

The importance of disclosure in human resources accounting: A normative approach

Mostafa AOUADI¹, Youcef KHENNICHE²

² university of ElOued , (Algeria). pr.aouadi@gmail.com

¹university ofL aghouat, (Algeria). y.khenniche@lagh-univ.dz

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Abstract :

Human Resources Management (HRM) or Human Resources Development contains several key roles such as planning, implementing, managing recruitment, selection, training, and organizational development initiatives in an organization. The aim of HRM is to maximize the productivity. It further aims to maintain human relationships within the organization in order to enhance and optimizes its employees. As a significant part in HRM, resources according seek to develop an appropriate accounting system. This later provides the information that is needed in decision making on the current human resources. Moreover, it seeks to the development of human elements in the organization plus optimizing, motivating, and maintaining the employees. So, this paper aims to analyze the various mechanisms and accounting methods in order to value the human resources in the organization.

Key words: Human Resources, Human Resource Accounting; Human Resource Accounting Disclosure; Human Resource Accounting methods

JEL classification codes : O15, JEL: J2, JEL: M5

المخلص:

تتضمن إدارة الموارد البشرية (HRM) ، أو تنمية الموارد البشرية العديد من الوظائف مثل التخطيط، وتنفيذ وإدارة التوظيف، والاختيار، والتدريب، والتوظيف، ومبادرات التطوير التنظيمي داخل المنظمة. الهدف من إدارة الموارد البشرية هو زيادة الإنتاجية والحفاظ على العلاقة البشرية بين الناس في المنظمة لتعزيز وتحسين فعالية موظفيها. ومنه يعتبر نظام محاسبة الموارد البشرية كجزء من إدارة الموارد البشرية، تسعى إلى تطوير نظام محاسبي فعال يوفر المعلومات اللازمة لاتخاذ قرارات بشأن الموارد البشرية الحالية والمحتملة ، وإمكانية استبدالها وتطويرها والاستخدام الأمثل للعنصر البشري بالإضافة إلى تحسين الأداء. مثل اختيار وتدريب وتحفيز والحفاظ على الموظفين. لذلك جاءت هذه الورقة لتحليل الآليات والأساليب المحاسبية المختلفة لتقدير الموارد البشرية في المنظمة.

الكلمات الرئيسية: الموارد البشرية، محاسبة الموارد البشرية، الإفصاح عن محاسبة الموارد البشرية، طرق محاسبة الموارد البشرية.

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1.Introduction:

Some companies are efficient, innovative, and competitive because they have significant elements. Many entrepreneurs do not hesitate to confess that their employees play a major role in the company. However, managing the staff in the company is not an easy task. Indeed how to decide about the right salary level? And how to motivate the employees?

The processes of the organization are operated by human resources. In order to have a growth and competitive advantages, companies must enhance the efficiency of people in the right way. Other resources cannot be effective without an effective human resources management. Human behavior such as group loyalty, skills, motivation, communication, capacity, interaction, and decision making are the reasons behind the organization's success.

There are many variables affecting human behavior, like group loyalty, skill, motivation, communication and capacity for effective interaction, decision making and so on, these are the original of organization's success, Thus employees, materials, machines, money, and methods are the resources which are required for the organization. These resources are classified into two main categories: animate (human) and inanimate (physical resources). These resources are generally classified into two categories, animate and inanimate (human and physical) resources. Otherwise, people are known as human resources or animate resources whereas materials, money, machines, and methods are known as inanimate ones or physical resources, so the success or otherwise of an organization depend on how best the scarce physical resources are utilized by the human resource. What is important here is that both of the two resources cannot be activated without each other. Therefore , the efficient utilization of inanimate resources depend largely on the equality, calibration, skills, and the character of the people as well, that is, the human resources working in it.

At a macro level, the term human resources indicates the aggregation or sum of the qualifications and components like skills, creative abilities, Innovation, analyzing capacities, intuition, imagination, knowledge, and experience possessed by all people. Sometimes, an organization possessed by abundant physical resources may fail without selecting the right people function. Hence, the importance of human resources cannot be ignored or denied since today's companies are measured only because of their human resources.

So , human resources is the process of identifying and reporting investment made by human resources within the organisation. Simply it is an extension of a standard accounting principles.

Today's companies need the value and cost of their human resources. Qualitative and quantitative research is routinely collected on employees turnover, benefits, expenditures, training costs , and so on. The information must be publicly. Consequently, measuring the value of human resources assist the organisation in documenting their assets accurately.

The current study deals with the role of disclosure in human resource accounting, so the research problematic is:

What are the different mechanisms to enhance disclosure in human resources accounting?

