

A Review on Advantages, Problems and Perspectives of Human Resource Accounting

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Abstract: Investment on human resources has long been taken into consideration by managers. Human resource management is one of planning and directing methods for these investments. To talk about impact of performed expenses on human resources value, human resource accounting in this field evaluates manpower. Theorization in human resource accounting is started from 1960s by Likert. Accounting society also provides a clear definition and reporting to beneficiary individuals is mentioned by it as a final objective. Development stages of human resource accounting are classified by Felt Holmes into 5 categories. A lot of efforts have been made in the recent decades for enrichment of human resource accounting concepts and removal of deficiencies in various measuring methods. Human resources relationship with organization performance and human resources costs in profitability of organization are considered by most of researchers. Individual skills are divided by human resource theory into two categories, general skills and specific skills. Necessary condition for evaluation of forces in resource-based theory is presence of value, rarity, lack of reproducibility and organizing. Quality of dealing with organizational resources costs and future benefit of organization from these expenses has been approved in most of researches and capitalization of these expenses is confirmed. Different models are expressed for measurement of manpower and each model has strengths and shortcomings that more efforts should focus for resolving of them and by emphasizing on advantages of human resource accounting should attempt to justify profit excess on costs of system implementation and to eliminate related problems.

Key words: Human resources, human resource accounting, human capital theory, resources-based theory, economic value theory

INTRODUCTION

Manpower is considered as the most important capital and the main source of competitive advantages, creation of basic functionalities and real wealth of any organization. Therefore, investments in the areas of talent identification, performance monitoring and enhancement of skill, correct guiding of manpower and effective policy makings are essential for their promotion. Human as a main element of management can bring development and/or acts as a major obstacle for development. Human resources are the most valuable resources of organizations that by proper utilization from them and other organization components can realize organizational goals. These resources have potential abilities that are actualized in organizational environment. Human resources are involved more than other factors in maintenance and expansion of performance level and completion of organization mission and improvement of quality and efficiency depends to human factors are involved in organization growth and evolution process. In existing competitive situation and in an environment where continual changes and continues innovations are the main feature of it only those organizations will achieve

excellence that comprehend strategic role of their own human resources and have skilled, knowledge based, qualified, elite and powerful-human resources.

DEFINITION OF HUMAN RESOURCES AND DUTIES OF HUMAN RESOURCE ACCOUNTING

What are human resources? What duties of human resource accounting are? Initial costs in any organization consist of two important parts including materials and wages. Wage is money that is paid to personnel to compensate their services. Duties of human resource accounting are identifying and measuring of information about human resources and presentation of the information to beneficiary individuals. The main benefit of the above system is development of management power in decision-making and increase quality of management, preventing from poor performance of staffs and increase efficiency of human assets. Human resource accounting is approximately a new concept that entered in accounting after traditional theory. In traditional theory all costs in organizing domain of manpower should be considered against revenue period, since physical assets do not create. However, according to modern viewpoint, if

realized costs about human resources produce measurable benefit and value on the basis of monetary unit, must be capital. The value of expert manpower had a significant importance in the early 1990s. Human resource accounting was considered with the aim of providing a system that calculate human resource value and predict its future value. The basic assumptions of human resource accounting are as follows:

- Persons are valuable resources for organizations
- Usefulness of human resource as an organization resource is specified by manager and depends to his/her decision
- Investment information and valuation of human resource will be important and effective to help manager in organizational decisions

Now, one of the most important organizations assets is not calculated and it is not disclosed in financial statements such as other physical or intangible assets. Thus, human resource accounting purposes include better providing of cost information, presentation of figures about productivity of human resources, analysis of human resource and assist managers in deciding to build future by considering financial consequences. The purpose from investigation of human assets is obtaining of information about their situation for maintenance, analysis and enhancement of assets. Human resource management system can generally be likened to a tripod seat that each of its legs represents one of its processes. This tripod (process) includes the same processes of recruitment, improvement and maintenance. And human resource management system will be effective if the three legs together are equivalent and balanced. An organization that primarily done processes of recruitment and improvement will be successful if be able to prevent tendency of employees from leaving their job and to encourage them for persistence and continuity in services.

