The aim of the present literature survey is to experience the problems faced by the HRA concept, available researches on HRA and impact of HRA on various stakeholders. Experience includes empirical findings as well as theoretical elaboration.

The literature is derived from various sources such as:

   a) Databases like ProQuest, EBSCO, etc.
   b) Reference libraries like NIBM, Gokhale, TISS
   c) Books

The search resulted into more than 1000 references. Out of these, 150 are referred to in the present study.

Three perspectives will appear in the literature. It is interesting to know that each perspective gave rise to second perspective discussed. First, there is a description of the problems faced by HRA concept, then an analysis of the actual use of the concept and, finally, a holistic picture of its utility. The parts of Literature Review are:

   1) Human Resource Accounting – the Hard Facts
   2) Impact of HRA on HR decisions
   3) Impact of HRA at Organizational Level

Despite the considerable quantity of articles and books covered, it is no guarantee that all the relevant literature is covered in the present review. There are several reasons why this might have occurred. First, relevant references might not have been in the databases; second, authors might have used inadequate keywords; third, we might have missed relevant literature as a result of using inadequate keywords; and we might have excluded relevant literature because of a poor interpretation of the abstract.

DESCRIPTION OF THE CONCEPT

Human Resource Accounting is similar to the preparation of accounting statement. As financial accounting reflects the cost of assets such as land, building, machinery, etc; similarly HRA tries to place a value of human resources on human resource balance sheet. In this balance sheet, human resources are reported as assets instead of
expenses. Thus, HRA shows the investments made by the organization on their human assets and how this value changes over time.

Human resource accounting is the upcoming term in the field of Management. It stems from the transition of our economy from a manufacturing orientation to a service orientation. As human beings become the key element in service organizations, failure to measure their value and account for their cost will lessen organizational effectiveness. According to P.J. Taylor, the most important topic for research should be the clarification of the concepts and measures used by HRA. Its usefulness cannot be effectively demonstrated, particularly to those understandably skeptical managers and accountants outside the academic world, until its methodology and measures are less controversial (Glautier, 1976, p-13).

2.1 HUMAN RESOURCE ACCOUNTING THE HARD FACTS
HRA as a concept has encountered many problems. These problems lead to the slow acceptance of HRA. Providing solutions to these would lead to growth of HRA in India. Let us analyze the problems in detail:

2.1.1 GENERAL PROBLEMS
HRA is not being implemented in majority of the organisations because of following problems:

2.1.1.1 Awareness of HRA concept
The level of awareness and acceptance of HRA is still low as many companies take little initiative to make the information available to the shareholders despite having the data (Abubakar, n.d.). The findings show slightly more than half of the respondents were aware of the concept, even though based on the background information of the respondents they held managerial positions and had a minimum undergraduate degree qualification (MiinHuui Lee, 2008).

Reference to previous research shows that the problems associated with the concept of recording human resource value are non-acceptance, unawareness of the concept (Rhode, Lawler and Sundem, 2001).
A study by MiinHuui Lee (2012) revealed that one of the reasons why the slow development of the concept of human resource disclosure was, according to the respondents, the unawareness of the concept.

2.1.1.2 Is Human Resource an Asset?
The first question that arises is whether Human Resource is considered as an asset. Many research papers discussed and revealed the contradictory opinion of the mentioned fact.

Liao argues that though human resources are valuable to the firm, they do not fit the definition of an asset because the proprietary and entity conceit of accounting insist that the firm have specific rights to the future benefit of things and to dispose of the assets. (Liao, 1974) Presently, firms have no exclusive rights to human assets and no assurance of future control and benefits.

The accounting definition of an asset is important to be understood of human resource accounting and perhaps will explain the reason for accountants not giving attention to HRA and why most of the research has been undertaken by sociologists and human resource specialists.

The IASB Framework (2008) defines an asset in the following manner:

“An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.”

Otter (2008, p.5) argued that since the employee is free to leave the entity, the control criterion is not met, thus future benefits are not assured, and therefore the employee fails the asset test. A countervailing argument is that whilst future benefits are not assured they are nevertheless probable, since employees and employers enter into a business relationship with the intention of it being for some considerable time into the future and in most instances this is the case.

Considering chartered accountants’ point of view, value of things should be recognized, valued, and placed on a firm’s balance sheet as an asset. Valuing human beings, however, creates a tremendous dilemma because they do not conform to the traditional definition of ‘asset’. The classical definition that ‘something owned by a firm’ cannot be applied to human beings. Otter (2008, p.3) had similar view and said that since employees are not owned by the company and that the balance sheet purports to
reflect what a company owns, it would be wrong to include employees as an asset, even if it were possible to place a value on the human asset. Supporting to the view R. Narayan (2010, p.240) said that the ownership of human resources is practically impossible; therefore, it cannot be considered at par with other assets.

This is true even in professional sports. A firm may own a player's contract but not the player. When defined in terms of characteristics, assets should have utility, scarcity, and exchangeability. Arthur Andersen & Co. applied this definition to human resources and concluded that human beings lack exchangeability and thus are not assets.

