HUMAN RESOURCE ACCOUNTING: ITS CONSTRAINTS AND LIMITATIONS IN THE PHILIPPINES

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ARTICLE DETAILS

ABSTRACT

This study is a sequel to the article previously written on awareness of Human Resource Accounting Practices and Costing (HRAC) of companies located in the Philippines. This study aims to find out if the recommended accounting system is acceptable by companies and its constraints and limitations in adapting HRA in the Philippines. The researcher used questionnaire/interview to collect the data from respondents representing forty (40) companies in Metro Manila. The results showed that companies were not interested in adapting any accounting system for human resources at this time. Constraints include no law recognizing humans as assets, no clear guidelines, lack industry standards and lack of universal acceptable human valuation. Limitations in adapting HRA are problems in measuring and amortizing value of employees, the need for more time and resources, morale problems in considering employees as assets, which may dehumanize them, and the need for more time and planning to get used to the accounting system. Some companies, however, are open to the idea of using HRA if given proper guidelines, standards and rules. It is recommended that Philippines companies focus on making HRA an organizational goal and to have standardized procedures to measure human capital.

KEYWORDS
Human Resource Accounting, HRA Constraints and Limitations, HRA in the Philippines.

1. INTRODUCTION

Are human resources assets? There has been a development of the human capital theory in response to this question. Human capital theory changes the notion that capital is restricted to the physical capital. Thus, asset is defined as any asset that contributes to the revenue stream of the company that could require the intervention of human capital. At a certain extent this definition of asset, that mostly involved non-market activities, constitute returns and costs [1]. This concept of human capital theory, therefore, becomes an area where economic analysis is necessary, even though specific measurements are not necessarily existing yet. Although not a prevalent notion, it is important that accounting records take note of human resources as valuable assets for the company.

A researcher defines Human Resources Accounting (HRA) as accounting for people as an organizational resource [2]. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets. According to the American Accounting Association (AAA), HRA is the process by which the data referring to human capital are identified, measured, and communicated [3]. The method is designed to report investments incurred in human resources, which is overlooked in the conventional accounting systems. This type of accounting system is not new. Its emergence in the 1960s was caused by the demand to recognize people among company’s assets. Even though the conceptualization of HRA is not new to the industry, very few companies have followed this accounting system. There is an outcry to properly account for human asset in financial accounting. Many models were created by professionals and practitioners, but they were not widely accepted due to their limitations and possible misrepresentations.

The development of a current accounting system for human resource has been agreed by countless literatures [4]. An accounting system recognizing human resources as assets was recommended in a recent paper [5]. It was recommended for use by companies in the Philippines after finding out that companies in the Philippines are not aware of Human Resource Accounting. It is the objective of this study to determine if a the proposed Human Resource Accounting system is acceptable and possible in the Philippines at this time. This study will focus on the following questions:

1. Will companies in the Philippines use the proposed HRA system?
2. What are the constraints and limitations in adapting the HRA system in the Philippines?

1.1 The Proposed HRA System [5]

Once the human resource is hired by the company, the value of the human resource should be assessed using ratings and ranking based on the following criteria: educational attainment, work experience, and skills acquired. The entry salary package of newly hired human resource will depend on the criteria. The amount/percentage corresponding to each criterion will be at the discretion of the company based on the company’s policy and standard. This tantamount to human resource valuation as reflected in the human resource salary package. The following accounting entries will be used:

Dr. Salaries and Wages Expense
Cr. Cash/Cash in Bank
To record salaries of human resource

All cost incurred by the human resource associated with training, development, and learning costs will be capitalized and amortized over the expected useful life (retirement age) of the human resource. If the human resource leaves the company due to resignation, death or dismissal, the whole amount not written off is charged to the current revenue as impairment loss. The following accounting entries will be used:

