ABSTRACT

The Human Resource (HR) is one of the most neglected aspects of Financial Statement disclosures of corporate entities in India. The managements avoid to disclose the facts about HR, whether they are pleasant or unpleasant facts. However, it is worthwhile to mention here that success of every organisation largely depends on the effective and significant utilisation of men, machinery, materials and money. Buildings, plants, computers and other physical and financial resources are unproductive without human efforts and decisions. The results of the application of physical and financial resources are reported in financial statements under conventional accounting practices. Nevertheless, it is widely accepted that HR is the most important asset of the company. Yet human resources are neither valued annually nor incorporated in the financial statements of the companies.

It is against this background that the present study was undertaken to make an assessment of Human Resource Accounting (HRA) practices in Indian companies. The entire work has been divided into six broad chapters so as to study almost all aspects of HRA in general and its application in Indian companies in particular.

Chapter I is an introduction of the whole research project. It reviews the various studies conducted in the field of HRA. A
number of doctoral dissertations and research papers published by
the scholars have also been surveyed.

The second chapter deals with a conceptual framework of
HRA. It explains definitions, scope, problems, limitations and
importance of HRA. It has been observed that HRA is the process
of identifying and interpreting data about HR and communicating
this information to the interested parties. HRA is specifically
significant in India because on the one hand human resources are
in abundance while on the other hand there is a shortage of skilled
and technically qualified people. In a technologically oriented
society, HR can not be ignored. HR is more important asset than
any other tangible asset because without it other factors of
production can not be utilised. Thus, this feature of the human
asset places the human resource at a higher level than the non-
human assets. Therefore, the investments on HR have become an
important factor in accounting systems.

In fact, in the present accounting system, the investment on
HR is considered as only revenue expenditure and not as a capital
expenditure. Hence, the amount invested in HR is not shown on
the balance sheet along with other assets. This deficiency can be
very well rectified through the concept of HRA. By measuring the
value of HR at different points of time, it can be revealed as to
whether the management is building up HR or simply depleting
them. The importance generated through HRA can help management in formulating policies and programmes for development of HR. Such information can be used for making decisions in the areas such as manpower planning, appraisal of Human Resource Development (HRD) programmes, identification of training needs, usefulness of cost reduction programme in view of their possible impact on human relations, studying the impact of budgetary control on motivation and morale of employees and facilitating allocation, conservation and reward of HR.

Thus, ever expanding dimensions and growing complexities of business activities, increasing governmental monitoring on business affairs, pressing trade unions' demand for greater disclosure on human performance in business and emanation of scientific management within the organisation necessitate the development of a system of accounting for the associated men who are indispensable resources to an organisation. For the last few decades, the accounting scenario across the world is much concerned with the valuation of HR and reporting the same in the annual accounting statements. The academicians as well as practitioners in the accounting world are deeply engrossed in the accounting issues and have shown an increasing interest in the application of models developed so far. Although the techniques
of measuring HR and the latest developments on the issue are still in developing stage, the subject has created a widespread appeal.

The third chapter of this study highlights the various approaches to HR valuation. It concentrates on a number of valuation models which have been developed over the last three decades or so. These models of HR valuation have been broadly divided into monetary and non-monetary and monetary models. Eminent scholars like Lev and Shwartz, Rensis Likert, Hekimian and Jones, David Watson, Jaggi & Lev, Giles and Robinsons, Morse, Pekin Ogan, Taylor and Bower, S.K. Chakrobarty, Das Gupta, S.M. Shukla, Sunil Maheshwari etc. have given their models of valuation of HR. But it has been observed that there is not even a single model which fulfils all the requirements of a model which could help in the process of HRD. Certain models fail to recognise the factors determining the value of HR whereas others have computational complications.

The fourth chapter dwells upon the Human Resource Accounting Practices in Public Sector Companies in India where an has been made attempt to study the pattern of HRA in Government run organisations. It has been observed that the Government of India took the initiative way back in 1968, by issuing the guidelines for incorporating the required information
in the Annual Reports of the Public Sector Enterprises. The relevant guidelines relating to HR are reproduced below:

- Employee-employer relations, strikes, lockouts, incentive schemes, training, etc.
- Staff welfare activities like township, education, health facilities etc.