“Soft” assets are not recognized in financial statements. Another argument by John Stuart Mill (Schultz 1961), is that people should not be considered as assets, because assets exist for the service of people and to treat people as assets is demeaning them.

As an answer to all these problems there are supporters of the concept who contradicted the above arguments more logically:

If we consider a broader, more philosophical point of view, humans can be classified as assets. The word "asset" can have many different meanings. Human Beings fall into a large and complex category of assets known as intangibles. Included among such assets are patents, copyrights, trademarks, and a variety of intangible assets commonly listed under the term "goodwill," such as a favorable business name or location, or a group of knowledgeable or skilled employees? While important to the success and value of a firm, many of these intangible assets do not appear on a firm's balance sheet because there is usually no objective cost basis at which to value them. In addition, tax laws discourage the allocation of costs to goodwill because goodwill, unlike equipment and other tangible assets, cannot be depreciated (Edmonds and Rogow, 1986, p.42).

According to Flamholtz said traditional financial statements are less illuminating with respect to the assets that create wealth than they were in the past. Intangible assets such as brand names, intellectual capital, patents, copyrights and expenditures for research and development now generate an increasing amount of wealth for firms.

The first requirement presents a constraint that is surely not met by human resources, since these resources are neither owned nor acquired. Indeed, it has been legally, as well as morally, improper to own other human beings for some time. On the other hand,
it may be argued that human resources are quasi-assets since they are in a sense possessed or controlled by the firm (Rhode, Lawler and Sundem, 1976, p.16). Or if assets should be subject to control by the firm, that control need not be absolute. For instance, goodwill is currently considered an asset, but it is subject to many forces outside the firm. (Edmonds and Rogow, 1986, p.43)

Hermason argues that there is a precedent found in accounting practices which indicates that it is logical to consider human resources as an asset. The issue, defined by Hermason, is not the legal rights involved but rather a firm's "Operational right to receive benefits" (Ebersberger, 1981). Thus, assets are something that possess utility or value. They are acquired not for their own sake, but for what they can contribute to a firm's cash flow. This definition avoids controversies over ownership, control, and exchangeability. (Edmonds and Rogow, 1986, p.43)

According to Wright (1960, p.52) regarding man as a capital asset may cause managers to be more selective in making investments in human resources. Assets represent expected future economic benefits, rights to which have been acquired by the enterprise as a result of some current or past transaction. The assets must have been acquired through a transaction and it should have future economic benefits.

The magnitude of the people component of the entity is such that it is essential for it to be recorded and properly understood through conceptualizing it as an asset and including it in the financial statements. The definition per generally accepted accounting practice might therefore be made more flexible to accommodate the argument advanced earlier or a revised definition could be compiled (Otter, 2008, p.5).

Accountants have, however, found ways to recognize the human asset in special circumstances, such as accounting for the registrations of professional soccer players (Szymanski & Kuypers: 1999:197), accounting for patents, copyrights and other intangible assets, within the framework of generally accepted accounting practice (Jim Otter, 2008, p.6). The crux of the problem lies in searching for and applying accounting like formulae to people. (Raju, Kumar, Sangeeta, 2004, p.183)
2.1.1.3 HR Costs
Narayan (2010, p.239) defined HR Cost Accounting (HRCA) as the measurement and reporting of the costs incurred to acquire and develop people as organizational resources. It deals with accounting for investments made by an organization to the acquisition and development of human resource as well as the replacement cost of the people presently employed.

HR Value Accounting (HRVA) is the concept based on the view that difference in present and future earnings of two similar firms is due to the difference in their human capital or assets. The economic value of the firm can be determined by obtaining the present value of future earnings.

There are many costs involved in Human Resource Investment Subsystem such as Acquisition Cost, Training Cost, and Welfare Cost and so on. The costs of these activities cannot be correctly ascertained. For example, if training costs are considered, the costs involved in execution of training such as training staff salary, circulation material, plant and equipment, off-site expenses etc. but the costs like training intervention development costs, cost of lost productivity, time and opportunity cost etc. cannot be measured in monetary terms. This may distort or misrepresent an employee’s value to a great extent, which may lead to mistakes in Decision making.

According to Edmonds and Rogow (1986), the Human resource valuation data was found to be useful for managers, analysts, investors, and appraisers, accountants have spent much of their efforts on how they can be measured. The accuracy of such measurements has been overly debated to the detriment of financial statement users who need human resource information to make informed investment and business decisions. If accuracy were the main issue, a strong case could be made for deleting from financial statements depreciation and inventory valuations, which are based on arbitrary historical cost assumptions. Some contemporary accounting literature suggests that efforts to measure the exact value of human assets is not only unnecessary but also impossible. According to them, the issue is not whether the costs are measured perfectly or allocated exactly but whether human resources receive the value they deserve. This objective can only be accomplished if human resources are recorded and integrated with information about other assets.
2.1.1.4 Acceptance in Accounting Standards
Chartered accountants are very reluctant towards the accepting human beings as asset because of many reasons as discussed earlier in 3.1.1 above. The traditional accounting procedures practiced from a long time is acceptable norms. Hence, whenever a new accounting system is developed, it is opposed against the strengths of the traditional system, which is considered to be comparatively objective and free from any bias. Similarly, in the case of HR accounting also, it is argued that it lacks symmetry with traditional resource as it cannot be included within the traditional definition of an asset (Narayan, 2010, p. 239).

