

## Human Resource Accounting: Measuring People as Assets for Sustainable Organizational Growth

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### Abstract

*Human Resource Accounting (HRA) has evolved as a response to the increasing recognition of human capital as the most valuable resource in organizations. Traditionally, accounting systems have been treating expenditures on recruitment, training, and employee welfare as costs, and has not looked at the long-term asset value generated by these investments. It is imperative and proven that in the present economic set up intellectual capital drives competitiveness, HRA helps in bridging this gap by quantifying the economic worth of human resources.*

*This paper examines the concept, evolution, methods, and practical applications of HRA, with special reference to Indian companies such as Bharat Heavy Electricals Ltd. (BHEL), Infosys, and Jain Irrigation Systems Ltd. It also deliberates on the role of HRA in sustainability, corporate governance, and future business ecosystems shaped by analytics and artificial intelligence.*

**Keywords:** Human Resource Accounting, Human Capital, Valuation, Jain Irrigation, Intellectual Capital

### 1. Introduction

The phrase “*People are our greatest assets*” is often repeated in corporate boardrooms, yet financial statements seldom reflect this assertion. Employees are recorded in accounts as expenses, while machinery and buildings appear as assets. This mismatch creates an incomplete picture of organizational value.

Human Resource Accounting (HRA) addresses this anomaly by advocating the identification, measurement, and disclosure of human resource value. It goes beyond payroll accounting to capture the potential, productivity, and value generated by employees.

For companies like **Jain Irrigation Systems Ltd. (JISL)**, which employ over 6,500 individuals directly and thousands indirectly, people represent not just a workforce but the cornerstone of innovation, customer trust, and sustainability. Recognizing their value through HRA strengthens both financial reporting and strategic decision-making.

### 2. Concept and Evolution of Human Resource Accounting

#### 2.1 Concept

HRA can be defined as “the process of measuring and reporting the cost and value of people as organizational resources.” Unlike traditional assets, human resources appreciate with training and motivation, making their valuation complex but critical.

#### 2.2 Evolution

- **1960s:** Rensis Likert highlighted the importance of human variables in business success.
- **1970s:** Eric Flamholtz developed models for measuring the expected value of employees. The American Accounting Association recognized HRA as a distinct field.
- **India:** In the 1970s, **BHEL and ONGC** pioneered HRA disclosures, using the Lev & Schwartz model. These efforts gave India an early lead in HRA reporting.

Globally, countries like the USA and Sweden experimented with HRA, but widespread adoption was limited due to methodological challenges.

### 3. Objectives of Human Resource Accounting

1. To reflect human resources as assets in financial statements.
2. To guide investments in training, recruitment, and welfare.
3. To improve management decision-making with better HR data.
4. To aid in succession planning and leadership development.
5. To enhance organizational accountability to stakeholders.

### 4. Models of Human Resource Valuation

#### 4.1 Cost-Based Models

- **Historical Cost Model:** Records actual expenditure on recruitment, training, and development. Example: Jain Irrigation maintains training cost records for its employees trained in advanced drip irrigation systems.

- **Replacement Cost Model:** Calculates the cost to replace an employee of similar competence. For instance, replacing a highly skilled technologist in JISL's micro-irrigation R&D division would require substantial expenditure.

#### 4.2 Value-Based Models

- **Lev & Schwartz Model (1971):** Estimates the present value of employees' future earnings until retirement. BHEL continues to apply this in its annual HRA disclosures.
- **Flamholtz Model:** Considers the probability of an employee occupying different positions over time. Infosys has applied variations of this while valuing knowledge workers.

#### 4.3 Contemporary Approaches

- **Competency-Based Valuation:** Focuses on skills and knowledge. For example, JISL's team of agronomists, who advise farmers across India, can be valued based on their contribution to customer loyalty.
- **HR Analytics Approach:** Uses data-driven insights to estimate productivity. Infosys, Wipro, and TCS increasingly employ people analytics in workforce planning.

### 5. Human Resource Accounting in Practice: Case Examples

#### 5.1 Bharat Heavy Electricals Ltd. (BHEL)

BHEL pioneered HRA disclosures in India in the mid-1970s, applying the Lev & Schwartz model. Its reports quantified the value of employees, enhancing stakeholder awareness about the role of its skilled workforce in driving growth.

