MONETARY VALUATION OF HUMAN CAPITAL IN AN ORGANISATION – A DISCRIPTIVE STUDY

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Abstract:

In every organization, resources are the key to achieving its goals. There are generally two types of resources we see i.e., Passive resources and Active resources. Passive resources are machinery, land, furniture, Money etc. Active resources are Human beings of an organization. So, to report and valuing the passive resources of an organization financial accounting was there but when it comes to active resources no such methodology was there. so after identifying such gap the researchers have formulated Human resource accounting to report and valuing the worth of a human capital, which we are going to be learn in the current study.

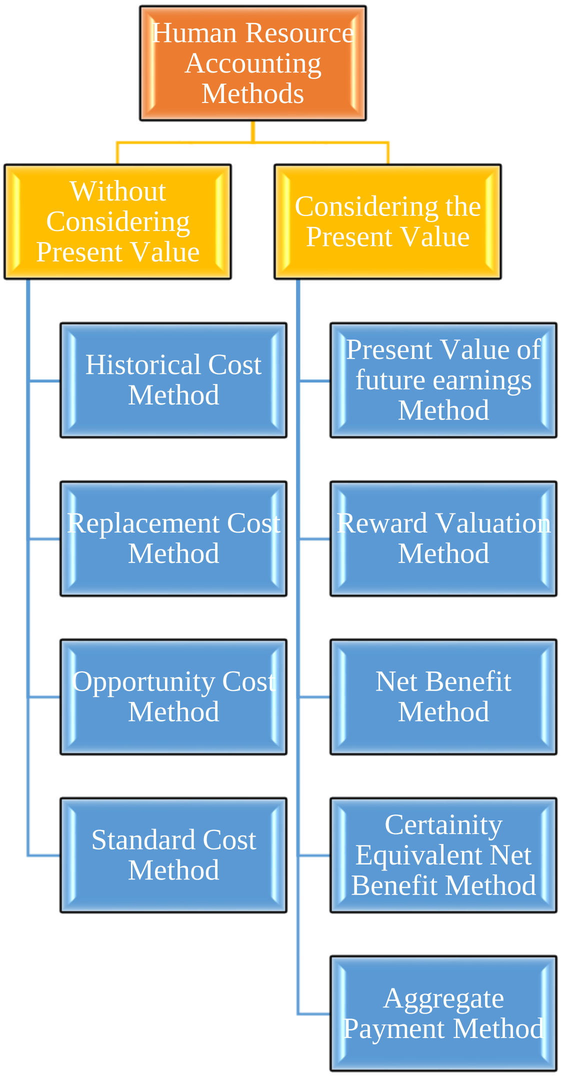
Key Words: Human Capital, Human resource accounting, Active Resources and Passive Resources etc.

Introduction:

As we discussed earlier, before the evolution of Human resource accounting there is no such methodology to evaluate the worth of a human capital of an organization. In Human resource accounting, we measure, Valuing, record and presenting the worth of a human capital in the books of accounts of an organization. In short human resource accounting would do the following tasks:

1. **Valuing** the human capital.
2. **Record** the value in the books of accounts.
3. **Disclosure** them in the financial statements.

So to value the human capital there are various methods provided by different researchers, based on that two different classifications are shown below:



Authors of the above Methods are shown below: (Monetary methods)

Methods	**Authors**
Not Considering Present Value	
Historical Cost Method	Brumnut, Flamholtz, Pyle
Replacement Cost Method	Rennis Likert, Eric, G.Flamholtz
Opportunity Cost Method	Hekimian & Jones
Standard Cost Method	David Watson
Considering Present Value	
Present Value of future earnings Method	Ley & Schwartz
Reward Valuation Method	Flamholtz
Net Benefit Method	Morse
Certainty Equivalent Net Benefit Method	Pekinogan
Aggregate Payment Method	Prof. S.K. Chakraborty (Indian Author)

Review of Literature:

1) Balanced Scorecard to Improve Human Capital Management: Case Study in a Portuguese Company

Perestrelo, J., & Melo, P. N. (2022). A balanced scorecard makes it possible to determine whether an organization's performance is in line with its strategy, allowing management to refocus the company and take proactive action whenever a departure from the set objectives happens. The management has a direct feedback loop as a result of this strategic emphasis and its results, which permits swift action. This project details a Balanced Scorecard (BSC) tool installation with a Human Capital viewpoint. The research technique used was an action-research case study in a consulting firm. This work comprises a survey of the literature in this field of study, with a tool presentation and a focus on the Human Capital approach.

