Human Resource Accounting Models and Practices in Indian Companies

Chavan Ravindra Vasantrao [1]

[1] Research Scholar, Department of Commerce, Mansarovar Global University, Sehore, M.P., India.

Dr. Akansha Sharma [2]

[2] Supervisor, Department of Commerce, Mansarovar Global University, Sehore, M.P., India.

Abstract

A new paradigm for tracking and reporting on an organization's human resource value has evolved: human resource accounting, or HRA. The current research looks at the several HRA measuring methodologies and how Indian firms use them. Models such as the Historical Cost Method, the Replacement Cost Method, the Opportunity Cost Method, the Human Asset Multiplier Method, the Lev and Schwartz Model, and Eric Flamholtz's Stochastic Model are included in the paper's classification of HRA models into cost-based and value-based methods. Major organisations including Infosys, Bharat Heavy Electricals Limited, National Thermal Power Corporation, Steel Authority of India Limited, and Rolta India Limited were discussed in the report, which also emphasises the growth of HRA practices in India. According to the research, the Lev and Schwartz model is the most popular choice for determining HR value in Indian organisations. It goes on to say that people are an organization's most important asset because of the positive impact they have on profits, productivity, and shareholder value. In today's cutthroat corporate climate, the article finds that HRA practices that work may boost organisational performance, employee evaluations, and executive decision-making.

Keywords: *Accounting, Valuation, Workforce, Productivity, Performance.*

I. INTRODUCTION

An integral part of contemporary accounting and management is the idea of human resource accounting, or HRA. Human resource management is the act of determining, quantifying, and reporting an organization's human resource value. Employees are seen as priceless assets in today's corporate world due to the substantial contributions they make to growth, profitability, innovation, and productivity. Human capital is often disregarded by traditional accounting systems, which place a heavy emphasis on monetary and physical assets. Human Resource Accounting (HRA) overcomes this shortcoming by seeing workers as valuable, quantifiable assets to the company.

Human Resource Accounting is becoming more important due to the rise of knowledge-based businesses, IT, and service sectors. Skilled workers, managerial acumen, innovation, and technological know-how are increasingly crucial for organisations to have a competitive edge.

Improving organisational efficiency and preserving long-term sustainability are both greatly influenced by human resources. Hence, ways to assess workers' contributions are gaining popularity in the workplace, and their worth is being included into financial reporting and management decisions.

Decisions about hiring, developing, promoting, transferring, and retaining employees may be better informed with the use of human resource accounting. It gives helpful details on the money spent on hiring and training new staff, as well as the monetary gains made possible by those workers. Investors, shareholders, and other interested parties may learn more about a company's genuine worth with the help of HRA. Organisations may assess the efficiency of their workforce and the return on investment (ROI) from their human capital investments by calculating the value of their human resources.

Human resource metrics have been measured using a variety of models and approaches. There are two main types of these models: value-based and cost-based. The cost-based approach estimates the money spent on hiring, training, and developing workers, while the value-based approach estimates the money made by employees while they are on the job. Important HRA models include the Historical Cost Method, Replacement Cost Method, Opportunity Cost Method, Lev and Schwartz Model, and Eric Flamholtz's Stochastic Model. Among them, the Lev and Schwartz model for calculating the NPV of workers' future wages has been widely used because of its methodical approach and practicality.

In India, the concept of Human Resource Accounting gained importance during the 1970s when public sector enterprises began voluntarily disclosing human resource information in their annual reports. Bharat Heavy Electricals Limited became the first Indian company to adopt HRA practices. Later, organizations such as National Thermal Power Corporation, Steel Authority of India Limited, and Infosys implemented HRA models to evaluate and report the value of their employees. Although no mandatory accounting standard exists in India regarding HRA disclosure, many companies voluntarily adopt these practices to improve transparency and strengthen organizational performance.

Thus, Human Resource Accounting is emerging as a valuable tool for modern organizations. It not only recognizes the importance of employees but also helps in improving financial reporting, managerial efficiency, and strategic planning. In the present competitive business world, effective management and valuation of human resources are essential for achieving organizational success and sustainable development.

