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VALUATION AND REPORTING OF HUMAN RESOURCES IN SELECT INDIAN COMPANIES

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Abstract
Human Resource Accounting (HRA) has been developed in five phases. Firstly, it started in 1960 and continued up to 1966. This was the period when people showed interest in HRA. The second phase covered a period of five years, i.e., 1966 to 1971 when academic interest was developed in HRA. During this period R.G. Barry Corporation started valuing its human resources and giving it in its annual report. During 1971 to 1976 there was a rapid growth of interest in HRA. There was declining interest in HRA among academicians and accountants during the fourth phase, i.e., from 1976 to 1980. The fifth phase of development of HRA started in 1980 and it was the beginning of interest in the theory and practice of HRA. Thus in last fifty years the brain power has established its importance over other intangible and physical assets, which has established the fact that the greatest asset of an organization is its people. Human resources have attributes in different forms other than the physical assets, which make them special and vital. The objective of this study is to assess as to whether companies in India in public and private sector have adopted HRA and whether it has helped them to formulate personnel policies based on human resource value related information.

We can view human resource accounting from the perspective of management accounting. It would help the managers to take decisions on behalf of the company. So, I have proposed to adopt ratio analysis as the tool of management accounting in the area of human resource accounting. This is due to the fact that it is an arithmetical relationship between two accounting variables and ratios assume significance if these variables have cause and effect relationship. It will help the management to recognize the contribution of human resources in the profitability, stability and operational efficiency of the company.

Keywords: Human resource accounting, human resource valuation and ratio analysis and performance evaluation.

1. Introduction
Human resources of an organization are an indispensable and considered valuable resource as compared to tangible and intangible assets. People are obviously vital assets and even technology cannot replace people. Human asset is a tangible form of asset. The various types of human assets are intellectual capital, social capital, emotional capital and spiritual capital. Intellectual capital consists of both the stock of knowledge, skill and expertise that the members of the organization collectively possess at the organization level and at the individual level. From the organization point of view, social capital relate to the structure, quality and flexibility of the human network and other aspects of this capital are relevant of external forces like customer, supplier and government agencies. Emotional capital involves self-confidence, ambition, courage and risk taking ability.

2. Objectives of the study
The main objective of the research endeavour is to carry out a systematic study of various important aspects related to human resource accounting in India with a view to integrate both qualitative as well as quantitative measures and understanding the human resource accounting practices. Specifically, the study seeks to:

i) Expound the theoretical understanding of different approaches to the measurement of human resources.
ii) Document the corporate reporting practices of select Indian companies.

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iii) Assess the attainment of the objectives of human resource valuation practices followed by the Indian organizations in fulfilling the purpose for which they are meant for.
iv) Ascertain the views of practicing accountants, company directors, auditors, members of the professional bodies and managers with regard to the utility of information generated by human resource accounting system.
v) Contribute in evolving a commonly accepted human resource accounting practice in India.
vi) Identify the areas, wherein future developments on the subject can be made.

3. Research Gap & Research Questions

In this present study an attempt is made to identify the Indian companies practicing and reporting human resource accounting and to overview the performance of employees with the help of different accounting ratios. The profitability ratios such as gross profit per employee ratio, net profit per employee ratio, EPS per employee and ROI per employee are selected for the present study. Managerial efficiency ratios which include sales per employee and employee benefit expenses per employee ratios have been selected. Lastly liquidity and solvency ratios have been selected which includes current asset per employee ratio, owned capital per employee ratio, debt capital per employee ratio and non-current asset per employee ratio. These ratios have been selected to show the efficiency of human resources in comparison to the technology used.

4. Generally Accepted Human Resource Accounting Practices in India -A Proposal

Ratios are regarded as measurement of earning capacity, financial soundness and operational efficiency of a business enterprise. The use of ratios in accounting and financial statement analysis helps the users to know the profitability, financial position (liquidity and solvency) and operational efficiency of an enterprise. The financial ratio analysis, in fact, is one of the most powerful tools in the hands of decision makers for assessing the financial strength and weaknesses of the enterprises by establishing relationships between the items of Balance Sheet and the Profit & Loss Account.

5. Rationale for using Ratio Analysis in Human Resource Accounting

The approach to measurement of human resources through human resource accounting has tempted personnel specialists and academics alike. The money spent on recruiting and training of employees was treated as a capital investment to be amortized over several years, since the benefits were presumed to continue over that period. The companies presented the human resource accounting information as an addendum to its regular financial statements in its report to stakeholders. However, the primary use of information is for managerial control and decision- making. Therefore, we can view human resource accounting from the perspective of management accounting. It would help the managers to take decisions on behalf of the company. So, I have proposed to adopt ratio analysis as the tool of management accounting. This is due to the fact that it is an arithmetical relationship between two accounting variables and ratios assume significance if these variables have cause and effect relationship. It will help the management to recognize the contribution of human resources in the profitability, stability and operational efficiency of the company.