The above information can be called as part of HR accounting information. Many public sector enterprises are disclosing this information as part of the Annual Report. Some of the companies have also ventured to value the HR which they disclose in the Annual Reports. Such organisations were identified after scanning their Annual Reports from the year 1985-86 onwards. The computation of values of HR in these companies is based mainly on Lev and Schwartz model.

The survey of several public sector enterprises reveals that a number of enterprises have been valuing their HR but, at same time, there are certain PSEs which have discontinued the practice after adopting it for a year or so. On the whole, it would be improper to assume that majority of the public sector enterprises which started HR valuation are still continuing the practice.

Out of five top ranking public sector enterprises namely, BHEL, MMTC, SAIL, ONGC, and NTPC selected as sample companies for the assessment of HRA practices in India, all are
not continuing the practices of HR valuation. It is surprising to note that the first three companies have discontinued the practice of HR valuation. Now only ONGC and NTPC evaluate their employees using Lev and Schwartz model of HR valuation and also report the same in the financial statements.

For making a comparative analysis of HRA practices in public and private sectors, the fifth chapter endeavours to assess the application of HRA practices in Indian Private Sector Companies. Two companies Infosys Technologies Ltd and Satyam Computers Services Ltd from Indian corporate sector were selected for the study of application of HRA practices in this sector and were considered as an appropriate number from the point of view of comparability. It has been observed from the survey and study of financial statements of these companies that both the companies have not only been regularly evaluating their human assets but also reporting their values in financial statements. There has been significant increase in the number of employees and in their values as well.

However, on the plea of rightsizing, the government has offered the Voluntary Retirement Scheme (VRS) for public sector employees. Consequently, the number of employees has decreased in almost all public sectors companies. The sample units are not an exception. This is undoubtedly, in the interest of public sector
enterprises as one of the reasons for poor performance of public sector companies has been over-staffing due to political interferences in them. The rationalisation will, thus, help to present a better picture and image of public sector companies in India.

The main findings of the study, as emerging from the foregoing analysis of HRA practices in Indian companies, clearly indicate that HRA has not been introduced so far as a system in India. The Indian Companies Act, 1956 does not require furnishing of any significant information about human resources in financial statements of companies.

Moreover, the Institute of Chartered Accountants of India (ICAI) has so far issued 29 Accounting Standards on different technical aspects of accounting but it has not been able to bring any definitive accounting standard for measurement and reporting of cost and value of HR of an organisation.

HRA is necessary to disclose what is happening to the energy of human beings and what is their value for management, and to find out the productivity of investment on human beings in an organisation. It is the scaling tool that generates and reports quantitative control information about the contribution of HR for promoting industrial productivity. The application and usefulness of HR measurement will largely depend on the future efforts and
experiments to be made by practicing managers, accountants and academicians. The application of HRA, to be effective, will also need support from the professional bodies and Government.

In the absence of HRA, the management may not realise the negative effects of certain programmes aimed at improving profits in the short-run. Such programmes may result in decreased value of human assets due to fall in the productivity levels, high labour turnover, low morale, etc. Undoubtedly success of an organisation very much depends on the quality of workforce at all levels. The success stories of BHEL, ITC, Hindustan Lever, Larsen & Turbo, Infosys Technologies Ltd., Satyam Computer Services Ltd. and several other enterprises are largely due to the emphasis on HRD.

It is noted, after going through the latest literature on the subject and practices of HR information, that there is no uniformity in professional areas as to which information must be provided in financial statements. Also, there is a wide gap in disclosure of HR information in the financial statements of different companies. In addition to the aforementioned general remarks, there are some specific findings of this study with regard to HRA practices of all sample companies. These particular findings are as follows:

The BHEL, SAIL and MMTC evaluated their HR on the basis of the Lev and Schwartz model. Moreover, BHEL provided
detailed HR information in the Annual Reports till the year 1992-93 only. But from 1993-94 onwards the valuation of HR has been discontinued. Now, only brief HR information and human cost summary is published in Annual Reports of BHEL. SAIL also sailed in the same boat up to the year 1993-94 and thereafter the practice of valuation has been given up. It is now reporting only limited information on HR. It has discontinued the valuation of HR in financial statements. The MMTC has also joined the race with effect from 1998-99. The categorisation of employees in all these three companies has been condensed ever since they discontinued the HR valuation. Thus, now only 2 sample public sector companies out of total of 5 surveyed for the study are evaluating their HR and furnishing this information in financial statements. On personal query, the enterprises which discontinued the HRA practice, told the scholar that now only relevant disclosure is made in financial statement. Excessive human disclosure is not at all binding either under the Indian Companies Act, 1956 or under the requirements of any other Accounting Body. Apart from this, the officials also told that publication of detailed HR information made their Annual Reports bulky. It will also not be wrong to say that now the wave of liberalisation, privatisation and globalisation is going to bury Indian Public Enterprises. These enterprises are gradually losing their own
existence. Hence, their HR is also bound to suffer. It is evident from the fact that not only the number of the employees in all public sector companies has decreased but also there is regular takeover of one or other enterprises by the private sector enterprises.

