



INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION AND MANAGEMENT

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HUMAN RESOURCE ACCOUNTING (HRA) - A CONCEPTUAL FRAMEWORK AND INTERNATIONAL DEVELOPMENTS**DR. AJAZ AKBAR MIR****ASST. PROFESSOR****SCHOOL OF BUSINESS STUDIES****ISLAMIC UNIVERSITY OF SCIENCE AND TECHNOLOGY****AWANTIPORA, PULWAMA – 192 122****MANMEET SINGH****ASST. PROFESSOR****SCHOOL OF BUSINESS STUDIES****ISLAMIC UNIVERSITY OF SCIENCE AND TECHNOLOGY****AWANTIPORA, PULWAMA – 192 122****ABSTRACT**

Human Resource Accounting (HRA) involves accounting for expenditures related to human resources as assets as opposed to traditional accounting which treats these costs as expenses that reduce profit. Interest and contributions to growth in HRA have been evident in a number of countries. The strong growth of international financial reporting standards (IFRS) is an indication that the environment for international financial accounting is one that potentially encourages the consideration of alternative measurement and reporting standards and lends support to the possibility that future financial reports may include non-traditional measurements such as the value of human resources using HRA methods.

KEYWORDS

Human Resource Accounting, HRA measurement models, International Financial Reporting, International Financial Reporting Standards.

INTRODUCTION

Fast few decades have witnessed a global transition from manufacturing to service based economies. The fundamental difference between the two lies in the very nature of their assets. In the former, the physical assets like plant, machinery, material etc. are of utmost importance. In contrast, in the latter, knowledge and attitudes of the employees assume greater significance. For instance, in the case of an IT firm, the value of its physical assets is negligible when compared with the value of the knowledge and skills of its personnel. Similarly, in hospitals, academic institutions, consulting firms etc., the total worth of the organisation depends mainly on the skills of its employees and the services they render. Hence, the success of these organizations is contingent on the quality of their Human Resource- its knowledge, skills, competence, motivation and understanding of the organisational culture. In knowledge –driven economies therefore, it is imperative that the humans be recognised as an integral part of the total worth of an organisation. However, in order to estimate and project the worth of the human capital, it is necessary that some method quantifying the worth of the knowledge, motivation, skills, and contribution of the human element as well as that of the organisational processes, like recruitment, selection, training etc., which are used to build and support these human aspects, is developed. Human resource accounting (HRA) denotes just this process of quantification/measurement of the Human Resource. The American Accounting Association's Committee on Human Resource Accounting (1973) has defined **Human Resource Accounting** as "the process of identifying and measuring data about human resources and communicating this information to interested parties". HRA, thus, not only involves measurement of all the costs/investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organisation. Flamholtz (1971) too has offered a similar definition for HRA. They define HRA as "the measurement and reporting of the cost and value of people in organizational resources". As far as the statutory requirements go, the Companies Act, 1956 does not demand furnishing of HRA related information in the financial statements of the companies. The Institute of Chartered Accountants of India too, has not been able to bring any definitive standard or measurement in the reporting of human resources costs. While qualitative pronouncements regarding the importance of Human Resources is often made by the chairmen, in the AGM, quantitative information about their contribution is rarely recorded or communicated. There are a few organizations, however, that do recognize the value of their human resources, and furnish the related information in their annual reports. In India, some of these companies are : Infosys, Bharat Heavy Electricals Ltd (BHEL); the Steel Authority of India Ltd. (SAIL), the Minerals and Metals Trading Corporation of India Ltd. (MMTC), the Southern Petrochemicals Industries Corporation of India (SPIC), the Associated Cement Companies Ltd, Madras Refineries Ltd. , the Hindustan Zinc Ltd. , Engineers India Ltd, the Oil and Natural Gas Commission, Oil India Ltd., the Cement Corporation of India Ltd. etc.

HISTORICAL DEVELOPMENT IN HRA

The traces of a rudimentary HRA can be found in the Medieval European practice of calculating the cost of keeping a prisoner versus the expected future earnings from him. The prisoners in those days were seen to be the general property of the capturing side. Consequently, after the victory a quick decision regarding whether to capture a prisoner or to kill him had to be taken based on the costs involved in keeping him and the benefits accruing from killing him. However, these represented very rough measurements with limited use. The development of HRA as a systematic and detailed academic activity, according to Eric G Falmholtz (1999) began in sixties. He divides the development into five stages. These are:

First stage (1960-66): This marks the beginning of academic interest in the area of HRA. However, the focus was primarily on deriving HRA concepts from other studies like the economic theory of capital, psychological theories of leadership- effectiveness, the emerging concepts of human resource as different from personnel or human relations; as well as the measurement of corporate goodwill.