2. Managing Human Resource.

Human resources are considered as the most important assets. They are different from the physical ones . Physical assets do not have human feelings and relationships unlike human assets.

2-1- Definition of Managing Human Resource:

The organisation must have and use resources effectively in order to achieve its goals.The available resources to a manager are : human , financial , physical, and informational. Human resources have a unique role in the success of any organizations.

Human resources departments typically include people with wide variety and ranges of ages , sexes , knowledges , skills, cultures, behaviours, and abilities. These elements contribute to the attainment of the organisational objectives. How effectively the employees contribution in the organisation depends on the quality of the humanresources (in terms of staffing, training, and compensation) . Furthermore, the ability and willingness of management from CEO to first linesupervisors is significant since it aims to create an environmental effective use of human

resources. So, the human resources can be defined as the strategic, integrated, and coherent approach to the employment development and the well-being of the organisation as well.

2-2- importance of HRM:

Human resources management is important to the organisation in seven (7) areas: (<http://bankofinfo.com/7-importance-of-human-resource-management>, 2018)

_Formulation of HR policies: it acts for a proper formulation of human resources policies, knowledge, and efficiency on human resources management is required.

_Implementation of HR policies: it signifies the importance of HR management in the industrial organisation.

_Reviewing the employee needs : human resources suggest a proper action by reviewing employee needs and it also increases efficiency of an organisation.

_Developing the social welfare: if a human resource management is a welfare that is oriented by employees, so social welfare may take a place.

_Utilising of human resources: HRM can show its importance by a proper utilization of human resources.

_Developing the labour management relations : Good labour management is essential in creating a peaceful working environment (human resources management can ensure it.)

_Overall development of the organisation: human resources play a major role in achieving productivity and profitability targets.

However, the practice of HRM must be viewed through the prism of the strategic goals for the organisation. So, the adoption of a holistic perspective towards HRM is needed. HRM ensures that there is no piecemeal and that its policy enmeshes itself with the organisational goals. For instance: if the training needs of the employees are simply met with perfunctory training on omnibus topics, the firm stands to loss not only from the time the employees spend in training but a loss of direction too. Simply, the organisation that follows the HRM policies, will ensure that the training is based on a focused and topical methods. So, the practice of HRM needs to be integrated with the overall strategy. This ensures that effective use of people provides a better returns to organisation in terms of ROI (return and investment). Hence, HRM must be designed in this way in order to make the organisation succeeds.

2-3- Functions of HRM:

They are categorised into areas: (Chukwunonso, 2013, pp. 7-9)

A. traditional special areas:

- Training/ development: it conducts training needs, analysis, development, and succession planning program.
- Compensation / benefits: it develops job descriptions, facilitates job, evaluates the process, conducts and interprets salary, provides surveys, payment structure, designs payment for performance, improves program, and administers benefits program.
- Employees and industrial relations: It helps in resolving employees relations problems .
- It develops union avoidance strategies.
- It assists in having collective bargaining negotiation.
- It oversees grievance procedure.
- Employment/Recruiting: Assists in the HR planning process, it develops HR information systems, it develops as well as updating job description. It also oversees recruiting function plus developing job posting systems, then conducting employment interviews.
- It has also a major role in safety, health and wellness.
- EEO/Affirmative actions : this develops and administers affirmative action programs.
- It helps in resolving the EAO disputes.

B. New Human Resource Management Special Areas :

- Work and family programs: develops and administrate work and family programs including flextime, alternative work scheduling.
- Cross cultural training: this translates manners, morals, and business ethics practices of other nations and cultures.
- Other cross cultural trainers with related employees' families then they help them to adjust in their new environment.
- Managed care : as a company health care costs continue to escalate. Employers are embracing managed care systems which requires employees to negotiate the best options for them.
- Managing diversity : this develops policies and practices that treat workers of various ages, races, sexes, and physical abilities appropriately.

2-4- The current challenge of human resource management:

According to a survey of senior human resources executives in personnel journal's to 100 companies based on 1992 revenues, that the most challenging HR issues are : health care cost, recognizing or downsizing organizations, and mergers acquisition. These issues are followed by problems in managing diverse groups of workers who have different backgrounds .

Other areas present challenges such as workers competitions, labor relations, and management development. For instance: international companies are facing an increased global competition.

One may expect to see new issues and challenges emerging in the future that require appropriate action. Evolving business and economic factors forge changes in the HR field requiring that preparation for change be an ongoing process. So, the new role of human resources management in today's companies is to seek for the services of the human resources companies.

