Applicability of The Human Resource Accounting In Bangladesh: Evidence From Banking Sector

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Abstract
Human Resource value measurement has become an emerging issue in the competitive business world. As human resource meets up all recognition criteria of an asset, it is compelling to present it in the financial statement as an asset. Companies in some countries are doing so as well. But Bangladeshi companies are yet to start presenting human resources financial statements as assets. The objective of this research was to examine whether the prerequisites for implementing Human Resource Accounting are available and to assess the applicability of human resource measurement models in Bangladesh. The banking sector has been selected as the population and both primary and secondary sources of data were used for data collection. It's been found that, though no Bangladeshi bank reports human resource as an asset, and the choice of available HRA Models differs, most of them think it's important to report in the Financial Statement. And initiatives from regulatory authorities in this regard are still awaited.

I. INTRODUCTION
Of all the factors affecting businesses, human resource is probably the most important. Despite being such a precious resource, human resources are not considered an asset and are absent from Financial Statements. Humans were thought to be an asset for the first time after the 2nd World War, when Rensis Likert, one of the most famous social psychologist, used the term 'Human Assets' in the late 1950s. It was subsequently replaced by the term 'Resources' by later scholars. Considering its importance and nature, many accounting scholars and practitioners argue for reporting it as an asset. Here comes the idea of Human Resource Accounting (HRA). According to the American Accounting Association's Committee on Human Resource Accounting (1973), "Human Resource Accounting is nothing but the process of identifying and measuring data related to the human resource and communicating this information to interested parties". It can easily be understood from this definition that besides the measurement of data related to placement, training, and development of employees, HRA evaluates their financial condition as well. Flamholtz (1985) defines it in a more specific way. He says HRA is the process of measuring the cost incurred by business firms and other organizations to recruit, select, hire, train, and develop human assets. So, HRA determines the extent to which expenditures on human resources are to be recognized for valuation and reporting purposes. In a nutshell, as Flamholtz (1985) regards, HRA is to be involved in the measurement of the economic value of people in organizations.

The Human Resource Accounting system was successfully implemented for the first time by R. G. Barry Corporation. Then many other US, Canadian, and Mexican organizations followed in their footsteps. Organizations like Milwakee Braves Inc., USA (1963), Touche Ross and Co; Montreal (1971), Texas Instruments (1971), Witte and Co (1975), and the U. S. Navy (1984) also conducted tests with the thought. Some American and European football clubs already implemented HRA. These Clubs maintain strict records of transfer and signing fees of every footballer. Each player has a predetermined goal and focal point that is set by the manager. (Hossain, Akter, Sadia, 2014). Many Indian companies are also presenting human assets in their financial statement. Scholars of accounting have proposed different models to measure the value of human resources. Even some Indian companies have already adopted the HRA model.

In the case of Bangladeshi companies, the picture is not even close to foreign companies' advancement in this regard. In this era of multitasking, where skills are arguably the most dominant determinant of success, dropping human resource from financial statements raise questions regarding the presentation of HR in Financial Statement. So, it is high time for Bangladeshi companies as well to review the existing HRA models

in recognizing HR as an asset for reporting purposes. Though various studies have been conducted in the field of HRA, all of these are descriptive in nature and review the merits & drawbacks of each HRA model. This lack of empirical study on HRA has pushed the researchers to undertake this study. Endeavor is put here to explore the intention of top management of the companies to report HR in accounts and to justify the applicability of the HR Measurement Models in the organizations of Bangladesh. The findings of this study might help Bangladeshi companies implement HRA as early as possible.

II. LITERATURE REVIEW

The existence of any organization without Human resources is impossible. Friedman and Lev (1974) consider HRA is used to measure two things- (i) assets value of Employees and (ii) assets creation by Employees. They also defined valuation HR as an economic attribute related to employees.

