

HR Accounting Framework in a Competitive World

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Abstract:

Human Resource accounting is a core function for any business entity. In order to remain competitive in the current business world, business units are forced to track and account each of the individuals working in an organization. The purpose of the paper is to determine a numeric ratio which will depict the contribution of each of the individuals. This ratio can then be applied for other crucial tasks such as interpreting the productivity of an individual and developing future action plans.

The paper generates a new aspect which is practical oriented and can be customized for cross platform functions in an organization.

The origin of the paper takes into consideration the industry experience of the authors and it is this experience which is applied to generate the contribution ratio. The development of the paper follows a systematic and structured process. Commencing with the introduction of the basic aspects pertaining to the roles and importance of HR accounting. The literature review section covers the work of the earlier authors. The subsequent section deals with the other aspects pertaining to the defining of the framework. The section on future scope and limitations deals with the issues pertaining to customizations according to the needs and demands of business units

Key words: Business unit, Recession, Human resource Accounting, Value Ratio

Introduction

The business world of today is passing through significant transformation due to economic turbulence. Further, the speed of transformation is tremendous leaving very little time to understand and draft out action plans for surviving in the market. In addition, to this the technological advancements and innovations have forced the business units to adopt technology for executing their core business applications and thus gain competitive edge. However, there is a feeling that this *edge is bound to be short lived* as the competitors will adopt new measures, means and mechanisms to maintain their leadership. In other words, the question that business units face is the issue of surviving in this competitive world and in hyper complex environment. The focus of the business units, hence is shifted to develop strategies to arrest the decreasing profit margins while meeting the demands of capricious customers. This *erratic* change of customers' requirements requires modifications in the business processes within a short span of time and thus is responsible for heavy toll on the employees *who actually execute business processes perfectly* and are thus accountable for achieving the business objectives of the organization.

It is on account of this environment that Human resource accounting emerged as a new domain and thus is now responsible for taking a central role in the organization. In other words, the focus of business units is centred on the belief that every Human Resource is responsible and is accounted for his work as *long as he is associated with the organization*. Whether he is full time employee or a part time employee their accountability is determined on the basis of the value they are able to generate for the organization. Thus, HR accounting is linked to the *value* creation, generation and enhancement of value that is given to the organization. Further, this value generation must be in accordance with the business objectives. As the business objectives of the organization are changed due to market dynamics, the value of creation and generation must be modified accordingly. In addition to this, a numeric figure must be allocated to this value so as to manage the same. Unless and until the value is reduced to a number, it cannot be tracked, measured, monitored and accounted for and future action plan cannot be determined by the business units.

All this translates to the development of a framework (*or a structure*) wherein the value created and generated by an individual is reduced to numeric form for better management of Human resources. The development of the framework, involves answering the question pertaining to identification of parameters, the reduction of these parameters to the numeric form and then interpreting the number so obtained.

This paper addresses the various the various aspects pertaining to the development of a framework.

Literature Review

Flamholtz (1979) described Human Resource Accounting in terms of what PTS which stands for “psycho-technical systems” approach. This involves the process of measuring the organizational values in terms in accounting that is keeping track concerned process or entity in question. According to this approach, the basic functions of measurement are related to measurement of process functions and the numeric generated from these processes. Further, he laid stress on the process of measuring the process itself. **Johanson & Mabon(1 998)** indicated that in the process of expressing human resource working in financial terms and or cost benefit terms is effective instead of continuing with soft accounting information which includes details as data on job satisfaction and the like. **Toulson& Dewe (2004)** conducted a survey which concluded that human resources are important. The first is the measurement that is designed to reflect the strategic and competitive importance of human resources and the other that human resources must be expressed in numerical terms and be linked with the financial terms.

Flamholtz (1999) observed that the concept of human resource and its value is derived from economic value theory since the resources people possess value as they are are capable of rendering service in future. The value that an individual delivers to the organization is defined as the present value of the services to be delivered in future for the period of time the individual remains in the organization.

McKenzie & Melling (2001) suggested that, if properly implemented, the human capital planning and budgeting process will become a key driver of strategy as strategic human capital planning and budgeting ensures that the best resources are mobilized for each internal process.

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.

Moore (2007) suggested that the value of human capital should be considered when making decisions about the acquisition and disposal of people.

Elias (1976) attempted to provide a framework for analyzing the behavioral aspects of accounting methods.