So the new role in human resource management in today's companies is to seek the outsourcing services of HR recruitment companies. Nowadays the HRM is transformed toward a strategic utilization and having a measurable influence of employees programs on the world business. Today's the most successful companies are adaptive resilient and fast reactions to change in the world consumerism. The effectiveness of HRM is crucial to the success of business. Thus, the HRM aims to establish systems to ensure planning and employee development, this guarantees people to be motivated, happy, and personally engaged in the contribution of the company's success.

This conducts to the development of organizational culture. It further contributes to create a good environment to ameliorate worker's competencies. This helps to serve the customers in its perfect way.

3. Human Resource Accounting:

3-1- Definitions of Human Resource Accounting:

The accounting system can be defined as conventional technique which helps to monitor the different flows within the organization. Then it measures the results and the effectiveness of the labor hand. It is group of technical methods and procedures to ensure maintaining of organization's activities. Moreover, it determines the result of its activities in specific area of time (for example a fiscal year). Simply it is an integrated system aims to regulate the financial flows in the organization.

In the field of HR accounting, many definitions have been presented by theorist and other international organizations.

1- The American Association Of Accountants defines the human resources accounting as the process of identification and measurement of data about human resources plus communication the information to interested sides. (Satish, 2011, p. 635)

2- Also the theorist Eric Flamholtz defines human resource accounting as an accounting for people as a part of organizational resources. It also includes the measurement of the cost incurred by

the organizations. This aims to recruit, select, hire, train, and develop assets. The economic value of people in the organization has its generous part in measurement. (Eric, 1999, p. 12)

3- Stephen Knauf also provides another definition to the HRA. According to him HRA is the measurement and the quantification of human organizational inputs like recruiting, training, and commitment. (Porwal, 2007, p. 476)

4- the professor Woodruff also defines HRA as follow: it is the attempt of identifying and reporting investment which are made in human resources of the organization. This is not considered within the traditional accounting practice. Typically, it is the information system that provides the management functions in order to change during a specific time. (Arvinsrai, 1995, p. 150)

5- According to Davidson and Roman Weil the HRA is a term used to describe a variety of proposals. This seeks to report and emphasize on the importance of human resources, knowledgeable, trained, and loyal employees in a company earning process." (Anbuoli, 2016, p. 301)

The HRA system includes the following elements:

- a. identifying information needed about the HR.
- b. measuring costs of the inputs like recruiting, hiring, training, selecting and developing the HR.
- c. Reporting on the economic value of workers in the organization and their experiences.
- d. communicating the result of the report on the internal and the external users.

3-2- Human resource evaluation approaches adapted to Algerian companies:

Human resources have much more priority in the present service field. Various models are suggested to quantify the talent, skill and knowledge of the employees. Some of the models to evaluate the HR are: (Devarapalli, (2013), pp. 97-101)

A- Historical cost model:

This model is developed by William Pyle and adopted since 1969 by R.G. Barry Corporation. It emphasizes on recruiting, training, selecting and developing the HR. These elements are equal to the value of the labor force. The value of HR rises through time and it gains experience as well.

B- Replacement cost method:

According to this method, the value of workforce is appreciated as the cost of replacement with a new labor force which has similar ability and capacity effectiveness.

There are two major types of costs: individual replacement and positional replacement one.

The individual replacement costs include recruiting, selecting, developing and training. When an employee presents a change in moment of vacation or movement, this reflects the individual replacement costs. While the positional replacement cost includes the occupation of different positions within the organization. However, this method is a subjective in nature.

C- Opportunity Cost Model

This model works on maximizing the targeted earnings from the productive capacity. HR value is hard to be measured in this model since the targeted use of HR has limits. At the same time, the use of this model is unidentifiable in the real industrial situations.

D- Stochastic Rewards Model of Eric Flamholtz

This type of model is developed by the theorist Eric Flamholtz. It introduces some variables that help in estimating the individual's value. He also suggests many approaches to evaluate the value of HR in the company. Any employee working in the organization has his/her valuable role. Productivity, promotability, skill, transferability, and activation level determine the individual's conditional valuable role.

Flamholtz has measured the expected realizable value of an individual as:

$$E(RV) = \sum_{i=1}^n y \left[\sum_{i=1}^n \left(R_t * \frac{P(R_t)}{(1+r)^t} \right) \right]$$

Where E (RV) =expected realizable value

Rt=Value derived by an organization in each possible rate

P (Rt) =Probability that the organization will have Rt

t= time

n= state of exit

r= discount rate

i = 1,2,3.....

E-Sk.chakra borty Model

Sk. Chakraborty of Indian institute of management Calcutta was the first Indian to attempt at valuation of resources.

This type is similar to that one of the historical one. Recruiting, learning, training, and developing of every employee must be estimated in its fullest extent. So, this helps in the acquisition model of evaluation.