PIONEERS AND THEORISTS OF HUMAN RESOURCE ACCOUNTING

Relatively little time passed from presentation of human resource accounting idea. However, it is not a new subject in economy. Human resource is

considered by economics as a production function (Table 1). The calculation of human resource values by accounting began >50 years ago. Kamali (2014) believes that accounting has special place and has important role in economy, trade and development of production. Accounting is a human-made art that its principles, techniques and long-term processes were designed to assist organizations in direction of reporting to managers and the other people of society. Manpower plays an important role in coordinating of organization activities toward success and achieving to related objectives. Hassas (2014) believe that with machines, materials and money little or nothing could be achieved without human contribution. Manpower has significant role and expressed that success of any organization depends on quality of their human resources. However, some researchers believe that inference of human as an asset of an organization is not worthy. On the other hand, lack of identification of this asset and non-disclosure of it in financial statements are accounting problems. Mirzai *et al.* (2015) believe that human resource accounting includes accounting of expenses that are realized for human resources. He confirmed the definition of AAA and objectives of human resource accounting in three reporting groups were defined by them in 2005. Internal objectives, internal and external objectives and external objectives with the aim of elimination of requirements of external users to financial resources; internal objectives include internal directors growth of thinking about human resources and it also involves in identification of available skills, competencies and expertise. Internal and external objectives include providing requirements and informational rules in inside and outside such as to convince staffs and investors to human resource importance. External objectives include creative preparation of external users' requirements such as receiving actual or potential investors and/or competitors.

Islam and West viewpoints about human and human resource accounting as well as their reports are different in some cases. Islamic accounting and its reporting has had an important role in international accounting research and lead to development of accounting methods. Islamic accounting is identification, measuring and reporting of reality of financial activities that in deciding and estimation of Zakat and real benefits of Islamic

Table 1: History events of human resource accounting

Date (years)	Events
1960-1966	Deriving human resource accounting from economic investment theory and get affected by modern human resource theories and psychology
1966-1971	Technical research program toward measuring and identifying of potential users on the basis of empirical research in some organizations
1971-1976	Small organizations efforts for implementation of human resource accounting and examination of its effects on managers' decision
1976-1980	Lack of attention period to human resource accounting and related research
1980-**	Attention to human resource accounting and efforts toward implementation and enrichment of the theory

investments are in accordance with religious rules. One of differences between Islamic accounting and West accounting is that human in Islamic accounting is considered as depository of assets. But human in West viewpoint is ultimate owner of assets. Thus, in Islam viewpoint there is accountability to God and there is executive responsibility to Khums and Zakat.

HUMAN RESOURCE ACCOUNTING AND ORGANIZATIONAL PERFORMANCE

Any organization performance as a key criterion is involved in determination of success and/or defeat of organization. Despite extensive research about the criterion as one of important indicators in organization but its definition is yet challenged and is discussed in researches. Organization performance is a widespread concept with dependant variables and is discussed in recent researches. Hossain state that struggle to establish a performance measurement tool has been going on for years and it is not limited only to the area of human resource strategic management. The organizational performance in 1950s was considered as a social system toward providing of organization objectives and focused on area of organizational work, individuals and structure. New methods for calculating of organizational performance were subject of search by organizations in 1960s and 1970s. Organizational performance in this period was defined as organization ability to exploit environment in order to access and to use limited resources. Identification of organizations objectives was discussed in 1980s and 1990s and organizations objectives became more complicated. Management in this period attempted to persuade organization to the issue that successful organizations using the least resources (effectiveness) were able to achieve goals. The above concept was subsequently supported by accounting theories. Paying attention to human resource as a dependent variable to organizational performance has special importance for those organizations that have chosen their purpose accessing to efficiency and effectiveness. Organization performance can be calculated as evaluation of human resource to currency unit. This calculation includes criteria such as productivity, quality, customer-orientation and flexibility of production and can be performed through criteria of rate of asset yield, rate of stockholders salary yield, profit and sales. Of course, accuracy condition of the above calculations is ability of financial markets for calculation of stocks price or rate of company's assets yield to calculate replacement costs. Tobin index can also be used. Purpose of this index is cost performance or lack of cost performance on assets. A causal relation between Tobin index and performed investments on assets is criticized in this criterion.