Second stage (1966-71): The focus here was more on developing and validating different models for HRA. These models covered both costs and the monetary and non-monetary value of HR. The aim was to develop some tools that would help the organisations in assessing and managing their human resource/asset in a more realistic manner. One of the earliest studies here was that of Roger Hermanson, who as part of his Ph.D. studied the problem of measuring the value of human assets as an element of goodwill. Inspired by his work, a number of research projects were undertaken by the researchers to develop the concepts and methods of accounting for human resource.

Third Stage : (1971-76) This period was marked by a widespread interest in the field of HRA leading to a rapid growth of research in the area. The focus in most cases was on the issues of application of HRA in business organisations. R.G. Barry experiments contributed substantially during this stage. (R.G.Barry Corporation: 1971)

Fourth Stage (1976-1980): This was a period of decline in the area of HRA primarily because the complex issues that needed to be explored required much deeper empirical research than was needed for the earlier simple models. The organisations, however, were not prepared to sponsor such research. They found the idea of HRA interesting but did not find much use in pumping in large sums or investing lot of time and energy in supporting the research.

Stage Five (1980 onwards) : There was a sudden renewal of interest in the field of HRA partly because most of the developed economies had shifted from manufacturing to service economies and realized the criticality of human asset for their organisations. Since the survival, growth and profits of the organisations were perceived to be dependent more on the intellectual assets of the companies than on the physical assets, the need was felt to have more accurate measures for HR costs, investments and value. An important outcome of this renewed interest was that unlike the previous decades, when the interests were mainly academic with some practical applications, from mid 90s the focus has been on greater application of HRA to business management. Different types of models to suit the specific requirements of the organisations have been developed incorporating both the tangible and the intangible aspects. Also, larger number of organisations actually began to use HRA as part of their managerial and financial accounting practice.

Today, human and intellectual capital is perceived to be the strategic resources and therefore, clear estimation of their value has gained significant importance. The increased pressures for corporate governance and the corporate code of conduct demanding transparency in accounting have further supported the need for developing methods of measuring human value. In India, human resource valuation has not yet been institutionalized though, as mentioned above, many public as well as private have adopted HRA.

HRA MEASUREMENT MODELS

Human Resource Accounting may be measured in terms of human resource cost or in terms of human resource value. According to Flamholtz's model for measurement of original human resource costs (1973, 1999, p. 59), human resource costs may be explained in terms of the two major categories of acquisition costs and learning costs. Acquisition costs include the direct costs of recruitment, selection, hiring and placement, and the indirect costs of promotion or hiring from within the firm. Learning costs include the direct costs of formal training and orientation and on-the-job training. In a human resource accounting system, these costs are reported in asset accounts with future economic benefits rather than as expenses. Flamholtz (1999, p. 160) noted that the concept of human resource value is derived from general economic value theory, and like all resources people possess value because they are capable of rendering future service. Thus as Flamholtz notes, an individual's value to an organization can be defined as the present value of the future services the individual is expected to provide for the period of time the individual is expected to remain in the organization. The Stochastic Rewards Valuation Model, originally developed by Flamholtz (1971) for human resource valuation, and further explained in Flamholtz (1999), is a five step process that begins with defining the various service states or organizational positions that an individual may occupy in the organization. The next step is to determine the value of each state to the organization, the service state values, which can be calculated either by using a number of methods such as the price-quantity method or the income method. Then the person's expected tenure or service life in the organization is calculated and the person's mobility probability or the probability that a person will occupy each possible state at specified future times is derived from archival data. Next the expected future cash flows that the person generates are discounted in order to determine their present value. According to Flamholtz (1999, pp 160-161), there is a dual aspect to an individual's value. First, the person's "expected conditional value," is the amount the organization could potentially realize from his or her services if the person maintains organizational membership during the period of his or her productive service life. Second, the person's "expected realizable value," is the amount actually expected to be derived, taking into account the person's likelihood of turnover. Using the Flamholtz model, Flamholtz, Bullen & Hua (2003) showed a practical method for calculating ROI on management development, and showed the incremental cash flows that an organization will receive due to investment in management development. The article concluded that use of HRA as a tool to measure the value of management development enhances not only the value of human capital but also the value of management accounting. Similar to the Flamholtz model, another earliest model of human resource value measures human capital by calculating the present value of a person's future earnings (Lev & Schwartz, (1971). Dobija (1998) proposes an alternate model for capitalization, where the rate of capitalization is determined through the natural and the social conditions of the environment. Utilizing a compound interest approach, this method takes into account the three factors for valuing the human capital embodied in a person. These include the capitalized value of cost of living, the capitalized value of the cost of professional education, and the value gained through experience. Alternately, Turner (1996) refers to the framework issued by the International Accounting Standards Committee and recommended the use of the present value of the value added by enterprise, and measures assets by the four methods of historical cost, current cost, realizable value and present value. Cascio (1998) proposed a method for measuring human capital based on indicators of human capital of innovation, employee attitudes and the inventory of knowledgeable employees. According to this method, innovation commands a premium and therefore needs to be measured, for example by comparing gross profit margins from new products to the profit margins from old products. Employee attitudes predicting customer satisfaction and retention are an important indicator of human capital and therefore need to be measured, as well as measures of tenure, turnover, experience and learning.

