

HUMAN RESOURCE ACCOUNTING IN EDUCATIONAL INSTITUTIONS

Dr. Anubha Gupta¹ and Vidya Mahesh²

¹Associate Professor, IILM Graduate School of Management, Greater Noida

Email: anubha.gupta@iilmgsm.ac.in

²Associate professor, Fortune School of Business, New Delhi

ABSTRACT

This paper is an attempt to capture the Human Resources accounting essentials of B-Schools. It is immensely difficult to account the resources of institutions in which profit and productivity depend heavily on intangible assets. We generally stand perplexed to measure the worth of any intangible resource. This attempt becomes much more complex in the case of knowledge carriers and intellectuals.

Intellectual capital has become to be an accounting component since a decade and more now. Here is an attempt to quantify the investment in the intellectual and knowledge resources and evaluate their future value, thereby giving a fair understanding of the total worth of an organization. Unlike other tangible resources, the individual worth of intellectual assets is anticipated to either not depreciate or in the worst cases fall at a rate lower than the tangible assets.

The objective -- is to understand the concept behind quantifying and accounting for Human Assets in an academic institution. The most popular technique used in investment decision making, i.e.; Net Present Value (NPV) is applied here. Human resources in such institutions involve teaching professionals and others that are engaged in admissions, placement, course design and others.

The Survey method is commonly applied to facilitate identification of the factors to be considered.

INTRODUCTION

“Human resources are the greatest assets of any company. You can raise tariffs or prevent MNCs from entering, but one can't stop the employees from leaving if they are dissatisfied.” – Narayana Murthy, Founder of Infosys Technologies.

This quotation signifies the extent to which leading corporations value their human resources. They treat them as the most powerful assets and find good reason to work towards their satisfaction. The best companies in the world are those that realize the worth of their employees and continue to invest in them towards their growth and development. This is a

conscious effort towards building a continuous resource that shall fuel the growth of the company from within. In recent years Academic Institutions have become the major source of any country's workforce which in turn defines the economic potential. Behind this workforce lies the effectiveness of the academic institutions that generate them. These academic institutions have been doing a commendable job in times immemorial. Of late competition has also reached academic institutions as it has the corporations. Academic institutions have also begun to have mechanisms to evaluate their profitability and decide methods for their sustenance. This makes it imperative that the capacities of the schools and colleges are evaluated appropriately. The most obvious evaluation is through financial statements. Though the financial statements are essentially designed to capture the inflows and outflows of organizations and identify the profitability, recent developments have included human capital under the social capital head. The human assets for an academic institution are scattered between the teaching and non teaching employees. This accounts for the intangible assets of the institution. Apart from this infrastructure and facilities account for the tangible assets.

Tangible assets have common methods of evaluation and accounting like historical cost method where the original price of assets is reduced every year by charging depreciation. The most questionable part of evaluation is among the Intangible assets. As common knowledge goes the most crucial asset for an academic institution is its intellectual capacity. This has also been concurred by analysis which included the various factors that could affect student satisfaction. We have considered student satisfaction as the core to the analysis because this factor defines the success of any academic institution. Our study has been based on higher education institutions like B-Schools.

Accounting in Academic Institutions

Net Present Value (NPV) Method

In Finance, NPV stands for difference between Present value of Future Cash inflows that would be generated by a particular investment and the initial investment to be made to generate such inflows. If this NPV turns out to be positive the investment can be made otherwise not.

The same approach has been applied for evaluating human resources in B-schools where the inflows that can be generated by investing into a Human resource i.e. their worth shall be more than investment made on them.

NPV = Present Value of Cash Inflows – Present value of Cash outflows.

$$NPV = \sum_{t=0}^N \frac{R_t}{(1+i)^t}$$

NPV = Present Value of Human Resources – Investment made upon Human resources.

t = the time of the cash flow

i = the discount rate (the rate of return that could be earned on an investment in the financial markets with similar risk.); the opportunity cost of capital.

R_t - The net cash flow (the amount of cash, inflow minus outflow) at time t .

Present Value of Human Resources in an Academic Institution

Cash Inflows - In a B-school, the revenues are generated through student satisfaction. It creates the brand value and fetches more admissions. Hence we can say that the inflows in a B-School depend upon the student satisfaction. From a survey conducted on students and management members we have arrived at the conclusion that the following are the important factors. The table below also tells us the rank of importance and their relative contribution towards revenue generation and the nature of the underlying assets.

