

The Use of Human Resource Accounting Information in Decision-Making

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إستخدام معلومات محاسبة الموارد البشرية في إتخاذ القرار

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Abstract:-

The human resource of an organization is indispensable and considered as a more valuable resource as compared with other tangible and intangible assets. People are obviously a vital asset, and even technology does not replace the people, in the business enterprise, loyal personnel may be a much more important asset than a stock of merchandise. The process of attaching the monetary value to human resource and its reporting as an asset in the financial statements of companies is referred to as Human Resource Accounting (HRA). It is obvious that absence of human resource as an asset on the balance sheet contravene the accrual principles of the disclosure, underestimate the firm's net worth and current income and thereby it does not reflect the true and fair value of the organization. Companies use accounting to communicate to all stakeholders about their operating performance and position at a particular time.

Key word: Human resources accounting, decision making, organization.

المخلص:-

إن الموارد البشرية لأي منظمة لا غنى عنها وتعتبر مورداً أكثر قيمة مقارنة بالأصول الملموسة وغير الملموسة الأخرى. ومن الواضح أن الأشخاص هم أصل حيوي، وحتى التكنولوجيا لا تحل محل الأشخاص، ففي المؤسسة التجارية، قد يكون الموظفون المخلصون أصلاً أكثر أهمية من مخزون البضائع. يشار إلى عملية ربط القيمة النقدية للموارد البشرية والإبلاغ عنها كأصل في البيانات المالية للشركات باسم محاسبة الموارد البشرية (HRA) ومن الواضح أن غياب الموارد البشرية كأصل في الميزانية العمومية يتعارض مع مبادئ الاستحقاق للإفصاح، ويقلل من قيمة الشركة الصافية والدخل الحالي وبالتالي لا يعكس القيمة الحقيقية والعادلة للمنظمة. تستخدم الشركات المحاسبة للتواصل مع جميع أصحاب المصلحة حول أدائها التشغيلي وموقفها في وقت معين.

الكلمات المفتاحية: محاسبة الموارد البشرية، اتخاذ القرار، المنظمة.

INTRODUCTION:-

Human capital defined as the source of income embodied in the individual employee (Lev& Schwartz 1971). The stock of human capital in the total capital of a company is its employees, and most accountants believe that the human capital of the company if it is not above the capital of the company, surely it can be a part of it.

LITERATURE REVIEW

Flamholtz, Bullen and Hua (2003, p. 22) acknowledge, "There ought to be no doubt that they [human resources] are indeed economic resources and a form of capital – human capital".

While writers like Lev and Schwartz (1971) and FlamHoltz et al. (2002;2003) have proposed a method for valuing human capital, to enable them like other forms of capital to be included in the financial statements. But it is fair to say that it is limited in practice and acceptance. In the editors, Introduction to the launch of the Journal of Human Capital, Ehrlich and Murphy (2007, p. 1), review how human capital theory more than four decades become into one of the most important accepted concepts in economics and other social sciences, especially as the driving force in the new information economy.

The case of Infosys shows us clearly the advantage and disadvantage of this model. However, in other knowledge based sectors where human resources are considered to be the key elements for monitoring the business activities to attend their goals successfully, may not be overlooked this side. Therefore, according to the importance of HRA, the government must take a proper work with the help of other professionals and national and international accounting bodies for the assessment and reporting of such valuable assets. (Malavika, May 2012)2.

Most large organizations have the financial and physical resources, but unfortunately due to lack of proper and effective use of them cannot reach the goals of the organization. For this purpose, proper maintenance of information is essential about human resources. Financial statements are an essential source of information about the performance and status of the organization's resources. The most important reason that financial statement's results are incorrect and unfair is that the traditional accounting

system only provides information on financial and physical resources and do not have the human elements of an organization. Numerous studies have proven the importance of disclosure of human resources. (Akinwunmi, Abiodun Jelil, 2014)3.