2) Human Capital Management of Educational Officers Toward Excellent Universities

Rusdiana, A., & Nasihudin, N. (2022). In KOPERTAIS (Coordination of Private Islamic Religious Universities) Region II West Java, this study intends to analyse the relationship between human capital management of education personnel and superior universities. statistical analysis using inference. (1) Human capital management initiatives were put into place; (2) According to 90 members of the education sector, the results of a partial quantitative analysis of these variables, including the good category tend to be sufficient; (3) Educational staff members' work motivation for PT Unggul is in the good category; (4) Statistical analysis reveals a correlation of 0.42 between human capital management, including the category of moderate correlation, and teacher workload.

3) The Performance Rewards of Human Capital Development in the Federal Government

Wesemann, A. (2022). One of the most important resources a business has is its human capital. Research has shown that performance and human capital are closely associated. Consequently, there is a very clear incentive for organisations to raise their levels of human capital. Therefore, it is not unexpected that firms have developed and implemented a wide range of managerial techniques aimed at enhancing the human capital inside their workforce. However, there is a dearth of empirical research examining how routinely used human capital development strategies affect performance in the public sector, even as the U.S. government faces impending human capital shortages as a result of the continuous retirement of a sizable portion of its employees. Consequently, using U.S. federal personnel data, a greater understanding of this dynamic relationship

4) Human Capital Resources: Reviewing the First Decade and Establishing a Foundation for Future Research

Ray, C., Essman, S., Nyberg, A. J., Ployhart, R. E., & Hale, D. (2022) The last ten years have seen a rise in interest in both micro and macro disciplines for the area of human capital resources (HCR), also known as strategic human capital (SHC). The field's focus has switched to issues like classifying distinct types of HCR, HCR emergence, and connections between collective HCR and higher level outcomes as a result of the increased interest from a varied group of academics. The first ten years of focused HCR study saw the development of various research streams as well as the creation of a strong and expanding literature. We present a coherent view of lessons acquired in the first decade of dedicated HCR research, which has mostly focused on collective HCR, in order to unify the discipline and lay a firm platform for future study

5) The Challenges of Small and Medium Businesses in Managing Human Capital towards SMEs Performance – A Qualitative Study

Khan, Y. K., & Kasuma, J. (2022). Most of the human capital is currently being replaced by machines in order to save costs, however the value of human capital that improves SMEs' performance is immeasurable. In South Australia, SMEs were utilised to illustrate how human capital and SMEs' performance are related.

Need of the Study:

It is important to learn about the valuation of human capital in an organization in the modern era to know the worth of employees from both organization and employees' perspectives. Because it should help to know whether the value is at par or above/below par according to their services.

Objectives of the study:

1) To understand the importance & procedure of valuing Human Capital in an organization.
2) To analyse and interpret the various methods of valuing Human Capital.

Research Methodology:

Descriptive research method was used in the present study, as this paper is a completely secondary data-based one and the information is obtained from various journals, books, the Internet and Some past literatures. It just try to describe the monetary valuation of human capital as it is like in the theory and not form any new theory.

Analysis and Interpretation of different methods

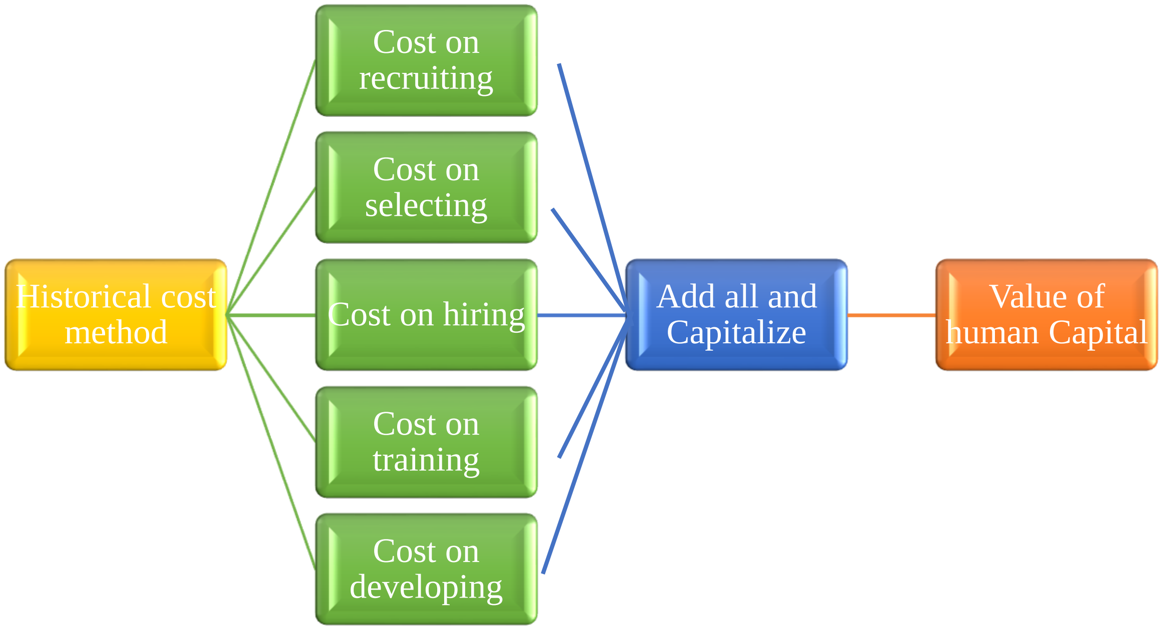
I) Without Considering Present Value:

1) Historical Cost Method:

In this Method worth of a human resource is measured in the same manner as physical assets are valued. i.e., the amount spent/incurred on recruiting, selecting, hiring, training and developing the human resource is nothing but its value. And just like physical assets here also the total cost spent on human resources would be capitalized and amortized over the life of that employee. Any additional expenditure incurred on training and developing human resource would increase the value and capitalize in the same manner as we are going to do in the case of physical assets.

Major limitations of this method:

- This method considers only the acquisition cost of human resource and ignores their potential services.
- According to this method Value of human resource would decrease every year in the form of amortization but in reality value of human resource would increase every year due to the factor of experience.



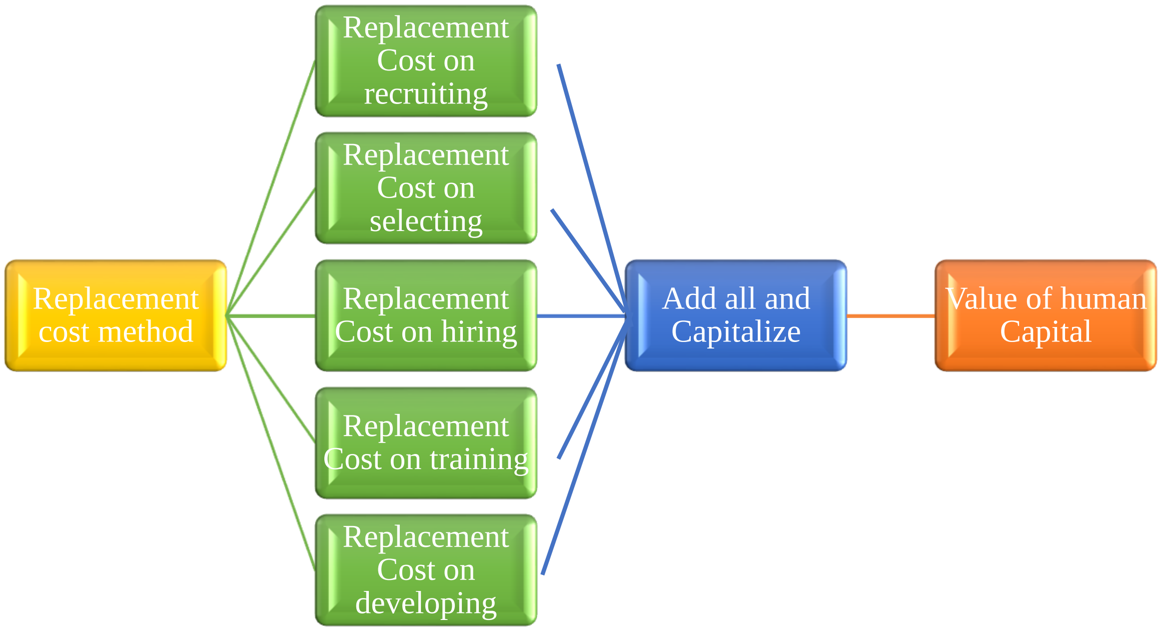
2) **Replacement Cost Method:**

In this method valuing the worth of a human capital is similar to the historical cost approach with some changes. i.e., the Replacement cost method considers the current values instead of historical values. This method explains that the value of the human resource is calculated on amount spent on recruiting, selecting, hiring, training and developing the new employee if the present employee is replaced with him. So that the value would be in current figures.

Major limitations of this method:

- This method ignores the basic accounting concept that assets should be recorded at historical cost but here current cost is used.

- It is almost impossible to ascertain the correct replacement cost of existing employee without having actual replacement.