The written off amount has to be shown separately in the balance under the investment head.

The value of HR average of employment and the future average salary have to be discounted in an appropriate level. This is highly shown in the investment on the assets side of the balance. Separate evaluation is made for managerial and non- managerial employees.

The present value must be taken as an expected average after the turning tax to the capital that is taken from the balance.

$$V = \sum_{i=1}^n \left\{ N_i * \frac{AS_i}{(1+k)^n} \right\} + AC$$

Where:

V= Value of a category of employee.

N=Number of employees.

AS= average annual pay.

K= after tax return on capital employed.

i=1, 2, 3.....n years (average tenure of employed).

F- Lev and Schwartz compensation model

This model developed in 1971 by Lev and Schwartz for valuing human resources. Lev and Schwartz model is popular for calculating the value of HR used by public sector like SAIL and BHEL. It is based future earnings of an employee till his retirement

According to the model value of human assets is estimated for a person at a given age which is the present value of his remaining future earning from his employment and this represented by the following.

$$V_r = \sum_{t=r}^T \left\{ \frac{I(t)}{(1+r)^{t-r}} \right\}$$

Where

Vr= value of an individual on r years old

I(t)= the individual's annual earnings up to retirements age

T = Retirement age

r = Discount rate specific to the person

t = Active year of service

The model categorized whole labor force in various and homogenous groups such as unskilled, semi-skilled, technical staff, managerial staff and so on and also into different age groups. In this model we calculate the formula average earnings for different classes and age groups.

Lev & Schwartz also recommended the use of cost organization's capital for the purpose of discounting the future earnings of the employees to calculate the present value. They recognize individual employees' economic value to the organization.

4. Disclosure in H.R.A:

4-1- Definition of Disclosure:

The disclosure is the voluntary release of information that is relevant to the security and the fund of the company. A company has to provide disclosure by registration on the SEC system and regulations that govern the company's data. (<https://financial-dictionary.thefreedictionary.com/Disclosure>, 2018)

Hence, disclosure aims to prevent price manipulation and everything would corrupt the value of trade efficiency. This faculty of disclosure is additional information in the financial field. Usually, it can be considered as an explanation for activities that influence the entity's financial results. (<https://www.accountingtools.com/articles/2017/5/6/disclosure>, 2018).

Disclosure a can also be defined as the submission of details and facts that interest the business operations. (<https://financial-dictionary.thefreedictionary.com/Disclosure>, 2018)

The FASB committee defined voluntary disclosures in the business reporting research project "Improving Business Reporting: Insights into Enhancing Voluntary Disclosures" as: "The term voluntary disclosure, as used in this report, describes disclosures, primarily outside the financial statements, that are not explicitly required by GAAP or an SEC rule. (Mark, 2009, pp. 10-11)

The disclosure document is a document that explains the fee structure, potential risks, and the style of trading for a fund. The Securities and Trade Commission requires that all funds provide disclosure documents to prospective investors.

(http://www.investorwords.com/12734/disclosure_document.html, 2018)

4-2- Benefits of Disclosure IN H.R.A

A good manager keeps his/ her ethical business with his /her subordinates so that both of them contribute in the achievement of the organizational targets. (Devarapalli, (2013), p. 101)

A-Cost of developing human resources: HRM provides the cost of developing human resources in the business process. This also enables the manager to increase the cost of the labour turnover.

B-Proper investment: it seeks to make a perfect investment in terms of financial services.

C-Planning and executing personal policies: This model helps management in field planning and in the personal policies as well. The management makes use of this model in making decisions regarding transferring, promoting, retirement, and all elements that are related to the human resources.

D-Improving employee efficiency: It works to improve the efficiency of the employees and motivation in order increase the degree of efficiency in the workplace.

E-Calculate Return on Investment (ROI): The return on investment is calculated when the investment on human resources are taken into consideration. Thus , ROI can be beneficial only when it appreciate the value of investment in the human resources.

5. Conclusion:

Over than 71% of CEO believes that their employees play a major role in the company's economic success. It is necessary to confess and estimate the value of HRM in the world business. So, HRM must be evaluated in order to maintain having a good HRM performance. For sure, these will grantee that the organization can meet the customers' demands and needs.

It is noticeable that the disclosure in the field of human resources is important because HR practices are directly related to financial outcomes. It is necessary to publish additional information

attached to human resource costs, benefits, value, and all financial statements, and explanation for activities which significantly influence the management of company.

In addition, it is suggested that companies combine all positive points of methods previously presented in this paper to appreciate and well evaluate their HR in the perspective of developing and conserving this rare and important resource.

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