HUMAN CAPITAL THEORY

The main root of this theory is in economical part of work that is a branch of economics and is generally focused on manpower for a specified period. According to this theory, education of manpower increases productivity and will lead to increase of knowledge and individuals skills and thus future income of workers increases in earning period of income. Education in this theory is a cost which raises individuals' income. However, education not only creates a way for rising occupational incomes but also creates a mean to achieve competitive advantage in organization and will also effect on organizational performance calculation. All organizations have potential to create value through employment of personnel with management skill and knowledge. Human capital from Becker viewpoint is similar to physical tool of production such as factory or machinery. Organizations will be able to invest through education and training of staffs and influence on human assets and on the other hand the rate of return of human capital will effect on owners. Investment in this theory is considered similar to investment in physical assets and similar to them should try to reflect and disclosure in balance sheet. One of the main purposes of human resource accounting is evaluation of manpower toward empowerment of workforce. General skills of individuals in human capital theory are different from company-specific skills of manpower. General skills include skills that have existed in individuals and create value for business unit. These skills are transferable from company to company. For example, all organizations in a competitive environment have ability to employ forces that have basic knowledge of management and skills such as the ability to use financial ratio, cognition and general information. Specific skills on the other hand, create value only for specific companies and are worthless for the others for example, ability of a staff in use of specific technology that is used only in that specific organization and/or knowledge to company policies and procedures that have been designed by specific organization and is usually worthless for the other companies.

RESOURCE-BASED THEORY AND ECONOMIC VALUE THEORY

Resource-based theory is one of theories of human resources theory. Academic researches and business managers believe that personal performance of staffs will effect on production level of company and individual collaboration of staffs at different levels of an organization will lead to a single goal of that organization. Thus, intellectual competition of staffs, their skills and co-operation performance of human resource should be developed adequately in order to achieve to the

organization single goal. This success is based on Oladipupo theory that is called resource-based theory. Resource-based theory acknowledges that human resource produces a stable competitive resource that is based on four basic requirements. The requirements include value, rarity, repeatability and organizing. Companies by reducing final cost of goods and services and/or by reduction of price to lowest possible level through creation of differentiation can create value. Management has always been looking for creation of value through human resource factors. Scarcity means that presence of value is essential for human resources but it is not sufficient to create competitive advantage of characteristics. Since, characteristics similar to human resources are found in competitive organizations and in the case of frequency are not able to create a sustainable competitive advantage. Managers of organizations must always look for methods to expend and exploit scarcity characteristics of human resource to be able to obtain profit induced by competitive advantage.

Imitating or repeating is in a state that other organization be able to simulate features over time. In other words, value and scarcity are characteristics of human resources that in short term provide higher profits for organization. In a case that organizations are able to replicate these characteristics over time, competitive advantages will not create further. Organizing is another feature of resource-based theory. A company should create an environment that human resource be able to exploit competitive advantages. Organization should focus systems and activities in one place so that human resources can exploit results of own potential advantages. For example, participation of staffs in decision-making processes and ability to express mental abilities in decision-making processes are ways to achieve organization objectives. Economic value theory is presented based on Fisher investment theory. Investment in viewpoint of Fisher is calculated as expired value of future earnings. Value of asset in viewpoint of some researchers is equal to presented values of future benefits of that asset. Note that issues and problems of macro-economics are separate from micro-economics and cannot be generalized. Therefore, price paid for potential benefits of future and other future advantages are used to calculate market price of assets. However, this method is not correct for calculating cost of received services from staffs. Since, amount paid is in exchange for services which are done at a certain time and for certain tasks. Market value of human resource is different from market value of other assets. Market value of labour is also affected by job situation of individuals. Meanwhile, comparison of market value of labour with other assets in market is not good. However, many believe that future earnings induced by human resources services can be an

acceptable criterion to measure their value. Some disadvantages of economic evaluation method are lack of attention to leaving service by staffs due to retirement. Possibility of individuals' replacement is not considered and employer income cannot be calculated in economic methods. In addition, implementation of this method is inconsistent with generally accepted accounting principles.

QUALITY TO DEAL WITH HUMAN RESOURCE COSTS

Varieties of expenses are considered in some viewpoints as current costs and are considered against incomes. But it must be recognized that expenses of human resources as cost of course will not lead to fair and correct presentation of balance sheet. Organization profit will also show less than actual amount that will have consequences such as negative impact on earnings per stock, stockholders' funds, market value and rate of yield of assets. So, it seems that related cost to human resources should be capital and become disclosed under title of intangible assets. Human resource costs include various parts. The first part is called initial costs. It includes performed expenses to preparation and development of manpower, guidance and training during service and other costs of personnel. The other part is replacement costs which include establishment costs of a staff instead of another staff and the other is job with drawal costs which include compensation expenses, margins costs before exit and vacant job costs. Human resources economic value like any other assets is known by some researchers to manage ability in use of potential capacities of these forces. Economic value of a person is also current value of his/her services that will provide in future. Some information of human resources is non-monetary which is placed in three groups under title of independent variables, intermediate variables and final variables. Independent variables are changed by management. Intermediate variables have reflection in internal health of organization such as loyalty, dynamism, efficiency and presentation of suggestion and perception of staffs. Final variables include affecting factors on productivity and the costs that increase share and incomes of organization from market.

