

EMPLOYEE PARTICIPATION, VALUATION OF HUMAN RESOURCES AND CREATION OF INTANGIBLE ASSETS

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1.1 INTRODUCTION

In many of the developed countries, the currently accepted accounting principles and their related reporting requirements rest on the foundational assumption that physical assets (land, machinery, buildings, natural resources and inventory) generate wealth. Human capital does not even appear on the balance sheet. But now the organizations have realized the importance of intangible assets like human resources, corporate brand, intellectual property and employee participation. Organizations are measuring intangible assets and valuing their human resources as it is the indicator of the brand value which reflects the potential of the company to external stakeholders

1.2 EMPLOYEE PARTICIPATION MEASURE

Involving employees in the development of performance measures often results in better employee job performance. It is widely believed that the employee participation may affect employee satisfaction, productivity and commitment and they all create a comparative advantage for the Organization. Employee Participation is generally defined as a process in which influence is shared among individuals who are otherwise hierarchically unequal. Participatory management practice balances the involvement of managers and their subordinates in information processing, decision making and problem solving endeavor. Participation in decision-making can satisfy employees' self-actualization needs and, by doing so, increase employees' motivation and job performance. The best way to improve productivity is by striving for the shared goals of employees and managers. By allowing worker input into developing the mission statement, establishing policies and procedures, determining perks, etc., you can improve communication and increase morale and satisfaction.

1.3 EMPLOYEE RETENTION

1. **Offer a competitive benefits package that fits your employees' needs.** Providing health insurance, life insurance and a retirement-savings plan is essential in retaining employees. But other perks, such as flextime and the option of telecommuting, go a long way to show employees you are willing to accommodate their outside lives.
2. **Use contests and incentives to help keep workers motivated and feeling rewarded.** Done right, these kinds of programs can keep employees focused and excited about their jobs.
3. **Provide some small perks.** Free bagels on Fridays and dry-cleaning pickup and delivery may seem insignificant to you, but if they help employees better manage their lives, they'll appreciate it and may be more likely to stick around.
4. **Use contests and incentives to help keep workers motivated and feeling rewarded.** Done right, these kinds of programs can keep employees focused and excited about their jobs.
5. **Promote from within whenever possible.** And give employees a clear path of advancement. Employees will become frustrated and may stop trying if they see no clear future for themselves at your company.

6. **Foster employee development.** This could be training to learn a new job skill or tuition reimbursement to help further your employee's education.
7. **Create open communication between employees and management.** Hold regular meetings in which employees can offer ideas and ask questions. Have an open-door policy that encourages employees to speak frankly with their managers without fear of repercussion.
8. **Get managers involved.** Require your managers to spend time **coaching** employees, helping good performers move to new positions and minimizing poor performance.
9. **Communicate your business's mission.** Feeling connected to the organization's goals is one way to keep employees mentally and emotionally tied to your company.
10. **Offer financial rewards.** Consider offering stock options or other financial awards for employees who meet performance goals and stay for a predetermined time period, say, three or five years. Also, provide meaningful annual raises. Nothing dashes employee enthusiasm more than a paltry raise. If you can afford it, give more to your top performers. Or, if you don't want to be stuck with large permanent increases, create a bonus structure where employees can earn an annual bonus if they meet prespecified performance goals.
11. **Make sure employees know what you expect of them.** It may seem basic, but often in small companies, employees have a wide breadth of responsibilities. If they don't know exactly what their jobs entail and what you need from them, they can't perform up to standard, and morale can begin to dip.
12. **Hire a human-resources professional.** If your company is nearing 100 employees, consider hiring a human-resources director to oversee and streamline your employee structure and processes. Putting one person in charge of managing employee benefits, perks, reviews and related tasks takes a huge load off of you and makes sure employees are treated fairly. HR managers are also more up to date on employment laws and trends. They can set up various programs and perks you may not have known existed.