Basic terminologies

Before, we proceed further in the design and development of the paper certain terminologies are required to be scoped. For, unless and until these terms are scoped, a clear understanding of the basic concepts of the paper will not materialise. Further, the terminologies, pertain to

- i. **Accounting.** It is a process which is used to identify, record, classify, measure summarize and present the findings related to the *value as defined* by the business unit. Further, these values directly impact the business objectives. Further, these findings are required to be interpreted by concerned people and it is this interpretation which assists these people to decide on the future course of action. Thus, the objective of the accounting is to provide findings of the value or values (as defined by the organization) which leads to interpretation which in turn leads to future course of action
- ii. **Framework.** It is the structured block which is used to evaluate the value parameters as defined by the organization. The framework can be a simple or a complex and may contain weights so as to include the importance of the value provided by Human Resource personals working in the organization.
- iii. **Weight or weightages:** It is the degree and depth of the contribution which is required by Human Resource personal to execute the value system as defined by the organization. For example, in the case of Manager, his weightage would be high as compared to the executive level worker. For, the manager is required to provide high degree of contact with the job assigned to him and also he is required to have necessary knowledge about the job which is being done under him. In other words, the manager is expected to spend more time at the company must ensure that the output of the job is accurate, precise and with minimum amount of defects.
- iv. **Value or value system:** It is the set of expected behaviour which is required to be executed by the concerned Human Resource personal. This value or value system is in accordance with the business objectives. For example, an individual when asked to sit late in the office and complete the work is expected to stay late so as to finish the work. For, completing the work on the same date is the value that is defined by the organization and which if the work is not completed by the said time period, it will impact the other work lined up.

Assumptions used in the design of the paper

While designing the paper the following assumptions have been used.

- a. The design of the paper, is based on assumption that the parameters to the value system in most of the organizations are more or less similar. However, the framework so developed can be customised as per the existing value system of the organization. Further, the compensation given by the company to the employee determines whether the individual is still generating the value to the company or not
- b. The number of parameters to the organization's value system is 5. However, more parameters can be customised
- c. The framework so designed is applicable to the IT industry. However, it can be customised for other industries as well
- d. The weightages and the ratings are hypothetical. However, the frame work can be customised to include the actual ratings
- e. The Weightages assigned too are hypothetical but again these can be customized
- f. The implementation of the framework can be done by an in house developed software
- g. The various ratings are to be given by the reporting manager. These ratings can be modified after the discussion with the concerned employee
- h. The framework can be implemented in a fixed time intervals or it can be specific to the events. This means that the framework can be implemented as per the need of the work to be carried out

Design of the paper

Having understood the basic terms let us now move to the process of designing the paper. The following steps outline the step by step process for developing the paper.

- a. Identifying the parameters of the value system
- b. Once these parameters are identified, the next step is the process of justifying the inclusion of these parameters
- c. Based on the above steps appropriate weight age are assigned
- d. The ratings are given by the authorized person which is generally the reporting manager of the employee
- e. Once the ratings are given then the evaluation process begins which will demonstrate the effectiveness of the framework and thus the Human Resource accounting system

Identifying the parameters for the value system and the reason for their inclusion in the value system

Having defined the step by step measures, let us now dwell further into the process of identifying the parameters which will contribute to the value system as defined by the organization and which directly impacts the business objectives. Based on the corporate experience of one of the authors, the following parameters to the value system are included in the framework

- a. Number of times the individual has demonstrated his inability to resolve the queries, bottlenecks and other hindrances related to the assigned job (This number can be in approximations in case the exact number is unavailable or has not been accounted for by the reporting manager). The prime reason for including this parameter to the value system is the fact that an individual is required as well as expected to get the job done at *any cost*. This means that he must possess the ability to remove bottlenecks and queries and hindrances and thus ensure that the job is finished within time
- b. Number of times the individual has refused to sit late so as to complete the work for the day (This number can be in approximations in case the exact number is unavailable or has not been accounted for by the reporting manager). The reason for including this parameter is that work in an organization is given the highest priority and it must be completed at any cost. If the job warranted the individual to sit late then he has to sit late and finish the work.
- c. Number of times the individual has failed to deliver the deliverables within the stipulated time frame ((This number can be in approximations in case the exact number is unavailable or has not been accounted for by the reporting manager). The reason for inclusion of this parameter is the fact that timelines must be met at any cost. In case the individual is faltering or failing to meet the deadlines then this is an indication of decrease of value system of the organization
- d. Number of times the individual has faltered under extreme pressure of job or assigned work (This number can be in approximations in case the exact number is unavailable or has not been accounted for by the reporting manager). The reason for inclusion of this parameter is the fact that IT industry is a high pressure job industry(though this parameter may not be applicable in other industries) and the individual is required to demonstrate his skill in handling high pressure job
- e. Number of times the individual has failed to resolve inter group conflicts among team members (This number can be in approximations in case the exact number is unavailable or has not been

accounted for by the reporting manager). The prime reason for including this parameter that in an organization every individual is required to be a team member and that it is the responsibility of every team member is to ensure that inter group conflicts are sorted out at the earliest as it impedes the work