MANAGERS TREATING WITH HUMAN RESOURCE ACCOUNTING AND HUMAN RESOURCE POSITION IN ORGANIZATIONS

Human is the most important entrance element in large commercial companies. Investments should be guided toward increase of performance, knowledge, skill and talent of manpower. If today's organizations seriously

need to maintain and to survive in competitive organizations they must explore and exploit useable capacities of human resources. Paradigm of human resources is expressed by Danaei (2014) as the term of technical psychological systems. So, two important parts in measuring process of human resources include duty of process in measuring the process itself and providing numerical statistics among available numbers. In other word as much as human resource accounting tend to numerical measurements it must also play a more important role in measuring and estimating of accounting process. Organization power must be guided properly and various activities must be taken by management to empower each of them. Establishment of each resource in proper situation, promotion, training and/or transfer of staffs has also very important situation in human resources and in human resource accounting. Three important strategies are useable for staffs empowering. The first strategy is enhancement of general awareness through story telling that will create reinforced collaborative effort in people. It will also create ability in staffs to describe problems and identification of capacities and potentials. Problem solving skill is the other strategy that should be strengthened in person among group and/or in group. The other strategy is staffs and human resource empowering, support skills training and resource equipping. Organizations can support individuals and organizational promotion of individuals through writing, conference, literatures, inviting lawmakers or political groups. Development of organization depends on human resources development. Human resources are management tools. Strategic planning for staffs empowering will help management to have powerful tools.

Human resource from perspective of Edward Lawler is defined as staffs with high skill and knowledge that cause organization survival in competitive environment. He believes that presence of workforce is required for organizations and it will lead to fast responding and presentation of good quality services and productions in organizations.

HUMAN RESOURCE VALUE MEASUREMENT MODELS

Many researchers using various models have tried to measure human resource value. Among used models some of them have major weaknesses and they have not been successful due to theoretical short comings and/or failure to provide complete computational factors. Some applicable models for human resource value measurement are as follows.

Lev and Schwartz's Compensation Model: Human capital value is calculated in this model based on specific age

that is determined by organization. This model cannot able to calculate true value of individuals in organization and does not succeed in measuring of staffs' contribution in effectiveness of organization. The basic assumption of this model is presence of staffs in organization till retirement age.

Eric Flamholtz Reward Valuation Model (1972): The probability of relocation of individuals and sudden leaving induced by death and/or retirement is considered in this model. Two types of costs as individual relocation and station displacement costs are calculated in the model. This model does not consider the fact that members of a group may be worth more than their organization. Human resources are evaluated by the assumption that what costs should be considered by organization if it would be necessary that available staffs to replace with equivalent staffs in terms of talent and experience.

Morse Net Benefit Model (1973): Assessment of manpower in this model is based on present value of net benefit which is derived from staff's future services. This net benefit is from gross value difference of staff's future services and current value of direct or indirect payments to them.

PekinOgan Net Benefit Model (1976): What is suggested in this model is that definite factors be examined that should multiply by benefit calculation induced by staff for evaluation of human resources. It is developed form of morse theory. Human resource value is assumed under PekinOgan Model equal to certain amount of benefit which is awarded to organization in the future. Net benefit induced by staffs services and certainty factor of benefit in the future should be calculated in this model and net benefit is finally obtained by multiplying certainty factor in net benefit for all staffs.

S.K. Chakraborty Net Benefit Model (1976): Staffs are divided in this model into two categories, managerial and non-managerial staffs. The value of human resources in this method should be calculated in community and group. He states that recruitment, selection, training and development costs of each staff should be recorded separately and be disclosed as income transferable expenses to the future period and gradually be dissipated based on subject. The value of manpower should be disclosed under investments as human assets. Disclosure of human resources in the group of fixed and/or current assets is not logical and thoughtful. The value of human capital is obtained from multiplying of staffs' average workflow in group through average wage in average discount rate of expected workflow period.

