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HUMAN TALENT ACCOUNTING IN INDIA

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Abstract

Talent is the inbuilt ability which a person possesses. Human talent is an asset whose value always goes on appreciating with the passage of time if given proper training. Like any other asset of the company Human talent also plays a crucial role towards the success of the company and hence the quantification of the value of human talent or human resource is an important requisite for the growth and development of an organization.There are various approaches to quantify the value of human resources. The importance of Human resource accounting is recognised by many organisations in India but till date it has not been compulsory by Companies Act. This paper is an attempt to discuss the meaning, need, importance, approaches, present position, benefits and challenges of human resource accounting in India.

Keywords *Human resource accounting, Companies Act, Talent, Employees, Value*

Introduction

Talent is the inbuilt ability which a person possesses. Human talent is an asset whose value always goes on appreciating with the passage of time if given proper training. Like any other asset of the company Human talent also plays a crucial role towards the success of the company. No other physical asset can move or develop by itself without the help of the human resouces and hence the quantification of the value of human talent or human resource is an important requisite for the growth and development of an organization.

Objectives of the Study

The objectives of the study are as follows

- To understand the meaning, need and importance of Human reource accounting
- To discuss various approaches followed by Indian Companies
- To know the present status of HRA in India
- To discuss the befits and Limitations of HRA

Research Methodology

The present research is secondary data base. The data for the study is collected through internet and other published sources.

What is Human Resource Accounting?

According to American accounting association committee, Human Resource Accounting is the process of identifying and measuring data about human resource and identifying and measuring data about human resource and communicating this information to interested parties.

Flamholtz refers HRA as the process, which involves measuring the cost incurred by business firms and other organizations to recruit, select, hire, train and develop human asset.

Need of Human Resource Accounting

The development of an organisation is dependent on its human resources. No other physical asset can move or develop by itself without the help of the human resouces. This is the basic reason for their accounting.Human Resource Accounting plays an important role in an organization by providing the Cost value information about the time of acquisiton, development, allocation and maintainaince of HR. The human asset can be effectively controlled through the use of HRA as it provides the relevant information about that whether the value of its human assets are appreciating or depreciating and the management can take appropriate steps to motivate its employees by providing the training and development measures.

Likert (1971) explained that Human Resource Accounting is a tool which serves several purposes in an organization. To attain cost-effectiveness HRA provides cost/value information for taking management decisions about acquiring, allocating, developing, and maintaining human resource. It provides an effective tool to the management to scrutinize effectively the use of human resources.

Leading management scholar, Flamholtz (1979) explains the human resource accounting model as "psycho-technical systems" (PTS) approach to organizational measurement. This approach emphasized that the human resource are very important for the fulfillment of short term as well as the long term objectives of the organisation to increase productivity and expansion.

Importance of Human Resources

- Human Resouce is an asset which have the ability of value creation like any other physical and financial asset.One of the worth mentionong point about the human resources is that it not only create value but also apprecoiate over time. The value of other physical assets depresciates over time but no such depreciation occurs in case of human resources.

- It is the contribution of human resources to make effective use of financial and physical assets which contributes to increase market value of shares of the company.

- The efficiency of two companies having same capital employed can be compared only on the basis of the value of its human resources.

- Success of a company is very much dependent on its human resources. So, in order to retain them and not to face the difficulty created after they leave the organisation, it must take proper steps to motivate them in order to gain their loyalty towards the company.

Approaches of Human Resource Valuation followed by companies in India

Human resouces have started gaining due importance with the change of time Various human resource accounting models have been developed to quantify the talent, skills and knowledge of employees or workforce.Some of the models for human resource valuation are as follows

- **Historical Cost Method**

This method was developed by William C.Pyle (and assisted by R. Lee Brummet & Eric G. Flamholtz) and is adopted in 1969 by R.G.Barry Corporation, a leisure footwear company.

