

## HRA PRACTICES: AN INDIAN PANORAMA

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**ABSTRACT:** *Despite the importance of human resources to the prosperity of corporate cannot be denied in corporate pronouncements, but excepting a few cases, it does not find proper place in the traditional accounting practices prevalent in India mainly due to insufficiency of their quantification. In a developing country like India with abundant human resources, paying inadequate attention and keeping their contribution outside the financial status of corporate sector evidence the lack of transparency in books of accounts. With the advent of scientific management with emphasis on quantitative methodology to make rational use of all resources, this paper makes an attempt to examine the scope of HRA or Human Resource Accounting practices as well as its usefulness in decision making for the management of corporate sector in India. Reviewing human resource accounting leads to furtherance of human resources development.*

**KEYWORDS:** corporate, financial status, human resource, human resource accounting, traditional accounting

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## INTRODUCTION

Of late, Human Resource (HR) development has been the centre of attention of both academicians as well as practicing managers all over the world. However, the recognition of importance of this resource in organization as one of the productive resources has been accepted by all for taking effective managerial decisions. But unfortunately, failure of accountants to keep valuable contribution of HR in the financial record of an organization is a serious obstacle for impressive management. The academics, practitioners and institutes in the accounting world are deeply engrossed in the issue and have shown increasing interest in the application of the models developed so far into practice. Although the technique of measuring HR and development on the issue is still in developing stage, the subject has created a widespread appeal and potentiality. The study aims at examining the HRA practices in India from the author's own perception and observes that most of the corporate does not satisfy all the requirements of HRA process. A great deal of further research work relating to the application of HRA is of paramount importance in the process of human resource development.

## OBJECTIVES OF THE PAPER

This paper mainly focuses on the following major objectives:

- ✓ To study the significance of HRA for smooth functioning of business organization.

- ✓ To identify the issues and challenges.
- ✓ To study the HRA practices in Indian corporate sector.
- ✓ To provide conclusions based on the study.

## RESEARCH METHODOLOGY

The purpose of the present research is to find out status of HRA reporting practices of Indian corporate. The study has used purposive sampling technique for the selection of the corporate. Corporate from both public sector and private sector are selected for the purpose of study. The selection of the above corporate is influenced by their favorable response and representative nature of the selected corporate in respective industries as well as the Indian economy. On the basis of the information disclosed by these corporate in their annual reports, certain variables were identified and scores for each variable are assigned. Secondary data for the purpose of the study has been collected from annual reports of the selected companies, various reference books related to E-Commerce, information technology, HR, HRA, commerce, marketing, finance, management, etc. as well as collected from the various national and international research journals of related area. Primary data were collected through issue of questionnaires. Collected data have been classified and tabulated with appropriate statistical techniques to suit the study.

To identify the corporate practicing HRA valuation and reporting in India, two methods were followed. In the first phase, a random survey of the annual reports of over fifty corporate was carried out. Out of these, corporate following HRA were short-listed for further analysis. There was a possibility of some corporate practicing HRA not included in the random survey. To incorporate such corporate, an extensive literature survey on Indian HRA practices was carried out. Analysis has been done of those corporate whenever information available. It was also found from further analysis that some corporate following HRA valuation and reporting practices earlier in the past have either been closed down or have discontinued HRA practices. Final list of the corporate for further study has, therefore, been prepared.

## LIMITATIONS OF THE STUDY

The limitations of this study are as follows:

1. Although selected companies are being taken into consideration, still data collected is about the present number of employees working in organization. There is no information of past employees.
2. The study being corporate sector or company specific cannot be generalized.

## LITERATURE REVIEW

Badiyani (2012) described the popular models of assessing the value of HR in the organization. He observed the gradual development in the field of HRA and new approaches adapting different models according to its need and nature. Hosseini (2012) studied the concept of HRA and found that promotion of human capital and its effect on different aspects of organization operation and in more extended level on economic and social development was clear to everybody. Pandey (2012) analyzed HRA practices of fifty selected Nifty companies and found

that only one (ONGC) company follows HRA practices. Due to growing importance of intangible especially HR, extent of reporting was found utmost interest to a large number of stakeholders. Ratti (2012) determined HR efficiency quotient taking the sample of fifteen companies for the measurement of HR with the help of primary data and disclosed that the values of HR were not dependent on the number of persons employed. Micah, Ofurum and Ihendinihee (2012) examined the relationship between firms' financial performance and HRA disclosure of companies in Nigeria taking the five years' financial data from 2005-2009 of 52 companies across all sectors listed in Nigeria Stock Exchange. The study showed positive correlation between returns on equity and HRA disclosure and concluded that HRA information of an organization is very important factor for decision makers in an era of knowledge based economy. Cherian and Farouq (2013) studied the relationship among HRA and organizational performance and observed reluctance of the company management to implement HRA. Further, organization faced several challenges during HRA implementation but disclosures on human assets showed evidence for wealth creation and helped in calculating HR capital worth for management development and enhanced the value of management accounting. Kesavan and

Dayana (2013) while analyzing HRA disclosure in the selected 20 Indian companies found that only 6 companies (3 public and 3 private sector companies) were following HRA and independent 't' test was used to find the difference in the disclosure of HR variables in the companies. A significant difference had been found between HR disclosures of public and private sector banks. Pandurangarao, Basha and Rajasekhra (2013) carried out a study to examine the methods and models followed by the Indian companies for HRA. The study showed that a few companies followed the proper methods of HRA. Bloom and Kamm (2014) conducted a study for analyzing HR costs incurred by organizations under U.S. generally accepted accounting principles and observed the impact of the Balanced Scorecard and recent literature on the valuation of human capital. The study concluded that superior performing companies recognized and rewarded their best employees to highlight the value of human capital.