PROBLEMS OF HUMAN RESOURCE ACCOUNTING

Human resource accounting has performance to improve financial reporting and can be a powerful tool of decision-making for management. It can also efficiently help in exploitation and optimum use of resources. However, the possibility exists that management decisions regarding workforce adjustment and/or dismissal be affected through this system. There is a large gap between organization ideas and staffs working in organization. Human resource accounting helps managers in internal and external decisions and offers practical solutions to reduce this gap. Human resources can play an important role in progress and prosperity of their selves. Human resource accounting is a method used to assign amounts to organization values and helps management in maintenance and development of these values. An intelligent control system is also established. Worthy people should have worthy jobs. This is the main slogan of human resources management. Assessment of workforce toward realization of the above slogan could be useful. It also helps accountants to represent the most valuable organizational asset in balance sheet. Human resource accounting, despite excellent intent is faced with many problems. Some of problems of human resource accounting can be expressed as follows:

- Preparation of a standard format and creation of comparability of human assets information
- The quality of human assets information disclosure in traditional financial forms
- The quality to obtain valid, reliable and comparable information from organizations
- Justification of costs' benefits of human resource accounting implementation
- Establishment of coherent words
- The quality to link human resource accounting reports with modern human resource management
- Compulsion or lack of compulsion of organization to disclose human resource accounting information
- Determination of disclosure level in the case of mandatory disclosure
- The quality to protect staffs benefits at company level in case of optional disclosure

Many researchers suggest the probability of inability of traditional accounting in proper infrastructure for disclosure of human resource accounting information. Meanwhile, accounting community is not willing to present a framework to determine disclosure limit of

human resources information. Lack of compulsion in disclosure of minimum information indicates willingness of accounting community to present freedom and empowerment to organizations in disclosure or lack of disclosure. Lack of presentation of a framework for minimum disclosure will cause information asymmetry and increase of it. Behavioral part of human resources examines willingness of organizations in protection of records and in bookkeeping of human resources. This part also mentions organizations concerns about influence of human resource accounting on amount of production. So, doubt and uncertainty of mentioned organizations about implementation and/or lack of implementation of human resource accounting and quality of encountering of individuals who have been measured in terms of value is noteworthy.

Undoubtedly, human resources and staffs are the most important resources of organization for coordination with global progress and development. Since, the best and the most desirable usage from physical resources and material cannot obtain without skilled and specialized workforces. Lack of sufficient knowledge and familiarity of users (administrators) from accounting information and unawareness of producers (accountants) of information from human resource accounting and applications and importance of obtained information from it as well as lack of adequate training in academic courses toward introduction and development of this system and its purposes in some experimental studies has led to lack of implementation of human resource accounting system. Lack of human resource accounting standards is considered in investigation of educational barriers as the most important barrier for its implementation.

BENEFITS OF HUMAN RESOURCE ACCOUNTING

Strategic planning of human resources has great importance and will create the ability of flexibility of a manager against quantitative and qualitative changes of human resource. Quality of various reports which produced by human resource accountants has direct relation with users of report. A positive relationship between organization benefit and human resources costs include training and development of staffs has been observed in performed empirical researches based on regression model. So, control and on time and accurate implementation of human resources has well-deserved impact on performance and benefit of organization and should be considered by managers. Organization managers will enjoy from some benefits of human resource accounting. Management will able to decide

about efficiency of human resource and its available potential using human resource accounting. Human resource accounting helps management to get ensure about existence and adequacy of efficient manpower in organization and to decide about benefits of investment in manpower costs. Staffs on the other hand will also obtain better and comprehensive information about evaluation criteria, upgrade path and their benefits in organization and will try to increase their contribution in production. This indirectly increases the organization share from market. Smith says organization managers can no longer pay penalty for shifts and fluctuations of manpower market. And it is the time that managers pay attention to human capital of their organization as they have carefully protected from financial assets.

CONCLUSION

Human resource accounting and human resource management are areas for accounting development. Despite efforts and measuring models of human resources value, a required uniformity is not still create about disclosure of information. Human capital and economic value theories are associated with human resource theory and they try to lay foundation concepts and a framework for disclosure of information. Most

researchers have same opinion about human resource costs and their impact on organization and future benefits that provide for the organization. Most of them also approve that human resource is capital. Problems and concerns of managers from implementation of human resource accounting can be removed through policy maker organs and implementation benefits of human resource accounting will also be realized. Justification of costs benefits from implementation of this system creates motivation in managers and makes management objectives and human resources closer to each other.

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