Under this method, the historical cost is considered to be the cost incurred on hiring, selecting, training and developing employees. A proportion of this cost is written off to the incomeor the benefits which the employee provides through his serviceto the company. I f the human asset leaves the company prematurely then the whole of the amount not written off is charged to the income of the year in which the human asset left. On the other hand if he serves the company for a period more than what was expected of then proper revisions is done accordingly. This method is very easy to calculate and apply but it sufferes from certain limitations such as it doesnot take into account the aggregate value of the potential services of the employee and it is also very difficult to calculate the time period for which the capitalised expenditure to be amortised etc.

- **Replacement Cost Model**

This model was developed by Rensis Likert, and Eric G. Flamholtz on the basis of concept of replacement cost.According to this model the value of employee is estimated as the cost of replacement with a new employee of equivalent ability and efficiency. Flamholtz divided the replacement cost in two parts i.e. individual replacement cost and positional replacement cost. Individual replacement cost includes the cost of recruiting and selecting the new employee; providing him training and development to make him as much capable as the employee who is leaving.Positional replacement cost meant the loss of production caused to the compny due to the replacement of the leaving employee, the set of jobs which was expected to be performed by the employee of the present position and the cost of recruiting and developing the employee to make him so much capable as will justify the present position as that of the leaving employee.

This method is considerd as more realistic as compared to historical cost method as it is taking the current value of the human asset.But its limitation is that it is very difficult to find two persons of same caliber and to compare the caliberity of the new entrant with the leaving one is vey subjective.

- **Opportunity Cost Model**

This method was first advocated by **Hc Kiman and Jones** .Under this method the cost of a human asset is equal to the benefit which he can provide if been put to some alternative work. Opportunity cost is the maximum alternative earning that is earning if the productive capacity or asset is put to some alternative use. It is very difficult to calculate the value of Human resource by this method because alternative use of HR within the organization is restricted and at the same time the use may not be identifiable in the real industrial environment.

- **Standard Cost Method**

This method was coined by David Watson. According to this method the value of human resource is equal to the total of the standard costs incurred in recruiting, hiring, training and development per grade of service.

- **StochasticRewards Model**

This model was developed by Eric G.Flamholtz. This model considers both the factors that are the probability of promotion of an employee and also the rewards generated by him during his period of service.

Flamholtz has measured the expected realizable value of an individual as

$$E(RV) = \sum_{i=1}^{n} y \left[\left[\sum_{i=1}^{n} \left(R_t * \frac{P(R_t)}{(1+r)^t} \right) \right]\right]$$

Where

E (RV) =expected realizable value

Rt =Value derived by an organization in each possible sate

P (Rt) =Probability that the organization will have Rt

t= time

n= state of exit

r= discount rate

i = 1, 2, 3......

- **S.K. Chakraborty Model**

Chakraborty modeldivided the human assest into two groups i.e. managerial group and non managerial group. To calculate the value of human asset the average turnover of group of employees is multiplied with average salary drawn by them and discounted by the expexted average turnover period.

- **Lev and Schwartz compensation model**

Lev and Schwartz developed this model in 1971 for valuing human resources. Most of the Public sector companies like BHEL, SAIL etc. are using this metnod for valuation of their human resources.This model takes the future earnings of an employee till retirement as the basis of this model.

According to the model the value of a human resource is equal to his remaining future earnings.In other words, it is equal to the estimated salary payable over remaining estimated working life.

$$Vr = \sum_{T-T}^{T} \frac{I(t)}{(1+R)^{(t-T)}}$$

Where

Vr= value of an individual or r years old

I (t) = the individual''s annual earnings up to retirements age

T= retirement age

r= discount rate specific to the person

t= active year of service

The model categorized whole work force in the various homogenous groupson the basis of their age groups and income levels. Then the present value of different groups is ascertained by discounting the average earnings of different groups by using the above formula. By using the formula calculated average earnings for different classes and age groups and present value of HR. This model also suffers from certain limitations such as it doesnot consider the early leaving of organisation by an employee, effect of seniority and change of role.

Position of Human Talent Accounting in India

Human Resource accounting has not been made compulsory in India by any legilsation till now. Even the New Companies Act 2013 does not made any provision regarding compulsoury disclosure of Human resources in the Annual report of the company.Some of the companies are introducing and following the concept of Human resource accounting .