Kaur et. al. (2014) attempted to evaluate extent of HRA measurement and reporting practices of selected Indian companies with the purpose of analyzing these companies and ranked the companies on the basis of the extent of disclosure of HRA information in their annual reports. They concluded that measurements and reporting were highly subjective and the companies were trying to fit available model for the valuation of HR as per their own requirements. Madhumalathi et. al. (2014) emphasized on the application of HRA in various corporate sectors in India with special reference to Infosys and concluded that HRA in Infosys helped in identifying the right person for right job based on the person's specialized skills, knowledge, capabilities, experience, etc. Sharma and Kumar (2014) compared the disclosure practices adopted by selected public and private sector banks and revealed that public sector banks disclosed more quality information of HR practices than the private sector banks. Sharma and Lama (2014) highlighted that Indian companies were found conscious about HRA and for encouraging the development and application of HR, the Regulatory Bodies for Accounting Standards in both the national and international levels had to focus on the measurement and

reporting aspects of HRA and enforce sound standards for it. Stanko et. al. (2014) examined the history of human asset accounting and its feasibility in current financial reporting environment. Besides, the importance of human asset accounting, its different approaches and how beneficial an accurate method could prove to be in financial reporting was demonstrated. They found that as a foregoer to measure the development of general quantitative and qualitative human capital disclosure with real company examples is included in a company's reporting. Bullen and Eyler (2010) stated human resource accounting involves accounting for expenditures related to human resources as assets, as opposed to traditional accounting which treats these costs as expenses that reduce profit. Enyi and Akindehinde (2014) said human resource accounting is accounting for the value of people in organization to enhance information for decision making by the users of financial information. But human resource accounting has continued to experience something of a revival (Toulson & Dewe, 2004).

Jeroh (2013) actually examined the relationship between human capital accounting and the comparability of financial statements in Nigeria. He found a significant relationship between the variables. Therefore, human capital accounting is a necessary component of a credible financial statement. Bokhari et al. (2012) suggested that the concept of human capital accounting is struggling for acceptance in the financial statements. Indeed, according to Becker (2009), education and training are the most important investments in human capital. The results of Dean et al. (2012) study revealed that human capital should not be accounted for, and reported on the balance sheets, principally because, there is no consistent way to measure human capital. They highlighted, that human capital should be valued, but perhaps the financial statements are not the proper place for such numbers. They concluded, to have a separate human capital report that would provide statistics and other facts about a company's stock of human capital. Hence, citing Bullen (2007) Bullen and Eyler (2010) had opined that even if human assets are not reported on the face of external financial statements, HRA can play a crucial role in internal managerial decision making, and HRA measures can be used to show that investments in company's human resources may result in long-term profit for the company. Jelil et al. (2014) suggested that the majority opinion among scholars in the field of accounting is that human capital should be included in the statement of financial position.

Ikpefan et al. (2015) agreed that human resources expenditure should be capitalized and treated as assets rather than written off to profit and loss accounts. But the critical question remains whether human resources satisfy the test to be classified as assets (Ravichandra et al., 2015). Additionally, after examining the utilitarian dimensions of the existing models of human resource accounting, Bavali and Jokar (2014) concluded that by disregarding employees' value in managerial reports and giving quantitative values to them, development in the organizational environment cannot be expected. Guthrie and Murthy (2009) argued that the policies and frameworks derived from developed countries could be suitable only to such developed countries. The developing and emerging economies like India, as an emerging economy, rich in human competence, they argued, might not be able to adopt these frameworks, since their human capital agenda could be different. They further contended India did not have the problem of an ageing population that was faced by many developed countries, which means the existing

HCA framework might not be suitable for India. They, thus, opined that new frameworks could be developed and tested in developing and emerging economies. Islam et al. (2013) posit that human resource accounting is a new branch of accounting with universal applicability and global import or a new branch with local peculiarities. According to Steen and Welch (2011), the aim of human resource accounting is to contribute to the management of the organization, by optimizing the value of its human assets. Citing Mayo (2005) and Verma and Dewe (2008), highlighted that human resource accounting literature centers on developing measures can adequately capture and report, in a tangible form, the worth of people and their contribution to the organization. Bontis (2001) concludes that if shareholders and analysts agree that intellectual capital disclosure is beneficial in explaining business performance, then companies will have no choice but to appease their audience. Besides, Ijeoma et al. (2013) opined that our greatest assets are our people, there is urgent need for their values to be evaluated, recorded in books, operated and disclosed in the financial statements. Furthermore, in canvassing for proper disclosure of human capital in financial statements, Hai-Ming and Ku-Jun (2003) opined that the usefulness of financial statements was diminishing. Human capital accounting has stemmed the tide of this diminishing returns. According to Kirfi and Abdullahi (2012), human resource accounting is comparatively new but a very sensitive development in the accounting field. And there appears to be a somewhat consensus that its adoption, is a response to the challenging questions posed by the prevailing trends, which view human resource as most instrumental in the production process.

### **SIGNIFICANCE/RATIONALE**

Usually, financial assets are recorded in the books of accounts as per the general principles of accounting, but do not take into consideration the human assets though researchers have made many attempts to completely authenticate the model of performance based on accounting. In order to estimate and project the worth of the human capital and the value generated by them, it has become essential to classify the value of knowledge, ability, skill and the involvement of the human fundamentals along with various organizational development procedures such as recruitment, selection, training etc. Although many efforts have been made in the past by many thinkers in this field, the past few decades have witnessed a global evolution from manufacturing to service based financial system. The rationale behind introduction of HRA lies in the fact that HR should be treated as physical assets and should be shown on the asset side of the balance sheet. Recognition of HR as asset removes the obstacles of traditional accounting practice and reflects the true financial status of an organization. HRA deserves the following merits:

- ✓ Any change in the investment in HR affecting the earning capacity and growth of an organization cultivates the concept of HRA in which assets status is accorded to HR and accordingly brought into account like other assets.
- ✓ Acquisition, training and placement costs of HR for productive purposes should be capitalized. HRA first justifies this truth. It helps management in planning and executing personal policies. Expenditure incurred to benefit future periods should be capitalized (Kolay, M.K.,1987) and treated as assets.