NEED FOR HRA

According to Likert (1971), HRA serves the following purposes in an organisation:

1. It furnishes cost/value information for making management decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness;
2. It allows management personnel to monitor effectively the use of human resources.
3. It provides a sound and effective basis of human asset control, that is, whether the asset is appreciated, depleted or conserved.
4. It helps in the development of management principles by classifying the financial consequences of various practices.

HRA is a management tool which is designed to assist senior management in understanding the long term cost and benefit implications of their HR decisions so that better business decisions can be taken. If such accounting is not done, then the management runs the risk of taking decisions that may improve profits in the short run but may also have severe repercussions in future. For example, very often organisations hire young people from outside on very high salaries because of an immediate business requirement. Later on, however, they find that the de-motivating impact of this move on the existing experienced staff has caused immense long term harm by reducing their productivity and by creating salary distortions across the organisational structure. HRA also provides the HR professionals and management with information for managing the human resources efficiently and effectively. Such information is essential for performing the critical HR functions of acquiring, developing, allocating, conserving, utilizing, evaluating and rewarding in a proper way. These functions are the key transformational processes that convert human resources from 'raw' inputs (in the form of individuals, groups and the total human organization) to outputs in the form of goods and services. HRA indicates whether these processes are adding value or enhancing unnecessary costs. In addition to facilitating internal decision making processes, HRA also enables critical external decision makers, especially the investors in making realistic investment decisions. Investors make investment decisions based on the total worth of the organisation. HRA provides the investors with a more complete and accurate account of the organisation's total worth, and therefore, enables better investment decisions. For example, conventional financial statements treat HR investments as "expenditures". Consequently, their income statement projects expenditures to acquire, place and train human resources as expenses during the current year rather than capitalizing and amortizing them over their expected service life. The balance sheet, thus, becomes distorted as it inaccurately presents the "total Assets" as well as the "net income" and, thereby, the "rate of return" which is the ratio of net income to the total assets. HRA helps in removing this distortion. Furthermore, in a business environment where corporate social responsibility is rapidly gaining ground, HRA reflects the extent to which organisation contributes to society's human capital by investing in its development. Finally, in an era where performance is closely linked to rewards and, therefore, the performance of all groups/departments/functions needs to be quantified to the extent possible, HRA helps in measuring the performance of the HR function as such.

HUMAN RESOURCE ACCOUNTING AND INTERNATIONAL FINANCIAL REPORTING SANDARDS

In recent years organisations have been moving toward adoption of more complex measurement methods in financial reporting compared with the traditional historical cost approach to asset measurement, including a focus on the measurement of the time value of money and present value calculations. Meeting, Luecke & Garceau (2001, p. 57) indicate that in many cases the expected cash flow approach is a better measurement tool than traditional methods, and that CPAs should use it to report asset and liability values in the absence of specific contractual cash flows. Certain current assets are now reported at their fair

