

HUMAN RESOURCE ACCOUNTING: AN OVERVIEW

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ABSTRACT

Human resources are not yet treated as assets at par with other assets. But there is a growing opinion in favor of treating human resources at par with other assets from the financial accounting viewpoint. Though economic valuation technique is a part and parcel of human resource accounting, economic value of human resources cannot be presented in the balance sheet because it relates to probable future occurrence of earnings, compensation and some other criteria. In other words, economic value means the value of the potential services that are likely to be provided by an employee to the organization that has employed him during the probable continuance of service in the future. And probable earnings, compensation and some other criteria are considered for estimating economic value of a person. Thus the economic value is something other than the historical costs of human assets.

KEYWORDS: Human Resources, Economic valuation Technique, Human Resource Accounting.

Introduction

Even the method under which good will of an organization is valued can not be used for valuation of human resources because of many limitations such as (i) there are many entities which do not have shares, (ii) continuous loss, (iii) good will is, perhaps, not shown in the balance sheets of limited companies especially public sector companies and so on. Under the conventional accounting system and the concerned statutes, historical cost basis valuation of assets is allowed for the purpose of financial accounting. As such historical cost basis valuation of human assets is considered to be logical so long as the purpose is to present human assets on the balance sheet. Keeping in view, this aspect of financial accounting, concepts and techniques are evolved for valuation of human assets and accounting thereof. A model for measurement of costs of human resources has been prepared by us and shown at the end of this chapter. Before we proceed for discussion of concepts and techniques for valuation of human assets and accounting thereof, it is felt relevant to discuss here some aspects of the characteristics of human resources as human resources are the subject matter of valuation and accounting.

Characteristics of Human Resources

Among others, human resources are the most complex in nature. Right from the time of selection to the time of retirement of human resources, it is imperative on the part of any organization to have a continuous and also a dynamic process for its effective utilization. It is the human resources which put the other assets and resources into operation. Thus the success of a venture or an enterprise solely depends upon its human resources. The quantity and quality of work done vary from person to person of a particular group of employees even though the same and equal pay packets are offered to them. As such behaviour of every person has to be thoroughly studied so as to improve their performance. The study of the behaviour of a person encompasses three facets (1) to observe the behaviour, (2) to understand the behaviour and (3) to influence that behaviour, toward a certain direction. In order to study human behaviour, one requires knowledge of human needs. In the words of Edwin B. Filippo. "The needs of human beings can be classified into three categories: physiological,

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social, and egoistic, Physiological needs, often termed primary, are those that issue from the necessity to sustain life-food, water, air, rest, sex, shelter, and the like. The 'economic man' model assumes that such needs are the sole needs of people. In addition to meeting these basic and fundamental needs, one also must be assured that they will continue to be met. Thus, security is a vital need of a high priority to most people. When threatened, as it is by mechanization, automation, and economic recession, it gives rise to much and strongly motivated activity.

The remaining two types of needs are often termed secondary since they are more nebulous and intangible. They vary in intensity from one person to another, much more than do the primary needs. In the social category are the needs of (i) physical association and contact, (ii) Love and affection, (iii) acceptance. Most people are gregarious and desire to live with other people. Physical contact, however, is not enough. People feel a need for love affection from at least a few other human beings. Thus, we form and maintain ties of family and friendships, relationships that are often vitally affected by policies and practices of the employing organization. In addition to physical contact and affection, human beings feel a need for acceptance by and affiliation with some group or groups. It has long been noted that modern society has tended toward the formation of more and more groups and that a single individual is usually a member of multiple groups. The need for acceptance and social approval is also reflected in such factors as styles, fashions, traditions, mores and codes. It is a strong need that provides one of the cornerstones of any organized society.

Egoistic needs are derived from the necessity of viewing oneself or ego in a certain manner. Among the identifiable egoistic needs are the following: (i) recognition, (ii) dominance, (iii) independence, and (iv) achievement. Though a person needs reasonable acceptance by a group, one usually does not wish to merge with it to the point of losing personal identity. We are often caught between two some conflicting needs, one of which requires merger, the other separation. If one accepts a promotion to the position of a supervisor, thereby gratifying a need of ego, one must forgo the association of many old friends, thereby frustrating a social need. As one matures, a need for dominance often becomes apparent. Dominance may well be a continuation of the need for recognition with the ultimate objective of achieving autonomy and independence. The drive for the formation of labour unions, for example, does not issue solely from physiological needs. In many instances, well-paid employees voted overwhelmingly for a union, which could serve to prove them with the dignity of independence necessary to their self-esteem.

Many psychologists contend that highest need of the human being is that of achievement or self-actualization. It encompasses not only the ability to accomplish, but the need for actual achievement of something in life. The job or task is the major source of satisfaction for this need. Human needs vary from person to person and it is not possible to prepare an exhaustive list of human needs. It is an established fact that the degree of satisfaction of certain personal needs of a person satisfied by an organization has a significant direct relationship to his continuing to work in that organization. A study was carried out by L. J. Ross and Alvin Zander to establish relationship between need satisfactions and employee turnover which concluded: "We conclude that workers whose personal needs are satisfied on the job are more likely to remain in the organization. Which we are unable to evaluate the comparative importance of earnings as a substitute for direct need satisfaction, the satisfaction of needs has values which are worth developing for establishment of stable work groups."

Human needs are expressed in terms of specific wants by the employees of an organization. Some of the typically specified wants are (i) pay, (ii) Security of job, (iii) Congenial associates, (iv) credit for work done, (v) A meaningful job, (vi) Opportunity to advance, (vii) Comfortable, safe and attractive working conditions, (viii) Competent and fair leadership (ix) Reasonable orders and directions, (x) A socially relevant organization.

Another characteristic of human resources of an organization is that their wants also stem from the needs of their family members. Hence the benefits are extended by an organization to the family members of employees. As for example, school bus and tuition fees are provided by an organization for the education of the children of the employees. By incurring expenditure for the family members, an organization aims to derive benefits out of such expenditure by way of improved productivity on the part of the employees. If the family members of the employee are looked after by the organization, his willingness to work better for the organization increases and willingness to work directly varies with productivity.

Unlike other resources, human resources can be developed to an almost indefinite limit. In other words, a man learns all through his life and thus becomes developed. Learning curve of a person goes on increasing with the passage of time though it may increase at a lesser pace after some time (and may perhaps become a straight line at some stage). As compared with other assets, degree of uncertainty as to the time span during which the services of an employee would continue to be received by an organization is higher. This is so because the human resources are not owned by their services are received. Human resources are thus, if not otherwise restricted, free to move from one organization to another. Besides this, the life of human beings is more uncertain than that of other assets since a person may die at any stage of his working life. As such, there should be continuous strive on the part of an organization to minimize turnover of human resources since labor turnover is always associated with cost. Another important aspect of human resources is sensitivity. Human beings are very sensitive in nature. They react to all circumstances. Therefore, there should be good management systems for effective utilization of human resource. Amount all the management functions, motivation is of utmost importance since motivation injects motive forces into the human resources for increasing their productivity leading to successful achievement of organizational goals.

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