An Analysis of Human Resource Accounting and Reporting Procedures in A Subset of Public and Private Sector Organizations

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Abstract

To analysis of human resource accounting and reporting procedures in a subset of public and private sector organizations. Human Resource Accounting (HRA) and reporting procedures play a pivotal role in both public and private sector organizations, serving as strategic mechanisms to quantify, manage, and optimize the value of human capital. In today's dynamic and competitive business landscape, organizations recognize that their most valuable asset lies in the skills, knowledge, and capabilities of their workforce. Consequently, there is a growing imperative to adopt robust HRA practices that not only facilitate informed decision-making but also enhance transparency, accountability, and stakeholder trust. The information for this study comes from scholarly journals, popular media, and the thoughts of writers working in the same area. For the same reason, people also use reference books, journals, and the Internet. the convergence of diverse methodologies and models in HRA underscores its significance as a tool for quantifying, managing, and optimizing the value of human capital. Whether in the public or private sector, HRA serves as a vital instrument for enhancing organizational effectiveness, transparency, and accountability in the management of human resources.

Keywords: HRA, Private Sector, Public Sector, Reporting Procedures.

Introduction

A company's people resources are its most valuable asset, regardless of the amount of capital, commodities, or machinery at its disposal. All the other parts of a company, such M' and P', are connected to its existence by this line. Human resources accounting is the process by which a company determines the value of its employees and the costs connected with their services. Human resource management is creating a list of all the costs associated with recruiting, developing, training, and selecting employees, and then sharing that list with the appropriate people.

Neither our conventional nor our traditional methods of accounting contain any record of human capital. Expenses related to labor, wages, and director fees are reported in the profit and loss account, whilst other assets are shown as head capital, fixed assets, or current assets on the balance sheet. Having said that, there is no mention of human capital in the finances. So, for the first time, Sir William Petty (1623–1687) sought to put a price on a human being. Rensis Likert, who initially coined the term "human asset," studied human capital in the 1960s, and accountants subsequently came to recognize its significance. Social scientists persisted in studying this subject, and eventually came up with the concept of human resource accounting.

Human resource accounting, a relatively new branch of accounting, tracks financial transactions pertaining to an organization's employees. Payroll accounting is the process by which a business calculates the costs associated with employing, developing, and compensating its employees, as well as the value those employees add to the bottom line. The value and cost of an organization's workforce may be measured to help with decisions on the acquisition, allocation, and development of human resources. Thus, HR accounting serves as an information system for management by providing them with data pertaining to the organization's human resources.

Both professionals and academics have contributed definitions of human resource accounting. To name only a handful, here they are:

As stated by the American Accounting Association in 1973, "the measurement and reporting of the cost and value of people as organizational resource" is what social resource accounting is all about. It comprises thinking about how much it will cost to replace the invested-in staff and how much money each employee is worth to the business.**(Committee, 1973)**

Geofrey M.N. Baker claims that accountants use the term "human resource accounting" to describe how they calculate the value of employees to their employers.

"Human resource accounting is an attempt made to identify and report the investment made in an organization's human resources that are currently not accounted for under conventional accounting practices," says Woodruff. "Human resource accounting is essentially an information system that notifies management of changes to the company's human resources over time." The term is best used in context, rather than as an isolated tool or gimmick, to highlight the importance of HR in overall management strategy.

According to Flamholtz (1985), human resource accounting is the process by which businesses keep track of the money they spend on people throughout the whole HR lifecycle, including recruitment, selection, hiring, training, and development. In this context, stakeholders include suppliers, investors, consumers, and the government.

Accounting for human resources implies, according to Flamholtz (2002), viewing employees as assets of the organization. In reality, HR accounting is an effort to monitor and document labor investments that are expected to provide long-term benefits for the firm.

"Human Resource Accounting primarily addresses:" says it all.

- Data collection and organizing concerning a company's employees.
- data assessment and cost estimation.
- notifying anyone who might be interested in this data.**(Reeta, 2017)**

Human resource accounting (HRA) has had many growth spurts while being a relatively new field. Faculty member R. Lee Brummett, William C. Pyle, Eric Flamholtz, and the late organizational psychologist Rensis Likert—who was known for his work on management styles and theory—and who founded the university's Institute for Social Research—were all members of the research team at the University of Michigan that contributed to the HRA's early stages of development (Likert, 1961, 1967). A number of research projects were conducted by the team with the goal of developing ideas and methods for human resource accounting.