market values at each balance sheet date, and many items on the balance sheet that are noncurrent are measured at the present value of the estimated future cash flows. Campbell, Owens-Jackson, & Robinson (2008, p. 31), note that fair value accounting, which SFAS No. 157 requires in some areas of financial statement reporting starting in fiscal years beginning November, 2007, attempts to calculate and report the present value of future cash flows associated with an asset or liability. As accountants have become more accustomed to complex measurement approaches, some similar to the approaches taken in developing HRA value measures, it seems reasonable that non-traditional HRA measures may become more accepted in future financial reports. In addition there has been increased interest in accounting for intangible assets in financial reporting by both the Financial Accounting Standards Board and the Securities and Exchange Commission. As noted in Flamholtz, Bullen & Hoa (2002, p. 948), since human resources are a primary component of intangible Assets, the state is being set for a renewed interest in HRA from a financial accounting perspective. standards affected by these developments. In fact, the Securities and Exchange Commission (January 4, 2008) recently announced in November 2007 that non-U.S. companies listed on the U.S. stock exchanges could use International Financial Reporting Standards (IFRS) instead of U.S. GAAP, and if they choose to use IFRS, would no longer be required to provide a reconciliation between their reported numbers and U.S. GAAP. However, in recent months, the adoption of the IFRS by U.S. companies has been strongly debated, and it will be seen in the years ahead whether this materializes. Yet, the consideration of international reporting standards is another indication that the environment for financial accounting reporting is one that potentially encourages the consideration of alternative measurement and reporting standards. Since 2001, the International Accounting Standards Board (IASB) has been developing and promulgating the IFRS (International Accounting Standards Board, 2009). Prior to 2001, the International Accounting Standards Committee (IASC) issued International Accounting Standards (IAS), which were adopted initially by the IASB when it replaced the IASC. While the IFRS do not currently have standards requiring HRA, it could be argued that they are moving closer to providing more flexible approaches to accounting measurements and reporting.

HUMAN RESOURCE ACCOUNTING IN MANAGERIAL REPORTING AND DECISION MAKING

In addition to external financial reporting, HRA may be useful as a managerial tool to aid in making managerial decisions that will benefit the long-run strategic goals and profitability of the company. However 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 a company's human resources may result in long-term profit for the company (Bullen, 2007, p. 89). When managers go through the process of HRA measurement treating human resources as capital assets, they are more likely to make decisions that treat the company's employees as long-term investments of the company. Flamholtz (1979) describes the HRA paradigm in terms of the "psycho-technical systems" (PTS) approach to organizational measurement. According to the PTS approach, the two functions of measurement are: 1) process functions in the process of measurement and 2) numerical information from the numbers themselves. Whereas one role of HRA is to provide numerical measures, an even more important role is the measurement process itself. The HRA measurement process as a dual function attempts to increase recognition that human capital is paramount to the organization's short and long-term productivity and growth. When managers go through the process of measuring human resources, they are more likely to focus on the human side of the organization and are more likely to consider human resources as valuable organizational resources who should be managed as such (Bullen, 2007, p. 89). For example in a potential layoff decision, with use of HRA measures in addition to only traditional accounting measures, management is better likely to see the hidden costs to the company's human resources and the long-term implications to the human assets. This is because HRA views human resources as assets or investments which must be maintained for long-run productivity (Bullen, p. 90). Layoffs may affect future long-term profits from lost productivity, costs of rehiring and retraining when business returns, and costs of lower morale of existing workforce. If management quantified the actual costs of layoffs, management might be less inclined to use layoffs as a way to cut costs and boost short-term profits at the expense of longrun productivity and profits (Bullen, p. 90). Flamholtz, Bullen & Hua (2003) utilized the HRA measure of expected realizable value, and found that employees' participation in a management development program increased the value of the individuals to the firm. In addition the authors noted (p. 40) that the HRA measures provided upper level management with an alternative accounting system to measure the cost and value of people to an organization. Thus HRA represented both a paradigm or way of viewing human resource decisions, and the set of measures for quantifying the effects of human resource management strategies upon the cost and value of people as organizational resources.