While there is the possibility of human resources as part of the company's capital, the number of accountants has reached agreements on reporting the HR and how doing it. It is not surprising that financial reporting is traditionally based on three principles: reliability, proven verifiability and objectivity. In general discussion concentrated about whether human capital can be classified as an asset or how the evaluation should be?

Training programs, work experience and accumulated knowledge, improve human capital. Individuals use their human capital to obtain employment and advance in their job.

In general, individuals can make decisions about, how, when and where uses their human capital. And socializing costs for employers while profit is privatized. These features distinguish human capital from non-human capital and fixed assets.

A related concept, intellectual capital, has been defined as “the sum of human capital and Intellectual property”, (Flamholtz et al. 2003, p.21). Recently, Flamholtz (2005) has identified organizational elements and groups, what he refers to as “human capital third kind”, suggests that organizational culture can be defined as human capital. Flam Holtz couches corporate culture in economic terms which is referring to the economic value of individuals, groups and human organization. This concept can be similar to the concept of social capital, that social science researchers have considered it part of the intellectual capital. For example, relational or social capital is defined by Nahapiet and Ghoshal as: “The sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit” (1998, p. 243).

Human Resources Reporting stimulates the discuss about aspects related to the measure and value of the firm's workforce as well as measurement and depreciation of investment in human resources (Lev & Schwartz 1971).The goal is to find a reliable way to tell us how, the management of human resources development

increase profit through activities such as management development programs.

The real issue or in other words the challenge is to determine the best method for measuring the value of a company's human resources. The concept of human resources increased to the management trend in ways such as Balanced Scorecard and triple bottom line reporting (Johanson & Larsen 2000). While such progress is welcome, but some accountants acknowledge that, the accounting does not enough answers to changing the business environment. For example, Flamholtz et al. (2002, p. 951) have mentioned that organizations today need a system that continues to assess the abilities, talents and the behavioral characteristics of employees and also a system which get the knowledge to work and enable it to remain in the organization for future growth and sustainable competitive advantages.

The truth is that the measurement of human resources is problematic. As the Sveiby (1997) points out, initial efforts to convert people, their competencies and capabilities in financial terms, although remarkable, but does not prove its usefulness to managers. While accounting necessarily included measurement of traditional accounting systems and procedures that confirm objectivity and accountability in financial reporting, due to the difficulties in the way of measuring human resources are not ready and equipped.

Flamholtz et al. (2002) point out that the measure in fact carrying the message that people are an organization's most valuable resource and as such they should be treated. Although the act of measuring, develop and refine our understanding of the role and dynamics of human capital, which plays on special occasions, but as the Flamholtz et al. (2002) says, the question whether the costs and benefits are tangible or intangible should be reply impartial.

It is evident that the main purpose of accurate and objective measurement techniques is to improve decision-making. Flamholtz et al. (2002) believe that this can be done through the measurement process by which possess HRA information. In addition, many of the human resource management decisions in the absence of such information may have different results.

(Kluger& DeNisi, 1996) mentioned that, However, there is evidence that measure the performance of an employee may have negative consequences on the thing have been measured like (low mood, impress Solidarity team).

Zaunbrecher (1974) in the study as the impact of HRA of the Staff selection decisions has been clear that when we consider human resource accounting information, it affects on decision even if it is in conflict with traditional information.

To understand the Human resource experts, a financial value chain which is including money, human and technological input and through the organizational process leads to a strategic outcome is essential (Mayo2005). So for accountants and managers to measure and understand the stages of the value chain will be very useful. The more they try to understand the gaps become more in traditional accounting. It's inability to link cause and effect and to take account of the tangible and intangible assets in the value chain process (Mayo 2005, p. 32).

“It is clear that, the price of a share is dependent on the quality of intangible assets (which will make the future) than on the history of the profit” (Mayo 2005, p. 32).

Efforts have been made to consider the role of human resources in the accounting system through human resource assessment. The importance of the relationship between accounting and human resources mentioned by Flamholtz et al. (2002, p. 947) “... if HRA can demonstrate that improvement in human resources management enhances profits, then management will integrate human capital implications in their decision making to an enhanced degree”.