Dr. Impairment of Human Resource
Cr. Cash/Cash in Bank
To record impairment of human resource

to record training development and learning cost incurred by the human
Dr. Human Resource Investment
Cr. Cash/Cash in Bank
To record training and development, learning cost of human resource
Dr. Amortization of Human Resource Investment
Cr. Human Resource Investment
To record yearly amortization of human resource investment
Dr. Impairment Loss
Cr. Human Resource Investment
To record amount written off due to resignation, death or dismissal
The job design (job description, specification, and qualification), awards, and recognitions received by the human resource from various professional affiliations/social and civic organizations will be used to value the human resource. The company can give incentive bonus or fringe benefits to the human resource. The accounting entries to be used:
Dr. Human Resource Investment
Cr. Cash/Cash in bank
To record human resource investment (job design, awards and recognition).
Performance and productivity rating resulting from the performance and productivity evaluation of the human resource immediate supervisor will be the basis for the performance/productivity bonus of the human resource. The accounting entries to be used:
Dr. Human Resource Investment
Cr. Cash/Cash in bank
To record human resource investment (performance/productivity bonus)
All expenses are shown in the income statement. The account “Human Resource Investment” will be shown in the balance sheet under assets and classified as “Other Investments.”
In order to contextualize the proposed accounting system for human resources, representatives of companies coming from varying industries were interviewed from April to October 2016. The respondents were 18 accountants, 11 human resource managers, 7 managers, 2 owners, 2 presidents, 1 finance officer, and 1 controller, representing forty (40) companies in Metro Manila. While the number of respondents surveyed/interviewed does not give a representative sample of all companies in the Philippines, it will provide an insight on how companies in the Philippines perceived human resources as an asset. This study has important implications to generally accepted accounting principles and concepts. It advocates changes in the preparation of financial statements. It will add to the literature in the field of accounting and human resources.
2. REVIEW OF RELATED LITERATURE
This paper studied and evaluated relevant literatures, researchers, and practitioners’ experiments to measure the value created by human capital, as well as constraint and limitations in considering human resources as assets. The following related literatures will contribute in understanding the constraints and limitations in using any HRA system.
According to a study, an organization utilizes two types of resources vital for the organization’s existence – physical and human resources [6]. Physical resources refer to machines, materials, money, and methods required that help the organization achieve the objectives of providing goods and services, while human resources or humans employed in the organization indicate its overall stature. The accounting function normally provides financial information concerning the utilization of the physical assets. The study argued that a logical extension of a company’s services is to have an HRA system.
The purpose of a paper is to review the current methods of HRA, explain the significance of HRA in business, and suggest ways to devise methods for business practices [7]. The authors believe that human resource should not be recorded as an expense because the value of developing the skills of an employee has long-term benefits. Companies should recognize humans as an integral resource of the company by capitalizing them.
Narayan discussed several issues and challenges regarding the development of HRA in the global setting [8]. Since traditional accounting procedures have long since been practiced and standardized, the introduction of a new accounting system, such as the HRA, is met with criticism and objections. One of the main criticisms is the lack of a standard resource, amortization of HR investment, and impairment loss. approach, which contributed to the slow development of the concept of HRA. There are too many factors that could potentially influence the values in HRA, which make the system very subjective and up to the discretion of the company. This lack of objectivity has long since been a hurdle in the advancement of HRA. Individuals grow at different rates and in different industries, it is difficult to accurately determine their values. There is also no model for valuation of human assets. The paper noted that there is an outcry of a need to properly account for human asset in financial accounting, and that valuing human resource may be a problem since there is no actual method to measure the value of a person. There has been apprehension and concerns raised regarding the negative impact of HRA on the employees. They might not react well as they might feel like they have been reduced to a mere asset. There will also be a new hierarchy borne out of this system, as employees will have a more concrete way of comparing their own worth against their colleagues. The author thinks that physical assets are technically owned by the company, opposing recording human resources as assets. Ownership of assets implies that it can be sold, which is something impossible for human resources. Narayan discussed the fact that HRA is not recognized by tax authorities. As a result, HRA solely serves the purpose of being a basis for decision-making, standards, and precise measures for the amortization of human assets which still has a long way to go.
Gates came out with various factors and deterrents to the application of HRA [9]. These limitations are as follows: sensitive data that cannot be shared externally, measurement not a first priority for the company, not enough time and resources, human resource professionals unaware of values to clear return on investment, lack of clear guidance from practice and industry standards, global differences in the valuation of human resources, lack of awareness and acceptance of HRA, and need for extensive research to adapt the system.
From another perspective, Jasrotia looked at the trends in the field of HRA and came up with some factors that deter the progress in the use of the concept, these are as follows: low level of awareness and acceptance of HRA, absence of an industry standard, extensiveness of the research involved, dynamism of some industries like the information technology due to frequent discoveries, and technological advancement [10].
According to Arkan, there are a lot more limitations and criticisms of HRA and it is still struggling for international acceptance [11]. HRA has been dominated by two main questions. Firstly, how could human assets be defined as assets on the balance sheet and secondly, and on how it can be valued in a satisfactory way. This leads to the dehumanization of people where they are viewed as physical assets, or where their value might be publicly perceived to be low with serious psychological consequences. The lack of a clear-cut procedure in allocating costs and value, the lack of empirical evidence to support its use as a management tool, and some vagueness regarding exactly how the value should be presented in the financial statement all represent significant problems for its wider adoption and use. Legislatively, it is also not clear how tax laws recognize human assets as assets, nor is there an accepted method of valuation, confused further by the abstract, qualitative nature of people where bias might influence objectivity and preciseness that cannot be viewed in monetary terms. The author believes that only time will tell how HRA will develop and if ever it will be internationally standardized and implemented. Likewise, Hoque also believes that HRA is still struggling for acceptance. He noted that it is still extremely difficult to determine the actual value of the human resource of any organization [12]. Accounting standard committees have not given any proposal. As a result any organization has the chance of manipulating the accounting system.
Fleming in his survey asked the question on how to measure the value of employees beyond their compensation [13]. Survey respondents were conflicting at some points since there is no consensus as to how the valuation should be done. Respondents believe that valuations can be affected by personal feelings and some employees would not want to be ranked lower than someone where they feel that they perform just as well as another and that assuming the same value for people with the same rank, title, salary, and experience is considered as objectionable.
Vohra’s case study presented current HRA practices within Kochi Refineries Limited (KRL) and examined the different factors that affected the valuation of the organization’s human resource to derive conclusions and recommendations to improve HRA practices within KRL [14]. The case study shows that HRA is still in its developing stages and there is no standard HRA model that is being accepted all over the world. This makes HRA confusing for companies and will cause critical problems in India.
Some researchers presented the limitations to the three different models of valuating human resources [7]. The Present Value of Future Earnings Model ignores the probability that an employee may advance in his position and ignores the probability that they will stay in the company and will be alive for the whole duration. The Acquisition Cost / Replacement Cost Model measures only the costs to the organization, ignores completely the value of the employee to the organization, and lacks independent validation for the amount while the Replacement Cost Model adds additional subjectivity to the valuation.