Davidove & Schroeder (1992) indicate that too many business leaders have no generally accepted definition or accounting procedure for tracking training investments, and note that a lower training investment is not automatically better for an overall return on investment. The authors suggest that although many business leaders still view training as an overhead expense, with thorough ROI evaluations training departments can convince business to view them as partners in creating the assets crucial to organizational success. Other authors have expressed similar views suggesting the benefits of HRA measurements and the process of measuring human resources. For example Johanson & Mabon (1998) indicate that expressing human resource interventions in financial terms and /or cost benefit terms is more effective than using soft accounting information such as data on job satisfaction. Because the classical function of accounting is the determination of the value of the economic activity, performing analysis with hard numbers such as cost-benefit analyses helps us determine how resources should be used by human resources for various interventions. Toulson & Dewe (2004) conducted a survey study utilizing component analysis and found two reasons why measuring human resources is important. The first is that measurement reflects the strategic and competitive importance of human resources, and the second suggests that to earn credibility, human resources must be expressed in financial terms. McKenzie & Melling (2001) suggest that, if properly implemented, the human capital planning and budgeting process will become a key driver of strategy in that strategic human capital planning and budgeting ensures that the best resources are mobilized for each internal process. They indicate that too often organizations focus 100% on meeting the financial budget first without consideration of the effect the cost slashing will have on strategy, and note that the financial numbers are a lagging indicator of where a firm has been and should not be substituted for leading indicators of where the firm is going. Rather management should focus clearly on causal, leading indicators that drive successful financial measures, and that it is through skills-based budgeting that the fallacy of financial focus can be avoided. Moore (2007) suggests that the value of human capital should be more fully considered when making decisions about the acquisition and disposal of people—and notes that the accounting practices currently employed by companies can have an undue influence in driving the strategic decisions of these companies. Moore notes that there are parallels between the process of acquiring an employee (a human capital asset) and that of acquiring a fixed capital asset. However while most companies acknowledge the contributions of its employees, they do not think of the acquisition or disposal of human capital assets in the same way or with the same thoughtful planning or strategic thinking as they do fixed capital assets.

INTERNATIONAL DEVELOPMENTS IN HUMAN RESOURCE ACCOUNTING

Interest in HRA related reporting has grown in a number of countries across continents. In discussing "HR metrics," Hansen (2007) notes that two thirds of the 250 largest companies in the world now issue sustainability reports along with their financial reports in order to capture the full value of the organization. Global standards for sustainability reporting require the disclosure of workforce data that reflect the potential for future performance and profitability. Sustainability reporting has been formalized under guidelines by the Global Reporting Initiative, an international network of business, labor investors and accountants. Schwartz and Murphy (2008) also comment on human capital metrics, suggesting that a class on the subject would benefit all undergraduate management majors. They suggest that primary among those benefits is a change in mind set toward using data and metrics to design and evaluate management policy rather than relying on experience, fad or hype; and suggest that students familiar with HR metrics should be better equipped to prove and enhance the contributions of human resources to their organizations. Some research has included aspects of HRA in studies examining and comparing reporting practices of a number of countries. A study by Subbarao & Zehgal (1997) gave a macro-level perspective to HRA disclosure in financial statements by analyzing the differences across countries in the disclosure of human resources information disclosure in annual reports across six countries. The authors found differences in disclosures of HR information across countries and provided accounting and financial professional insights on the HR information areas they need to focus on in their country. In another study, Boedker, Mouritsen & Guthrie (2008) examined contemporary trends from Europe, Australia, and the United States, in "enhanced business

reporting" (EBR), which includes aspects of HRA. The authors found a vast diversity in international EBR practice, including measurement and reporting models, and suggested the need for further research about the barriers to and consequences of harmonization.

SCANDINAVIA

The Scandinavian countries have taken a particularly strong interest in the area of HRA. For example, the Value Driving Talks (VDT) model was developed by Arne Sandervang (2000), and tested in an empirical study in a Norwegian business firm in the electrical sector. The model, which calculates financial returns on an organization's investments in competence development, focuses on employee training or competence development as its strategic focus, and aligns investment in competency development to the overall business strategy to help organizations with their strategic human resource management goals. The participants assess the benefits of the competency program through a benefit description statement that shows a comparison of the potential benefits and experienced improvements. A calculation is made of the benefits to the company and compared to the costs of training in order to arrive at the Return on Investment of training and development. Two Swedish studies experimented with reporting HRA measures in financial statements. The Statement of Human Resources, published by Telia, a Swedish National telecommuting Company (Telia, 1996) and the Statement of Human Resources provided by the Swedish Civil Aviation (Swedish Civil Aviation Administration, 1998) provided some insights on the reporting formats. In case of Telia, in addition to a human resources report, the financial statements included a profit and loss account and a balance sheet that included investments in human resources. The statement provided by the Swedish Civil Aviation Administration provided the human resource income statement and a human resources balance sheet showing the change in the percent of value of human capital, number of employees and the calculated value of human capital, in addition to other key personnel indicators.