- ✓ Expansion of building, plant & machinery etc. obviously leads to enhancement in HR. Hence, information in the form of HRA is necessary.
- ✓ Additional information regarding HRA inspires the shareholders and creditors to make long-term investment with confidence.
- ✓ Cordial relationship among the employees is possible only when management feels the importance of employees' contribution in an organization.
- ✓ HRA as a tool detects the spirit of labor turnover, return on investment and utilization of potential capacity of an organization.
- ✓ HRA helps in solving industrial disputes, collective bargaining process, etc. as management representative can put forward data systematically. HR being economic resources is expected to benefit future **activities**( Horngen,T. Charles.,1967).
- ✓ With HRA, management is well equipped to take rational managerial decision to move the organization forward (Das, P.K., 2018).
- ✓ HRA supplies shareholders and stakeholders sufficient information useful for determining profitability and stability of such organization.

## MAJOR ISSUES

The following are the major issues for implementation of HRA:

- Traditional accounting procedures having been practiced since long have come to stay as acceptable norms. Consequently, with the development of new accounting system, it is pitted against the strength of the traditional system which is considered to be comparatively objective and free from any bias. Similarly, in the case of HRA also, it is argued that it lacks symmetry with traditional resource because it cannot be included within the traditional definition of an asset.
- There is little agreement concerning the accounting procedure for human assets. There are proponents and critics of the various approaches like cost and value approaches responsible for the slow development of the concept of HRA.
- .The historical cost approach to develop measures of HRA uses an amortization rate which provides the figure of amortization to be charged to profit and loss account every year. But it is very difficult to develop norms in this regard. Given the difficulty of predicting both physical and mental changes, it is even more difficult to develop a means of writing off an individual's value. So far, precise measures for amortization of human assets have not been developed.
- .Of late, it has been observed that the value based measures of HRA are finding more acceptances with Flamholtz approach being progressively used which, however, depends heavily on the measurement of an individual's or a group's contribution of valuation. But, measurement of contribution, especially at the managerial levels, is a complicated task. Consequently, this factor proves to be obstacle in the development of the concept of HRA.
- Another issue which has not been settled so far is about the rate at which the prospective stream of contribution is to be discounted or compounded to calculate its present and future value to the organization. A number of applications are available in this process.

- If an individual is to be valued normatively, the model proposed by Flamholtz expects that the career path of individual should be plotted over the span of probable stay with the organization in the light of the current promotion and retirement policies of the organization. But such exercise is tedious.
- It is apprehended that the effect of HRA on human behavior can enforce the organization to be reluctant to use this system. HRA may lead to alienation as the people might feel that they have been reduced to as industrial commodity. Publicizing HR data could have disastrous effect on the attitudes of employees.
- Physical assets can be owned and traded by an organization but the human assets cannot and can be only utilized in this regard. Physical assets have some realizable value of retirement but the HR does not have any such value. HR is an appreciating asset since manpower improves with time; but for physical assets, its increasing value at the time of its installation starts immediately depreciating.
- Although the Accounting Standards Board (ASB) of the ICAI have issued accounting standards covering most of the important areas in accounting and have ensured their implementation mandatory, the strange irony is that they have not formulated any specific accounting standard on measurement and reporting of cost and value of HR. This is one of the severe limitations of conventional financial statements arresting the users of these statements from making their full use.
- Absence of HRA information in financial statements distorts financial picture and also computation of rate of return on capital employed.

### **KEY CHALLENGES**

- As ownership of HR is practically impossible, it cannot be considered at par with other assets. The duration of human resources cannot be predicted. Hence its valuation also seems to be impracticable.
  - The concept of HRA being not recognized by Tax Authorities has only academic utility. If the ASB makes it obligatory to disclose the values of human assets, then only the Tax Authorities will take into concern of HRA..
  - There are a number of specific objective procedures for the selection of the factors to be included in the valuation of HR. So, the subjective approach of the value in this regard makes it less reliable.
  - Trade union may dislike the idea because HRA may lead to division among the ranks of employees. A group of employees may be assessed lower than their real worth owing to the reasons beyond the control of management. Employees may resist the idea of being treated like second class citizens despite their contribution over a period of time.
  - Measurement of HR is subjective as different firms use different methods for this purpose. Till date, there is no widely universal acceptable model for valuation of human assets.
  - It is uneconomical for small business units as it involves heavy costs if the firms desire to install HRA package in their organizations.

- There is no evidence or very little evidence to support the contention that HRA is an effective tool to measure the economic value of staff to their organizations and facilitates effective management of HR.
- Methods for the valuation of HRA based on certain assumptions may be wrong at any time. All workers are assumed continuing work with the same organization till retirement, which is far from reality because employee mobility is very high.
- HRA may lead to the dehumanization manipulation of employees in the organization. A person having lower value may feel discouraged and this, in itself, may affect his competence in work.
- Under financial accounting, every organization has to distinctly follow particular accounting standards. Conversely, there are no defined standards for HRA. Each organization has to follow its own set of principles. As there are no uniform standards for it, HRA of two organizations cannot be compared.
- There can be consistent fear of disagreement from trade unions. Introducing any value on employees would prompt them to seek rewards compensation based on such valuation.

### **SCENARIO OF HRA PRACTICES IN INDIA**

An annual report in Indian corporate sector containing the Chairman's report invariably highlights the significance of HR. The Chairmen of the corporate make such remarks like "I wish to place it as record of my sincere gratitude for the hard work done by the employees of our company"; "I thankfully acknowledge the contribution made by our company" at the annual general meeting of the shareholders that their employees are the most important assets and without their significant contribution, the present growth in the operation would not have been possible. These qualitative pronouncements are the manifestations of the importance of HR in an enterprise but the quantitative information relating to their contribution or their value is nowhere recorded or exhibited in the financial accounts. However, in practice, a few corporate value their HR and report this information in their annual reports. Giant unit like CCI is fully aware of the phenomena and pays adequate attention and priority to maintain human assets. Procurement, development, compensation, integration and maintenance of HR are carefully planned, skillfully organized, controlled and directed to secure the meaningful end that individual requires; organizational targets and social objectives are successfully performed. Dichotomous accounting between human and non-human capital is rather fundamental in that while latter is recognized as an asset and recorded as such in the financial statements, the former is completely ignored.