The concept of Human Resource Accounting is not recognized by tax authorities and therefore, it has only academic utility. If the accounting standards board makes it mandatory to disclose the values of Human Capital or Human Assets, then only the Director of Indirect Tax Authorities will take into concern of HR Accounting. (Narayan, 2010, p. 240)

2.1.2 PROBLEMS FACED BEFORE IMPLEMENTATION
Problems encountered by the management before HRA implementation:

2.1.2.1 Requirement of Expertise
For understanding and implementation of human resource accounting, expertise and knowledge is required. Not many people know about human resource accounting and hence there is a crunch of people who can implement it. Additionally, for any person to know the concept, he need to be expert in accounting to understand the calculations and implement the formulae, HR expert to understand HR processes and costs involved, statistical expert to analyze results and strategic expert to use the results in tactical decision making. It is indeed difficult for a person to be connoisseur in all these fields.

2.1.2.2 Which model to use?
There are two approaches to human resource accounting.

a. Under the cost approach, also called human resource cost accounting method or model, there are ‘acquisition cost model’ and ‘replacement cost model’.

b. Under the value approach, there are ‘present value of future earnings method’, ‘discounted future wage model’, and ‘competitive bidding model’.
The measurement of Human Resources is subjective as different firms will use different methods for this purpose. Till date there is no model for valuation of Human Assets, which is widely acceptable and used worldwide (R. Narayan, 2010, p.240). Managers are not sure about, out of available models, which model to use for their organization to gain better results. There is little agreement concerning the procedure in accounting for human assets. There are proponents and critics of the various approaches like cost and value approaches. This factor has become responsible for the slow development of the concept of human resource accounting.

1.2.2.3 Costs involved in implementing human resource accounting
A human resource accounting system is likely to be expensive; human resource accounting can be justified only if its benefits exceed its costs. There is no proper procedure or guidelines for finding costs and value of human resources of an organization. It is not economical for small business units as it involves heavy costs if the firms desire to install the HR accounting package in their organization (Narayan, 2010, p.240).

1.2.2.4 How is depreciation or appreciation calculated?
(Narayan, 2010, p.240) Another issue which has not been settled so far is about the rate at which the prospective stream of contribution is to be discounted or compounded to calculate its present and future value to the organization. A number of applications are available in this process. Organizational needs constant change as today's valuable employee may be valueless tomorrow.

One major difficulty with human resource accounting calculation is how the depreciation can be calculated? Physically and mentally, individuals may grow and deteriorate at different rates. (Rhode, Lawler and Sundem, 1976, p.18) The historical cost approach to develop measures of human resource accounting uses an amortization rate, which provides the figure of amortization to be charged to the profit and loss account every year. But it is very difficult to develop norms in this regard. Some grow more capable as a result of their work experience whereas others may not. Given the difficulty of predicting such changes, it is even more difficult to develop means of writing off an individual’s value. So far, precise measures for amortization of human assets have not
been developed. Edmonds and Rogow (1986, p.44), said that although the model reveals the interrelationship between many variables, it is not complete. For instance, it offers no solution to questions about what discount rate should be used to derive present value. In addition, the model treats an individual’s value as an independent or marginal phenomenon. The validity of this approach depends upon several variables, including the nature of the organization and the interdependence of organizational goals and roles.

Whereas Narayan (2010, p.240) says human resources is an appreciating asset since manpower improves with time, with due regard to their ageing constraint, but for physical asset its increasing value at the time of its installation, starts immediately depreciating.

1.2.2.5 Basis of Calculation
Human resource accounting uses salary data as a measure of values; clearly some people are paid more than they are worth and others less. Secondly, it measures only the value of individual employees and does not place a value on their ability to work as a team, morale, or commitment to the organization (Rhode, Lawler and Sundem, 1976, p.19). A firm merely capitalizes the salary it pays its employee and assumes that what employee is doing will be of some future benefit to the firm and that one can determine the appropriate rates of capitalization. In many instances, they are completely erroneous presumptions, since there is absolutely no correlation between the salary paid and actual value of employee to the corporation.

Should individual value be reported for each employee or should value be calculated for groups of employees? Information from individual values is potentially more useful than that derived from group values. (Rhode, Lawler and Sundem, 1976, p.17) Although it is difficult to isolate an individual’s contribution to a group task or goal, when making personnel decisions, information from individual values is potentially more useful than that derived from group values.