It was Sir William Petty who first tried to put a monetary value on a human being (1623-1687). A person, in his view, was just a piece of wealth. Human resource accounting, however, developed out of the work of Renis Likert, who popularized the term "human asset" in his writings. Academics repurposed the word "human" to replace it. Among the earliest works on HR evaluation, the term "Human Resource Accounting" was first used in a publication by Brummett, Flamholtz, and Pyle (1968a).

There was an initial phase of HRA development that began in 1971 and ended in 1977, as reported by Flamholtz, Bullen, and Hua. Interest in the subject soared at this time, leading to a deluge of academic research on the subject in Western countries as well as Australia and Japan. There were persistent attempts to incorporate it into business groups. Within this time span, from 1971 to 1972 and from 1972 to 1973, the American Accounting Association (1973) established human resources accounting committees. Throughout that period, these committees served as sources of inspiration and reported on HRA's development.**(Kashyap, 2021)**

All daily transactions in the corporate world of today must be recorded. There is a 100% possibility that we will miss out on opportunities or fall behind the competition if we do not keep track of and document our transactions. Therefore, it is necessary to keep a systematic record of all transactions, which is known in the business world as a "report."

The art of reporting involves keeping an organized record of all company transactions and disseminating the information to all relevant parties, including customers, investors, management, law enforcement, and the broader public. Put another way, it may be described as a methodical process of giving information to all parties involved so they can make decisions that support restorative action and strategic planning.

A business must provide yearly reports detailing all of the actions it has engaged in during the course of its operations. These reports are periodic summaries that show a company's status at a certain time. Depending on what the management and stakeholders demand, the firms create several kinds of reports. Certain reports are released on a weekly, quarterly, or annual basis based on the needs. The several types of reports that the organizations provide are crucial.

- **Financial Reports-** Each year, shareholders and other interested parties get annual reports, which are also posted on the business website.It summarizes the last year's achievements, financial performance, and goals for the next year. The document continues by discussing the goals and strategies that the company has devised. Not only can financial experts inside the company utilize it, but so can customers, investors, and the broader public.
- **Human Resource Reports-** The human resource report details the company's personnel. Employee information, payroll details, leave data, recruiting and training expenses, retirement benefits, employee welfare fund contributions, total employee cost and value, and more are all part of it.
- **Corporate Governance Reports-** A corporate governance report details the policies, procedures, and guidelines that govern the administration of a business. The document details the company's operations, ownership structure, internal management techniques and practices, corporate bodies, and more.
- **Sustainability Reports-** An organization's sustainability report serves as a forum for discussing ESG (environmental, social, and governance) concerns. Stakeholders are extremely concerned about this report as it represents the heart of corporations. The Global Reporting Initiative's (GRI) criteria and principles were followed in the preparation of this report. Consumer confidence and the company's reputation are both boosted by these reports.
- **Engineering,R&D Reports-** A research and development report is created when a business want to introduce a new product into the market, establish industry standards, and successfully compete with its rivals. R&D reports include details on the new initiatives that the company hopes to undertake. This study also discusses many experiments and their outcomes.**(Tripathi & Sejpa, 2019)**

Objective

- To study the Human Resource Accounting Practices..
- To study the Human resource accounting reporting practices in public sector companies.
- To study the Human resource accounting reporting practices in private sector companies.

Methodology

There is a descriptive approach involved in this study, which falls under the umbrella of "Analytical Research." Using information and statistics collected from a wide range of secondary sources, this study examines the human resource accounting and reporting procedures in a subset of public and private sector organizations. The information for this study comes from scholarly journals, popular media, and the thoughts of writers working in the same area. For the same reason, people also use reference books, journals, and the Internet.

Methods of Human Resource Accounting

To calculate the worth of human resources, it was necessary to use a number of assessments and methods. Human resource evaluation approaches may be broadly classified into two types: value-based and cost-based. Several cost-based models are Standard Cost, Opportunity, Replacement, and Historical Cost Models, as well as Value-Based Models. includes the models created by Flamholtz, Lev and Schwartz, Jaggi and Lau, Gills and Robinson, Morse, Ogan, and Chakraborty. Dasgupta, Watson, Dave, and Maheshwari models here.

