Research Paper Management

Problem areas for the Slow Growth of Implementation of Human Resource Accounting in IT Sector Industries: A Survey

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ABSTRACT

Human Resource Accounting (HRA) is not a new concept globally but observed to be untouched by majority of Indian IT sector industries except few to mention like Infosys, Satyam, Rolta India. Researchers have tried to find out the probable reasons for the slow growth of implementation of HRA in IT sector industries. Lack of Knowledge of HRA, Non-acceptance of HRA Concept and Inadequate Information of HR Cost & Value are found to be the broad reasons for the same. These board reasons were found from 12 sub-reasons. IT sector industries should take initiatives for finding solutions to these problems so as to implement HRA for getting maximum benefits in management decision making.

KEYWORDS | Human Resource Accounting, Problem Areas, HR Cost and Value.

Introduction:
Human Resources are being recognized as the most important economic resource of the current era, intelligence being an attribute of the only resource. Increasing concerns about proper assessment and enhancement of the resource, the pre-requisite is they have to be accounted correctly. Traditional accounting practices are unable to accommodate the greatest resource and so everyone is looking up to modern accounting methods. Human Resource Accounting proved to be the solution to the problem but still is not been adopted.

The American Accounting Society Committee on Human Resource Accounting (1973) defines it as follows: "Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties." In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms.

BHEL, Cement Corporation of India, ONGC, Engineers India Ltd, National Thermal Corporation, Minerals and Metals Trading Corporation, Madras Refineries, Oil India Ltd, Associated Cement Companies, SPIC, Metallurgical and Engineering Consultants India Limited, Cochin Refineries Ltd etc are some of the organizations, which have started disclosing some valuable information regarding human resources in their financial statements (Dr. Srinivasan, 2009)

PROBLEM AREAS IDENTIFIED FOR HRA:
1] Knowledge of HRA
1.1 Awareness of HRA:
HRM and HRA is now followed by most of the medium and large scale companies in India as there is awareness of the benefits in terms of Revenue, productivity, flexibility in skill development and so on. (Mamta Ratti, 2012)

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.)

Majority of the Industry Experts have not come across the term HRA. Since, the concept is not very popular, the awareness level among the managers is very low. Even in the companies that has HRA system, employee do not have any knowledge about the same. Additionally, the HRA information is majorly used to internal decision making and hence is not publicised outside the organisation.

1.2 Use of the information:
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. (Bullen and Eyler)

In a potential layoff decision, with use of HRA measures in addition to only traditional accounting measures, management is better likely to see the hidden costs to the company's human resources and the long-term implications to the human assets. (Bullen and Eyler)

After all the perceptual analysis, 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.

1.3 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 needs 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.

1.4 Gimmicks of HR:
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.

Human resource accounting may also affect control systems. Managers are frequently evaluated by the profits ascribed to investments under their control. The manager may be moti-

vated 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. (Rhode, Iii, Gary and Sundem, 1976)

The managers may use HRA as a means of manipulating the employee. She/he may decrease the value of an employee as a form of punishment or control. This may be done by altering the variables like the probability of an employee being promoted to the next state, future increments etc., determining the value of HR.

1.5 Which model to use?:
The basis of valuation is quite complicated. It requires use of assumptions regarding probable stay of the employee with the firm at different stages of his service. Three important models have been developed in this regard.

Lev and Schwartz Model
It is based on the assumption that the employee will stay with the firm till retirement.

Eric Flamholtz Model
It is based on the assumption and the probability of expected stay with the firm at different stages of services of each employee.

Jaggi Lau's Model
This model introduces "Group" as the basis of such calculation based on historical data regarding employee turnover patterns. (Raunak, 2010)

The measurement of Human Resources is subjective as different firms use different methods for valuation. There is no model for valuation of Human Assets, which is widely acceptable and used worldwide.

2] Acceptance of HRA concept
2.1 Human Resource an Asset:
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 IASB *Framework* 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."

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 listed under the term "goodwill," such as a favorable business name or location, or a group of knowledgeable or skilled employees. Many of these intangible assets do not appear on a firm's balance sheet. In addition, tax laws discourage the allocation of costs to goodwill because goodwill cannot be depreciated (Edmonds and Robert Rogow, 1986)

The ownership of human resources is practically impossible, therefore, it cannot be

considered at par with other assets. (Raunak 2010)

The basic reason why HRA has not taken boom is that companies are not considering employees as assets. They don't get due importance as per their contribution. This problem is more prevalent in manufacturing companies as compared to service industry.

The time companies' start valuing employees, HRA will gain the required alacrity.