Thus, having obtained the parameters which are responsible for their inclusion as a part of the value system let us discuss the process of assignment of weights to these parameters. In particular, the following is the criterion for assignment of weights along with the reasons as to why these parameters have been given the weight ages

- a. Highest weight age is to be given to those parameters in which the degree and depth of the contact is the longest. This means that if the individual is at the managerial post then the degree and depth of the contact is the highest and hence the weightage is the highest as it is the managers responsibility to get the work done
- b. In case the concerned individual is at the executive level then weightage is the least
- c. Highest weightage is to be given according to the exigency of the job. This means that the job which has the priority must be highest weightage

Thus, with the basic criterion for allocation of weight ages in place, table 1 depicts the allocation of weight ages to the identified parameters in the case of the individual who is a project manager for a mission critical IT project

Table 1: Depiction of allocation of weight ages to the identified parameter

Sr. No.	Parameter	Weigh age (out of a scale of 100)
1.	Number of times the individual has demonstrated his inability to resolve the queries, bottlenecks and other hindrances related to the assigned job	20%. This is the prime job of the manager and directly affects the deliverables timeline
2.	Number of times the individual has refused to sit late so as to complete the work for the day	10%. Low weightage as the manager can control the working while sitting at home
3.	Number of times the individual has failed to deliver the deliverables within the stipulated time frame	50 % weightage. Highest weightage as this impacts future of the business and repeat orders. Directly involves the commercials and good will in the market
4.	Number of times the individual has faltered under extreme pressure of job or assigned work	5%. This is natural. But can be managed while at home. Hence less weightage
5.	Number of times the individual has failed to resolve inter group conflicts among team members	15% This has high weightage as the inability to resolve the conflict directly impacts the work and hence the delay in deliverables

We will now dwell on the criterion for measuring the Human Resource Accounting with respect to the compensation package provided by the company so as to ensure the effectiveness of the framework.

The following points summarize the effectiveness of the framework in determining the Human Resource accounting

Thus, with the above things in place, let us now take onto the discussion of a template which would be actually applying the above process. Table 2 below depicts the template in detail

Designation : Project Manager.

Yearly CTC: Rs. 12,00,000/- p.a.

Per Month Cost: Rs. 1,00,000/- pm.

Per Day Cost : Rs. 3333.33/-

Table 2: Depiction of Calculation steps for value Human Resource Accounting

Sr. No	Target Parameter	Assigned Weights	Frequency (Max. 5)	Total	Per day cost of the respective variable with weights (Total * per day cost)
1.	Number of times the individual has demonstrated his inability to resolve the queries, bottlenecks and other hindrances related to the assigned job	20%.	2	0.4	Rs. 1333.33/-
2.	Number of times the individual has refused to sit late so as to complete the work for the day	10%.	2	0.2	Rs. 666.67/-
3.	Number of times the individual has failed to deliver the deliverables within the stipulated time frame	50 %	3	1.5	Rs. 5000/-
4.	Number of times the individual has faltered under extreme pressure of job or assigned work	5%.	2	.1	Rs. 333.33/-
5	Number of times the individual has failed to resolve inter group conflicts among team members	15%	3	0.45	Rs. 1500/-

Total Value loss = Rs. (1333.33+666.67+5000+333.33+1500)
 = Rs. 8833.33/-

Total Value given to the company = Rs. (12,00,000-8833.33)
 = Rs. 1191167 (Rounded)

Gain on value ratio = 1191167 / 1200000
 = **0.99**

Interpretation of gain on value ratio

Having constructed the framework and after having arrived at a number which denotes the effectiveness of the framework let us now interpret the value so obtained.

- a. The gain on value ratio figure of 0.99 indicates that the individual is able to provide the justification of the cost to company to the tune of 99% which is extremely good response of the individual in providing the accountability of the compensation package
- b. The gain on value ration figure may be used to create a bench mark for other individuals to emulate.

Future Recommendations

The value can be interpreted as under

- a. This number can be utilized to create a benchmark for other individuals and thus to decide on the increment factor
- b. The low scoring parameter can be given more attention to ensure that this is areas of concern requires more attention from all the concerned
- c. This value can be used to compare other individuals who are drawing the same yearly compensation package

Conclusion

The framework developed in this paper provides a means and mechanism to determine the degree and depth of the Human Resource Accounting system. The point that this framework highlights is the fact that this can be implemented at several levels across the organization.

By appropriately modifying the parameters and the weight ages this framework can be customized for other parameters as well

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