II. MEASUREMENT MODELS OF HUMAN RESOURCE ACCOUNTING

Human Resource Accounting (HRA) measurement models are categorized into approaches that help organizations measure and evaluate the value of human resources in financial and managerial terms. These models mainly focus on determining the cost incurred on employees as well as the value generated by them through their knowledge, skills, efficiency, and contribution to organizational growth. HRA measurement models provide a systematic framework for analyzing employee-related investments and support effective decision-making regarding recruitment, training, development, and retention of employees. These models are broadly categorized as:

Cost Based Models

Historical Cost Method: William C. Pyle first proposed the technique, which goes by many names: acquisition cost, initial cost, and so on. A company's human resource (HR) worth—the sum of all the money spent on recruiting, training, and retaining employees—is the starting point for the historical cost approach. As HR professionals acquire experience and develop professionally, their economic worth increases. In contrast, this strategy uses amortisation to lower the capital cost of HR. One advantage of this technique is that it may save time and money by swiftly extracting useful information from existing data.

Replacement Cost Method: In 1985, Rensis Likert put forth this idea, and in 1986, Eric G. Flamholtz developed it further using the idea of replacement or substitution cost. In this approach, human resources are valued at the cost to replace them, or their replacement cost. Positional replacement costs, like those associated with filling open jobs, and personal replacement costs, such those associated with restoring a lost talent or skill, are two examples of replacement expenditures. You may figure out how much it will cost to replace an existing employee using this approach. The expenses of acquisition, selection, compensation, and training (including the income that is inevitable throughout the training period) make up replacement costs, according to Likert. When deciding whether to lay off workers or hire new ones, the data collected from this approach could be useful.

Opportunity Cost Method: was supported by Jones and C. Kiman. In the opportunity cost technique, also known as the competitive bidding strategy, an employee's worth is determined by the amount that other departments, divisions, processes, or even other organisations are willing to pay them. Using Human Resource's productive skills, this strategy examines potential other revenue streams. Opportunity costs are not incurred by employees who are unable to take part in the auction. Human Resources should, therefore, consist of a manageable number of individuals.

Current Purchasing Power Method (C. P.P.M): This strategy, like the historical cost approach, converts the HR cost into today's buying power by using employee price index statistics. In amortization, the value of HR is the translated value.

Value Based Models:

Human Asset Multiplier Method: In order to find an individual's present value, W. J. Giles and D. Robinson's "human wealth multiplier approach" suggests adding a multiplier to their wages. "The multiplier is a tool that links the personal value of employees to the total asset values of the organization".

Economic Value Method: Until they retire, human assets are evaluated using this method according to their contributions to the company. Salary, allowance, benefit, and other payments received by the persons are evaluated and discounted to find their current financial worth.

Lev and Schwartz Model (1971): This concept is sometimes referred to as the Present Value of Earnings concept. According to him, there is a basic difference between human and non-human capital. Ownership of non-human capital may be transferred, but human capital cannot. In 1971, Lev and Schwartz put forth this model to value human resources. Estimates of future wages up to retirement age are used to calculate the present value, which is then discounted at a rate suitable to the individual or group. To get the present value, the estimate is discounted using the cost of capital and based on the estimated earnings over the employee's remaining service life.

Stochastic Model of Eric Flamholtz: This paradigm was proposed by Flamholtz in 1972. The work of Lev and Schwartz (1971) is improved upon by this -This approach takes into account the employee's transition from one procedure or department to another during his tenure with the company and his departure from the present employer just before retirement or death.

This model states that an individual's anticipated value of accomplishment is the most important metric for determining their worth to a company. Assuming there is no direct correlation between an individual's costs and their worth to the business at any given moment, the anticipated value of accomplishment is calculated.