Narayan (2010, p.240) says in the recent past, it has been observed that the value based measures of HRA are finding more acceptances with Flamholtz approach being progressively used. However, this approach depends heavily on the measurement of an
individual’s or a group’s contribution of valuation. But, measurement of contribution, especially at the managerial levels, is quite a difficult task. As a result, this factor proves to be a hindrance in the development of the concept of HRA.

### 2.1.3 POST IMPLEMENTATION PROBLEMS
Problems faced by management after implementation of HRA:

#### 2.1.3.1 Gimmicks of HR
According to Rhode, Iii, Lawler and Sundem (1976) managers may use human resource accounting as a means of manipulating the employee. He or she may decrease the human resource value of an employee as a form of punishment or control. Managers may also transfer people at the end of the fiscal year to make the department balance sheet look better.

According to Rhode, Lawler and Sundem (1976, p.21) Human resource accounting may also affect control systems. Managers are frequently evaluated by the profits ascribed to investments under their control. Usually these profits are reported as rates of return, and these rates may be increased either by increasing profits or by reducing investments. Where investments are relatively fixed, e.g., machinery and equipment, manipulation of the amount of the investment may be difficult. However, human assets are relatively mobile. Unless control systems are changed, the manager may be motivated to fire or transfer his high value human resources just before the end of the accounting period and so improve the apparent rate of return, a costly manipulation over the long run.

Contrary to this opinion Wright (1970, p.53) says that normally while dealing with an ineffective employee, manager has four alternatives

1) Relegate the man to less sensitive position.
2) Terminate him
3) Continue to accept substandard performance
4) Reorient and redevelop the man to integrate his abilities with the position.

If management considers the employee first as a valuable asset and second as an asset necessitating an operating expense and it has employees that are not yielding an acceptable return in the form of contribution to productivity. The first three alternatives would fail to maximize the return on investment. The forth solution becomes the
optimum solution of the problem. Lawler's survey of the literature on control systems concludes that ignoring human resource values sometimes leads a manager to decisions which in effect liquidate an organization's human resources. For example, training may be suspended and people mistreated to increase short-term profits because profits are measured and human resource values are not (Rhode, Lawler and Sundem, 1976, p.14)

2.1.3.2 Beware the Programmed Society

According to Ebersberger (1981, pg.40), the greatest social threat of human resource accounting is the potential it has for creating a programmed society. People will be permanently stamped with a human resource value. One would be able to predict from that initial value the entire rest of one's "value" for life! This graded, structured society will leave little to individuality and creativity!

Other social effects like placing a human resource value on an employee may have a demoralizing effect on large segments of the worker population. If one's human resource value is not in congruence with one's self-image or not equal to one's peers, the effect on the employee's self-image could be devastating. Also, depreciation in human resource value will harm self-image.

One possible solution to this problem would be to keep managers from knowing the human resource values assigned to particular subordinates, but managers might then object to evaluation based on unknown criteria. A more reasonable solution would require educating managers to look at human resource information differently than they look at physical asset data.

From the Literature and Expert opinion, it is evident that the main and unanswered problem of HRA is lack of knowledge about its utility to the organization. Also, no concrete idea about its impact on employees is given. Hence, the further literature talks about the same.
2.2 HUMAN RESOURCE ACCOUNTING AS A MANAGEMENT DECISION TOOL
An executive's job is to allocate and administer scarce resources to achieve a goal—that is, maximize owner wealth. But if investments in assets are distorted, decisions of managers, investors, and appraisers may not be the optimum ones. Recognition of this has stimulated interest in the valuation of intangible assets, especially human assets (Edmonds and Rogow, 1986, p.42). The question that remains is whether provision of human resource accounting data can improve the decisions. Unfortunately the human resource accounting literature has not provided an answer. The much needed empirical evidence is yet to be found to support the hypothesis that human resource accounting as a tool of management facilitates better and effective management of human Resources.

2.2.1 INVESTMENT DECISIONS
A few initial studies in HRA attempted to test the effect of HRA information on decision makers. HRA proponents such as Flamholtz (1985), Sackman et al. (1989), Elliot (1991), Wallman (1996), and Lev (1997) imply that the presence of human resource information on financial statements will influence analysts’ performance assessments of companies and will therefore potentially affect their judgments (Stovall, 2001, pg.41). Few other studies examined whether the presence of human resource information made a difference in investment decisions. Elias (1972) used survey methodology to investigate differences among investment decisions of various accounting users based on the presence or absence of HRA information. The results of his study indicated that human resource data would make a difference in the investment decision. The study was reported with the limitation that the relationship between HRA information and the adopted decisions was not strong. Hendricks (1967) performed an experiment in which he used MBA students as subjects in a repeated measures design to analyze financial statements given the presence or absence of human resource data. His results suggested that HRA data had an effect on decision outcomes in the experiment. Perera A. (2012) conducted a study in commercial banks of Sri Lanka. Findings of this study revealed that measuring and reporting human resources information influence corporate investor’s for the acquisition and disposal of shares. But, in the case of influence of non-financial human resources information to the corporate investor’s for similar decisions did not imitate same finding. Avazzadefath F. and Raiashekar H. (2011)
explored whether investment decisions were affected by HRA information and factors which interfered this effect. 68 Iranian companies were studied wherein results indicated that HRA information is relevant and effect on optimal investment decision. Historical method or Original Cost Method was suggested as best method for HR valuation.