Roy (1999) reports on a case study on Skandia Group- one of the first companies known for its work on intellectual capital, and provides an interesting example for organizations desirous of managing their intellectual capital. Included in the case study is the process of development of the Skandia Navigator and the Dolphin Navigator under the guidance of Leif

Edvinsson, one of the first persons to be documented as a knowledge manager, The Skandia Navigator successfully introduced new business ratios that emphasized an organization's intangible assets rather than tangible ones. The Dolphin Navigator developed was an IT infrastructure that would help to distribute information regarding Skandia Navigator business

planning worldwide in a cost effective manner. Grojer (1997) gives an interesting perspective on why HRA has taken roots in Scandinavia especially Sweden, as compared to other parts of Europe, by suggesting that human resource accounting measures can be successfully introduced only when it suits the social order in organizations—and Scandinavian management and the Swedish organizational social order suits HRCA. Grojer notes that introduction of new personnel key ratios in financial key ratio pages in organizations may result in the change in the social order between the management elite, and will therefore be a problematic process. A possible conclusion from this perspective is that human resource measures may be introduced smoothly in organizations when these measures would conform to the organizational social order, but that further research needs to study this area of HRA and social order in organizations in order to help us understand the full implications of this factor. Olsson (1999) studied measurement of personnel through human resource accounting reports as a procedure for management of learning in the hospital sector of Northwest of Stockholm, and reported that learning in smaller groups is an effective means to make organizational communication regarding intellectual capital within the organization, helping organizations learn better on how to report human resources value. Olsson (2001) provided information on annual reporting practices related to human resources in corporate annual reports of major Swedish companies. Vuontisjarvi (2006) explored by means of content analysis the extent to which the largest Finnish Companies have adapted socially responsible reporting practices in a research study focusing on Human Resource (HR) reporting in corporate annual reports with criteria set on the basis of the analysis of the documents published at the European level in the context of corporate social responsibility with special attention to the European Council appeal on CSR. The results of the content analysis indicate that although social reporting practices are still at an early stage of development in Finland, the most reported theme was training and staff development. A positive sign was that the majority also disclosed themes of participation and staff involvement and employee health and well-being, and nearly one third made references to their work atmosphere or job satisfaction survey. However disclosures lacked overall consistency and comparability with each other, and quantitative indicators were disclosed by few.

UNITED KINGDOM

Morrow (1996 & 1997) investigated the concept of football players in the United Kingdom as human assets and the importance of measurement as the critical factor in asset recognition. In another publication Wagner (2007) suggested that human capital (people and teams) is one of the intangible assets that investors look for in valuing a company, along with structural capital (processes, information systems, patents) and relational capital (links with customers, suppliers, and other stakeholders). However, according to an analysis of more than 600 manufacturing and service companies in research led by Dr. Chris Hendry, Centenary Professor of Organizational Behaviour and Human Resource Management at the Cass Business School, City University of London, Wagner notes that annual reports now overemphasize the role of relationship capital in company performance and minimize the role of human capital, giving a skewed view of companies' future performance. A conclusion was that the long-term value of innovative workers is not getting enough attention from companies preparing annual reports for investors, according to research for Britain's Economic and Social Research Council. Although the annual reports provide glowing accounts of R&D spending and numbers of patents, including those generated by the innovators have left the company, the reports are less likely to focus on the numbers of innovators that have left the company and have thus reduced the company's future prospects for innovation.