6. Different ratios adopted for Human Resource Accounting

In order to examine the financial performance of the companies, the following ratios are taken into consideration. Ten different financial ratios have been taken for assessing the performance of human resources of an organization. These ratios are current assets per employee, non-current asset per employee, sales per employee, employee benefit expenses per employee, gross profit per employee, net profit per employee, owned capital per

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employee, debt capital per employee, ROI per employee and EPS per employee. Gross profit ratio, net profit ratio, ROI and EPS ratios show the profitability of the enterprise. So these ratios are known as “Profitability Ratios”. Sales ratio and employee benefit expenses ratio show the managerial efficiency of the business. So it is known as “Managerial Efficiency Ratio”. Current Ratio shows the ability of the enterprise to meet its short term financial commitments. It is also known as the Liquidity Ratio. Owned capital, debt capital, and non-current ratio show long-term financial position of the enterprise. It is known as “Solvency Ratio”.

7. Findings and Interpretation of the Data Based on the Proposed Accounting Practice
Accounting Interpretation

Accounting interpretations are basically based on the directives and pronouncements issued by accounting standards groups, such as the Financial Accounting Standard Board (FASB), American Institute of CPAs (AICPA) or International Accounting Standard Boards (IASB). Calculation of ratios is comparatively simple, routine and clerical in nature but interpretation of ratios is highly sophisticated phenomenon. According to John Bajkowski, “Ratios are one of the most popular financial analysis tools. A ratio expresses a mathematical relationship between two items. To be useful comparisons, however the two values must be related in some way. As with all ratios, a comparison with other firms in similar industries is useful and a comparison of these ratios for the same firm from period to period is important in pin-pointing trends and changes. It is also important to keep in mind that these ratios are interrelated and should be examined together rather than independently. Operating performance ratios are usually grouped into asset management ratios and profitability ratios. Asset management ratios examine how well the firm’s assets are being used and managed, while profitability ratios summarize earnings performance relative to sales or investment. Both of these categories attempt to measure management’s abilities and the company’s accomplishments.”

The findings and interpretation of different ratios computed are given as under:

a) Profitability Ratios:

1. Gross Profit per Employee

Gross profit ratio is a profitability ratio. From the analysis of ratio, it has been observed that ITC has the highest gross profit per employee. It means that the management is quite capable of using their human resources effectively to create profit for the company. Tata Steel Limited has the second highest gross profit per employee among the ten selected Indian companies. Sun Pharma has the lowest gross profit per employee which is followed by SAIL and Birla Corporation Ltd. The ratio of gross profit per employee of the selected ten companies taken together is 0.133, which is less than 20%. So the performance of the employees should be improved to increase the profitability of the company. The companies need to provide more training for the development to their employees so that they can work more efficiently and can add more profit for the company. There is no set standard of this ratio. What is involved here is a comparative study among the performance of the selected companies.

2. Net profit per employee

Net profit ratio is also a profitability ratio. From the analysis of ratio, it has been observed that ITC has the highest net profit per employee which is followed by Tata Steel Ltd. and Dabur India Ltd. It is the management’s ability to use their human resources effectively to generate profit for the company. Sun Pharma has the lowest net profit per employee which is followed by Birla Corporation Ltd. It indicates the inefficiency of the management to optimize their human resources. The ratio of net profit per employee of the ten selected companies taken together is 0.09 which is less than 10%. The companies need to provide more training for the development of their employees and also the proper utilization of the employees so that more profit can be generated for the company. If the performance of the employees of the organization improves, it would help to minimize cost and maximize profit of the organization. There is no set standard of this ratio. Here it involves a comparative study among the performance of the selected companies.

3. Earnings per share per employee

From the analysis of this ratio, it could be seen that Deccan Cements has the highest EPS per employee which is followed by Birla Corporation Limited. It means that the companies had effectively used their employees to generate more EPS. SAIL followed by TCS show the low EPS per employee. The ratio of EPS per employee of ten selected companies taken together is 0.006, which is less than 10%. Hence it is the duty to the management of the organization to motivate their workers to give their best to the organization. We know that the earnings per share ratio measure the amount of a company's net income that is theoretically available for payment to the holders of its common stock. If the trend is positive, then the company is either generating an increasing amount of earning or buys back its stock. There is no set standard of this ratio. What is involved is a comparative study among the performance of the selected companies.