With the accelerated growth in science and technology, the value of human capital is gradually increasing and hence it is essential for a corporate to manifest the investment in HR. In the absence of clear cut, well defined and universally accepted model for evaluating the economic worth of human assets of a corporate, most of the corporate attempts to assess the same by working out the present value of the anticipated future earnings of the employees taking into account the present pay scales and the promotional policies being followed. The computation is based on the guidelines and principles pronounced in the economic models developed by Lev and Schwartz (1971), Eric Flamholtz (1974) and Jaggi and Lau (1974) with appropriate



modifications. The most remorseful fact is that the Institute of Chartered Accountant of India (ICAI) being unable to bring any decisive accounting standards on measurement and reporting of HRA information in financial statements corporate distorts net income disclosed by profit and loss account, total assets figure in balance sheet and also distorts computation of rate of return on capital employed because its components namely net income and total assets are distortive. Table 1 exhibits the HRA practices of the selected companies.

## RESULTS/FINDING

**Table 1. HRA system practices in India by different Corporate**

Name of the Corporate	HRA Introduced in the Year	Model Adopted	Discount Rate (%) Applied	Category wise Employee	Agewise & Category wise Employee	Category-wise HR Values	Productivity & Performance Ratios
BHEL	1974-75	Lev and Schwartz Model	12	Yes	Yes	Yes	Yes
SAIL	1983-84	Lev and Schwartz Model modified by Flamholtz and Jaggi and Lau	15	Yes	Yes	Yes	--
MMTC	1982-83	Lev and Schwartz Model	12	Yes	Yes	Yes	Yes
EIL	1980-81	Not reported	10	Yes	--	Yes	--
HMTL	1986-87	Not reported	NR	Yes	Yes	--	--
ONGC	1981-82	Not reported	12.25	Yes	--	Yes	--
NTPC	1984-85	Lev and Schwartz Model	12	Yes	Yes	Yes	Yes
ELIL	1983-84	Lev and Schwartz Model	12	Yes	--	Yes	--
PEC	1980-81	Lev and Schwartz model	NR	Yes	--	Yes	Yes
MECON	1984-85	Lev and Schwartz Model	14	Yes	--	Yes	Yes
CFSL	1989-90	Lev and Schwartz Model with certain modifications	NR	Yes	--	Yes	--
SPIC	1983-84	Lev and Schwartz Model	NR	Yes	--	Yes	--
CRL	1987-88	Lev and Schwartz Model	15	Yes	--	Yes	Yes
MRL	1985-86	Lev and Schwartz Model	15	Yes	--	Yes	Yes
ACC	1983-84	Lev and Schwartz Model	NR	Yes	--	Yes	--
CCI	1979-80	Lev and Schwartz Model modified by Flamholtz and Jaggi & Lau.	15	Yes	--	Yes	--
OIL	1982-83	Lev and Schwartz Model	10.5	Yes	--	Yes	Yes
ITL	1995-96	Lev and Schwartz Model	17.2-27.1	--	--	--	Yes

**Source: Annual Reports of the sample Corporate; Notes: 'Yes' >reported by the respective Corporate; 'NR' > 'Not Reported'.**

It is found that although a number of companies were practicing HRA but they have stopped HR valuation and reporting practices. Now, a question arises about the usefulness of HRA practices. This is because, in favor of HRA, behavioral scientists as well as professionals made a number of arguments such as: i).HRA helps in decision making. ii). HRA provides input to the internal as well as external decision makers.iii).HRA works as a motivational factor to the employees. In spite of well accepted benefits of HRA the question arises, why have a very few companies accepted HRA practice? To find out the answer to this question, a further study leads to certain vital questions relating to valuation of HR, reporting of HR, disclosures under the head HRA, etc. (Table 2).

**Table 2. HR valuation model selected by Indian Corporate**

	Model Adopted			
Particulars	L & S Model	L & S Model with refinements suggested by Flamholtz, Jaggi & Lau	Own amended Model	Not Reported
Number of Corporate	12	02	01	03

**Source- Compiled from the Annual Reports of the Corporate**

The Indian Companies like SAIL and CCI have adopted economic valuation concept and accepted the model suggested by Lev and Schwartz with refinements suggested by the Flamholtz, Jaagi and Lau. Companies like BHEL, MMTC, NTPC, ELIL, PEC, MECON, SPIC, CRL, MRL, ACC, OIL and ITL have adopted the Lev and Schwartz Model (1971) of economic value and have used an employee's anticipated future earnings as a surrogate of his value whereas company like CFSL has developed its own valuation model considering the original model of Lev and Schwartz as a base. Companies like EIL, HMTL, and ONGC have not reported the model used for the valuation of their HR.

In the survey, 18 corporate accepting HR valuation and reporting practice in India have been identified. It was found that there was no harmony in discount rate applied by different corporate in converting the future expected return of employees/individuals into present value. Considering HR as capital, corporate apply the cost of capital as the discount rate. Some corporate even consider risk-free interest rate as the discount rate. Different discount rates followed by different corporate are discussed below (Table 3):

**Table 3. Discount rate applied by different Corporate in India**

Discount Rate (%)	Name of the Corporate	Total
10	EIL	01
10.5	OIL	01
12	BHEL, MMTC, NTPC, ELIL	04
12.25	ONGC	01
14	MECON	01
15	SAIL, CRL, MRL, CCI	04
17.2-27.1	ITL	01
Not Reported	PEC, HMTL, CFSL, SPIC, ACC	05
Total		18

**Source- Compiled from the Annual Reports of the Corporate**

The above table shows that different discount rates were accepted by different corporate in India. The following were the findings of discount rate analysis:

- ✓ SAIL, CRL, MRL and CCI applied the discount rate at 15% considering the risk free rate of return.
- ✓ BHEL, MMTC, NTPC and ELIL used the discount rate at 12%.
- ✓ Only ITL was found to be following the unstable discount rate (17.2-27.1%) every year equal to the cost of capital for the valuation of HR. For this purpose, ITL was calculating the cost of capital.
- ✓ EIL, OIL, ONGC and MECON were found to follow the discount rate of 10%, 10.5%, 12.25% and 14% respectively.
- ✓ Five corporate namely, PEC, HMTL, CFSL, SPIC and ACC did not disclose the particular discount rate.