Cost-Based Model

A company's investment in its employees may be measured using these five metrics: acquisition, formal and informal training and familiarization, experience, development, and recruiting. Additional methods' categories are a part of this primary categorization.

Historical Cost Model

This method of HR management was first suggested in 1967 by William C. Pyle and colleagues. Capitalizing employee aid expenses and then writing them down over the expected life of the human resources is the method used in this approach. With this method, we can go beyond than just matching revenue and expenditure.

$$\mathbf{HRV = AC - L + R}$$

Replacement Cost Method

This method was developed in 1973 by Rensis Likert and Eric G. Flamholtz. Human resource appraisal was centered on current costs according to the approach. Based on an assessment of the cost to replace the current workforce with new employees who possess equal skill and knowledge, this technique determines the worth of an organization's human resources.

Opportunity Cost Method

This is the HRA model that Hekimian and Jones put out. Taking into consideration an employee's worth for non-work-related objectives multiplies the value of a human resource. By using this route, we may link the two concepts of "scarcity and choice." The potential cost of a person or group of employees is calculated using the proposals made for them by other departments.

Standard Cost Method

This paradigm has been suggested by David Watson. The method uses yearly-set standard costs instead of replacement or historical expenses; these costs are associated with recruiting, training, and development for all employee grades **(K S, 2022).**

Value-Based Models

This approach connects human resource management with the monetary component and the potential savings that may be achieved via its use.

The Lev and Schwartz Model Present Value of Future

Lev Branch and Schwartz Aba released the model in 1971. There is a lot of age and class homogeneity in the organization's workforce, so the authors reasoned that "the valuation of human capital embodies in a person of age X is the Present Value of his remaining earnings from employment" for each employee. Let me give you the formula:

$$\mathbf{VX = \sum \{1(T) \div 1+R\}\ 1\text{-}X}$$

Flamholtz Stochastic Rewards Valuation Model

In 1971, the idea was initially put out by Eric Flamholtz. Employees contribute to a company's bottom line by taking on and successfully completing a wide range of tasks and duties, as outlined in this strategy. To figure out how much an employee is worth to the company, the model suggests these five steps:

- The staff was under the impression that he would be employed indefinitely.
- Level of service provided by an employee.
- The probability that he will maintain a specific role consistently.
- What the odds are of being in each mutually exclusive service condition at a specific future time?
- Diminishing the expected service benefits relative to his present value.

Giles and Robinson's Human Assets Multiplier Model

Human resources should be valued using the same criteria as financial and physical assets according to the proposal of Giles and Robinson (1972), who advocated using the going concern technique. After classifying the workers into different groups and assigning values to each grade, the total value will be recorded.

Morse's Net Benefit Model

In 1973, Morse initially proposed this idea of net benefit. One way to calculate HR's value is to look at the present value of all the money the company will make from its employees' efforts. The following are the four steps to take.

- The gross value of future services provided.
- planning for future payments, whether they be direct or indirect.
- Discordance between available human resources and the projected value of future payments.
- The present value of the net benefits is derived by applying a preset discount rate.

Jaggi and Lau Human Resource Valuation

In 1974, Jaggi and Lau put forth the strategy, which centered on the idea of collective valuation of human resources instead of individual valuation. Workers in a group typically wear company uniforms and may or may not all report to the same department or division. We assess each team member based on the potential responsibilities they will have when employed by the organization.

$$\mathbf{TV = (N)r''\ (T)''\ (V)}$$

Organ's Discounted Certainly Equivalent Net Benefit Model

In 1976, Pekin Ogan put out the method, which is an extension of Morse's net benefit model. Think about how sure you are about the future net benefits when you figure out how much human resources are worth.

Chakraborty's Aggregate Payment Approach

In 1976, S K Chakraborty was the first Indian to provide a way to calculate the value of a company's human resources. According to this model, rather of evaluating workers individually, teams should be in charge of determining how valuable human resources are. Here is the process for calculating:

- Management and nonmanagement staff are the two main divisions within the HR department.
- The average length of labor is determined by experience.
- To determine the group's average remuneration, the corporation uses its chosen pay and wage

structure.