On the contrary, private sector in India has become an emerging sector with regard to disclosure of adequate information regarding human resources. Due to ever expanding development, the number of employees is increasing in private sector in India. It is evident from the survey of two private sector companies, namely, Infosys Technologies Ltd. and Satyam Computers Services Ltd. where the number of employees has been increasing continuously. The value of employees is also multiplying each year. Both the sample companies have been disclosing adequate information of HR in their Annual Reports.

It has also been observed that, in general, traditional, accountants have paid greater attention to money, material, machinery and other physical resources in enterprise accounting as compared to HR. Whatever is spent on acquisition, training and development, maintaining, placement, transfer, replacement etc of HR by a firm has been generally treated as revenue expense by the accountants. No part of the cost of HR is generally capitalised and shown on a Balance Sheet as an Asset. They have always been
very conservative in their approach towards treatment of HR. But, simultaneously it is not wholly true to say that they have completely failed to recognise the value of HR. The study reveals the need for modifications and improvements in the present system of HRA. Some of the useful suggestions are listed below:

Firstly, greater awareness should be developed in reporting of human resource information, appropriate methods must be evolved for reporting human resource information to make organisation socially responsible and accountable.

Secondly, the accountants should assetise the historical costs and amortise these on the basis of expected service period based on 'group' probabilities of staying with the firm.

Thirdly, the accountants should seriously reconsider the existing treatment of goodwill. Valuation of goodwill should not be based on the net profit only. The factors affecting goodwill should be separately identified, suitably grouped and valuation of each factor group should be separately made. The grouping may be as internal human resources; external human resources; customers and others factors like special license, trade mark, strategic locational advantage, etc.

Fourthly, as there is not a single model which fulfils all the requirements of a model which could help in the process of HRD, there is an urgent need for great deal of research with regard to
evolving a system of accounting for HR which could be of considerable help in the process of HRD. However, it has been recognised that HRA throughout the world is still in its infancy. Further researches in the field of macro perspective of HRA, formulation of HR performance standards in the light of corporate goals; the development of usable systems and procedures of HRA; the adaptation of human asset accounting to the administration of productivity programmes and incentive systems, etc. are urgently needed.

Fifthly, as the HRA helps in making goal oriented managerial and investment decisions, the Institute of Chartered Accountants of India should make HR valuation in the Annual Reports mandatory by issuing a suitable Accounting Standard or Section 217(2A) of Indian Companies Act, 1956 should be amended to make it compulsory on the part of all companies having a particular amount of share capital to evaluate their human assets and report the same in the Annual Reports.

Sixthly, HR should be regarded as an inseparable part of the accounting system. They should be treated as an asset like other financial and physical assets. It will be possible only when companies not only value them but also incorporate that in the financial statement at least in the form of supplementary statement.
Seventhly, efforts should be made to evaluate the HR on the basis of their ‘net contribution’ to the profit and loss account of the company. This can be done by way of estimation of net contribution from one year to other after making necessary adjustments of price fluctuations during evaluation period, policies of the government etc.

Finally, it is suggested that managements in general, and accountants in particular, should pay adequate attention towards the strengthening of the HR reporting system with a view to catering to the information requirement of a cross-section of the society in the light of fast changing socio-economic and legal environment.

Indeed, HRA is emerging as a new concept to assess value of HR involved in production and service of an organisation. The non-disclosure of HR information will have a negative impact on the decisions of several parties to the enterprise including the investors. Undoubtedly, in the absence of any legal enforcement there is no compulsion or motivating force behind the adoption of HRA practices in Indian companies except image building and fascination towards the latest accounting system. It is sincerely hoped that in the years to come this aspect would be reflected in the financial statements of all the organisations and its relevance and scope would be recognised by all concerned.