All these companies were found following the economic valuation method considering HR as human capital. Change in discount rate would affect the HRV without change in any other material condition of the business.

**Table 4. Productivity and Performance Indicators of HR of different Corporate**

Name of the Corporate	HR/ TR	HR/ FA	TO/ HR	TO / FA	TO/ TR	VA/ HR	VA /FA	VA/ TR	PBT/HR
BHEL	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MMTC	Yes	Yes	Yes	--	--	Yes	--	--	Yes
PEC	Yes	--	Yes	--	--	Yes	--	--	--
MECON	Yes	--	Yes	--	--	Yes	--	--	--
CRL	--	--	Yes	--	--	Yes	--	--	--
MRL	Yes	--	Yes	--	--	--	--	--	--
OIL	Yes	Yes	--	--	--	--	--	--	--
NTPC	Yes	--	Yes	--	--	Yes	--	--	--
ITL	--	--	Yes	--	--	Yes	--	--	Yes

**Source- Compiled from the Annual Reports of the Corporate. Note: “Yes”> ratios disclosed by the respective Corporate.**

Table 4 shows that Indian corporate sectors did not follow a uniform policy in reporting information regarding HRA of the corporate. The information about HR value and accounting is largely unregulated.

The above reflects the various ratios relating to productivity and performance of HR have been computed and reported by BHEL, MMTC, NTPC, PEC, MECON, CRL, MRL, OIL, and ITL in their annual reports. BHEL, the only company, has computed all the ratios relating to productivity and performance of HR selected in this analysis and also reported these in its annual reports. MMTC has computed and reported five ratios. PEC, MECON, ITL and NTPC have disclosed three ratios in their annual reports. CRL, MRL and OIL have presented only two ratios in their annual reports. All the companies have presented the information of salary with sub-breaks in their annual reports as a part of schedule of accounts. None has shown segment wise distribution of salary. Manpower development costs have been presented by NTPC, MMTC, MRL and ONGC whereas other companies have reported this information only in narrative sense in their directors’ report or elsewhere in the report. Most of these enterprises have not mentioned their objectives of reporting HRA information. Only SAIL, CCI, MMTC and NTPC have mentioned the purpose for which they are reporting information regarding HRA in their annual reports. HRA is the process of identifying and reporting the investments made in the HR of an organization that are presently not accounted for in the conventional

accounting practices. HRA is an accounting measurement system. HRA or HR valuation attempts to identify and quantify the investments made in HR of an organization. HRA helps measure the value of employees, which helps management in decision making. Hence, it may be concluded that by enlarge there is a significant difference in disclosure practices adopted by the selected company.

It reveals that HRA is surely an important asset of every company whether public company or private company. It is just that some companies are giving more importance to HRA and some are less and this is because their pattern of HRA disclosure practices is different. After investigating disclosure practices of individual selected companies, a comparison has been made between the public and private companies with the help of statistical tool like Mean and SD (Table 5).

**Table 5. HRA disclosure practices of public & private sector Companies**

Disclosure Items	Public Companies		Private Companies	
	Mean	SD	Mean	SD
Particular of Employee (11)	7.15	0.15	7.30	0.18
Employee Cost (7)	5.72	0.09	5.68	0.10
Ratios related to HR (18)	6.16	3.75	2.15	1.35
Average	6.36	1.75	5.30	0.58

**Source: Annual Reports-Results computed.**

Descriptive statistics according to disclosure items evidence that the public companies are doing more HRA practices than the private sector companies. Mean value of disclosure of particular employee (7.30) of private companies is quite better than public companies (7.15). Public sector companies also display the good disclosure of ratios related to HR (6.16) and disclosure of employee cost like information of salary, manpower of development costs, contribution to gratuity, provident and other funds etc. The public sector companies are doing more HRA practices than the private companies with a mean of (5.72) while in case of disclosure of employee statistics, private sector (5.68). Overall average of disclosure items of public sector companies (6.36) is higher than private sector companies (5.30). Table 6 shows below the score sheet for ratios of the selected corporate in India.



**Table 6. Score sheet for ratios allotted weightage in reporting practices**

Company	HR/ Employee	HR/ TR	HR/ FA	VA/ FA	VA/ HR	VA/ TR	HR/ VA	TO/ TR	TO/ HR	Employee Cost/ HR	Return on HR	TOT AL
ACC		1			1							02
BHEL		1	1	1	1	1	1	1	1		1	09
CCL												00
CFSL												00
EIL												00
ELIL												00
HMTL												00
ITL	1	1			1		1			1	1	06
MECON		1			1				1			03
MMTC			1	1	1		1	1	1	1	1	08
MRL		1							1			02
NTPC		1			1				1			03
OIL		1						1				02
ONGC												00
PEC												00
SAIL												00
SPIC					1							01
STC		1										01
TOTAL	01	08	02	02	07	01	03	03	05	02	03	37

**Source- Compiled from the Annual Reports of the Corporate**

HRA reports provide valuable information about employees and investors to the company management. In India, very few companies use HRA. BHEL and MMTC are the two leading companies in India which use HRA. It is fact that the 21st century is an era of human demand. Countries like China and Japan forerunners in technology advancement and having labor

quality are all outcome of work force performance. Hence, the whole world has realized that HR is the real investment into business ventures that should only catch and stick the success waves. Ever profit generating company like ITL ACC, MECON, MRL, NTPC, OIL SPIC, SPIC, etc. have recognized the value of quality of labor and commanded top priority so as company produces ripe fruits with the assistance of ripe force and can stand against any business storm and cope up effectively. Even though HRA contributes many benefits, yet its development and application in different industries have not been encouraging as Indian Companies Act is not sufficient for showing any information about HR in financial statement. Currently, due to the development of business and industries, some of the Indian companies-- both public and private, value their HR and report this information in their annual reports.