2.2.2 HR DECISIONS

Even though lot of researches has been conducted on HRA, but it is disappointing to state that not many research talk about impact of HRA on HR decisions. The literature contains testimonials from corporate officers that the data helped improve decision making, but these reports are difficult to evaluate. It is extremely unfortunate that systematic research was not undertaken, since this might help answer the questions raised about HRA’s value (Rhode, Lawler and Sundem, 1976, p.22).

Reference to previous research shows that the problems associated with the concept of recording human resource value are non-acceptance, unawareness of the concept and the absence of demonstrations substantiating its usefulness (Rhode, Lawler and Sundem, 2001).

A study by MiinHuui Lee (2012) revealed that one of the reasons why the slow development of the concept of human resource disclosure was, according to the respondents, the unawareness of the concept. The findings show that 55.3% of the respondents heard about the concept. 80.9% of the respondents indicated that human resource value should be accounted for as asset in the balance sheet. This finding support the literature discussed that in the era of knowledge-based economy, human resource disclosure, knowledge accounting, measurement of intellectual capital are important tools for management.

Knowledge about employee value is of utmost importance not only to investors but also for other roles in the organisation. Edmonds and Rogow (1986, p.44) say Human resource valuation is of concern to people in many professions: the plant manager with high employee turnover, the financial analyst making investment recommendations, the investor deciding between alternative investment opportunities, and the business
appraiser. There are no simple or exact solutions on how to appropriately report and use human resource valuations.

**2.2.2.1 Human Resource Planning**
Craft J.A. and Birnberg H.G (1976) suggested that HRA can assist the human resource manager in developing measures for cost of hiring new employee which may prove beneficial in choosing best alternatives in selection process.

Sen D., Jain S., Jat S. and Saha R. (2008) investigated to find impact of HRA on internal personnel management decision-making in relation to recruitment and employee turnover control in 14 Bangladesh Banks. A pretest and posttest research was conducted on 96 personnel executive through questionnaire without and with HRA information. They were asked if HRA information has impacted their decision. Using Q-test, researcher proved that use of HRA information is useful in internal decision making related to Human Resources.

Cherian and Farouq (2013), from their research concluded that the HRA implementation helps to improve managerial decisions like layoffs, better performance evaluation measures of the firm.

Flamholtz, E. G. 1976, designed a laboratory experiment to determine whether human resource value numbers influence a selected human resource management decision related to job allocation. The results indicate that nonmonetary human resource value numbers may influence decisions. However, it could not be established that monetary human resource value numbers make a difference in decisions. The results also indicate that human resource value measures may influence the decision-maker's mindset and criterion used in decision-making. HRA could aid managers through providing information on the cost of specific personnel behaviors, such as training and turnover, and also through encouraging better assessment and development of people (Rhode, Lawler and Sundem, 1976, p.14).
Brummet, Flamholtz and Pyle (1968) identified few challenges faced by managers. One of those is management needs more information on the costs of personnel turnover. Currently, the losses through employee attrition cannot be assessed. Adding to this, Rhode, Lawler and Sundem (1976, p.20) said one factor that presently mitigates against turnover is that employees' values are not known outside their immediate work group. This lack of information makes it difficult for an organization to know who to recruit from competitors and may also make it difficult for the employee who wants to leave to establish his or her value on the outside.

2.2.2.2 Performance Management System:
In many HRM books, HRA has been portrayed as one of the best methods of Performance Appraisal. Performance appraisal focuses on long-term results and has a long-term focus (Krishnan and Singh, 2004, p-5). Wright (1970, p.52) says that promotions are currently based, in large measure on attrition, and the ability of men with high earning potential to perform is often thwarted by low employee turnover. In turn, the enterprise fails to realize a payoff from its investment.

Management needs information about the categories of its human resource investments. Standard costs and replacement costs can be established for the use in recruitment, hiring, orientation, training and integrating new employees to a sufficient level of interaction with fellow workers. These costs would provide management with guidelines to estimate the replacement cost for persons in various positions so that manpower acquisition could be planned.

Flamholtz et al. (2003) used HRA value as a measurement tool and found that employees' participation in a Management Development Program increased the value of the individuals towards the organisation. Researchers portrayed HRA as an alternative accounting system to measure the cost and value of employees for management decisions. Though investments in training and development are sound, certain individuals do not show any evidence of increased value. It seems reasonable that if, after fair deliberation, it was found that efforts to further develop an employee were in
vain, resources should be diverted to employees whose performance and potential could be enhanced.

