuation of human resources and accordingly including them in the financial statements


The study focuses on the reputation of human capital in value creation of firm is firmly established in the literature, but the level of importance placed on human capital disclosure by preparing financial statements is minimal. External financial reporting is utilized in financial statements in an organization’s annual reports, which is distributed to the interested parties like creditors, government, employees etc., External reports of public companies and often for private companies seeking finance must follow “Generally Accepted Accounting Principles” (GAAP) in order to encourage objective, reliable and verifiable measurement and facilitate assessment of the company’s financial standing and comparability among organizations. There are several problems, in reporting human resource value on the balance sheet for financial reporting. In that there is subjectivity in measuring of human assets. The paper found that, reporting intangible assets such as goodwill and patents that have been internally generated rather than paid for through corporate acquisition. Just as GAAP does not allow reporting of human resources as assets, accounting rules do not allow for these intangible assets to be reported as assets.

V. Cristian et.al (2010), in their study “Human Resources Accounting – Accounting for The Most Valuable Asset of an Enterprise”, published in “International Journal of Business
and Management” observed that, current accounting system ignores the role of human resource value. International Accounting Standards Board (IASB) treats the human resources as expenses but not as asset. Till now no precise model was prescribed by the accounting bodies globally. They pointed out that a few models are there in HRA application, where several organizations in India following Lev and Schwartz model, it is a model which is widely accepted. Finally they opined that there should be accurate measure for valuation of Human Resources.

I.Alam & S. Kanti Deb (2010), “Human Resource Accounting Disclosure (HRAD) In Bangladesh: Multifactor Regression Analysis – A Decisive Tool of Quality Assessment” published in journal of “The Cost and Management” the study emphasized on Human Resource Accounting, which is an accounting meant for the company’s management and workforce of an organization, it represents both management of the organization and workforce to derive future benefits. They mentioned an approach, where, the expenses connected with human resources should be reported as an asset in the balance sheet of the firm, which is entirely opposite in the traditional accounting system, which treats costs related to a company's human resources as expenses on the income statement that would lead to the decrease of the profit for an organization. The paper primarily focuses on the accounting of costs of acquiring personnel along with the programs adopted to enhance personnel effectiveness. In this process the efforts are made to stress the costs and benefits of personnel programs and their contributions to the success of the organization.

M.M.Bagudo (2010) “Human Resources Accounting: A Model for Valuation and Reporting in the Nigerian Banking Sector”. “Thesis submitted to Department of accounting, AhmaduBello University, Zaria” S.Abubakar (2006) “An Assessment of Human Resource Accounting Measures and Application Possibilities in Nigeria”, M. Sc. Accounting and Finance “Thesis Submitted to the Postgraduate School, Ahmadu Bello University, Zaria, Nigeria”. Both have investigated in Nigeria and where they attempted to explain the importance of human resource accounting and proposed a substitute technique in arriving at the human resource value. Although the above said two researchers have not invented a model, but the findings from their studies could be useful in arriving at a realistic human resource valuation model. From the discussions above, it is strong evident that HRA has been an area of interest among foreign and Nigerian researchers. Most of the researchers have diverse discipline beginning from accounting, economics and psychology. The research
found that, there is still continues so as to make the concept relatively easy to comprehend and apply standard approach worldwide. The section that follows dwells into the aspect of human resource valuation thereby reviewing the existing methods and models that are offered by the HRA researchers.

H. M. Korant (2011), “Importance of Human Resource Accounting in the Era of Economic Recession”, published in “International Referred Research Journal”, studied the value of human resources of an entity in an organized manner and to introduce them in the financial statements to interrelate their value with results obtained, to the interested parties of the financial statements. And also mentioned that the importance of HRA is required under the guidelines made by law and government to maintain a exclusive entry in the balance sheet of the respective organization. The study findings concluded that HRA is in infancy stage, required more research and finally, he assured that, in future HR practitioners and leaders of potential enterprises would combine together to make use of HRA in every organization.

