

HUMAN RESOURCE ACCOUNTING AND ORGANIZATIONAL PERFORMANCE

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ABSTRACT

Assessing the value of human resources is a complex process. It cannot be assessed as other resources used in the organization. It is important to have cost benefits analysis to rank inputs appropriately. In an organization human resource play most important role to accomplish the organizational objectives. Human resource account is to decide the amount of cost incurred on it and how much value it is giving to the organization. This study comprises of review of seventy research articles related to human resource accounting and its impact on organizational performance. This study is exploratory in nature and qualitative analysis has been done to identify the impact of HRA on organizational performance. This study is entirely depending on secondary resources. Findings of the study are not possible to generalize. But on the basis of available research papers it can be said that whether HRA has positive impact or negative impact on organizational performance.

KEYWORDS: *Human Resource Accounting, Organization, Performance, Employee, Capital.*

Introduction

In light of the history of labor and human resource management, HRA suggests a vehicle for improvement of management as well as measurement of human resources. HRA can demonstrate that improvement in human resource management enhances profits, and then managers will integrate human capital implications in their decision making to an enhanced degree (Flamholtz, 2002). Human Resource Accounting is the process of assigning, budgeting, and reporting the cost of human resources incurred in an organization, including wages and salaries and training expenses. HRA was first developed by Sir William Petty in the year 1691. However the true research in HRA began in 1960 by Rensis Likert, founder of the University Of Michigan Institute of Social Research and well known for his work on management styles and management theory (Likert 1961, 1967).

Human resource accounting is the activity of knowing the cost invested for employees towards their recruitment, training them, payment of salaries & other benefits paid and in return knowing their contribution to organization towards its profitability. Human resource accounting is a new branch of accounting. It is based on the traditional concept that all expenditure of human capital formation is treated as a charge against the revenue of the period as it does not create any physical asset. But now a day this concept has changed and the cost incurred on any asset (as human resources) should be capitalized as it yields benefits measurable in monetary terms. It seems that in order to achieve goals such as economic and human value in financial reports, considering an organization's investment in human resources, human resource management, increasing efficiency and creating opportunities for evaluating personnel policies, assessment of human resources of an organization in terms of preservation, analysis and development, identifying non-operational and productivity gains resulting from investment in human

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resources and calculating the value that human resources creates in other financial and physical resources in an organization, human resources accounting should have quantitative and practical dimensions (Dawson,1994).

It is the measurement of the cost and value of people to organizations. It involves measuring costs incurred by private firms and public sectors to recruit, select, hire, train and develop employees and judge their economic value to the organization. HRA is the art of valuing, recording and presenting systematically the work of human resources in the books of accounts of an organization. According to - Eric Flamholtz "Human resource accounting is the measurement of the cost and value of the people for the organization". It follows the traditional concept that all expenditure on human capital formation is taken as a charge against the revenue of the period as it does not create any physical asset. Modern view is that cost incurred on any asset as human resources need to be capitalized as it provides benefits measurable in monetary terms. Measurement of cost and value of the people to organizations is highly important, costs incurred in recruitment, selection; hiring, training and development of employees along with their economic values are very much relevant for human resource accounting (Islam et al. 2013).

Literature Review

Various articles related to human resource accounting and organizational performance are reviewed to find out relations between HRA and organizational performance:

In the study of Akindehinde, Enyi and Olutokunbo (2015) have revealed that human asset accounting significantly affects organization performance as supported by the various empirical findings, the study concluded that the current accounting practice of expensing every expenditure on human asset does not present the true and fair view of organizations balance sheet. It also leads to understatement of the organizations' profit which subsequently has negative effect on earnings per share, shareholder's funds, market value and return on asset. Another study of Enyi & Akindehinde (2014) the result of the statistical analysis which revealed that human asset significantly affects management decisions as supported by various empirical findings and relevant literatures which also considered employees as important asset critical to the survival of organizations within the competitive economic environment, there is need for this assets to be valued and capitalized like other intangible assets, like goodwill that are captured on organizations balance sheets or statement of financial position.

In the article of Islam, Kamruzzaman & Redwanuzzaman (2013) have found that as per accounting standards disclosure of human resource accounting information follows historical cost approach to human asset valuation but this fails to show current cost. This is why economic value approach is more relevant. Still true cost of capital for discounting the net cash flows related to human assets is also difficult to find out. As a result replacement cost valuation method and non monetary behavioral approach might be suitable for their valuation of human resources in an organization. Human resource accounting system helps the management in taking various decisions for achieving their organizational goals by accurate estimation of the human resources. Managerial decision making related to the human resource in terms of both quantitative and qualitative assessment of efficacy and effectiveness can be achieved through the implementation of human resource accounting system. Thus the study reveals that HRA system helps in personnel selection process, recruitment, estimate cost and budget for the acquisition and development of human resources and also helps in utilization of human resource effectively by providing better reward administration and it is important in the evaluation process by developing reliable methods of measuring the value of employees to an organization Dhanabhakym & Mufliha (2016).