Puett and Roman (1976) concluded that HRA information can be used in guazing Potential worth of individuals.

HRA can be useful in the evaluation process by developing reliable methods of measuring the value of people of an organization (Sharma, 2012, pg 29).

2.2.2.3 Training and Development
Brummet, Flamholtz, and Pyle (1968) say that management needs to be able to estimate the value of training and development programs. Most successful enterprises invest heavily in training and development programs for employees throughout the organization, without even an estimate of expected payoffs or return on investments.

Craft J.A. and Birnberg H.G (1976) suggested the use of HRA in Training decisions. HRA can assist the human resource manager in developing measures for cost of training new employee which may prove beneficial in choosing best alternatives training programs. Researchers concluded that human resource accounting will obtain greatest acceptance as an aid in personnel management operations analysis (e.g., turnover cost analysis, training cost analysis, costing out selection procedures, and the like) and in evaluating managerial performance, especially in service-oriented industries.

Puett and Roman (1976) concluded form their research that 61% respondents say that HRA information is useful in training related decisions.

2.2.2.4 Compensation Management System
Rhode, Lawler and Sundem (1976, p.20) questioned, should individual employees be allowed to earn their imputed values? Doing this possibly might lead to greatly increased dissatisfaction with pay unless pay rates and human resource values were directly proportional to each other. On the other hand, HRA might be a blessing to salary administrators, if it would provide them with the kind of information they have long needed to place salary administration on an objective footing. Knowledge of individual human resource values could also affect employee bargaining power, both within and outside the company. Further, they (p.16) said that under marginal productivity theory
human resources are paid a wage equal to their marginal productivity. As more human resources are added to a fixed amount of physical capital, the marginal (and average) productivity of the human resources falls. Therefore, the average product (value in dollars) of the human resources is higher than the marginal product (cost in wages). In equilibrium and under perfect markets, and assuming that the only relevant exchange is employees' time and effort for monetary remuneration, the difference between average and marginal productivity for human resources represents the appropriate return to the physical capital employed. Under such idealized conditions the gross value of a firm's human resources is equal to the wages it must pay to retain them. As a result, according to marginal productivity theory, net human resource value in equilibrium should be zero.

Rakholia and Makwana (2102, p.115) said that human resource evaluation permits rewards to be administered in relation to a person's value to an organization. Puett and Roman (1976) concluded that HRA information can be used in salary reviews.

Committee on accounting for Human Resource in the Accounting Review gave the matrix which portrays the behavioral impact in terms of cognitive and decision behaviour. Decision behaviour shows the areas in which HRA has been hypothesized to have an impact, such as selection, transfer, promotion and performance evaluation.

**Figure 2.1: Matrix showing Behavioural Impact of HRA**

![Matrix showing Behavioural Impact of HRA](image)

Source: Committee of Accounting for Human Resource, p.121
2.2.3 EMPLOYEE MOTIVATION
Motivation plays a key role in employee job performance. Thus, employee motivation has long been a central research topic for researchers and practitioners. As a result, an abundance of theories and approaches were developed in order to explain the nature of employee motivation both in the private and the public sector. However, most of these studies focus on the materialistic gain based motivation level of employees such as compensation, rewards, etc. However, literature falls short of motivating factors that are based on employee feelings which is called perceived equity. It includes Fairness in the financial and non-financial rewards, Adequate pay, Adequate recognition, Freedom at work, Feedback from colleagues, Perceived equity with their peers, Equitable environments, Organizational justice, Performance is linked to rewards (Julie, M. H., Arthur V. H., 2001). The problem is that with the effects of the latest IT revolution and rise in income levels of the employees, management need to practical ways that can help motivate employees to be productive and get “more for less”.

According to the research conducted by A. Ali and M. Akram (2012), the result showed a positive impact of financial rewards on employee’s motivation and satisfaction. Financial rewards leads to employee’s motivation. Ali R. and Shakil (2009) proved that there is a statistically significant relationship between reward and recognition respectively, and motivation and satisfaction. Prasetya A. and Kato M. (2011) also analyzed that there are significant influences from both financial and nonfinancial compensations to the employee performance.

Khan F. (2013), said on an average 85% of the employees in an organization are motivated by performance appraisal. The predictions of the model are consistent with various empirical findings. These comprise (i) the observation that managers tend to give positive appraisals, (ii) the finding that on average positive appraisals motivate more than negative appraisals, and (iii) the observation that the effects of appraisals depend on the employee’s perception of the manager’s ability to assess performance accurately. Although many factors contribute to productivity, job performance is viewed to be the most influential one (Mitchell, 1982, p.82). As it is clear that work motivation does not determine employee’s level of performance, but it does influence his/her effort toward
performing the task (Ahlstrom, Bruton, 2009, p.198). The role of motivation in performance can be summarized in the following formula:

\[ \text{Performance} = \text{Ability} \times \text{Understanding of the task} \times \text{Motivation} \times \text{Environment} \]

Accordingly, in order to perform well employees need first to have the knowledge and skills that are required for the job. Then, they must understand what they are required to do and have the motivation to expand effort to do so. And last, employees need to work in an environment that allows them to carry out the task, e.g. by allocating sufficient resources (Mitchell, 1982, p.83). The multiplication sign in the equation emphasizes the importance of motivation – if motivation is equal to zero, even the most talented employee will not deliver. Similarly, an energized and highly motivated employee can reach good performance despite having some knowledge gaps (Landy, Conte, 2010, p.365). A good example for the latter situation is a new worker or trainee, who joins the organization fully motivated to work, yet lacks skills and experience. The motivation to learn and develop will quickly outweigh the weaknesses (R. Yair, 2011).