H. Raiashekar et.al (2011) a paper titled to “decision making based human resource accounting information evaluation method” published in “Asian Journal of Finance & Accounting” made a study in Iran company and remarked that, the use of HRA information is beneficial to the organization, while preparing the financial statements, also mentioned that HRA information can play a major role in internal decision making and the study assessed the investment towards the human resources of an organization will leads to the organization’s long run profitability.

U. Joshi & Reeta (2012) “Managerial Uses of Human Resource Accounting: A Survey” published in “International Journal of Research In Commerce & Management” the study carried out to study the managerial uses of human resource accounting, for taking variety of decisions with respect to human resources in an organization, an effective structure of HRA can be used in organizations. The study finds that Implementation of HRA technique in India is low, where it is not obligatory for Indian Organizations to valuate human resources.

M.Ratti(2012) in her research “An Analytical Study of Human Resource Accounting Practices – An Indian Experience”, published in “Integral Review – A Journal of Management” conducted a study on fifteen companies to determine value of human resources at various levels of an organization on specified companies, and stated that, there is
large scope for further research in the area of Human Resource Accounting. And also it is important to review their applicability in India, where it is facing huge changes in its environment.

This study concludes, Special studies needed periodically to compute cost of output, cost-benefit analysis of training programmes, and the cost of workforce etc., while HRA has not yet met its applicability in Indian organizations. Further research is essential, before HRA can possibly be useful at different levels of an organization.

“A Review of Human Resource Accounting and Organizational Performance” published in “International Journal of Economics and Finance” Published by Canadian Centre of Science and Education, authors S. kesavan et.al (2013) explored in their study that, success of any organization depends on skilled and intellectual workforce. HRA provides information about the organizations efforts towards effectiveness and efficiency of its employees. Finally they suggested that there should be universally acceptable valuation model is necessary to get benefits out of human resources accounting.

E. Patrick et.al(2014) in their study “Human Resource Accounting and Decision Making in Post-Industrial Economy” published in “American International Journal of Contemporary Research” explored a study on 16 public Nigerian banks, the study focused to know the human resource accounting status in post industrial economy and they revealed that human resources majorly affect the management of an organization. Generally firms operates on a competitive environment and the importance of human resources plays an important role, thus, the study indicated that, the firm requires timely changes to take effective and efficient decisions in order to ensure success and survival.

2.3 Studies on Value Added

Value added is a measure of economic performance of an economic entity which has a fairly long history of application in economics. It has been regarded as the increase in wealth of an economic entity leads to its particular concept of income measurement. It has its traditional roots in macro-economics, especially regarding the calculation of national income which is measured by the productive performance of a national economy and which is called National Product or Domestic Product. These notions represent the value added of a national economy during a specific period. Other than this common use of the value added concept, it has also been discussed and practised as a useful economic and performance indicator in different
areas of economics and business administration. Hence, the following references have been discussed to in this context to review on the earlier literature pertaining to the current investigation. C.J. Van Staden (2000)

The value added statement is originated in a central element of the theory of enterprise. Which was introduced and developed by, W.W. Suojanen (1954), in the paper titled to “Accounting Theory and the Large Corporation” published in “Accounting Review”, value added information is not used for purpose of economic benefit, but also which is used for social information, where the value generated will be distributed to its stakeholders e.g. workforce, taxes etc., thus this concept is much more broader concept than net income. Because it is not persistent on and inclined by the viewpoint of the equity-capital provider but it reveals the "income of the enterprise” which belongs to, and has to be distributed to, all stakeholders. Therefore the fundamental "concept of the firm" is a alliance of various stakeholders.

Although the value added provides a fairly broad and simple concept, various value added definitions are originated in literature and practice, depending on its specific uses; they found that these different definitions are caused by specific classifications and contents or scopes of the various items of the value added calculation.

Value Added Statement is more useful to the employees of a company rather than Profit and Loss Statement F. Morley (1978) “The Value Added Statement, A British Innovation” author examined that employees have an interest in the creation of wealth by their company during a year published in journal “The Chartered Accountant Magazine” the portion of money, which is received by employees in the form of pay, and in turn which is reinvested in their organization to strengthen overall financial wealth of the organization, in order to enhance the future job security. The study found that value added statement is easy to understand and more beneficial than a regular profit and loss statement which is not of particular relevance to the employees.