AUSTRALIA AND NEW ZEALAND

Gusenow and Tower (2006) note that the Australian Football League (AFL) is Australia's premier spectator sport involving millions of people across a wide range of communities, and that it is not surprising that the most valuable assets as regarded by AFL clubs and the AFL hierarchy are the players, the organization's biggest revenue drivers. However in the authors' survey of 79 AFL-linked individuals and 58 accountants and accounting academics to assess whether key stakeholders considered putting the value of players on a balance sheet a plausible idea, findings showed that the majority of respondents disagreed with the concept of showing the value of AFL players in their clubs' balance sheet. However it is interesting to note that the results from the logistic regression analysis and ANOVA analysis show there is a significant relationship between the concept of valuing AFL players, and both the type of respondent and their knowledge of accounting. Gusenow and Tower note that although player valuation is a plausible and arguably important idea, a reason for the resistance by AFL respondents could be that AFL has a salary cap to limit amounts paid to players and no transfer fee system. Although the evidence from study did not demonstrate a need to implement player valuations, a move towards financial statement player valuation may be needed if AFL clubs emulate other overseas sporting codes and list on the stock exchange. Other Australian authors Whiting & Chapman (2003) also investigated the merits of HRA in a professional sport—rugby. The authors comment that the Australia and New Zealand rugby union is a combination guaranteed to stir patriotic feelings across the Tasman. The authors raise the question that since rugby players are the team's most valuable assets, should their value be placed on the balance sheet, and does doing so make any difference to decisions made by financial statement users. They comment that professional sport has been prevalent in the United Kingdom and the United States for nearly 200 years, but arrived much later in Australia and New Zealand. In the United Kingdom and the United States, professional sports teams' financial accounts often incorporate HRA, in which a value for the employees is placed on the balance sheet and is amortized over a period of time, instead of expensing costs. The authors refer to the big question being whether HRA information is more useful to the decision-maker than the alternate expensing treatment, and that past research has shown that sophisticated users of financial information do make significantly different decisions with the different presentations. The outcome was tested in New Zealand in a survey questionnaire responded to by 64 members of the professional body Institute of Chartered Accountants of New Zealand. On an overall basis, the study shows that generally accountants will make the same investment decisions regardless of whether human resource information is expensed or capitalized. The authors noted, however, that their exercise only explored one type of decision-making process, and that prior studies may have been of a wider nature, thus explaining the differing result. They then suggest that if HRA is to follow the international trends emerging in intangibles reporting, capitalized human resource information may become more prevalent.

INDIA

Interest in measuring human capital has also been apparent in India. Mahalingam (2001, p. 19) notes that "Pundits of today assert that while the other forms of capital, including material, equipment, tools and technology, only represent inert potentialities, it is the human capital that converts this potential and energises the creation of wealth." This author suggests a human resource value approach based on a person's skills and the returns these skills are expected to return over the next five years, with future years discounted to arrive at the current value. Mahalingam notes that each person has a set of competencies and a value is assigned to each, with the sum total of these values making up the value of the employee and the value of all the employees making up the human capital of the organization—which together with the customer and structural capital produces the revenue. In a case study conducted in India, Patra, Khatik & Kolhe (2003) studied a profit making heavy engineering public sector company which used the Lev & Schwartz (1971) model to evaluate HRA measures. The authors examined the correlation between the total human resources and personnel expenses for their fitness and impact on production. They found that HRA valuation was important for decision-making in order to achieve the organization's objectives and improve output. Bhat (2000, p. 1) provides a definition of "HUMAN resources accounting" as depicting the human resources potential in money terms while casting the organization's financial statements. The author refers to several measurement models including the Brummet et al. model (1968a, 1968b, 1969) based on historical cost method with provisions for appropriate depreciation and replacement cost of acquiring, training and developing the entire human resources, and competitive bidding proposing the capitalizing of the additional earning potential of each human resource in the organization. The author also mentions the Jaggi & Lau (1974) model estimating the human resources worth on a human resource groups basis with the groups accounting for productivity and performance, and Hermanson's (1964, 1986) unpurchased goodwill method in which the marginal higher earning potential of human resources in comparison with similar industries is capitalized. Bhat notes that with global trade and foreign exchange transactions becoming more complex with innovations in derivatives, more uniformity in accounting practices and transparency will emerge. The authors suggest that accounting and financial management issues will soon be integrated in accounting statements facilitating more meaningful use of accounts, as opposed to history and bookkeeping