Baker acknowledges the need for HRA but the current available literatures do not properly define the limits and standards for it [15]. The measurements available in the current literature are very subjective, which can then be abused when presenting the value of business’s assets. He believes that further research is needed so that standards and guidelines can be properly set in place. In a similar literature survey, several difficulties or limitations with regards to human resource cost were presented [16]. Limitations include quantifying the value of a human resource material, calculating on the job training an employee receives, valuating intellectual and physical values of the employee, determining future incomes related to a certain employee, and ethics in attaching a physical value to a person.

An article specified the certain limits of HRA, which focused on the uncertainty of the employees’ lifespan and stay in the company [17]. Another limitation mentioned was the lack of guidelines and standards for HRA, assignment of cost and valuation of an employee. A researcher also discussed the same concerns, namely the lack of standards, guidelines and the uncertainty of employee lifespan or stay with the company. In addition to that, the authors also discussed the possible reduction of employee morale if an employee gets low valuation. Likewise, human resources are not capable of being owned, retained, and used unlike physical assets. Another problem mentioned is the lack of empirical evidence that supports HRA as an effective tool in HRA and lack of tax laws that recognizes human beings as assets. Singh also discussed the same subjects and included the problem on how persons are to be amortized, whether it is decreasing or increasing method [18].

Human beings are extremely difficult to account for in a scientific and mathematical way but they are key assets to a company. Jac Fitz-Enz said in his award winning book, The ROI of Human Capital [19]. The author emphasized that the capability information technology puts at the disposal of organizations can be a barrier to understanding human value as economic units and as spiritual beings. He believes that people generate value through the application of their intrinsic humanity, motivation, learned skills, and tool manipulation [20]. He thinks that applying the same double-entry bookkeeping procedures that we use for assets and liabilities for human resources is worth trying but caution that there are not enough studies and researches to prove if this is an effective accounting system or not.