4. Return on Investment per Employee

Return on investment serves as an indicator of a company's profitability. In the present study, it has been observed that Deccan Cements has the highest ROI per employee which is followed by Dabur India, Birla Corporation Ltd. and ITC. It means that the companies had effectively used their human resources to generate high return on investment. SAIL, TCS and Infosys show the lowest ROI per employee and it is followed by Sun Pharma, BHEL and Tata Steel Ltd. which means that the management is not able to create more ROI per employee in these organizations. The ratio of ROI per employee of ten selected companies taken together is 0.03 which is less than 5%. Hence it is the duty of the management to maintain a standard of employees and motivate their workers to give their best to the organization. There is no set standard of this ratio. There is a comparative study among the performance of the selected companies.

b) Managerial Efficiency Ratios

1. Net Sales per Employee

From the analysis of this ratio, it has been observed that Deccan Cements has the highest net sales per employee which is followed by the ITC, Tata Steel Ltd. and Dabur India Ltd. The companies had effectively utilized their employees to create more turnovers (net sales). TCS is followed by Birla Corporation Ltd. and Infosys shows the lowest efficiency ratio. The ratio of net sale per employee of the selected ten companies is 0.631 on an average which is more than 60%. It indicates higher net sales per employee. It means the employees are effectively employed in the organization for the purpose of effecting sales. There is no set standard of this ratio. What is involved here is a comparative study among the performance of the selected companies.

2. Employee Benefit Expenses per Employee

From the ratio analysis, it has been observed that employee benefit expenses per employee show comparatively equal in all the companies which mean that all the companies are more or less paying equal to the employee. Infosys has the highest employee benefit expenses per employee which means that Infosys is paying comparatively higher benefit to their employees. Birla Corporation Ltd, Sun Pharma and Deccan Cements and Dabur show the lowest employee benefit expenses per employee. The ratio of employee benefit expenses per employee of selected ten companies is 0.069 on an average, which is less than 10%. The companies need to provide more salaries and other benefits to the employees for their motivation. There is no set standard of this ratio. What is involved is a comparative study among the performance of the selected companies.

C) Liquidity & Solvency Ratios

1. Current Assets per Employee

From the ratio analysis it has been observed that BHEL has the highest current asset per employee which is followed by ITC and Deccan Cements. It means that current assets (i.e. current investment, inventories, trade receivables and cash & cash equivalents) are effectively deployed in the company. TCS has the lowest current asset per employee which is followed by SAIL, Birla Corporation and Infosys. The ratio of current asset per employee of selected ten companies taken together is 0.35. It means that the companies are able to deploy the current assets effectively and the companies should take appropriate steps regarding deployment of current assets. There is no set standard of the ratio. What is involved is a comparative study among the performance of the selected companies.

2. Owned Capital per Employee

Owned capital means share capital (both equity and preference) plus reserves and surplus. In the present study it has been observed that Tata Steel Ltd. has the highest owned capital per employee which is followed by ITC and Sun Pharma. It shows the effective deployment of proprietor's funds i.e. share capital, reserves and surplus. TCS has the lowest owned capital per employee which is followed by Birla Corporation Ltd. and Infosys. The ratio of owned capital per employee of selected ten companies is 0.533 on an average, which is approximately 53%. It indicates that the companies are able to utilise the own capital effectively. There is no set standard of the ratio. What is involved is a comparative study among the performance of the selected companies.

3. Debt Capital per Employee

Debt capital per employee ratio expresses relationship between borrowing (debts) and the number of employees. A high ratio indicates a risky financial position while lower ratio indicates safe and steady financial position. Low debt to employee means use of more equity than debt which in turn means higher safety margin for lenders and creditors. From the analysis of this ratio, it has been seen that Tata Steel Ltd. has the highest debt capital per employee and Infosys has a lowest debt capital per employee which is followed by TCS. The ratio of debt capital per employee of selected ten companies is 0.20, i. e., 20%. Debt capital is often used as it is usually cheaper than financing through equity and can add diversity to funding. There is no set standard of the ratio. What is involved is a comparative study among the performance of the selected companies.

4. Non-Current Assets per Employee

Non-current asset means fixed assets and other non-current investments. From the ratio analysis it has been observed that Tata Steel Ltd. has the highest non-current asset per employee followed by Deccan Cements. This shows that the business assets were deployed effectively by the company. TCS and Infosys have the lowest non-current asset per employee which is followed by Dabur India Ltd. The ratio of non-current asset per employee of selected ten companies on an average is 0.627 which is approximately 63%. It means that the companies are able to deploy the non-current assets effectively. There is no set standard of the ratio. It is a comparative study among the performance of the selected companies.

8. Conclusion

We should consider human resource as a separate issue. In fact, we can consider human resource accounting as a part of management accounting which helps the top management to take decisions regarding the adequacy of human resources. For instance, we may want to know the relative importance of human resources and physical and monetary assets in the organization. A number of ratios have been devised to critically analysis the performance of the people of the organization in terms of its identified goals of creating a profitable organization. Therefore I can select some financial ratios as a tool to management accounting to analyse the relationship of human resources to other variables of an organization and it may force today's manager to think of managing talent of human resources in tune with current technological advancement to reach higher level and it will also help to start a new era in accounting in near future.

The study cannot claim to be a full proof one. It is a humble attempt based on the facts, figures and analysis to find out whether it is possible to provide additional information to measure and report how far the goal of the selected Indian companies is achieved.

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