M.F. Morley (1978), published in journal “The Institute of Chartered Accountants of Scotland” studied in his study “The Value Added Statements- A Review of its Uses in Corporate Reports”. That value added is the value, which the entity has added in a period that equals its sales less bought in-goods and services. Value added measures the wealth created by a business or industry for a given period. Study found that the product or value
added of any enterprise may be described as the difference between the revenues received for the sale of its output, and the costs which were incurred in producing the output after making the necessary stock adjustments.

“Added Value in External Financial Reporting” a study published in journal “The Institute of Chartered Accountants” authors M. Renshall et al (1979) focused on how the value added can be comparable to accounting income - also be regarded as a net figure. It expresses the value added of an economic entity (such as a person, a company, an industry, or an entire national economy) adds to the goods and services it received (purchased) from other entities through its own economic (productive, creative) activities. The result of the study indicates that all the created wealth is also allocated in some way; the value added can also be computed by the so-called additive method which represents the sum of allocated (distributed) parts of the created wealth. Those parts represent primarily the remuneration of the productive factors which have led to the wealth creation.

B.A. Rutherford (1980), in his study “Published Statements of Value Added” A Survey of Three Years’ Experience, published in journal “Accounting and Business Review” aimed at the native approach to the interpretation of a firm’s value added statement. And how can create five mistaken beliefs such as – (i) Increasing value added must increase profit; (ii) Increasing value added per unit of labour must benefit shareholders; (iii) It is possible to identify in advance an equitable distribution of changes in the value added; (iv) A relatively high value added per unit of labour represents superior economic performance; and (v) A labour force taking a high proportion of value added does not deserve high wages. The result of the research provides a clear idea of value added concept to the organizations, and specific things should be taken care of, when presenting value added statements.

In a book “Value Added Statements”, written by the author L. Eric Kohler (1982), published by “The Australian Account”, Value added as that part of the cost of a manufactured or semi-manufactured product attributable to work performed on constituent raw material. The value is arrived at by deducting from the total value of the output of a firm and other incomes, the cost of raw materials, power and fuel, water etc, which are bought from other firms. The result of the study done by the author, that value added may be understood as value added is equal to value of output and income from other sources should be deducted by cost of materials and services purchased from outside. This study finds, value added statement is an important tool for organization for decision making.
In the report of ICAI (1985) “Glossary of Terms”, published in “Prentice Hall of India” the study reveals Value Added Statement (VAS) is a statement, which is used to measure value added by an organization, where it has been able to generate its distribution among the stakeholders like employees, creditors, government, entity. The study focused on generation and distribution of value added effectively. The study finds, Value Added Statement is an important statement, which shows the income of the company, and how that is divided among people who have contributed its generation.

J.L.Brown & L.R. Howard (1992), “Managerial Accounting and Finance”, published in “The English Language Book Society” have mentioned in their study that, the value added may be calculated as difference between the value of products or services produced by a team, i.e., revenue earned from sales minus the value of the products and services purchased from outsiders, i.e. the cost of bought-in-materials and services. The study resulted in calculation of value added is important and useful in decision making of the firms which is easy to calculate, sales value minus the cost of bought-in-goods and services used in producing those sales.

According to J.Sizer (1994), “An Insight into Management Accounting”, published in “Pitman Publishing Ltd”, mentioned in the study, value added is the wealth created by the organization and has been able to create by its own workforce’ efforts during for a period of time, the value generated by an organization is only possible with its workforce and cannot be neglected. Also noted, that value added is the raise in market value brought about by an alteration in the form, location or availability of a product or service excluding the cost of bought-in-materials and services.