**Effects of HRA on Employee’s mindset**

Employees and unions may not like the idea, because HRA may lead to division among the ranks of employees. A group of employees may be valued lower than their real worth owing to reasons beyond the control of management. The employees may resist the idea of being treated like second class citizens, despite their contribution over a period of time (Narayan, 2010, p.241). The notion of viewing people as resources and attempting to measure their value may be offensive to some people. It may seem to run counter to an increasingly humanistic orientation in management theory (Flamholtz, n.d.). Whereas Wright (1970, p.53) says that measuring human resource value is not dehumanising them. Instead, it can restore the personality of each man in complex organization and lead the way to more humanistic treatment of employee. When managers are informed on financial facts, and thereby enabled to act as “economic men,” the results are often consistent with sound human relations.

(Narayan, 2010, p.240) It is possible that apprehension regarding the effect of HRA on human behavior may have forced the organization to be reluctant to use this system. HR accounting may lead to alienation as the people might feel that they have been reduced
to as industrial input commodity. Adding to this, Rhode, Lawler and Sundem (1976, p.20) said that publicizing human resource data could also have a disastrous impact on the attitudes of employees whose resource values are declining. These employees may leave the organization or suffer loss of self-esteem.

2.3.4 ORGANISATIONAL STRATEGY
Roos, Fernsrton and Pike (2004) has linked human resource management (HRM) and business performance. The paper studies the change of the HR function into HRM taking on its current strategic role. Lawler (2009) said that Corporate Boards need metrics that accurately report on the condition of the organization’s human capital. They also need analytics that show how the management metrics drive corporate performance. Flamholtz, Bullen and Hua, (2002, p.948) said if management has gone through the process of measuring and has HRA information available, it is likely that important management decisions such as those involving job cuts and layoffs will be made differently.

Ogan (1988) reported the results of a field experiment designed to assess the impact of HRA information on layoff decisions made by managers. The findings of this study indicates that HRA information does make a difference in personnel layoff decisions and enables managers to increase their level of confidence regarding decisions of this sort.

Singh (2003) gives a broader approach to looking at SHRM by integrating various functions and establishing the linkage of these functions with the business plan. It is important not only to identify HR competencies in concurrence with the business needs and develop selection and development practices to secure those competencies, but also to evolve and implement a performance evaluation plan that links the performance of the employees to the strategic goals. It is essential to have strategically-linked compensation system to improve firm performance and to retain employees with required competencies.

According to Lawler (1984), once the strategic plan is developed it is necessary to design reward systems that will attract the right kind of people, motivate them to perform optimally, and create a supportive climate and structure. In strategic scenario, the compensation offers more variety in terms of benefits like stock options and bonuses
Chapter 2: REVIEW OF LITERATURE

(Krishnan and Singh, 2004). A later study (Yeung and Ulrich 1990) found that the manner of alignment between HR and business strategy had an impact on organisational performance.

Brummet R.L., Flamholtz E.G. and Pyle W.C. stated that non existence of cost, current condition or value of organisation’s manpower assets have long term consequences on process of acquiring, developing, allocating and utilizing human assets which affects the ultimate objective of long term profit maximization. Non-availability of human asset information makes acquisition and development decisions of human resources difficult to justify in terms of a cost-value calculus. Similarly, return on investment on human resource investments is difficult due to unavailability of data. Availability of human resource accounting information will enable managers to make decisions differently and human assets will be managed more effectively. This is a testable hypothesis rather than an arbitrary assumption.

2.3.5 HR’s CONTRIBUTION IN PROFITS
Theeke and Mitchell stated that human resource managers are at an inherent disadvantage as they have difficulty showing a tangible result of their expenditures. By creating a framework for reporting human resource liabilities, more accurate valuation of the firm can be done to help human resource managers compete for resources, and provide data about how human resource practices affect firm value. In the end, what matters is the effect human resource managers have on firm value. For example, by increasing employee loyalty and reducing attrition, the benefits of training programs remain within the firm. Similarly, better manager training may result in reduced negligent hiring and employee harassment. A human resource liability paradigm helps us to quantify financial effects of human resource practices and contribute to a better understanding of the practices’ value.

HRA is also assumed to be a management tool for effective decision making. Thus, quick and correct decisions save lot of time and money.