Asgari, M. (2013) found that the main goal of Human Resource Accounting is to describe the prospective capability of the HRA in furnishing financial information of the business and they also found that shortcomings of ordinary accounting could be reduced by using the monetary values of human resource. Rahaman (2013) thought that HR should be represented in the balance sheet as an asset because organizations get future benefits from the employees year after year and this feature is similar to a non-current asset. Cherian (2013) found Human resources to be considered as building blocks of any organization. It is necessary to identify the contribution of the employees to the firm. Then, the evaluation measures of human resources are carried out. The findings of another study (Augustine & Enofe, 2013) indicate that Nigerian financial institutions like Insurance and Banks are divulging more HRA information than non-financial institutions. M.M. (2013) found that HRA develops effective managerial decision-making, enhances the quality of management, and prevents misuse of human resources. According to Islam (2013), HR means labor's knowledge, skills, and energies that are used to produce goods and offer services. Jaarat (2013) also found the possibility of measuring human resources using one of the generally accepted bases in accounting that is included in the conceptual framework of financial reporting issued by IASB. According to Jasrotia (2004), HRA means to measure and record employees' value as an asset to the organization. He has highlighted the reporting aspect of HR in his study. He also thought that an employee's intellectual is more important for taking a business crucial decision, thus the human intellect is a vital intangible asset for the entity.

Inekwe and Murumba (2014) clarified the reason for not presenting the HR value in the financial statement. He thought there is lacking a proper and accurate model for measuring HR value. It won't be possible to present HR in the Balance sheet without identifying a unique and accurate HR valuation model. Moreover, consideration of depreciation is another vital issue for HRA. In addition, Tiwari and Ravindra (2010) found Human resource accounting (HRA) is an attempt to identify, quantify and report investments made in Human resources of an organization that is not presently accounted for under conventional accounting practice.

In the case of Bangladesh, Huq (2012) found that if the Central Bank of Bangladesh provides guidelines and order of including HR in financial statements and IASB provides standards regarding the HRA model that is fit for Bangladesh, the implementation problem will be reduced very soon. On the other hand, there are numerous efforts to abstract HRA worldwide. Mohamed (2011) conferred the 5 phases of HRA, each one of which caused outcomes connected to HRA, concentrated mostly on costs that would be categorized as HR assets. These costs are: (i) hiring cost (ii) teaching cost (iii) training cost (iv) cost of replacement and (v) retirement cost, and choosing cost. Islam, M.N., (1998) found that although HRA theory was developed much earlier, no generally recognized HRA model is yet developed. Few Indian government sector corporations report the value of HR as additional information but not on the financial statement. At the present accounting practice in Bangladesh, no company reports HR value as an asset on the balance sheet. Now, this is a matter of debate and a prerequisite to reporting the value of the human resource to be shown in the published financial statements.

Bearing this reality in mind the researchers have surveyed to review the applicability of the HRA model in Bangladesh to measure and report the value of Human resources as an asset in the financial statement.

III. METHODOLOGY OF THE STUDY

3.1 Objectives of the Study
The major objectives of this study are as follows:
a.   To examine the influential factors in applying Human Resource Accounting in Bangladesh;
b.   To examine the applicability of HRA practice in Bangladesh.
c.   To show the top management's attitude towards presenting Human Resource as an asset in the Financial Statement.

3.2. Sources of Data
The present study is an empirical study based on the survey method. Data have been collected from both primary and secondary sources. Primary data were collected through face-to-face interviews using a pre-listed

schedule. The schedule was developed and used to gather data to accomplish the objectives of the study. Necessary secondary data were collected from the reads of earlier articles, publications, and websites that are maintained by the Bank authorities.

3.3 Sample and Sampling Techniques
The banking sector of Bangladesh has been chosen as a sample for this empirical research because banks are service-oriented organizations and it has an HR department which will increase the transparency and reliability of the outcomes of this research. Although Fifteen Banks in Bangladesh have been selected randomly for the study, it has been emphasized on the head office of each bank for data collection. Respondents include the General Manager, Head of Human Resource Department, Principal Officer, Assistant Vice-Principal, Senior Officer, and Officer so that reasonable information can be derived.

3.4 Designing Questionnaire
A structured questionnaire has been used for data collection from the respondents of chosen banks. Twenty closed and open-ended questions have been used in the questionnaire. In the first phase, there are six questions that are demographic information of the respondents. Questions No. 7 to 19 are research-related and the last question has been used to obtain general feedback and suggestions about accounting and financial policies for implementing Human Resource Accounting.

3.5 Data Analyses
Data has been analyzed by using the SPSS 16.0, MS Excel and Online A/B calculator. Descriptive statistics (frequencies, descriptive, crosstabs) have been applied widely to analyze the collected data.