A.Kaushal Bhatt (1995), “The Voluntary Presentation of Value Added Statements” in Australia: A Political Cot Perspective. Published in “Accounting and Finance” studied on “Value Added as a Performance Measurement Tool – A Comparative Study of GSFC & GNFC” (Gujarat state Fertilizers and Chemicals & Gujarat Narmada Valley Fertilizers) for the period from 2001-02 to 2005-06. He had made an attempt to analysis of value added statement of GSFC & GNFC. He had studied distribution of net value added towards Employees, Government, Capital Providers and Owner (Retained in Business). The study analyzed, various value added ratios and suggested the better performance can be achieved by using the value added ratios.
According to M.R.Mathews & M.H.B. Perera (1996) concentrated on the theories which include organisational legitimacy, social contract and political cost theory. In their study “Accounting theory and development” published in 3rd Edition. “Nelson: Melbourne”. Emphasised concept of organisational legitimacy suggests that management can influence the perception that the stakeholders have of the organisation and in this way obtain the support of those stakeholders without which it might be difficult for the company to continue to operate. The social contract of business with society is based on the premise that society provides corporations with their legal standing and attributes and the authority to own and use natural resources and to hire employees and that a social contract is therefore implied. Political cost theory is based on the premise that companies do have political visibility and that companies have an incentive to use accounting methods and disclosures to influence their political visibility. The research study resulted, the value added statement as a social disclosure and therefore the socially related arguments can be used to establish a theoretical case for publication.

J.Sanjay Bhayani (1997), presented in his book “Practical Financial Statement Analysis”, published by “Raj book Enterprise” studied 18 cement companies for the period during 1990-91 to 1996-97. He made an attempt to study activity wise analysis, analysis of financial statements and as well as the analysis of value added. He gave several suggestions for strengthening the financial soundness of the firm and how the value added statements can be used and analysed in detail.

A.Haller et.al (1998), in a study “Value Added in Financial Accounting: A Comparative Study of Germany and France”, published in “Advances in International Accounting” focuses on the comparison of conceptual and practical aspects of value added in financial accounting and not on the general discussion of the reliability and worth of the value added concept. They made a study on the value added concept in the two countries with special emphasis on financial reporting and analysis. The results of a survey on the inclusion of value added data or even value added statements in annual reports of the 100 largest companies of each of the two countries will be presented to provide empirical evidence.

As we know value added has an important role in economy and which is highly used in the national accounting context. Value added is a measure which is used in measure of economic wealth. Thus, the study finds that value added methods are comparatively quite early and it is
an appropriate measure for wealth calculation. Finally they concluded that the size of the firm and value added are interrelated.

According to W. John Siebert et.al, (1997) “The VEST Model: An Alternative Approach to Value Added” Published in “Agribusiness” The study focused on advantages of investment in publicly traded companies when compared to other value-adding strategies include no purchasing of facilities or equipment, no development of new products, no hiring of new management and employees, or the acquisition of new customers. The value-adding eliminates the costs associated with vertical integration, but downstream control or influence is virtually nonexistent. Therefore, the study findings indicates that before specific value-adding ventures have been established, producers can become involved in downstream market integration of the raw commodities they are producing.

According to the study “Usefulness of Value Added Reporting” published in A Review and synthesis of the Literature, “Managerial Finance” the wealth of the firm should be distributed among all stake holders namely the creditors (who provides capital to the firm), government ( taxes, duties), employees (wages and salaries ), and entity ( reserves and surpluses). In the study the authors S.Evroert, A. Riahi-Belkaoui (1998) explained the concept of value added as the excess of net sales revenue adjusted with increase or decrease of semi-finished and finished stock plus income from other services over the cost of bought-in-goods and services purchased from outside agencies.

C.J.Van Staden (2000) had carried out a study to know whether the value added statements are useful or not. This study indicated that there is an expected gap arising between published statements and the users get from the disclosures. Generally organization’s show their value added in their financial statements to indicate that they are socially responsible, presented in a paper titled to “Aspects of the motivation for voluntary disclosures: evidence from the publication of value added” published in Working Paper, “School of Accountancy”, the study finds even though the organization think ,to present value added statements in their financial statements, the trade unions of the respective organization suspect that they may get lower wages , if value added statements shows that labour is receiving enough of value added.

M.Ravi Kishore (2005) has written in a book “Advance Management Accounting” published by “Taxmann Publishing Company”, which covers the importance of value added in
managerial decision making, and how the value added can be generated by using the financial statements and how it can be distributed to all its stake holders are explained in detail and also concentrated on formats of value added statements.