1.4 REPORTING PROVISIONS

Section 211(1) of the Companies Act, 1956 requires all companies to draw up the Balance Sheet and Statement of Profit and Loss account as per the form set out in Schedule VI.

As per Revised Schedule VI, the disclosure for fixed assets is to be segregated into:

- i. Tangible assets;
- ii. Intangible assets;
- iii. Capital work-in-progress; and
- iv. Intangible assets under development

Accounting Standard (AS) 26 specifically defines the accounting meaning of intangible assets and brings out distinction between accounting of intangible assets based on type and business transaction thereby helping the accounting community in true and fair treatment of intangible assets in the books of accounts of the Company.

As per New Companies Act, 2013 Schedule III (Section 129) under general instructions for preparation of Balance Sheet and Statement of Profit and loss of a Company – Part I ,Point J (Balance sheet)

Intangible assets

- (i) Classification shall be given as:
 - (a) Goodwill;
 - (b) Brands /trademarks.

- (c) Computer software.
- (d) Mastheads and publishing titles.
- (e) Mining rights.
- (f) Copyrights, and patents and other intellectual property rights, services and operating rights.
- (g) Recipes, formulae, models, designs and prototypes.
- (h) Licences and franchise.
- (i) Others (specify nature).

When the company is under compromises, amalgamation or arrangements the valuation of Tangible and intangible asset has to be done by registered valuer.

In the Companies Act, 2013 it is stated that depreciation of all intangible assets will be according to notified AS.(Accounting Standard)

New companies act, 2013 has also recognised and places specific section 77 to 87 on 'Registration of Charges' includes charges against funding of intangible assets within 30 days of its creation.

1.5 HUMAN RESOURCE ACCOUNTING

Human resource accounting is the process of identifying and reporting the investments made in the Human Resources of an Organisation that are presently not accounted for in the conventional accounting practices. In simple terms, it is an extension of the Accounting Principles of matching the costs and revenues and of organising data to communicate relevant information. The Quantification of the value of Human Resources helps the management to cope up with the changes in its quantum and quality so that equilibrium can be achieved in between the required resources and the provided Human Resource Accounting provides useful information to the management, financial analysts and employees as mentioned below. Human Resource Accounting helps the management in Employment and utilisation of Human Resources.

- It helps in deciding transfers, promotion, training and retrenchment of human resources
- It provides a basis for the planning of physical assets vis-a-vis human resources
- It helps in evaluating the expenditure incurred for imparting further education and training of employees in terms of the benefits derived by the firm.
- It helps to identify the causes of high labour turnover at various levels and taking preventive measures to contain it.
- It helps in locating the real cause for low return on investment, like improper or under-utilisation of physical assets or human resources or both
- It helps in understanding and assessing the inner strength of an organization and helps the Management to steer the company well through the most adverse and unfavorable circumstances.
- It provides valuable information for persons interested in making long term investments in the firm.
- It helps the employees in improving their performance and bargaining power.

1.6 : CASE STUDY

Human resource accounting in Infosys

Infosys' HRA model was based on the present value of the employees' future earnings with the following assumptions,

- An employee's salary package included all benefits, whether direct or otherwise, earned both in India and in a foreign nation.
- The additional earnings on the basis of age and group were also taken into account.

To calculate the value of its human assets in 1995-96, all the 1,172 employees of Infosys were divided into five groups, based on their average age. Each group's average compensation was calculated. Infosys also calculated the compensation of each employee at retirement by using an average rate of increment... The benefits of adopting HRA were manifold. It helped an organization to take managerial decisions based on the availability and the necessity of human resources. When the human resources were quantified, it gave the investors and other client's true insights into the organization and its future potential. Proper valuation of human resources helped organizations to eliminate the negative effects of redundant labor.

By adopting and implementing HRA in an organization, the following important information could be obtained:

- Cost per employee
- Human capital investment ratio
- The amount of wealth created by each employee
- The profit created by each employee
- The ratio of salary paid to the total revenue generated
- Average salary of each employee
- Employee absenteeism rates
- Employee turnover rate and retention rate...