III. SCENARIO OF HRA IN INDIA

No specific language pertaining to the valuation or cost of human resources in a company's financial statements is included in the Company's Act of 1956. Furthermore, no accounting standard for assessing and reporting an organization's h0uman resources has been recorded by the Indian Institute of Chartered Accountants (ICAI). Therefore, the level and structure of human capital information that a company voluntarily discloses in its financial and accounting reports is entirely up to the business. A number of businesses have willingly started tracking and sharing data on their human capital after hearing the benefits of human resource accounting (HRA).

In 1973–1974, the first Indian corporation to use the concept of HRA was Bharat Heavy Electrical Ltd. (BHEL), a prominent public business. Subsequently, more significant governmental and commercial sector entities, such as, joined it. Among these institutions are the Oil and Natural Gas Commission (ONGC), Minerals and Metal Trading Corporation of India (MMTC), Steel Authority of India Ltd (SAIL), National Thermal Power Corporation (NTPC), Engineers India Ltd. (EIL), Hindustan Machine Tools Ltd. (HMTL), Cement Corporation of India (CCI), Oil India Ltd., Associated Cement Companies (SPIC), Metallurgical and Engineering consultants India Limited, Cochin Refineries Ltd. (CRL), Madras Refineries Ltd. (MRL), Associated Cement Compa There was a lack of initial enthusiasm for the HRA idea among businesses. Major job growth in the service industry, technology/software, and other knowledge-based industries occurred in the early 1990s, marking the beginning of a realisation of the importance and value of human assets. The role of human resources in increasing shareholder value started to be acknowledged.

By 2002, HR accounting had been adopted by significant software companies like Infosys, Satyam Computers, and DSQ Software, as well as significant manufacturing companies like Reliance Industries. Neither the Indian firms Act, 2013 nor the ICAI have established any clear accounting standards on the valuation or cost of human resources, and neither body has mandated that firms include such information in their financial statements.

Some public limited companies in India are using HR Accounting techniques even though the way HRA is established and reported is quite hostile. Human resources professionals were quick to comment on these changes, saying that businesses are beginning to see the value of a trained staff and that, in today's cutthroat business climate, HR tracking and reporting are crucial to survival. Indian businesses have mostly stuck with the Lev and Schwartz model, with some tweaks here and there, as it is the most popular and well-respected model in the country.

IV. HR AMONG OF SELECTED INDIAN COMPANIES

Infosys Technologies Ltd (Infosys)

Infosys brought the "value" dimension to human resource expenditures in the 1990s, shifting the focus from expenses to investments and giving each employee and the company a monetary worth. Since including human resources as an asset on the balance sheet, Infosys has been enjoying high market values.

The HRA model at Infosys is based on the present value of an employee's future earnings; this model assumes that an employee's total remuneration includes all perks, both direct and indirect, received in India and overseas. Investors will be better able to gauge the market worthiness of the firm if its intangible assets are valued and included in the financial statements, as stated by the company.

Infosys claims that there were many instances in which the firm profited by adopting HRA early on. It aids management in making choices based on current and projected needs for human resources. Companies were able to escape the pitfalls of duplicate labour because they valued their employees appropriately. You may also use this to see how well various departments or procedures are doing in terms of staff productivity.

"Comparing this figure over the years will tell us whether the value of our human resources is appreciating or not. For a knowledge intensive company like ours, that is vital information," said Narayana Murthy, the then-chairman and managing director of Infosys. The company provides data on a variety of metrics, including the number of employees, their age and group distribution, net worth, value added, and human resource value. It also includes ratios such as value of human resource/employee, total income/human resource value, employee cost/human resource value, value added/human resource value, and return on human resource value (www. Infosys.com).

Bharat Heavy Electricals Limited (BHEL)

With a focus on transportation, transmission, renewable energy, oil and gas, and defense, BHEL is the biggest public sector engineering and manufacturing firm in India's energy and infrastructure sectors. In 1971–72, the company started paying dividends and turning a profit. Beginning with the fiscal year 1974–75, BHEL started incorporating HRA data in its annual report according on the Lev and Schwartz model. As of 1980–1981, BHEL started to factor in efficiency when calculating the worth of human resources; it is the first Indian firm to provide HRA. It sorted workers into categories according to age, grade, and category for the sake of HRA data valuation and reporting. Human Resource (HR)/Total Resource (TR), HR/Fixed Assets (FA), Turnover/HRV, and Profit before tax/HRV are some of the ratios shown.