In India Human Resource Accounting was first introduced by Public Sector Companies. Bharat Heavy Elaectricals Limited was the first company to adopt the concept of valuation of Human resources.But the concept of human resource accounting does not gain much importance at that time.

Infosys Technologies was the first software company who had valued its human resources in India. The company valued its human resources at Rs. 1.86 billion by using Lev and Schwartz Model. Inspite of many advantages of HR Accounting , it has not been developed and encouraged in different industries.Presently around twentyEight companies are doing the practice of Human Resource Accounting .The name of those companies are ,Steel Authority of India Ltd. (SAIL),Hindustan Machine Tools Ltd. (HMTL).,Oil & Natural Gas Corporation Ltd. (ONGC),National Thermal Power Corporation Ltd. (NTPC),Hindustan Shipyard Ltd. (HSL),Oil India Ltd. (OIL),Minerals and Metals Trading Corporation of India Ltd. (MMTC),Cement Corporation of India Ltd. (CCI),Engineers India Ltd. (EIL),Electrical India Ltd. (ELIL),Project and Equipment Corporation of India (PEC),Metallurgical and Engineering Consultants Of India (MECON) Canbank Financial Services Ltd.(CFSL), Southern Petrochemical Industries Corporation Ltd. (SPIC) ,Cochin Refineries Ltd.(CRL),Madras Refineries Ltd. (MRL),Associated Cement Companies Ltd.(ACC),Tata Engineering &Locomotive Co. Ltd. (TELCO) ,Infosys Technologies Ltd.(ITL) ,Bharat Heavy Electricals Limited (BHEL),Global Tele Limited (GTL),Hindustan Petroleum Limited (HPL),Hindustan Zinc Limited,,Indian Drugs and pharmaceuticals Limited (IDPL),Indian Oil Corporation (IOC),Rolta IndiaLimited,Satyam Computers Limited (SATYAM) and U.P State Cement Corporation Limited (UPCCI)

Benefits of Human Resource Accounting

- Employee Motivation and efficiency improvement-HRA provides the details regarding the cost incurred by the company in recruitment, development and training of an employee and the benefits given by the employee in return to the company. Through these details the employee gets motivated and his efficiecy got improved.

- Controls over Investment- The management of the company gets the requisite data regarding the investment made by the company on these employees. If they find any overspending then it can be rcontrolled timely.

- Adequate calculation of Return on investment- Adequate information of return on investment could be possible only when the human resource accounting is also done in the organisation.

- Deciding and implementing the personnel policies- The decision about the recruitment, selection, training, promotion, transfers, retirement and retrenchment of human resources can easily be taken through the information generated by human resource accounting.

- Best Utilization of human resources- By providing the information about the caost of an employee and the benefits generated by him, the human resource accounting provides

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help in placing the right person at the right place and making best utilization of available human resources.

Limitations of Human Resource Accounting

- Dehumanizing Human Resources- One of the major limitation of Human resource accounting is that if the report is not prepared with accuracy or if the results of the report are not used properly then it will lead to demunizing of human resources.

- No Uniform Standards- Financial performance of two organisations can be compared as there is uniformity in the preparation and presentation of the accounts .This is due to the fact because they follow the uniform standards laid. But in case of Human resource accounting there is no uniform standards due to which the results of one organisation can not be compared with other.

- Mobility of Human resources- The valuation of human resources is done on the basis that they will remain in the organisation for a long time. But this is unrealistic as the human mobility is very high.

Conclusion

Human resource accounting is an efficient tool for the effective cost benefit management of an organization.Some of the organisations in India have started ddoing human resource accounting due to its advantages.But due to the lack of the uniformity in the methods of calculating the value of human resources it can not be compared from one organisation to the other. Other reason which is acting as a roadblock in the proper implementation of HRA is that till now it has not been made compulsoury. So, if proper benefits of HRA is to be reaped by all the organisations and the country as a whole it should be made compulsoury with uniform standards and guidelines.

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