In the financial year 1995-96, Infosys Technologies (Infosys) became the first software company to value its human resources in India. The company used the Lev & Schwartz Model and valued its human resources assets at Rs 1.86 billion. Infosys had always given utmost importance to the role of employees in contributing to the company's success. Analysts felt that human resources accounting (HRA) was a step further in Infosys' focus on its employees. Narayana Murthy (Murthy), the then chairman and managing director of Infosys, said: "Comparing this figure over the years will tell us whether the value of our human resources is appreciating or not. For a knowledge intensive company like ours, that is vital information."

The concept of HRA was not new in India. HRA was pioneered by public sector companies like Bharat Heavy Electronics Ltd. (BHEL) and Steel Authority of India Ltd. (SAIL) way back in the 1970s. However, the concept did not gain much popularity and acceptance during that time.

It was only in the mid-1990s, after Infosys started valuing its employees, that the concept gained popularity in India. By 2002, HR accounting had been introduced by leading software companies like Satyam Computers and DSQ Software, as well as leading manufacturing firms like Reliance Industries. HR managers were quick to respond on the above developments by stating that more and more organizations had now started to realize the importance of skilled workforce. They felt that to be successful in highly competitive markets, the Company requires to continuously improve the level of performance of its workforce.

Analysts felt that HRA was an investor-friendly disclosure, and assured stakeholders that the company had the right human capital to meet its future business requirements.

Use of the Lev and Schwartz Method to Value HR in Infosys A fundamental dichotomy in accounting practices is between human and non-human capital. As a standard practice, non-human capital is

considered as assets and reported in the financial statements, whereas human capital is mostly ignored by accountants. The definition of wealth as a source of income inevitably leads to the recognition of human capital as one of the several forms of wealth such as money, securities and physical capital. Infosys have used the Lev & Schwartz model to compute the value of human resources. The evaluation is based on the present value of future earnings of employees and on the following assumptions:

- a. Employee compensation includes all direct and indirect benefits earned both in India and overseas.
- b. The incremental earnings based on group / age have been considered
- c. The future earnings have been discounted at the cost of capital of 10.60% (previous year – 12.18%).

The table showing the value of human resource in Infosys

(in Rs. crore, unless stated otherwise)

	2010	2009
Employees (no.)		
Software professionals	1,06,864	97,349
Support	6,932	7,501
Total	1,13,796	1,04,850
Value of human resources		
Software professionals	1,06,173	95,600
Support	7,114	6,533
Total	1,13,287	1,02,133
Total income	22,742	21,693
Total employee cost	12,085	11,405
Value-added	20,937	19,073
Net profits excluding exceptional items	6,218	5,988
Ratios		
Value of human resources per employee	1.0	0.97
Total income / human resources value (ratio)	0.20	0.21
Employee cost / human resources value (%)	10.7	11.2
Value-added / human resources value (ratio)	0.18	0.19
Return on human resources value (%)	5.5	5.9

1.7 SUGGESTIONS

The perception that human resource accounting is not based on a business strategy should be changed and should overcome the difficulties quantifying human resource capital to record on financial statement. There is a need to arrive at some consensus to effectively tackle the problem of accurately calculate on job training costs for new employees and to assign the dollar values to intellectual or physical capabilities of staff.



1.8 CONCLUSION

Valuation of Intangible and their presence in the Balance Sheet of a company needs to be properly evaluated and reported in case of mergers of two potential companies, liquidation which is carried out in distressed conditions of sale of Intellectual Property viz., licenses, franchisees, patents, copyrights, trademarks and so on even in winding up situation on completion of a desired project execution. Historically, human resources accounting and costing focused on how much employees cost an organization, without evaluating the value of the employee to the business. As the world moves into the information age, intellectual knowledge as a business asset is becoming increasingly important. Recording, evaluating and assigning value to this intangible asset is one of the primary focuses of the evolution of human resources accounting.

1.9 REFERENCES

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