- Human resource value is the sum of that group's average compensation and average employee tenure.

Dasgupta's Total Cost Concept Model

The number of working and unemployed people in a country should be used to determine its human resource worth, according to N. Dasgupta (1978). Furthermore, he advocated that the total cost of bringing an employee up to their current level should be considered when calculating their worth, which should be done on the first day of employment. The value of his new tasks, however, tends to increase as he gets experience. Criticisms of individuals or organizations are prevalent.

Dave's Modified Present Value Model

Since these five factors frequently influence workers' contributions to the company and, consequently, the projected worth of human resources, they are included in Shivkumar Dave's (1987) indicators of effect. Production per employee, efficiency, labor turnover, labor discontent, and experience are the five factors that often impact firm personnel.

Maheswari, Rana And Krishnamoorthy Differential Matrix Utility Model (2002-2003)

Maheshwari, Rana, and Krishnamoorthy presented the model. The basic information for this model will come from the job title or the duties of that position. Analyze each position's critical responsibilities in light of how they impact the bottom line, productivity, market share, etc. Make a differential matrix according to those specifications for every individual. The differential matrix is constructed using a 1:1 ratio for a replacement candidate that is equally effective **(Hiremath, 2021).**

Human resource accounting reporting practices in public sector.

Human Resource Accounting (HRA) serves as a strategic tool in the public sector, allowing organizations to quantify and manage the value of their human capital effectively. Here's an expanded look at the key aspects of HRA practices in the public sector:

- **Identification and Measurement:** HRA endeavors to meticulously identify and measure the economic worth of employees within public sector organizations. This encompasses not only the direct costs associated with recruitment, training, and development but also the indirect costs related to employee turnover, absenteeism, and lost productivity. By comprehensively assessing these investments in the workforce, public sector entities can gain insights into the true value of their human capital and make informed decisions about resource allocation.
- **Reporting:** HRA procedures revolve around reporting, which shows stakeholders the value of human resources. HRA helps public sector firms disclose how HR efforts affect performance. This may involve measuring training program ROI, recruiting strategy efficacy, or HR policy productivity. Strong reporting processes help governments improve accountability, stakeholder confidence, and human capital strategic value.
- **Decision Making:** HRA furnishes decision-makers in the public sector with valuable data and insights to guide human resource management practices. By analyzing HRA metrics, such as the cost per hire, training effectiveness, or employee turnover rates, organizations can make evidence-based decisions regarding recruitment, training, promotions, and other HR activities. This data-driven approach empowers public sector leaders to optimize resource allocation, mitigate risks, and align HR strategies with organizational goals, ultimately driving performance and efficiency**. (Singh & Gulati, 2021)**
- **Cost-Benefit Analysis:** Cost-benefit studies are a key use of HRA in government. Organizations may make smart HR acquisition, allocation, development, and maintenance choices by comparing HR

intervention costs against benefits. This allows public sector institutions to choose expenditures that maximize personnel productivity, organizational performance, and public service delivery. Systematic cost-benefit analysis helps governments optimize HR spending and boost employee value.

- **Disclosure Practices:** Public sector entities recognize the importance of transparency and accountability in disclosing HRA information. By voluntarily disclosing relevant HRA data, such as the value of human capital assets, workforce composition, and HR performance metrics, organizations demonstrate their commitment to responsible governance and stakeholder engagement. Moreover, disclosing HRA information allows public sector entities to highlight the strategic significance of their human capital in achieving organizational objectives and fulfilling their mandate to serve the public interest.
- **Models and Approaches:** Public sector organizations adopt various models and approaches to HRA, tailoring their methodologies to suit their unique needs and operating context. These models may include historical cost-based approaches, replacement cost methods, or present value techniques for valuing human capital assets. Additionally, organizations may employ quantitative metrics, qualitative assessments, or a combination of both to capture the multidimensional nature of human capital. By selecting appropriate models and approaches, public sector entities can enhance the accuracy and reliability of their HRA practices, thereby facilitating more informed decision-making and resource allocation **(Mazidbhai & Vohra, 2015)**.

The Human resource accounting reporting practices in private sector companies.