Parameters	Rank	Percentage contribution	Based on Asset
Infrastructure (ACs, Class room, Audio video devices, Laptops, Water, Canteen, Labs, sports complex etc)	5	15%	Based upon Tangible Assets
Administrative support(Library, Computer labs and Student assistance)	4	15%	Based upon Human Assets
Faculty Proficiency	2	20%	Based upon Human Assets
Quality and relevance of Course curriculum	3	20%	Based upon Human Assets
Percentage of Placement and Average Package	1	30%	Based upon Human Assets

Investment made in Human Assets in a B-School

Cash outflows - In B-schools, the outflows are primarily in the form of salaries and other expenses towards employee along with cost of acquisition and maintenance of Tangible assets.

We arrive at the total outflow towards the human resources by identifying the following–

- (Average salary + benefits of employees in a given level in placement cell) x (no. of employees in the respective level)
- (Average pay for each teaching position) x no. of people in the respective position
- (Average salary +benefits of employees in a given level in admission cell) x (no. of employees in the respective level)
- (Average salary +benefits of employees in a given level in administration) x (no. of employees in the respective level
- Plus the Recruitment and selection cost across all categories.
- Plus investment cost towards the development of the employees (training, seminars, research, and other similar benefits)

Cost of Capital (k)

In financial terms, the cost of capital k is the minimum required rate of return on any investment project.

This k is used to calculate the present value of all future cash inflows and outflows. Since it found that all Human assets are treated at par with the tangible assets, k value is considered the same for both tangible as well as human assets.

METHODOLOGY

For the purpose of this paper a survey has been conducted involving students of B-schools across Delhi/NCR. The parameters involved both Human and Tangible components of their institutions. Responses were collected to questions on a scale ranging from 1 to 5, 1 being the highest in importance and 5 being the least important. Jointly another survey was conducted in which responses were collected from the members of management of various B-schools. This was intended to identify the relative importance of the various assets towards revenue generation. The responses were collected as percentages of importance.

CONCLUSION

From the above we can conclude that both the groups in the survey (students and members of management) concur in the fact that assets related to human resources are more important than the physical assets. This is seen from the fact that placements, Faculty proficiency and course design are valued higher in importance than the infrastructure and support facilities. The parameters are identical in the case of contribution towards revenue generation too. Thus it can be safely concluded that Academic institutions in general and B-Schools in particular depend on the Human and Intangible assets more than Physical and Tangible ones owing to their worth and potential to appreciate with time.

LIMITATIONS

- The scope has been limited to B-Schools and professional institutions of higher education. The sample has been identified from the students of various B-Schools in Delhi/ NCR.
- We have not classified the faculties on the basis of their designation i.e. Assistant Professors, Associate professors, and Professors.
- We have also considered non teaching members of a b-school like people at admission cell, placement cell etc for the purpose of study.
- It is assumed that an average tenure (n) of any B-school employee is assumed as 5 years.

REFERENCES

1. American Accounting Association Committee of Accounting for Human Resources, Report Of the Committee on Human Resource Accounting, 1973, The Accounting review Supplement to vol. XLVIII

2. Archel, P.: Activos intangibles: análisis de lagunas partidas polémicas, Revista técnica del Instituto de Censores Jurados de Cuentas de España, 7, 1995
3. Armstrong, M.: A Handbook of Human Resource Management, Kogan Page, London, 2001
4. Barcons-Vilardell A., Moya-Gutierrez S., Somoza-Lopez A., Vallverdu-Calafell J., Griful- Miquela C.: Human Resource Accounting, International Advances in Economic Research, 1999 in: http://www.iaes.org/journal/iaer/aug_99/barcons/index.htm;
6. Cea García, J. L.: Las cuentas anuales y la imagen fiel, Partida Doble, 4, September 1990;
7. Conner, K.: A Historical Comparison of Resource-Based Theory and Five Schools of Thought Within Industrial Organization Economics: Do We Have a New Theory of the Firm, Journal of Management, 17, 1, 1991
8. Dobrota N. - coordinator: Dictionar de economie, Ed. Economica, Bucuresti, 1999;
9. Eric G. Flamholtz: A Model for Human Resource Valuation: A Stochastic Process with Service Rewards. The Accounting Review April, 1971
10. Kandula Srinivas R., Human Resources Management in Practice : With 300 models techniques and tools