In the article of Hossain, Akhter and Sadia (2014) have elaborated that the volume of investments on human resources usually made by corporate entities and the impact of such investments on the productivity level of the humans justify their treatment and recognition as assets rather than expenses. Additionally, the arguments against the concept of HRA and its application are issues that can be solved significantly. When human resources are quantified and reported as assets in the balance sheet of corporate entities, the multiple users of the reports will be awarded with more qualitative and quantitative information, which will boost their decision making abilities.

Surarchith, Vaddadi, and Cura (2017) their article aims at ascertaining the relationship between human resource accounting and performance of firm. According to findings of current study, shelter cost and training & development cost were strongly correlated with firm's performance, but health and safety cost was moderately correlated with firm's performance. The research helps the banks to

identify the importance of investment on human capital. The research helps the banks to identify the importance of investment on human capital towards achieving higher levels of human productivity.

Pandurangarao, Basha and Rajasekhar (2013) have explored that Human resources appear to be important to Indian organizations, most organizations do not value their human resources and plans to implement valuation of human resources are at a very early stage. Despite the interest in valuation there will be little or moderate progress in the area over the next five to ten years. In order to show greater progress, more needs to be done at both the theoretical and practical level.

Cherian & Farouq (2013), in their study have found that developing HRA was complicated since it requires the organization's cooperation to act as research sites for the purposed study. Hence, only few major studies were conducted in this field. In addition to this, this research involves the HRA implementation in organizations, and hence the cost of operation is high. The benefits of HRA implementation to the sponsoring firm and also to the field are not certain. This study includes the adaption process of HRA technology and can be extended to evaluate the different types of intellectual property. The HRA implementation helps to improve managerial decisions like layoffs, better performance evaluation measures of the firm and also acts as a guide during buying, selling and merger transactions.

Micah, Ofurum and Ihendinihu (2012), their study suggests that an inverse relationship exists between the performance metrics (ROA) of a firm and its level of human resource accounting Disclosure. This is not surprising because, return on assets (ROA) indicates a company's overall profitability. When investments on human capital development are expensed, the result will be that both assets and earnings will be understated. This will motivate companies with a low level of earnings to provide relevant information to investors and stakeholders regarding investment in human capital not reflected on the balance sheet.

Ezeagba (2014), his paper has attempted to bring the views of different researchers on the concept of human resource accounting into focus and the practicability of this concept, peruse the objectives of human resource accounting, different valuation methods from various literature emphasizing the need to show human asset in the balance sheet and finally sensitizing professional accountants to an in-depth look at the balance sheet and for professional bodies to bring up Accounting Standards to back up adequate treatment of human assets in the balance sheet.

Tomassini (1977), in his study revealed that very little evidence is available regarding the impact of HRA data on managerial decisions. Perhaps the most significant need for future behavioral HRA research is the collection of scholarly evidence of decision making in actual HRA systems.

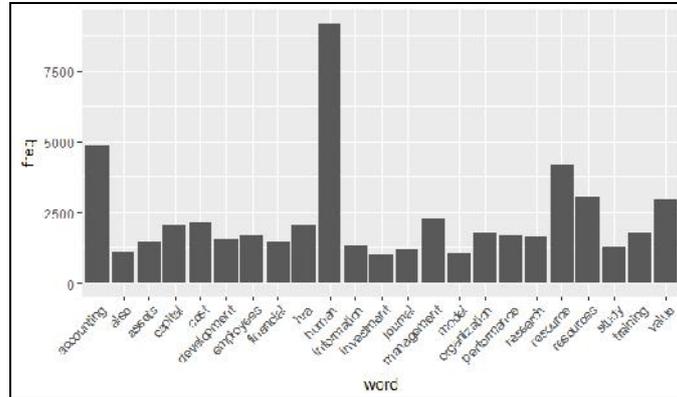
Saremi & Naghshbandi (2012) in their paper have explored the current literature on human capital and its impact on employee's performance. The conceptualization of human capitals is closely linked to some fundamentals of economics and employees performance. The literature reviews show that there are reasonably strong evidences to show that the infusion of 'human capital enhancement' in employees promotes innovativeness and greater employees' performance. There is no doubt that the management of organizations should be serious about human resources and increasing their performance which will affect on productivity and efficiency.