National Thermal Power Cooperation (NTPC)

Established in 1975 to assist with India's power growth, NTPC Limited has grown to become the country's biggest energy firm. The firm has expanded beyond its core competency of electricity generation to include consultancy, power trading, ash utilisation, coal mining, and coal mining as a whole. Human resource audits have been conducted by NTPC on a frequent basis, according to the company's HRA rules. Annual reports also provide this data. In order to determine HR's worth to the company, the Lev and Shwartz model is used for HR accounting. To handle its human resource assets on par with other assets, NTPC assesses them utilising different accounting standards integrated in HRA concept‖.

Cement Corporation of India (CCI)

Establishing a cement manufacturing capacity to assist with the attainment of local diamond targets and discovering and providing limestone sources were the primary objectives upon its foundation in January 1965. Recognizing the significance of human endeavors, CCI focuses almost entirely on safeguarding artistic works created by humans. Since 1979–1980, CCI has disclosed the worth of its human assets in its Annual Report, which is calculated using the Lev & Schwartz approach. In order to meet individual needs, business goals, and society purposes, human resource activities such as acquisition, development, compensation, integration, and maintenance are planned, organized, regulated, and directed with great competence. An effort has been made to estimate the present value of the expected future earnings of workers using current pay scales and promotional techniques in the lack of a clear-cut, well-defined, and widely accepted methodology for valuing a company's human assets. The economic models set forward by Lev and Schwartz, Eric Flamholtz, and Jaggi and Lew, with the necessary updates‟, served as the foundation for the computation.

Steel authority of India Limited (SAIL)

SAIL, a Maharatna corporation in India, produces 20% of the crude steel that India needs. It is the biggest steel manufacturer in the nation. SAIL manufactures a variety of steels, including basic and value-added varieties, for various uses. The company's training and development initiatives have been steadily progressing towards the goals of skill maintenance, knowledge transfer, specialized/advanced skill training in partnership with respectable organizations, and the development of effective managerial competencies in affiliation with prestigious institutes.

The first financial year that SAIL started reporting on the value of its human resources was 1983–1984. The human resource value model proposed by Lev and Schwartz is embraced by SAIL. It uses a fixed discount rate of 15% for the projected return in the future. The number of workers and their distribution by category are both provided by SAIL. Turnover, Value Added, Capital Employed, Employee Remuneration and Benefits, Net Worth per Share, and Earnings per Share are among the other metrics provided.

Rolta India Limited

It all began in 1989, but now it's a global software development and services company. The human resource budget is determined using the Lev and Schwartz model. The corporation bases its calculations on all forms of employee benefit, whether direct and indirect. The average rise is calculated by averaging the increases over the last three years. The retirement age is set by the company's policy. Various discount rates were employed for various years to determine the present value of future earnings, which was based on these assumptions.

V. CONCLUSION

Accounting for human resources (HRA) is quickly becoming a standard tool for contemporary business leaders and auditors. Companies in today's cutthroat economic climate know full well that their workers are their most important resource when it comes to increasing output, boosting creativity, reducing waste, and ensuring continued success. With HRA's assistance, businesses are able to assess the worth of their human resources using a variety of cost and value-based methods. Investment in human capital, organisational success, and employee contribution may be better understood with the help of these models. Even though the firms Act and ICAI guidelines do not mandate any particular accounting standards, the survey shows that HRA practices are being adopted by Indian firms all the same. Companies like National Thermal Power Corporation, Infosys, and Bharat Heavy Electricals Limited are using HRA models particularly the Lev and Schwartz model to evaluate the worth of their employees and make better decisions as managers. Increased openness, better use of resources, and support for strategic planning are all benefits of HRA. Consequently, in the current economic climate, Human Resource Accounting plays a crucial role in improving organisational performance, employee development, and sustainable corporate growth.

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