Schuler and Jackson (1987 cited in Krishnan and Singh, 2004) discussed the kind of HRM system needed to align the human resources to three kinds of competitive strategies, namely innovation, quality enhancement and cost reduction strategy.
Managers need estimates of their firm’s ratios of investment in human resources to total assets as an indicator of profit making potential. A positive correlation exists between investments in the acquisition, orientation, training, retraining, and retention of human resources, and the future profitability of corporations. The idea suggests that, at least in enterprises in which the human resources are critical factor of production; high profits can be ultimately expected from a high human asset investment ratio. (Brummet, Flamholtz, and Pyle, 1968)

Thus, there are many ways in which HRA helps in saving costs and influences employee to be productive thereby increasing the profitability of the organization.

2.3 GAPS IN RESEARCH

As discussed, in the first part of literature review, one main problem is non-acceptance of Human Resources as Assets. However, a lot of literature is available that discussed about the parameters of their acceptance and non-acceptance. Thus, from the discussion it is inferred that ‘asset’ needs to be redefined so as to include human resource in it and quantify human resource.

Other problems also have realistic and simple solutions.

- The minor costs involved in HR processes can be approximately ascertained while calculating human resource value.
- HR Accounting is required to be made mandatory by Indian and International accounting standards.
- Companies can train internal staff or outsource HRA to ensure that expert requirements are met.
- ROI of human resource accounting is intangible but has lot of potential to stop wastage of money. Group performance is needed to be considered to determine a performance of an individual.
- Appreciation or depreciation of employees can be ascertained based on the employee’s performance. Performance of an employee will be a better base for calculation of value of human resources instead of salary.
- Involving unbiased experts in using human resource value would help to avoid the HR gimmicks.
- HRA value of employees need not be disclosed, to avoid programmed society.
However, unawareness of the concept is a concern. HRA definitely has a utility in making various decisions but it needs to be systematically proved.

**Lack of awareness**

Very few IT Companies have successfully adopted and consistently declared the value of its human resources to the stakeholders. Despite the importance attached to human capital in the IT Industry HRA is still at an infancy stage in India. From the literature, it is evident that the awareness level about the HRA is less among the Indian companies. **Lack of awareness** is one of the main reasons for the slow growth of this concept.

**Lack of knowledge about the utility of the HRA information in HR decisions**

Andrew Mayo (2004) comments that the desire to be more professional in the area of measurement is a growing interest for today’s HR function. The universal desire of the HR function for stronger business partnership is a stimulus to be more “business-like” - and that requires a more numeric approach to HR management. Hence, a few companies have implemented HRA. But taking a look at the practical aspects in Indian scenario, an analysis of big companies like BHEL, SAIL, ACC, etc, revealed that the HRA is implemented and displayed on balance sheet just to improve their image in society and pose cosmetic transparency in their working to win awards of give a feel good factor to employees. There were no traces of use of HRA information on any of the organizational decisions. Supporting the fact Narayan (2010, p.241) said there is no empirical evidence to support the idea that HRA is an effective tool to measure the economic value of people to their organization. There is very little data to support the contention that it facilitates better and effective management of human resource. The most apparent reason for the non acceptance of HRA is an absence of demonstrated usefulness. (Rhode, Lawler and Sundem, 1976, p.13)

No study has been attempted in the Indian IT context to understand the reasons for adoption of such valuation practices by these few Companies. Few research paper talk about the said fact but are more of theoretical and from researcher’s perspective.
From the literature, it is evident that one of the major reasons for non-implementation of HRA is the *lack of knowledge about the utility* of the said information. It is obvious for the organization to not invest in something which has no utility or its use is not known or confirmed. As it is assumed that HRA value and HR practices are correlated, a link can be created between the two. Researcher needs to find out whether they are positively correlated or negatively correlated.

**Organizational Profitability**

For a long time now, HR function has been considered as a staff function as it never was a part of strategic decisions nor it could show its *contribution to profitability*. No traces of it were found in literature. HR managers have long been waiting for a method that would evaluate the performance of HR function and prove its role in organizational performance and thereby profitability. The answer to this is HRA. HRA do not directly impact the profitability of the organization, but an indirect relation can be shown between the two. With the knowledge that they are being valued, employees are motivated to contribute higher towards the organization. They become more productive and loyal thereby reducing attrition rate which in turn reduces recruitment, training and other related costs. However, there is dirt of researches which talks about the said fact.

**Impact of HRA on Employee Motivation**

As discussed lot of researches talk about the impact of HRA on investor’s decision, few papers have shown impact on manager’s decision. However, no research is available that would show *the impact of the HRA implementation on the most important stakeholder of the company i.e. employee*. Literature talks about the change in mind set of employees either positive or negative, but it is more of opinion based.

This research is an attempt to bridge this gap in literature, especially from an Indian IT context.
2.4 REFERENCES


Otter J.,n.d. Putting The People Component Of The Business Entity On The Balance Sheet, s.n., p.3,5,6