## DISCUSSION

Only few illuminated corporate in India have been reporting HRA in their annual reports. Since none of the corporate have mentioned the objective behind the use of HRA information, it seems that their objective of introducing HRA has been image building and there they have been successful in this as CCI, BHEL, etc. have received awards from the ICAI for the best presented published accounts. This information is expressive to the prospective investors and other external users of the financial statements as they come to know about the organization, investment in HR and their value to the firm for the purpose of their investment decisions.

A critical appraisal of the HRA information reported by the corporate reveals the following observations:

- Most of the corporate have adopted primarily Lev and Schwartz Model for assessing their HR. Value of an individual computed by using this model is value of an individual to the individual himself rather than to the organization. Remuneration paid to an employee does not indicate contribution to the organization, as value computed represents future commitments of an organization. Hence, values assigned to HR by these organizations cannot be taken as real value.
- HRA has been reported by these corporate as supplementary information in their annual reports and is unaudited. Value allotted to the HR has not been disclosed in the financial statements. So, HRA has not been considered an integral part of the whole accounting system.
- Discount rate used for the purpose of computing the present value of future earnings of employees is debatable. Very few companies have mentioned the discount rate.
- ONGC, CCI and like companies have reported "Social Accounts" in their annual reports and have also depicted in their annual reports the values of HR both on the assets side as well as on the liabilities side of the social balance sheet which means that their value is **ZERO**.
- Although the above-mentioned companies have valued their HR and have reported such values in their annual reports, it has not mentioned specifically as to how they are treating the huge expenditure incurred on hiring, training and developing their employees. Obviously, they are charging such expenditure entirely to the profit and loss which violates the accounting principle.

- With so many frauds and scandals propping up in the last decade, there is a pressing need to have not just more disclosures but also to have better rules and practices for the disclosure of information to improve trust in accounting. The accounting bodies and academic communities are also aware of the importance of issuing guidelines to improve financial and non-financial reporting.
- The study has manifested the sorry state of HRA and its application in Indian corporate. HRA application and disclosures are not only poor but also inconsistent, incomparable and unreliable due to unaudited HRA statements leaving a lot to be done in respect of HRA disclosures.
- There is a pressing need on behalf of accounting bodies, government agencies and regulatory bodies to come forward and issue accounting guidelines in relation to disclosures being more objective and users worthy.

### **IMPLICATION TO RESEARCH AND PRACTICE**

Growth of any organization is entirely dependent on the effective utilization of its human resources. An organization may have sufficient financial capital and obtain physical resources, but it would still face difficulty in administering its affairs with insufficient human resources. Therefore, it is up to the organization to make decision regarding how many factual details, what information and in which form they want to reveal voluntarily in their annual financial reports. However, accepting the arguments raised in favor of HRA many companies have voluntarily started valuing and disclosing their human resources. Most of the corporate under study valuing and reporting their human resources in their annual reports are violating the accounting principles as the huge expenditure incurred by them on hiring, training and developing their employees are being charged entirely to the profit and loss account.

The researcher conducted a survey of 100 different personnel of the corporate to collect their views on various aspects of HRA. As regards usefulness of HRA to internal management, executives believe that the management would come to know the importance of manpower. It would help HR director to formulate better personnel information necessary to the shareholders and also to prospective investors. Almost all except a few in the private sector believed that HR valuation will definitely help in implementing such a policy that would be beneficial to employees and would definitely help to solve labor-management problems. Majority of the respondents-individual and professions were in favor of valuing human resources as very useful to both management and employees as well as to financiers and investors. Most of the respondents believe that human resource valuation is very useful not only to management but also to employees and other stakeholders of the enterprise. As far as adoption of HRA by the Indian corporate is concerned, it is very apparent that outstanding companies under study in the public sector adopted HRA, the pioneer being BHEL. The private sector companies are very orthodox, conservative and non cooperative in providing any data as regards human resource assets and their valuation. They do not adopt and supply any HRA information to any outsiders and even to research workers. Recently very progressive companies in India like Infosys have started providing excellent information about their human resources. Adoption of HRA by the Indian corporate would make the employees happy to know their status and believe that their

importance is recognized by the management which would ultimately help Indian corporate to compete in the international markets.

HRA has its profound effect on proper selection of employees. Selection made on the basis of conventional accounting information would lead to the selection of unsuitable candidate for the jobs to be filled. The result of various surveys indicate that the information about HR valuation and other information would have a significant difference in the decisions. Unfortunately, such information is not available to the investors in the conventional published financial statements. HRA is not new concept in the corporate world. In India, so far HRA has not been introduced as a system to be applied among the companies with proper mechanism. The Indian Companies Act, 1956 does not provide any scope for furnishing significant information about human resource in financial statement; even in new amendment of the Indian Companies Act, 2013, there is no clause available on HRA. There is no justification for treating expenditure on human resource as cost because human resources are the primary sources of income of an enterprise, and human resources have service potential for more than an accounting period. The aim of the research is to study the present status of HRA and disclosure practice in Indian corporate. Also with this researcher measures the performance of public and private sectors to know which sector is performing better. Thus, the study begins with conclusion about disclosure of HRA which is entirely based on secondary data and perception of stakeholders which is based on primary data.

The objectives based on secondary analysis conclude that the present value models and the Lev and Schwartz Model do not make any serious attempt to identify factors determining the value of human resources. These models fail to explain the factors which can improve the value of human resources. However, actual practice evidences that employees sometimes are not fairly compensated. Therefore, the information generated by the above two models cannot help the management in making HRD related decision to a significant extent. The analysis of disclosure of HRA in India reveals that ONGC is having a good performance. NTPC and Infosys have also done well. Moreover Infosys, NTPC, BHEL, are also adopting HRA but these companies have been disclosing the same in different ways. Infosys discloses HRA in balance sheet under the heading intangible assets while ONGC discloses it in Note and separate statement of HRA. The results show that public sector companies are performing HRA disclosure practices better than private sector companies. They use them for their own purpose. Thus, there is a need for countless deal of investigation which could be of significant help in the development of human resource process. Corporate should maintain a separate item in their balance sheets about HR activities and must implement HRA with vigor and clear directions. For progress, more search into valuation methods and models, and their practical implication, is needed together with the engagement of both human resource and accounting professionals in the debate on valuation and its implementation in practice. Academicians and the Government should encourage research in HRA for setting up educational institute of International standard. Unless such is done, there would be no academic excellence produced in India. Instead of the present view based on capital, the financial statements so prepared to show the human resources as assets

can be termed as human based financial statements. Although, the theory of HRA appears to be useful, there is still lack of adequate standards for the valuation of HR in practice.