Kenneth & Sinclair (1991) Eze & Chiamaka (2016), Srivastava (2014), Ifurueze, Odesa and Ifurueze (2014), Edom, Inah and Adanma (2014) in their studies have found that human resource accounting is positively associated with performance of organization. Amount of cost incurred on development of human resources has always helped in achieving organizational objectives.

Research Methodology

The research design of this study is exploratory in nature. The existing literature has been derived from various online sources such as Elsevier Products, Emerald E-Journals, Indian Journals, JSTOR, Sage Online Journals, Springer, Taylor & Francis Online, Wiley Online Library, Google scholar etc. The literature was searched with the help of various related key words like, human resource accounting, HRA, Human resource capital etc. Most of the articles have derived from Google scholar related to HR accounting. These papers were published in different journals of management. Seventy research studies from various double blind peer reviewed journals were found appropriate for this article. The qualitative analysis of existing literature is done with the help of R-software. The R-software which helps in word clouding, text search, data mining and helps in establishing correlation between text and terms.

Figure 2: Frequency Plot of Most Frequently Used Words in the Literature



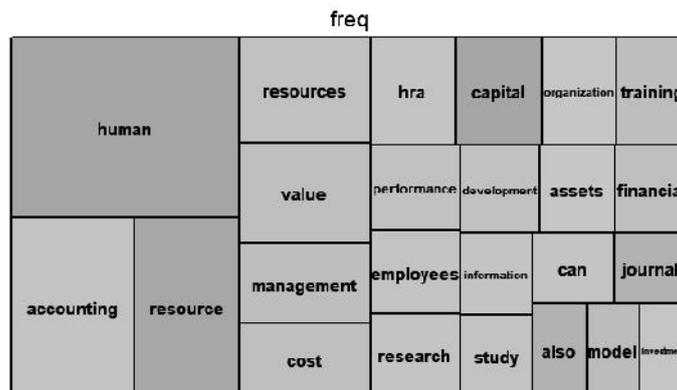
The above table shows status of various terms in previous literature. This frequency plots help to understand that the HRA has impacted organizational performance. It has added value to it and proved that investment into human resources will always lead to value addition to the organization.

Table 2: Correlation with the term Human

Human			
Accounting	0.95	Department	0.91
Reduction	0.93	Describe	0.91
Time	0.93	Effective	0.91
Activities	0.92	Effectiveness	0.91
Appropriate	0.92	Existing	0.91
Management	0.92	Explain	0.91
Provide	0.92	Extreme	0.91
Purpose	0.92	Greater	0.91
Required	0.92	las	0.91
Resource	0.92	Others	0.91
Approach	0.91	Quickly	0.91
Approaches	0.91	Taken	0.91
Current	0.91	Terms	0.91

The above table shows that how closely each term is associated with human. It is evident that accounting is very much highly associated with human. It is clear from above data sheet that HRA increases the effectiveness of organization. In this table 26 most correlated terms were presented and among this high correlation is found.

Figure 3: Tree Map



This tree map led to understand importance of various term in previous studies. If we examine the above table it is evident that human has found prominent position in all the available literature. Subsequently accounting and resources also have strong position in previous studies. HRA separately found prominent place in existing literature. It is clear from analysis of existing literature that many studies have been done in field of HRA and how it impacts organizational performance. All above analysis indicated that human resource accounting has positive impact on organizational performance. There is always a debate among HR practitioner that it should be treated as assets to the organization or liability. The argument in favor is that it always adds value to the organization. But against it is said that it required huge amount of cost which is a kind of burden to the organization. But all existing literature has highlighted the positive relationship between HRA and organizational performance.

Conclusions

The objective of this paper was to identify the relationship between human resource accounting and organizational performance. For the purpose of this study seventy most relevant existing literature related to human resource accounting were analyzed. It was found through this analysis that performance of organization is impacted by HRA. The cost incurred on human resources adding value to the organization. Investment on human resources always led to organizational performance. Giving value to existing HR supported organizational development, job involvement, job satisfaction, motivation, high morale and sense of belonging to the organization. All these helped organization to improve performance.

Studies suffer from limitations and conducting study on the basis of secondary sources has many limitations these are as follows:

- The data used for the purpose of the study may or may not be authentic or accurate.
- The data can be vague which cannot be used to draw any conclusion.
- It is not possible to decide that whether the sample used for the study purpose is appropriate or not.
- Author of the paper has **lack of control over data quality used for this study**

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