3. METHODOLOGY

In order to substantiate the inference of HRA, its acceptance, constraints, and limitations, the researcher conducted a survey/interview to several companies in the Philippines. Selection of the companies was done out of both convenience and structural reasons. The paper chooses to tackle the insights of different industries to provide a more comprehensive report on the companies in the Philippines. Respondents came from different industries such as telecommunications, education, IT startups, stores, real estates, retailers, an airline, and a business process outsourcing (BPO) company, specifically Convergys. Such companies are a combination of various types and sizes including old, new, small, and large.

Questions/interviews are mostly designed to gather their inputs on the acceptance, constraints, and limitations of the proposed accounting system. Respondents were asked to rank the constraints and limitations to find out which are their major concerns. These constraints and limitations were derived from the previous review of literatures. In the absence of better definitions, lack in rules, standards, concepts or guidelines are considered as constraints in using the accounting system; while limitations are internal problems that deter the use of HRA system.

4. RESULTS AND DISCUSSION

While human resource accounting expands the view of an accounting system and provides a fuller picture of a company’s activities, there are constraints, limitations or even difficulties in adapting HRA.

### Table 1: Awareness to HRA and Adapting the Proposed HRA System

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<tbody>
<tr>
<td>Awareness to HRA</td>
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<td></td>
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<tr>
<td>Yes</td>
<td>3</td>
<td>7.5</td>
</tr>
<tr>
<td>No</td>
<td>37</td>
<td>92.5</td>
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<td>Total</td>
<td>40</td>
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<th>No.</th>
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<tbody>
<tr>
<td>Adapting the proposed HRA System</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>4</td>
<td>10.0</td>
</tr>
<tr>
<td>No</td>
<td>33</td>
<td>82.5</td>
</tr>
<tr>
<td>Not Sure</td>
<td>3</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
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<th></th>
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<tbody>
<tr>
<td>Adapting the proposed HRA System if given proper guidelines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>21</td>
<td>52.5</td>
</tr>
<tr>
<td>No</td>
<td>16</td>
<td>40.0</td>
</tr>
<tr>
<td>Not Sure</td>
<td>3</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
</tr>
</tbody>
</table>

As shown in Table 1, thirty seven (37 or 92.5%) of the respondents attested that their companies are not aware of any HRA. Only three (3 or 7.5%) believe that their companies are aware of HRA, however, they are not using any accounting system to record human resources as assets. None were knowledgeable about the different aspects of HRA. All 40 companies use the conventional accounting system which records costs incurred relating to HR as expenses. Wages and salaries are normally considered as expenses to the company rather than an investment in human capital. An interesting point was also raised that even if there is no definite value of the HR, a manager still has the grasp of his employees’ skills and can use these in making managerial decisions.

Respondents are not particularly interested in using the proposed accounting system for human resource at this time. Only four (4 or 10%) out 40 respondents will use the system. Thirty-three (33 or 82.5%) do not want to use it because their companies are comfortable with their current system and do not wish to alter it unless necessary and three (3 or 7.5%) are not sure if they will want to use the proposed HRA system due to the lack of information available about it and its corresponding effects. Respondents are open to the idea of adapting the proposed accounting system if proper guidelines, standards, and rules are given. More than one-half (21 or 52.5%) of the 40 respondents will use the accounting system. Sixteen (16 or 40%) will not want to use it even if guidelines will be provided because it would disorganize their previous years of accounting records and three (3 or 7.5%) are not sure if they will want to use any HRA system because they still believed that the conventional way of taking accounting records is already perfect as it has been established for a long time. All companies do not have HRA system. This shows that HRA is not included in their company's accounting structure. The unawareness of the interviewed employees indicates that the companies do not see any room for HRA in their system as of this time, and they would still revert to what is already proven and established, that is, the conventional accounting system that does not directly record human capital as an asset.
4.2 Constraints and Limitations in adapting HRA

Lacking in rules, standards, concepts or guidelines are constraints in using the accounting system. Human resource accounting entails a standardization of processes and methods without sacrificing accuracy in order for it to be adapted well despite the vast differences in management styles among companies. Table 2 shows the constraints in using HRA.