“The value-added statement: An appeal for standardisation” published in “Bruwer University of Stellenbosch” according to present study the value added is a basic concept, it appears in all basic economic text book. But in accounting circles the value added concept is not having a prominent role. It was introduced in the year 1975, and the study, pointed out that there should be a precise measurement model that should be adopted by every organization. Authors G.Arangies etal. (2008) finds from the study that the value addition by each organization results in increase in the value addition to the national economy, and value added is very much useful in managerial decision making.


The study concluded that the generation of value addition made by HPCL has increased continuously with slight fluctuation during the study period due to increase in sales revenue and operational efficiency. Value added can be particularly useful to management in comparing the performance of business within group or companies’ performance with its industry as a whole. Financial reporting has traditionally concentrated on the needs of shareholders and creditors but value added statement is important for stakeholders as well as employees point of view.

The study made by P.Mohana Rao (2011), in a paper “Value added in Financial Accounting” A comparative study between Germany and France, published in “A project report funded by French Accounting Association” Who also published a book on “Value Added Reporting - in Theory, Practice and Research”. In his book the author has examined the concept of value added, value added-computation formula. The author had noted in his book that in US capital markets they use the value added ratios and value added reporting. For
increasing the financial soundness of the firms he made several suggestions, and he also
analysed the value added statement of SAIL (Steel Authority of India Ltd.), and explained in
detail how the value added can be generated and how it can be disposed to parties i.e., stake
holders. Apart of creation of value added and disposal of value added, He made several
suggestions for strengthening the financial soundness. The book emphasized that Value
added is helpful in taking managerial decisions.

H. Ramesh Davada (2012) carried out a study on Tata Consultancy Services Ltd. And opined
in “Social Responsibility of Tata Consultancy Services Ltd. through Value Added Reporting,
Research Expo” that the value added is part of financial accounting and it shows the value
addition by the firm during a specific period of time. Value added is meaningful gauge of
corporate performance rather than conventional measures based on traditional financial
accounting. Published in “International Multidisciplinary Research Journal” The study
finds that traditional accounting rely on share holders wealth but value added can be
particularly useful for employees’ oriented approach, which will be more rewarding,
discussion with employees and can be especially useful in productivity arrangements.

A study carried out on Steel Authority of India Ltd., (SAIL), explains that the value added
statement is useful in understanding the role of various interested parties in terms of how they
can add value to the organization through their research on “Value Added Statement – An
Innovative Dimension of Financial Performance Measurement - A Case Study of Steel
Authority of India Ltd. (SAIL)” , published in Asian Research Consortium “Asian Journal of
Research in Business Economics and Management”. In India, presentation of value added
statement has become a common practice, so many organizations are revealing their value
added statements along with the financial statements authors B.Vijayalaxmi & P.Sri kanth
(2014) through their study found that organization can survive without profits in the short
run, but the survival in the long term requires generation of value addition, majorly the study
concentrated on several contributions to the concept of value addition

A study carried out on a Major Indian Port, “Human Capital Accounting and Value Added
Performance – A Case Study of a Major Indian Port” published in “Asia –Pacific
Management Journal” explored a relationship between Human Capital Accounting and
Value Added performance for a period of 1998-99 to 2007-08 by the Dr. MSV. Prasad et.al
(2011) . The study concluded that, age wise and class wise human value has a significant
relation with value added performance.
2.4 Findings and Conclusion

The review of literature of the above research is an attempt to investigate studies focused in the area of Human Resource Accounting and Value Added performance. In Total 32 studies on Human Resource Accounting were reviewed and 22 studies on Value Added performance were reviewed, published in various national, international journals and in the form of few text books, the important heads under which the existing important research findings are categorized into the following areas:

(a) Human Resources play a major role for the success of any organization. Human resources can be recognized and should be treated as an asset.

(b) Employee contribution is essential in the revenue earned by the organization, and there is an interdependence of human resources performance and organizational profitability.

(c) Human resources added value to their organizations by transforming the skills, abilities, talents from one to other. This pool of shared knowledge leads to profitability hence should be given high priority.

(d) Implementation of Human Resource Accounting, as a performance evaluation measure of the organization, which helps in improvement of managerial decisions.