From the definition provided by (AAA) this concept comes out that HRA is a tool for reporting employees as organizational resources which can be used in both financial and managerial accounting system. The aim is to quantify the economic value of people (Flamholtz 1999)

Flamholtz et al. (2002) suggests the three primary roles of HRA as :

1. Provide reasonable information on the cost and the value of human resources.

2. Providing a framework to guide the decisions of human resources.
3. Motivate the decision makers to take a notice in human resources.

Toulson and Dewe (2004, p. 87) point out that the tension between human resource accounting in financial terms and the importance of building a new concept for the measure as a management decision-making tool, reflects the risk " discussion of the past rather than future prospects".

Generally, accepted accounting principle (GAAP) in the measurement to facilitate comparison rests based on objectivity, reliability and proven accountability. Human asset's nature clear reporting is difficult as the company does not own them and only lease them for a limited and specified period of time and this present a conceptual problem.

STATEMENT OF THE PROBLEM

The human resource includes a valuable resource to every organization whether manufacturing, service or knowledge-based oriented. It is more important than the machines, materials, and money without whom other resources cannot be blended and coordinated to achieve profitability. Characteristics such as skill, knowledge, and experience affect the productivity of human resource.

The purpose of financial statements is to provide useful information to investors and creditors, to evaluate companies' future cash flows, and information of companies' resources and claims to resources by creditors and shareholders as well as movements of these resources and applications. We can conclude that the current financial statements do not satisfy the above purpose because they do not adequately disclose companies' investments in human capital and the knowledge assets created by it. It is, therefore, necessary to discuss further the reporting issue of human capital in financial statements under the current practice.

SOURCES AND METHODS OF DATA COLLECTION

This study used both primary and secondary data in an attempt to achieve the set objectives of the study and to solve the problem

under study. The study recognized the importance of primary data and used them in concluding the problem under study.

Primary data for the study were collected from the respondents, including managers, accountants, and staff. Secondary data collected from publications, books, Ph.D. thesis, annual reports of companies, and records of various government departments, libraries, national institutions, journals and the internet.

Well-structured questionnaires were used for collecting the primary data. The questionnaire was developed to the managerial level as well as accountants and staff for covering the objective of the study. Five-point Likert scale questionnaires were used, with choices of "strongly disagree" to "strongly agree." The questionnaire involved sixty-two questions for all categories of respondents to collect relevant data.

The questionnaire respondents consisted of the following:

- Different level of managers
- Accountants
- The Staff (supervisor level) of the selected Indian companies

The research instruments were pilot studied by the expert panels, including faculty members, professional body members, and financial analysts. After revising and drafting, the questionnaire was pre-tested by conducting a pilot survey. The revised instrument used specific individuals who were listed as the managers of the industry. They were sampled in finance, accounting, and auditing functions. A number of 450 questionnaires has been prepared and dispatched for the companies, and 392 questionnaires were completed and returned by respondents. After eliminating the defective responses, the final sample became 385 which have been used for data analysis. In this research, the Kukeran formula was used to determine sample volume.

$$n = \frac{\frac{z^2 pq}{d^2}}{1 + \frac{1}{N} \left(\frac{z^2 pq}{d^2} - 1 \right)}$$

Where Z = statistic for a level of confidence (e.g. 1.96 for 95 percent)

P and q =Expected proportion (0.5 used for sample needed)

n = sample size with definite population

d = precision (0.05 used for sample needed)

N = Whole Statistical population

Table 1.1: Determination of sample by Kukeran Formula

Confidence level=95%		
Margin of Error=5%		
Population	Z Critical Value	Sample size
449,184	1.96	385

1.7.7 Variables Used In the Study

There is no set procedure for assessing the human resource accounting system in selected Indian companies. The available literature and the theories in this field suggest framing tentative variables and their factors or items that together stand to signify the research study.

Table 1.2: Lists of Variables used in the Study

Variable	Variable
Helpful HRA Information	Human resource accounting

Source: survey data

Table 1.2 presents the list of different variables. It is apparent that the human resource accounting system is the dependent variable by one independent variable such as human resource accounting information to be collected in addressing the needs of users of information. The study has been testing the perceptions of managers, accountants, and staff about important independent variables for the human resource accounting system.