CHINA

Tang (2005) focused on a measurement of human resource cost in developing a heuristic frame addressing the link between human resource replacement cost and decision-making, in a human resource replacement cost (HRRC) system. The system measures direct and indirect costs of human resources, which is then applied to a company within the metro industry in China. The author includes a suggested measure of learning cost, cost of lost productivity, and cost of job vacancy and discusses the usefulness of the HRRC model in decision-making in such areas as employee turnover, separation indemnity, duration of labor contracts, and personnel budgets in monetary terms. Tang (p. 2) notes that an increased focus on human resource management and improved information technology has led to a saying "what you cannot measure, you cannot manage." The author adds that since the time when China espoused an open policy of reform there have been many brave attempts to seek new ways for handling organization and management. Tang (p. 14) also suggests that HRA information can aid in budgeting of human resources recruitment and development. The hard costs in human resource replacement cost are the actual investments in human resources which reflect the historical direct costs of recruiting, orientating, and training people. Combining these hard costs with human resource demand can help a company budget its personnel activities more reliably. Tang (p. 15) notes that the system of accounting for replacement cost in people is an attempt to improve the quality of information available for facilitating effective human resource management, providing information necessary for a cost/benefit analysis and decision making in areas such as employee turnover, separation indemnity, duration of labor contract and personnel budgets in monetary terms. Care should be taken to recognize that high human resource costs should not be viewed as negative and low costs as positive in that, for example higher costs could indicate higher-quality training.

Although the HRRC system developed was based on a pilot study and still requires refinement and extensions, it does represent a meaningful contribution to the practice of HRA, and an expected result is a new awareness by management of the high costs of turnover. Ng (2004, p. 26) further comments on the benefits of HRA related information and notes that measuring and managing human capital is not rocket science, but is (p. 26) "simply a defined framework to maximise the only real competitive advantage companies have in the knowledge economy—their human capital assets." Ng notes that to derive and quantify value from this human asset requires human capital analytics—an entirely new class of systems that aggregates HR data financial, customer and supplier information for exploration, analysis and presentation. According to the author, human capital analytics supports rapid decision backed by quantifiable, accurate information and defensible forecasts, and in addition helps identify essential insights that allow organizations to proactively apply strategic human capital initiatives to meet corporate objective.

PORTUGAL

Bras & Rodrigues (2008) analyzed two competing approaches to accounting for a firm's investment in staff-training activities: the accounting and labour economics approach which argues that no asset should be recognized from training activity and the human resources management approach, espoused by HRA, that advocates recognition of an asset. The authors

used document analysis and interviews in their attempt to understand the training phenomenon from the company's point of view. The paper provided a case-based empirical analysis of accounting and human capital and asset recognition arguments, and clarifies the situation in which assets should be recognized as generated by training expenditures.

GERMANY

Schmidt & Minssen (2007) explored to what extent human resource practitioners value and account for international assignments, and to relate these findings to the human resources cost accounting context. The authors drew on data from a quantitative survey among 415 German chemical companies and expert interviews with human resource managers from eight chemical companies. They found that human resource managers appreciate the positive effect of overseas assignments on personal development, but often underestimate the long-term benefits of an international assignment for the company.

CANADA

Jones (2000, p. 9) writes that "Financial reporting systems need to account for people. The author indicates that the issue of providing bottom line worth for training, wellness programs or employee satisfaction surveys remains an ongoing struggle with HR executives in Canada, and laments why one is required to make the business case for something that is intrinsically known to be important to financial importance. The author refers to the International Accounting Standards Committee (IASC) recently published standard on Intangible Assets (IAS 38) and comments on reports that investment and awareness of the importance of intangible assets have increased significantly in the last two decades. Furthermore the author notes that while the standard is expected to have no direct impact on how Canadian chartered accountancy firms report and file (unless the firm is multi-national with offices in countries required to comply with IASC standards) it does give a global definition to intangibles. Jones (p. 2) called for researchers to team up with practitioners to create the knowledge base required for the development of a whole new measurement system for value creation that would operate in parallel with the existing value realization measurement system. The author noted how the Canadian Performance Reporting Initiative Board is being established to advance knowledge in the intellectual capital management and other areas critical to performance measurement, providing a golden opportunity for HR leader to work together to ensure that people count.

GREECE

Andrikopoulos (2005) attempted to bridge the gap between traditional financial theory and intellectual capital (IC) reporting by proposing a model where organizational priorities were set as the solution to a portfolio selection problem. The solution to this problem provides priorities for organizational change. The author notes that the quantitative approach in the paper requires extensive use of data on organizational performance found in IC statements, and that when it comes to human capital IC reporting, works on results from HRA, which have been extensively applied in the academic and business communities. Andrikopoulos found that that the model helps discover corporate strengths and uses them to set organizational priorities for IC value creation

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