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>No laws recognize human as asset</td>
<td>1</td>
</tr>
<tr>
<td>No clear guidelines</td>
<td>2</td>
</tr>
<tr>
<td>Lack of industry standards</td>
<td>3</td>
</tr>
<tr>
<td>No universally accepted method of human valuation</td>
<td>4</td>
</tr>
</tbody>
</table>

Tax laws do not recognize human beings as assets was ranked 1. Most respondents believe that each individual has his own knowledge, skills, and attitude (KSAs) that would be extremely complex to quantify in accounting terms [21]. There are no specific procedures or guidelines for finding cost and value of human resource of an organization was ranked 2. Ranked 3 was lack of industry standards, which will make comparison difficult. There is no universally accepted method of human asset valuation was ranked 4.

Limitations are internal problems that deter the use of HRA system. Limitations in using HRA are shown in Table 3.

<table>
<thead>
<tr>
<th>Limitations</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>Problem in measuring value of employees</td>
<td>1</td>
</tr>
<tr>
<td>Problem in amortizing value of employees</td>
<td>2</td>
</tr>
<tr>
<td>Need more time and resources</td>
<td>3</td>
</tr>
<tr>
<td>Employees may demand more compensation</td>
<td>4</td>
</tr>
<tr>
<td>May dehumanize employees</td>
<td>5</td>
</tr>
<tr>
<td>Need training and planning to use it</td>
<td>6</td>
</tr>
</tbody>
</table>

Problem in measuring value of employees was ranked 1. Recording employees as assets or investments would be very misleading on a financial statement according to the respondents. The period of existence of human resource is uncertain; amortization will be a problem was ranked 2. The need for more time and resources to learn about a new system particularly on human resource was ranked 3. More values indicated for employees in the financial statements might lead to employees demanding for higher compensation was ranked 4. Ranked 5 is about labelling people in monetary terms and objectifying them, as assets of a company are behaviorally unacceptable in terms of cultural norms. HRA may dehumanize employees. Respondents believe that human resources are not capable of being owned, retained, and utilized, unlike the physical assets. To adapt a new accounting system will entail a lot of training and planning before it can be used perfectly. This limitation was ranked 6.

5 CONCLUSION AND RECOMMENDATIONS

The results of this study are clear indication that companies in the Philippines are not aware of HRA, since old or new companies whether large or small are not knowledgeable about it nor do they apply it. There is no indication of any innovation to record human resource as an asset in the accounting system of the companies in the Philippines. Companies relied on generally accepted practices due to lack of human resource accounting procedures. The chances of adapting a new accounting system to record human resource as an asset is almost nil. Human resource accounting is still at its developmental stage in the Philippines. It will require a tremendous effort to radically change the perspective of accounting practitioners and firms. Some companies do not put too much emphasis on intangible assets, which makes HRA difficult to introduce at this time. HRA needs international regulations and standards in measuring human resource. HRA also needs more time, planning, and training before it can be understood and used in the Philippines.

However, the results of the study have given hope in adapting an accounting system for human resource in the future. Some companies are open to the idea of using HRA if given proper guidelines, standards, and rules. With its steady economic growth, the companies in the Philippines would have to look at human resource accounting to cater to the international growth of the company. Taking human resources as a valuable asset to the company does not in any way disrupt, disorganize or even disalign the previous accounting records of the company. Furthermore, it adds more area for economic analysis to exist, which definitely gives more insights regarding the company’s sustainability and growth. HRA gives more to what the conventional accounting method provides.

Philippines companies should focus on making HRA an organizational goal, to have standardized procedures to measure human capital the way financial capital has been measured for the past decades. If HR is able to accomplish this, then they will be able to have a more accurate estimate of the real value of their current human inventory and assets. They will be able to determine how their talent capital can be best deployed and utilized for the business. Human assets have a potentially high return on investment and it would make sense for a company to be more precise with the measurement of their exact contribution to the profit of the company. Compensation, benefits, training, and retirement are some of the biggest expenses of an organization which make it a necessity for Human Resource Departments to make sure the company is getting good returns on the money invested on employees.

Thus, Philippines companies should be more open to changes in their accounting system. The HRA system in the previous pages provides an idea on how these companies could manage their human resources in such a way that they would be considered assets to the company. Additional research is necessary for effective application of human resource accounting.

REFERENCES