IV. DATA ANALYSIS & INTREPRETATION

4.1 Educational/ Professional Degree of Respondents:
The reliability of the reply of the respondents depends on their educational or the professional qualification. Hence all questionnaires have been served to the persons who have depth knowledge about their organization and Human Resource Accounting. The following Figure-1 shows qualification of the respondents.

Title: Educational Qualification of the Respondents
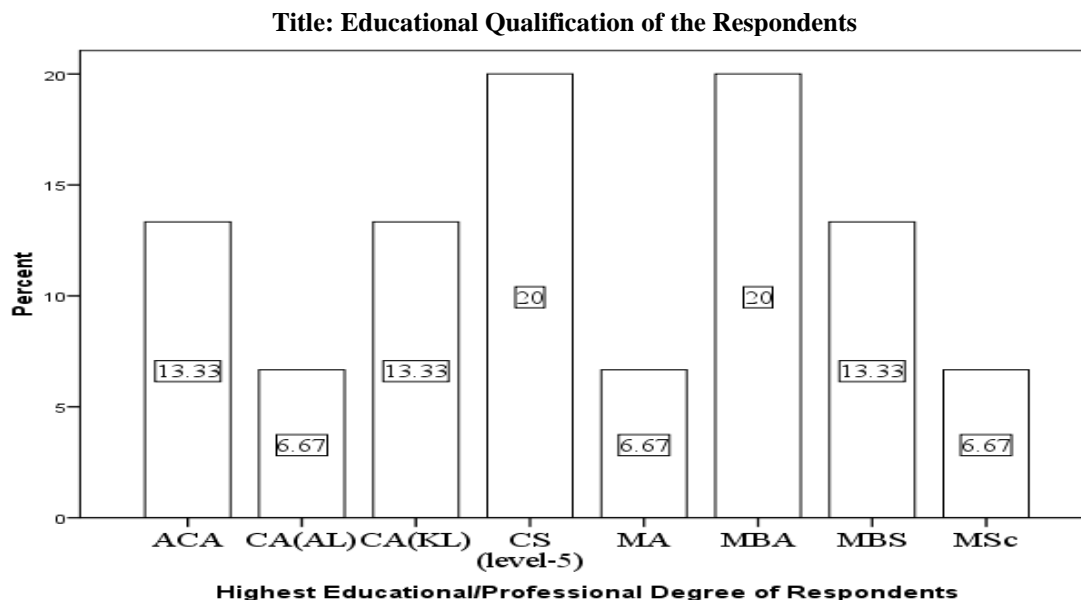
Figure 1: Educational Qualification of the Respondents

The above bar diagram states that the highest 20% of the respondents have an MBA degree and the same percentage have studied in Chartered Secretary (Level-5) whereas the lowest weight is carried by the respondents (6.67%) who have been pursuing their studies in CA (application level). Same 13.3% is shared by the respondents who have the highest accounting degree i.e. Chartered Accountancy and who are currently pursuing their study in CA (knowledge level).

4.2 Presentation of Financial Statement & Interim Reporting:

It has been enquired whether Banks present financial statement or not. The data and information on hand support that all the bank of Bangladesh are presenting financial statement annually and also they prepare interim report consistently.

4.3 Measurability of Human Resource Value:

Banks are service oriented organizations. The key success factor of Banks is human resource efficiency. So the value determination of human resource is an emerging issue. The following table-1 shows us the condition of Human Resource Value measurability of the banks of Bangladesh.

Title: Human Resource Value Measurability					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Measurable	13	86.7	86.7	86.7
	Not Measurable	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Table 1: Human Resource Value Measurability as the respondents think.

Table 1 shows that, of the respondents, 86.7% opined that human resource value is measurable is and the rest 13.3% believes otherwise.

4.4 Consideration of Influential Factors to Justify Applicability of HRA Models

Considering retirement age of the employees, probability of employees' quit and death before retirement age, NPV of HR future earnings and cost-benefit analysis on the basis of a comparison between the amount taken and services provided by the employees are the most influential factors of adopting HRA models in an organization. Do Bangladeshi banks do so? Table-2 depicts the situation of these factors in case of Bangladesh.