2.2 Acceptance in Accounting Standards:
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. (Raunak, 2010)

Researcher found that Chartered accountants are very reluctant towards the accepting human beings as asset because of varied reasons which resulted in non-incorporation of HRA in accounting standards.

Till the time accounting standards make it mandatory to implement HRA, organisations will not undertake employee valuation.

3] HR Costs & HR Value information
3.1 HR Sub-Costs:
There are numerous costs involved in Human Resource Investment Subsystem for instance Acquisition Cost, Training Cost, and Welfare Cost, etc. 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.

3.2 Costs involved in implementing human resource accounting:
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. (Raunak, 2010)

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.

3.3 Group performance is not considered during valuation:
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. But calculating value for each employee is difficult and tedious for large organisations. During group projects, individual's performance is different; this is not captured in HRA.

3.4 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, 1976)

The human resource value of the professors would be immense, while the salaries would not be in congruence with the rest of society's human resource values and pay scales. (Ebersberger, 1981)

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 com-

pletely erroneous presumptions, since there is absolutely no correlation between the salary paid and actual value of employee to the corporation.

3.5 Beware the Programmed Society:
According to Ebersberger (1981), 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.

Hypotheses: H0:
Lack of Knowledge of HRA, Non-Acceptance of HRA concept and Inadequate Information of HR Cost & Value are not responsible for slow growth of the implementation of Human Resource Accounting.

Methodology:
For the paper, the field research was conducted on a purposive sample. 50 respondents were selected and an opinnaire of 10 questions was circulated for getting intellectual responses. Out of 50 respondents, 50% were Industry Experts and 50% were Academicians.

Reliability of the Questionnaire was checked using Cronbach's Alpha Test. Since, the reliability score of the questionnaire is 0.72, the instrument is reliable.

Data Analysis: T-test using SPSS:

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Awareness	30	1.2667	1.01483	.18528
Asset	30	1.5000	.77682	.14183
Sub Cost	30	.2000	1.15669	.21118
Acc Std	30	-.1667	1.08543	.19817
Expertise	30	1.3333	.47946	.08754
Model	30	1.8333	.37905	.06920
Cost	30	.6667	.95893	.17508
Utility	30	1.3333	.71116	.12984
Group Performance	30	.0000	1.50860	.27543
Basis Calculation	30	-.3333	.95893	.17508
Programmed Society	30	-1.0000	.83045	.15162
HR Gimmic	30	.6667	.95893	.17508

One-Sample Test						
	Test Value = 2					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Awareness	-3.958	29	.000	-.73333	-1.1123	-.3544
Asset	-3.525	29	.001	-.50000	-.7901	-.2099
Sub Cost	-8.523	29	.000	-1.80000	-2.2319	-1.3681
Acc Std	-10.933	29	.000	-2.16667	-2.5720	-1.7614
Expertise	-7.616	29	.000	-.66667	-.8457	-.4876
Model	-2.408	29	.023	-.16667	-.3082	-.0251
Cost	-7.616	29	.000	-1.33333	-1.6914	-.9753
Utility	-5.135	29	.000	-.66667	-.9322	-.4011
Group Performance	-7.261	29	.000	-2.00000	-2.5633	-1.4367
Basis Calculation	-13.328	29	.000	-2.33333	-2.6914	-1.9753
Programmed Society	-19.786	29	.000	-3.00000	-3.3101	-2.6899
HR Gimmicks	-7.616	29	.000	-1.33333	-1.6914	-.9753

The Sig. Value of all the variables is less than 0.05, hence each variable has significance in non-implementation of Human Resource Accounting in the organisation.

Thus, the null hypothesis is rejected. Therefore, it can be concluded that Lack of Knowledge of HRA, Non-Acceptance of HRA concept and Inadequate Information of HR Cost & Value are responsible for slow growth of the implementation of Human Resource Accounting.

Apart from specific reactions to the specified problems of human resource accounting, the respondents were also requested to enlist other problems. Some of the problems highlighted were lack of knowledge of building symmetry between HRA and organisation's system, value of an individual once fixed becomes a lifetime amount irrespective of exponential growth, and high attrition rate discourages implementation of system.

Conclusion:
Awareness of HRA, Acceptance of Human Resource as an Asset, HR Sub-Costs, Acceptance in Accounting Standards, Expertise required for implementation, confusion about HRA Model, High Cost of Implementation, Lack of Knowledge about use of HRA information, Non-consideration of Group Performance, Salary as a Basis of Calculation, HR Gimmicks and Programmed Society are responsible for the slow growth of implementation of HRA.

In addition to these, lack of knowledge of building symmetry between HRA and organisation's system, fixed value of an individual irrespective of exponential growth, high attrition rate discourages implementation of system.

Finding solutions to all the above mentioned problems is an important area for future research.

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