(e) Implementation of Human Resource Accounting requires organizations cooperation, and also there is no well set standard measure for valuation of human resource accounting, hence the cost of operation is high.

(f) There are many models to value human resources, but Lev and Schwartz model is widely accepted. In India, it was noticed that many organizations are following Lev and Schwartz model to value their human resources.

(g) Proper valuation of Human Resources should be done, so that it could lead to productivity increase and as well as, increasing in the morale of the employees in the organization and vice versa.

(h) Conventional accounting system does not show human resources in their books of accounts, there should be a separate legislation for human resource accounting for its acceptability worldwide.

(i) There should be a universally acceptable valuation model, necessary to get benefits out of human resources accounting.

(j) Implementation of HRA technique in India is low, since it is not obligatory for Indian Organizations to value their human resources.
(k) Indian companies Act 1956 has not established any legal framework about Human Resource Accounting; besides, this ASB (Accounting Standards Board) of the ICAI (Institute of Chartered Accountants of India) neither formulated nor made mandatory any standard regarding HRA.

(l) Current accounting system in India ignores the role of human resources; International Accounting Standards Board (IASB) treats the human resources as expenses but not as asset. Many studies stressed, there should be an accurate measure for valuing human resources.

(m) Value added is a measure of economic performance of an entity.

(n) Traditional accounting systems rely on shareholder’s wealth, where value added is particularly useful for employees’ oriented approach.

(o) The value addition by each organization results in increase in the value addition to the national economy, and value added is very much useful in managerial decision making.

(p) The value added concepts are comparatively quite early and it is an appropriate measure for wealth calculation, the size of the firm and value added are interrelated.

(q) Value added statements are very useful in managerial decision making and it is also helpful in determining the performance and productivity of the organisation.

(r) Total value added has been distributed among the employees, government, financial Institutions, banker & shareholders

(s) Better performance can be achieved by effective use of value added ratios.

To conclude the above studies clearly show that there is still a vast scope and potential growth for Human Resource Accounting and Value Added performance. These concepts are slowly gaining importance. Conventional accounting system does not value human resources; there is a greater importance for separate legislation for valuing human resources. Many studies exhibits that, there are many models to value human resources, but Lev and Schwartz model is used by many of the organizations. Human resources should be properly valued and should be given high priority, So that, organizations profitability and employee morale can be improved, and also useful in taking managerial decision making. Value added is a very old concept and is recently gaining importance, Traditional accounting system concentrates on shareholders wealth, whereas, value added concept concentrates on stakeholders wealth. Value added statements are useful in managerial decision making. By preparing these statements organizations profitability and performance can be determined.
2.5 Research Problem

The Indian firms are way behind other firms in European and American continents in terms of the extent and quality of disclosing voluntary statements. The significance of disclosure on the firm’s performance and market valuation needs to be highlighted and focused to turn their attention towards voluntary disclosures such as HRA and Value Added Statements. Thus, it can be said that though many firms accept that these are very useful part of their asset and appreciate its role and know that it surely enhances the firms valuation in the market, few firms actually understand its meaning, use any specific management and measurement tools, and adopt uniform reporting and voluntary disclosure practices. Many Indian companies have understood the importance of measuring human capital and disclosing it value in their balance sheet. This is seen as the major practices of successful public sector companies. This practice not only helps them to identify their total worth in terms of tangible asset and intangible asset, but also project themselves as employee friendly companies who value their employee and are proud to say so. It enhances their employer brand in terms of good place to work or valued human resources. Value added statements are very useful in managerial decision making and it is also helpful in determining the performance and productivity of the organisation.

Total value added has been distributed among the employees, government, financial Institutions, banker & shareholders.

There is no study found, in identifying the relation between human resources and value added statements.

Hence, the research gap identified is to interrelate the HR Accounting and Value Added Statements.

2.6 Future scope for research

There is vast scope for research on Human Resource Accounting and value added performance- as there are many successful stories across the globe in this direction.

The methods which are developed so far, for the valuation of Human Resource Accounting and value – added performance, has been adopted in other nations keeping under consideration the environments that exist there, and India is a country, which is significantly
experiencing such environments, so there is a need to review and apply such studies in India and analyse its impact on managerial decision making and profitability.

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