Response	Calculation of NPV of HR future earning	Consideration of Employees' Retirement Age	Consideration of Employees' death and quit	Appropriateness between benefit paid and benefit received from HR
Yes	13.3	100	93.3	60.0
No	86.7	-	6.7	40.0
Total	100	100	100	100

Table 2: Influential Factors to Justify Applicability of HRA Models

The above table shows that only 13.3% banks of Bangladesh calculate NPV of HR future earning to take the employment decision and remaining 86.7% do not even think about it. On the other hand, every personnel interviewed think about retirement age of the employees, 93.3% of them consider the probability of employees' quit and death before retirement age and 60% consider the match between remuneration given to and the services taken from the employees.

4.5 Short term employees' benefit and long Term employees' benefit

	Expense	Liability	Not Recognized
Short term employees' benefit	100%	-	-
Long term employees' benefit	60%	13.33%	26.67%

Table 3: Employees' Benefit Treatment

The above table shows that all of the Banks present Sort term employees' benefit as expenses. But the treatment of long term employees' benefit varies in great deal. 60% banks present it as expense, 13.33% show it as liability and the rest 26.67% banks do not recognize the long term employees' benefit at all.

4.6 Treatment of Post-Employee Benefit & Termination Benefit

Post-employee benefit * Termination Benefit Cross Tabulation				
Count				
		Termination Benefit		Total
		Expense	Not recognized	
Post-employee benefit	Liability	10	1	11
	Reserve	4	0	4
Total		14	1	15

Table 4: Post-Employee Benefit & Termination Benefit

The above table shows 11 banks present Post-employee benefit as liability and 4 banks record it as reserve. Banks think termination benefit is short term in nature and it's a rare case, so 14 banks record termination benefit as expense and 1 bank does not recognize the termination benefit at all.

4.7 Treatment of Prepaid Employees' Benefit & Accrued employees' benefit

Prepaid Employees' Benefit * Accrued employees' benefit Cross Tabulation				
Count				
		Accrued employees' benefit		Total
		Liability	Not Recognized	
Prepaid Employees' Benefit	Asset	4	0	4
	Not Recognized	0	11	11
Total		4	11	15

Table 5: Prepaid Employees' Benefit & Accrued employees' benefit

The above table shows 4 banks present prepaid employees' benefit as asset and 11 banks do not recognize it because they do not approve any prepaid benefit to the employees. Same case has been observed in case of recording of accrued employees' benefit.

4.8 Applicability of HRA Models in Bangladesh:

Selection of suitable model for measuring the value of human resources is very important in HRA. Quantifying human resource value is a major problem. Scholars have proposed numerous models to determine the value of human resources. All of them are different in nature and have different pre-requisites to be implemented. So it is necessary to review Human Resource Measurement models before going to justify the applicability of HRA models in Bangladesh. There are two broad approaches to measure the value of Human Resources. These are monetary measurement approach and non-monetary measurement approach. Of them, monetary approach is more concise and concrete in weighing the worth of the employees. This approach has been being used in the USA and in India. Non-monetary measurement approach is qualitative in nature and it has no power to dominate accounting recording system. Monetary approach has been categorized into two models including Cost Model and Economic Value Measurement model. On the other hand, Non monetary measurement approach has been categorized into four models. The classification of HRA models is as follows:

1. Monetary Measurement Approach	2. Non-monetary Measurement Approach
(a) Cost Model i. Historical Cost Approach (HCA) ii. Replacement Cost Approach (RCA) iii. Opportunity Cost Approach (OCA)	i. Assignment of Rang to Individual Performance ii. Measurement of Attitude iii. Likert-Bowers Model iv. Inventory of Skill and capabilities of Individual
(b) Economic Value Model i. Lev and Schwartz Value of Future Earning Model ii. Hermanson's Adjusted Discount Future Wages Model iii. Stochastic Rewards Valuation Model iv. Jaggi and Lau Model	

Table 6: Human Resource Measurement Models

HCA determines the genuine cost of human resources. It includes employee hiring cost, training cost, employee retaining cost, and employee development cost. It is easily understandable to the user. The economic value of HR increases over time and it creates a problem during the calculation of the depreciation of human resources. Replacement cost is the sacrifice anticipated to be made to substitute the services provided by the concerned employees at their death, retirement, or resignation (ICAN Distance Learning Pack, 2000) according to Replacement Cost Model. The prime drawback of the Replacement Cost Approach is that no person is the same in terms of abilities, skills, and other working traits. So it is thought to be a bit subjective. OCA tries to determine HR value by using economical bidding (Garg,n.d). The employee has no alternative use, and cannot be evaluated under this model. Actually, this model is immoral and artificial to estimate the HR value. (Obara, 2013). Quantifying HR value is difficult under this method. Because alternative use of HR within the organization is restricted and at the same time the user may not be identifiable in the real industrial environment. Lev and Schwartz's Value of Future Earning Approach discloses that companies' HR is the aggregate value of all NPV of the employees getting such as salary, bonus, increment, TA/DA bill, recreational allowance, etc that are paid to the employee from joining to retirement. As per this approach HR value as assets are appraised for an individual at a certain age which is the NPV of his/her future earning from his or her service life. Dutta (2008)