## CONCLUSION

HRA disclosure as per statutory requirement of Section 217 (2A) is not sufficient to draw any conclusion. Overall performance of public and private sectors shows that public sector has been performing better in HRA disclosure practices. Disclosure of HRA information has been accepted as a point of immense importance and growing awareness among the investors, managerial people and other interested parties have been noticeable; yet, the International Accounting Standard Board and the Accounting Standard Boards in different countries have not been able to formulate any specific accounting standard on measurement and reporting of cost and value of HR of an organization.

Annual reports reveal that HRA disclosures are not sufficient in Indian corporate with the exception of few companies being found to be collecting and reporting HRA information in their annual reports through supplementary statement and not a part of main financial statements. These companies have followed the most preferred Lev and Schwartz Model for the valuation of HR, but that adaptation of the model is arbitrary as there is no standard grouping of HR; selection of discount rate is discretionary, selection of ratios describing the relationship between employees and profitability is also arbitrary. It has also been found that most of the corporate which originally started HRA have discontinued the practice because there is no compulsion of such valuation and the task involved is very tedious. Companies report HRA information in a separate section with ONGC being the only exception which reports this information in an annexure to the director's report, although the HR statement finds its mention in the index of the annual report. Corporate measuring the value of its employees and reporting it too is in the form of a single statement only and no attempt is made to link this inventory of intangible assets with the tangible assets with the only exception being ITL which prepares a combined balance sheet showing all assets, including HR assets and brand values. CCI prepares its balance sheet showing human assets in the form of social accounts and does not qualify to be included in this category.

The main reason behind the disclosure is growing awareness about the role of HR as service providers and as a bundle of competencies needed to be continuously fostered and developed for improving organizational efficiency. Another reason of reporting such information is to improve the market worthiness of a corporate to attract better finances. Over the study period, value of HR has also increased many folds and this has resulted in the decline of the ratio of HR cost to HR value. The findings are in conformity with the results of other studies such as Badiyani, B. M. (2012), Hosseini, M. G. (2012), Pandey, N. N. (2012), Ratti, M. (2012), Kesavan, S., & Dyana, P. F. (2013), Sharma, N., & Kumar, M. (2014), etc. The studies have analyzed the impact of HRA data on HR-related decisions, such as turnover, lay-off and personnel selection decisions, and found significant difference between the decisions with and without HRA data. Therefore, HRA measurement and disclosure lead to improved performance



and increase in the wealth of a company. Expectations on the future earning potential of firms are associated with high quality of HR and vice versa. They found that investors particularly fund managers and financial analysts seek information on company management and human capital but most disclosures are qualitative and not uniform requiring them to rely on alternative sources to get the desired information. Hence, HRA is important not only for managers but also for investors. The study has revealed that most commonly disclosed items of HR are employee strength, turnover rate, training and development, staff distribution, HR awards, retirement benefits, HRA statement, EVA disclosure, health, safety and welfare of employees, employees' acknowledgement, career development plans, HR policy, employees' stability & profitability ratios, equity issues, entrepreneurial spirit, innovation, etc.

Even the systems are as yet not in place for proper accounting of HR costs such as recruitment, training and development, and their allocation over the period of their tenure in the corporate. Continuously written off in the year of occurrence is against the basic doctrine of HRA and also that of GAAP suggesting that all costs should be written off against their period of use in organization irrespective of their occurrence and payment. In this way, HRA information is not forming the part of the income statement and balance sheet.

The Companies Act and the ICAI have given guidelines about HR, but they have not brought any definitive accounting standards for measurement and reporting of cost and value of HR of an organization. The existing accounting standards, however, fully support the adoption of HR for the purpose of meeting their own requirements in true sense. The time has come for the organizations to realize that the knowledge of the workforce or human capital is their prime assets and not liabilities. For the betterment of the corporate under study, it is essential to evaluate the worth of HR in a systematic manner and record the related information in their financial statements to communicate their worth time to time to the various parties.

Despite certain drawbacks in the model employed by the selected corporate in India, it goes to their credit that by reporting HRA in the annual reports, they have at least shown their concern for their employees. In the absence of HRA, the management may not realize the negative effects of certain programmes aimed at improving profits in the short-run. The success stories of HRA in BHEL MMTC BHEL, IITL and several other enterprises are largely due to the importance on HR development. High performing corporate to keep performing on a continuous basis must treat their human capital as the most important valuable asset. We all know that 'People who feel good about themselves produce good results' and 'People who produce good results feel good about themselves'. Such a healthy and virtuous cycle goes on and on, satisfying the individual goals and organizational goals too at the same time.

### **SUGGESTION**

A uniform system of HRA acceptable to all stakeholders as the improvement of management of HR automatically brings both quantity and quality services (Das,P.K.,2018).Positive indication shows that to some extent impact of HR development and its relationship to earning is calculated and reported. However, unfortunately this most valuable asset is not included in

financial statements of the majority of the corporate in India. It is equally a fallacy to find that while physical assets with insignificant valuation like furniture, loose tools etc. are valued and shown in the balance sheet, acquisition and development cost of even the ablest and most efficient manager is not reflected in the balance sheet. The following suggestions can be put forward:

**Suggestion for the Government:**

- The rules and regulations should be set up for the measurement of human capital under accounting standard of India.
- The Government should take initiatives for the disclosures value of HR in annual reports as well as the website of the companies. The Government should suggest specific model acceptable by all corporate.
- The ASB should devise the standards for the valuation, accounting and disclosure of human resources to increase in productivity of human capital. Besides, the disclosure of HRA practices should be made mandatory by the Indian Companies Act.
- The Government, professional bodies and scholars should take initiatives to develop an objective model for the valuation of human resources.
- The Government should provide incentives like differential tax treatment, subsidies, rebates, guarantees, depreciation allowances, etc. to enable corporations to disclose more HRA information.