Helpful Human Resource Accounting Information to Be Collected In Addressing the Needs of Users of the Information

1. Employees turnover
2. Employees education index

3. Human resource value in monetary terms
4. Human resource value in non-monetary terms
5. Human resource training and development program of the organization
6. Turnover per human resources
7. Return per human resources
8. Average age of all employees
9. Employees cost to the company
10. Employees experience index

Type of Decisions where HRA Helps in Decision Making

From the table 1.3 the following inferences were drawn: The mean value of all the decision variables oscillates between 3.29 and 4.26. The outcome of the survey suggests that the respondents agree that all the listed decision making variables are useful. As per respondents view, there is a high degree of agreement with the mean value of 4.26 towards utility of HRA in motivation.

Table 1.3 shows that the frequency distribution of all responses also represents the same results with the extent of agreement at 71.43 per cent of the total responses. In the decision making process, the employee-management conflicts has identified by HRA as less useful by the respondents. The statistical explanation of the same in the term of mean value was calculated at 3.29.

Table.1.3: Distribution of sample by their opinion regarding Type of Decisions where HRA Helps in Decision Making

Statements	Strongly Disagree		Disagree	Neutral	Agree	Strongly Agree		Mean	SD	t	Sig.
	n	%				n	%				
Motivation	n	8	16	86	33	242		4.26	1.07	23.143	0.000
	%	2.08	4.16	22.34	8.57	62.86					
Efficiency	n	13	22	38	106	206		4.22	1.06	22.630	0.000
	%	3.38	5.71	9.87	27.53	53.51					
Royalty	n	15	105	22	90	153		3.68	1.34	9.923	0.000
	%	3.9	27.27	5.71	23.38	39.74					
Manpower planning	n	7	21	91	155	111		3.89	0.95	18.410	0.000
	%	1.82	5.45	23.64	40.26	28.83					
Controlling manpower turnover	n	11	16	171	166	21		3.44	0.78	11.077	0.000
	%	2.86	4.16	44.42	43.12	5.45					
Employee Management Conflict	n	16	36	163	160	10		3.29	0.83	6.840	0.000
	%	4.16	9.35	42.34	41.56	2.6					
Image building of organization	n	18	25	37	289	16		3.68	0.85	15.675	0.000
	%	4.68	6.49	9.61	75.06	4.16					
Personnel budgeting	n	62	16	125	79	103		3.38	1.35	5.472	0.000
	%	16.1	4.16	32.47	20.52	26.75					
Investment in business	n	14	21	71	155	124		3.92	1.02	17.622	0.000
	%	3.64	5.45	18.44	40.26	32.21					
Business operations	n	19	31	78	68	189		3.98	1.21	15.884	0.000
	%	4.94	8.05	20.26	17.66	49.09					

Source: primary data

All the respondents have identified HRA as the most useful in Employees motivation and Efficiency of the Employees. Human resource accounting is still not developed as a system as well as management tool and its practice and usefulness is in debate from inception due to lack of generally accepted views, absence of guidelines by the professional bodies and legal frame work.

In this study more than two third favorableness has been found in favor of HRA related information as useful in the decision making process. Thus, the respondents identified HRA useful in entire decision-making. From the results of the above discussion, we can conclude that, respondents identify HRA information as a tool in decision-making process.

CONCLUSION

Human Resource Accounting is a powerful tool that enables organizations to recognize and optimize the value of their human capital. By providing data-driven insights into the costs and contributions of employees, HRA supports informed decision-making in areas such as recruitment, training, retention, and strategic planning. The managers of companies are of the opinion that HRA is useful to all the stockholders of the organization- investors, internal as well as external management decision makers. As organizations continue to prioritize human capital, the role of Human Resource Accounting in decision-making will only grow in importance.

In a world where talent is the key to success, HRA ensures that organizations not only measure but also maximize the value of their most important asset—their people.

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