sketched some drawbacks of this model. This model is unable to consider employees' productivity, training costs, and erosion rate.

From the theory, it is clear that no one model is free from drawbacks and is enough to measure the exact value of the human resource. Indian companies are using Lev & Schwartz model to record HR as an asset.

Table 8 shows the respondents' preference of human resource value measurement models if they are to apply these in the banking business environment of Bangladesh.

HRA Models	Percent	Valid Percent	Cumulative Percent
Historical Cost Model	46.7	46.7	46.7
Replacement Cost Model	33.3	33.3	80.0
Lev and Schwartz Value Model	20.0	20.0	100.0
Total	100.0	100.0	

Table 7: Applicable HR valuation Model in BD

The above table shows that about 46.67 % banks of Bangladesh are interested to use historical cost model because it is easy to handle and well known to all, 33.33% banks want to implement Replacement cost Model and another 20% banks are interested to apply Lev and Schwartz Future economic value model to measure the value of human resource. Hence this study found that the cost model of human resource value measurement is ideally applicable in Bangladesh. As human resource meet up all the recognition criteria of asset, the HRA model should be adopted by the organization. It is very eminent that, a well-developed instruction & regulations and reasonable time will be needed for the Bangladeshi companies to adopt the proposed HRA models.

4.9 Management's intention to present HR as Asset & Applicable HR valuation Model in BD

Cross Tabulation					
Applicable HR valuation Model in Bangladesh					Total (%)
		Historical Cost Model	Replacement Cost Model	Lev and Schwartz Vale Model	
Support to HRM as Asset	No	6.67	13.33	6.67	26.67
	Yes	40.00	20.00	13.33	73.33
Total (%)		46.67	33.33	20.00	100

Table 8: Management's intention to present HR as Asset & Applicable HR valuation Model in BD

It can be found from the above table that 73.33% banks support to present HR as asset in the financial statement and among them 40%, 20% and 13.33% opined in favor of Historical Cost Model, Replacement Cost Model and Lev and Schwartz Value Model respectively.

V. DISCUSSION
5.1. Findings
o   The study shows that 86.7% Banks opined that human resource value is measurable and rest of the banks believes that the value of human resource is not measurable.
o   The study shows that eleven banks present Post-employee benefit as liability and four banks record it as reserve. Banks think termination benefit is short term in nature and its rare case to the banks so fourteen banks record termination benefit as expense and one bank does not recognize the termination benefit at all.
o   The study also shows that four banks present prepaid employees' benefit as asset and eleven banks do not recognize it because they do not approve any prepaid benefit to the employees. Same case has observed place in case of recording of accrued employees' benefit.
o   The study shows that NPV of employees' future earning, retirement age, employees' death and quit probability are influential factors in applying Human Resource Accounting in Bangladesh. Among these factors NPV is really a great factor for introducing HRA according to 13.3% Bank authorities. On the other hand entire bank authorities are aware of the retirement age of the human resource from their organization.
o   The study also shows that 73.33% Banks' top management think they will allow presenting HR as an asset in the financial statement.
o   The study also reveals that 40% Banks' Top Management among all who support HR as asset are interested to use historical cost model because it is easy to handle and well known to all, At the same time 20% and 13.33% Banks' Top Management opined in favor of Replacement Cost Model and Lev and Schwartz Value Model respectively.

5.2. Recommendation

o   Historical Cost Model of HRA could conveniently be implemented by the Bangladeshi companies. Replacement Cost Model may also be applied here to measure the human resource value in the concurrent banking business environment.

o   Bangladesh Bank and other regulatory authorities should develop necessary guidelines for implementing HRA in the banking sector in Bangladesh.

o   It is observed that, if implemented, HRA will create opportunities for 'window dressing'. To avoid this, Human Resource Audit body should be introduced.

o   Users' perception on the applicability of Human Resource Accounting should be assessed before going to implement HRA in Bangladesh.