#### 5.2 Infosys Technologies Ltd.

Infosys has consistently highlighted "Intellectual Capital" in its annual reports. By integrating employee valuation into its knowledge management systems, Infosys communicates to investors how its people contribute to global competitiveness.

#### 5.3 Jain Irrigation Systems Ltd. (JISL)

At JISL, human resources play a pivotal role in bridging technology with grassroots agricultural needs:

- **Training Investments:** The company spends heavily on training farmers and employees in micro-irrigation techniques. Instead of treating these as expenses, HRA would view them as long-term investments in agricultural sustainability.
- **Employee Engagement:** JISL's success in turnkey irrigation projects depends on retaining engineers with multidisciplinary expertise. Valuation models can measure their contribution to project success.
- **Crisis Resilience:** During COVID-19 disruptions, JISL's ability to sustain operations and preserve employment for over 6,500 workers highlighted human capital as the company's greatest resilience factor.

### 6. Benefits of Human Resource Accounting

1. **Enhanced Financial Reporting:**
  - Provides a realistic picture of organizational value.
  - Investors gain insights into the contribution of people beyond profit numbers.
2. **Managerial Decision-Making:**
  - Helps justify training and welfare expenditure.
  - Example: JISL's investment in agronomist training directly translates into increased adoption of drip irrigation systems.
3. **Employee Motivation:**
  - Employees feel valued when recognized as assets.
  - Infosys used HRA disclosures to strengthen its employer brand globally.
4. **Corporate Governance:**
  - HRA disclosures improve transparency.
  - BHEL's early HRA practices demonstrated accountability to stakeholders.
5. **Sustainability and CSR Integration:**
  - Aligns with SDG 8 (Decent Work and Economic Growth).
  - JISL's farmer training programs create shared value for society and business.

### 7. Limitations and Challenges

- Lack of universally accepted methods leads to inconsistency.
- Subjectivity in valuation reduces reliability.
- Possible resistance from employees uncomfortable with being monetarily valued.
- Legal frameworks like the **Companies Act, 2013** and **Ind AS** do not mandate HRA, limiting adoption.
- Difficulty in quantifying intangible qualities like loyalty, creativity, or leadership.

## 8. Human Resource Accounting and Sustainability

Sustainability frameworks increasingly emphasize human capital:

- **Triple Bottom Line (People, Planet, Profit):** HRA strengthens the “People” dimension.
- **Integrated Reporting:** Human capital is recognized as one of six capitals.
- **JISL Case:** The company’s motto, “*Leave this world better than you found it,*” reflects investment in both farmers and employees. Reporting such human-centric initiatives through HRA reinforces corporate purpose.

## 9. The Future of Human Resource Accounting

### 9.1 Digital Transformation

- **HR Analytics:** Companies like Infosys and TCS are building predictive models for workforce valuation.
- **AI & Machine Learning:** Predict employee attrition and productivity, adding rigor to HRA models.

### 9.2 Global Standards

- Increasing pressure from investors may lead to inclusion of HRA in **sustainability reporting** and **non-financial disclosures**.
- The **International Financial Reporting Standards (IFRS)** may eventually incorporate human capital reporting frameworks.

### 9.3 Relevance for Indian Companies

For companies like Jain Irrigation, where human resources connect advanced technology with rural farmers, adopting HRA can:

- Improve access to finance by demonstrating intangible value.
- Support government initiatives like *Make in India* and *Skill India*.
- Provide competitive advantage in global markets where transparency is valued.

## 10. Conclusion

Human Resource Accounting today is more than a theoretical framework; it is a practical necessity in the knowledge-driven economy. When organizations begin to treat their people as appreciating assets rather than expenses, they gain a sharper lens for decision-making, build stronger confidence among stakeholders, and lay the foundation for long-term, sustainable growth.

For Indian enterprises such as Jain Irrigation Systems Ltd., BHEL, and Infosys, the idea has special significance. Human Resource Accounting can help bridge the wide gap that often exists between financial numbers reported in annual accounts and the lived realities of the workforce that creates those numbers. It shifts the perspective—employees are no longer seen merely as costs to control, but as value-creators who contribute directly to competitiveness and resilience.

If India moves towards institutionalizing HRA—through ICAI guidance notes, professional standards, or regulatory frameworks—it could position itself as a pioneer in the global debate on reporting intangible assets. More importantly, such a shift would mean companies are not just accounting for human resources, but are also affirming the dignity, contribution, and worth of their people.

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