Private sector HRA reporting methodologies are essential for analyzing human resource worth and relevance. Private companies realize that in the knowledge-based economy, personnel are vital to short- and long-term success **(Meena, 2021).** To use this unique asset, private companies utilize HRA policies adapted to their requirements and goals. We examine the following fundamental mechanisms that affect corporate HRA reporting:

- **Valuation of Human Resources:** Human resources are valued in the business sector using many approaches. The cost method provides an impartial assessment of talent development budgets by measuring recruitment, training, and development costs. However, the economic value method considers market competitiveness, productivity, and innovation to estimate future human resource profits. These valuation methods assist private companies allocate resources and make strategic decisions by valuing their workers' tangible and intangible labor.
- **Disclosure in Financial Statements:** While most private companies do not list human resources as an asset on their balance sheets, some do so in their annual reports and financial statements. The staff is a key component of shareholder value and organizational performance, and this disclosure aims to highlight that fact. Openly disclosing HRA data allows companies to demonstrate their dedication to responsible governance and value growth. It also helps stakeholders understand the strategic relevance of human capital.
- **Cost-Benefit Analysis:** The HRA is crucial for assisting with cost-benefit analyses that direct decision-making in various HR-related activities. When assessing the results of talent retention strategies, the ROI of recruitment campaigns, or the usefulness of training programs, private sector organizations depend on HRA data to determine how efficient and effective their human resource practices are. Organizations may align their HR strategy with overall business goals and choose investments with the highest return on investment by doing thorough cost-benefit analyses of HR projects.
- **Decision-Making Support:** HRA processes provide invaluable insights and data to support strategic decision-making in key areas such as people management, organizational growth, and performance improvement. A high-performance culture that drives organizational success can be fostered, talent deficiencies can be identified, and staff deployment can be optimized with the help of HRA measures

and analysis. Businesses may increase their agility and resilience in a fast-paced corporate environment by using HRA data to predict labor requirements, mitigate risks, and capture new possibilities **(Singh & Gulati, 2021)**.

- **Comparative Analysis:** Several studies have compared HRA procedures in the public and private sectors, drawing attention to differences in reporting standards, measurement tools, and evaluation methodologies. When it comes to human resource management and disclosure, these comparative studies shed light on the unique opportunities and challenges faced by private sector organizations. By comparing themselves to industry peers and best practices, private sector companies may identify development areas and use measures to improve the efficiency and openness of their HRA operations.
- **Regulatory Environment:** The private sector's HRA procedures are greatly affected by the legislative landscape, and reporting requirements vary between nations. There may be rules or regulations that govern the reporting of human capital metrics in some countries, but not others. Some countries may not have clear legislation that require the inclusion of HRA data in financial statements or annual reports. Following applicable accounting standards, regulatory frameworks, and industry guidelines helps private sector companies navigate this regulatory landscape and stay in compliance. They are also on the lookout for measures to make HR administration more transparent and open **(Patnaik, 2021).**

Conclusion

Human resource accounting values human capital in organizations using many models. Cost-Based and Value-Based Models help firms establish frameworks that fit their needs.

A company's human investment may be quantified using cost-based models including Standard Cost, Opportunity Cost, Historical Cost, and Replacement Cost. These models consider recruiting, training, and development. These models show organizations how much it has cost to value their human resources over time, which aids budgeting and resource allocation. Unlike Giles and Robinson's Model, the Flamholtz Model, the Lev and Schwartz Model, and other Value-Based Models emphasize HRM and financial results. These models use future earnings, service incentives, and net benefit analysis when valuing human capital. Value-Based Models combine financial metrics with HR practices to estimate HR investment ROI.

HRA helps public sector decision-making by strategically valuing human resources. Public sector organizations may maximize HR budget ROI by employing identification, measurement, reporting, cost-benefit analysis, transparency, and other measures. HRA reporting methods are crucial for HR value assessment and strategic decision-making in company. Private companies use HRA methods for valuation, transparency, cost-benefit assessments, comparative analysis, decision-making, and regulatory compliance.

The convergence of numerous HRA methodologies and models shows its usefulness for monitoring, regulating, and optimizing human capital. HR audits (HRAs) help public and private businesses improve HR management efficiency, transparency, and accountability.

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