V. CONCLUSION

Accounting information users are increasing day by day. They want to get more and more information about an organization before taking their economic and investment decisions. Human Resource Accounting enhances the quality of the financial statement. As Human resource meets up all the recognition criteria of an asset, it is the demand of time to present the human resource in the financial statement as an asset. Unfortunately, there is no guideline whatsoever regarding HR valuation under the Company Act 1994. Therefore revelation of HR information in the financial statement is thought to be an optional task by the management bodies. So, it is urgent to prescribe rules and guidelines for valuation, recording, and reporting HR as assets on the balance sheet. Researchers through this study have found that the banking sector of Bangladesh has significant support to represent Human Resources as assets. HR heads of studied banks have the willingness to use the HRA model for the valuation of HR. Now, it's all the Regularity bodies' role that they should play vitally in prescribing the formulation, application, and evaluation of HRA here in the near future.

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Appendix

Questionnai	Research On	Date:

Applicability of Human Resource Accounting in Bangladesh: Evidence from Banking Sector

Dear respondent

It is a great honor to invite you to participate in a study about accounting practices related to Human Resources (HR) in order to contribute in proposing a module for recognition of HR as an asset. The data in the questionnaire will be treated confidentially, and only for purposes of scientific research. Thus you are requested to complete the following questionnaire to conduct a successful research.

Demographic Information	
1. Respondent's Name	
2. Contact Address	
3. Gender	(a) Male (b) Female
4. Your occupational positions, and give a brief about it: Highest educational/professional Degree:	

5. Does your entity present financial statements? (Yes) / (No)

6. Does it use interim financial reporting? (Yes) / (No)

7. Does your entity get future economic benefit from Human Resource (HR)? (Yes) / (No)

8. How do you think about the Human Resource value measurement?
  (Measurable) / (Not Measurable)

9. Do you record/treat human resources as assets: (Yes) / (No)

10. If the answer of question no. 9 is "Yes" what categories of Assets: Tangible/ Intangible

11. If the answer of question no. 9 is "Yes" what methods do you follow to measure the human resource value?

Monetary Measurement Approach	Non-monetary Measurement Approach
(i) Historical Cost Approach (ii) Replacement Cost Approach (iii) Opportunity Cost Approach (iv) Lev and Schwartz Value of Future Earning Model (v) Hermanson's Adjusted Discount Future Wages Model (vi) Stochastic Rewards Valuation Model (v) Jaggi and Lau Model	(i) Assignment of Rang to Individual Performance (ii) Measurement of Attitude (iii) Likert-Bowers Model (iv) Inventory of Skill and capabilities of Individual

12. Do you support to present HR as an asset within Statement of financial position? (Yes)(No)
Explain your answer: ……………………………………………………………………………

13. How does your entity record/treat the following items in financial statement?

Items	Revenue	Expense	Asset	Liability	Reserve	Not Recognized
Cost of recruiting , hiring, selecting and placing of Employees						
Cost of training and developing of Employees						
Short-term employee benefits, such as wages, salaries, vocational holiday benefit, sick pay, profit sharing, or bonus						
Non-monetary benefits, such as medical care and so on, for current employees.						
Post-employment benefits, such as pensions, post-employment medical benefits, and post-employment life insurance.						
Termination benefits						
Other long-term employee benefits including long vacation leave.						
Prepaid employees' contracts						
Accrued employees' benefits						

14. Does your entity determine the retirement age of the employees: (Yes) (No)

15. Does your entity think about the probability of employees' quit and death before retirement age? (Yes) (No)

16. Does your entity calculate NPV of HR future earnings to take the employment decision?
(Yes) (No)

17. You think that there is appropriateness between benefits paid by the entity employees and benefits obtained from them? (Yes) (No)

Explain your answer if it is (no) ………………………..
………………………………………………………………………………………………

18. What are the expenses that paid to the employees?

19. If you get the opportunity to introduce Human Resources as assets which model will you recommend? (**If the answer of question no. 9 is "No")**
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20. Are there any other suggestions about accounting and financial policies for recording the Human Resource value ……………………………………………………………………………
…………………………………………………………………………………………………..
....

………………………….
Signature of Respondent