**Suggestion for the corporate:**

- The companies having not disclosed the elements of employees cost should disclose these separately in various tables.
- The companies should disclose the information about the inclusion of variables like amortization of human resources, idle time, lock outs, loyalty of employees, etc.
- As far as practicable, rate of discounting future earnings of employees should be kept constant. Besides, if the change in discount rate is necessary, the valuation of HR should be shown at the revised rate for the last few years to make the HR data compatible, correct and more useful for HR decision.
- The companies should get HRA information audited so that the trustworthiness of HR data can be ensured.
- The companies should calculate turnover per employee every year; if it is high or low, they will find out reasons and try to maintain the optimum level of turnover.
- The companies should disclose few important ratio like utilization ratio of manpower, production per employee, investment per employee, average sales/ employee and average net profit/ employee, etc. so that the proper value and use of HR is calculated.
- Corporate should define their goals, make plans for achieving these goals, execute these plans properly, measure their HR performance and also disclose these performances into the financial statement of the company.
- Top management should also take interest in HR reporting programmes.

### **Suggestion for models:**

- As no single model fulfils all the requirements of a model helping in human resource development process, there is a need for countless deal of investigations which could be of significant help in the development of human resource process.
- The model should define the reasons determining the value of human resource.
- There is a need to identify the various factors and reasons to improve the value of human resource.
- Models should help generating information which could help the management in taking important decisions about human resource development.
- Computation of the worth of human resource should be sound enough. Very often, a model is hypothetically comprehensive but, if necessary information is not accessible, its practicability shall be diminished.

### **FUTURE RESEARCH SCOPE**

HRA being an emerging area in accounting has high potential for further research. The special studies required periodically to calculate cost of turnover, cost-benefit analysis of training and cost of labor etc. must be a joint effort since many valued judgements and assumptions must be made by the data-makers as well as the users. HRA has a promise; it has not yet met the test of usage. Much more comprehensive study is necessary for helping one to identify the areas where the managers can use HRA information for their effective decision-making. Precisely, a literature review of some significance is expected to expose the gaps in literature. Basically from such gaps, further researches are framed. The study is concluded by stating that the empirical import of HRA will be difficult to convincingly established and universally recognized. It has further focused these difficulties and recommends for further investigation from here, in strongly determining beyond enticing theorizations, the empirical importance of HRA.

Although the study has been carried out with scientific approach and painstaking efforts, yet it has few limitations. No work is complete till one stops trying. There is always a room for further improvement with contemporary changes. In the light of this statement, the researcher suggests a few for further research activities to be carried out related to this area like: i)to improve and develop few HRA model easily adoptable in Indian corporate scenario. ii)in future research sample units having more to reflect over all Indian corporate sector.iii)to involve some more upcoming new parameters of disclosure of HRA for present scenario. iv)the study at different sector levels can be conducted in detail for the meaningful conclusion. Along with this, comparative study can also be done. v)since research work is an on-going process, the study instead of blocking, opens the new doors for further enriched, varied and improved versions of the present study in future.

### **CONCLUDING COMMENT**

HRA is a gesture to demonstrate organization's commitment towards its responsibility and sustainability. In a labor abundant country like India, HR value, efficiency and productivity disclosures are not seriously considered and reported due to lack of standardized reporting

practices adversely affecting reliability and, hence, diminishing relevance. Application and usefulness of HRA depend on future efforts, experiments and supports to be made by practicing managers, accountants, academicians, professional bodies and the Governments. Modified versions of HRA to make quantitative presentation in lieu of qualitative aspect may be practical as well as popular. It may lose few ingredients of accounting but may ascribe a new name. Let us hope HRA will focus a new area in accounting and control in near future. Considering the dynamism, it becomes difficult to predict as to what is going to be future requirements and how technology is going to shape in near future. In such a backdrop, HR disclosures made by corporate are unstructured, inconsistent and incomparable across corporate. Accounting bodies should make efforts to integrate their opinions on issue with requirements of decision makers to bring forward a uniformly acceptable norm for the valuation of HR and their reporting. HRA can help knowledge-based sectors achieving their targets successfully. Use of HRA information reported in supplementary statements and not in main financial statements for making investment decisions by investors or otherwise is highly suspicious. There is a need to set up proper system to ensure that HRA information is objective, true and free from bias to make it useful and reliable for decision making. More search into the valuation methods and models, and their practical implication is required together with the engagement of both HR and accounting professionals in the debate on valuation and its implementation in practice. Unless this minimum initiative is taken by the accounting bodies outlining the format, provisions and guidelines, a real push to this additional information can scarcely be expected. HRA is essentially the identification and recognition in specific terms of the human value in organizational productivity. In empirical terms, its importance is contentious. A literature review may not be a comprehensive documentation; it must highlight the essential aspects of the critical developments in the subject matter. It must be authoritative to disclose the shortcomings of earlier studies and must show the strength of the influential types of such studies. A good literature review would plan for future investigations.

## **CONTRIBUTION TO KNOWLEDGE**

The study shows that HRA in a labor abundant country like India, HR value, efficiency and productivity disclosures are not seriously considered and reported due to lack of standardized reporting practices which adversely affect reliability and, hence, diminishes relevance. More research into the valuation models and their practical implication is required together with the engagement of the Government and accounting professionals in the debate on valuation and its implementation in practice for effective decision making. Unless this minimum initiative is adopted by them outlining the format, provisions and guidelines, a real push to this additional information is beyond expectation. The issue of HRA practice in particular has until now not really been paid due attention it deserves which is one of the areas this study has focused .

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