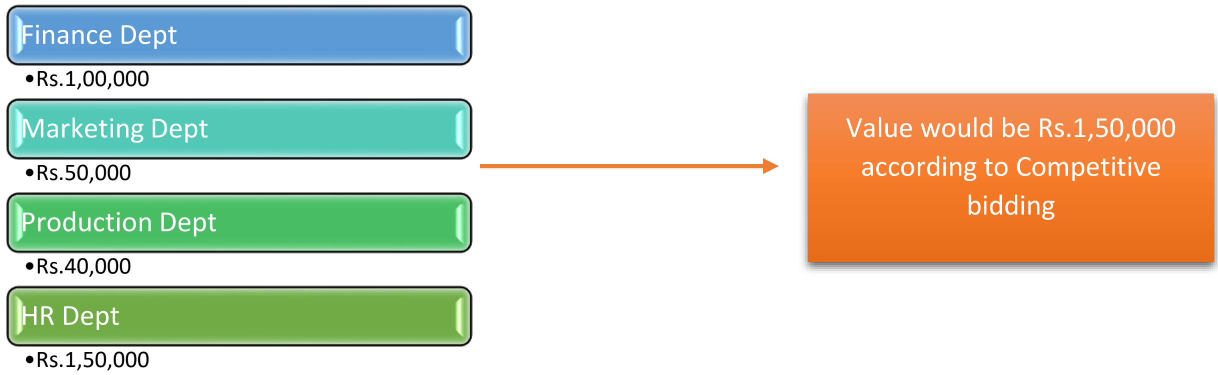
3) Opportunity Cost Method:

In this method Value of human capital is calculated on the basis of alternative use of employees i.e., based on competitive bidding. under this method value of human capital in one department is measured on the basis of biddings of other departments in an organization.

Major limitations of this method:

- According to this method if an employee has no alternative use then he has no value but in reality, no employee has zero value.

Example:



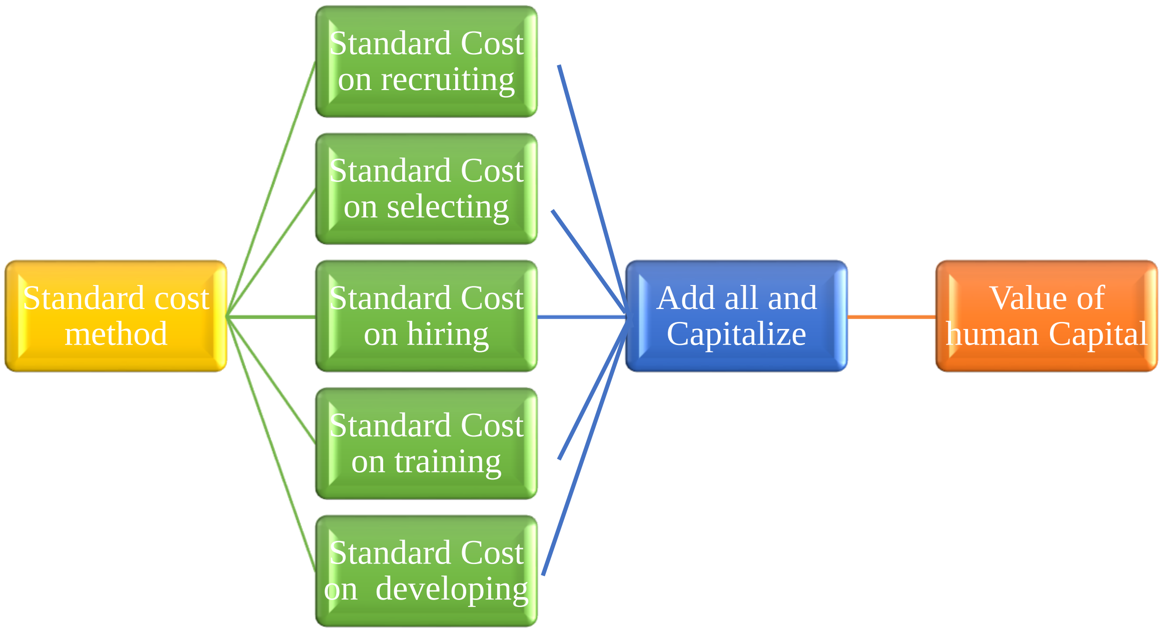
4) Standard Cost Method:

In this method worth of human capital is calculated based on the standard value of each position instead of the value of person. Here standard cost incurred on recruiting, selecting, hiring, training and developing the human resource for each category/grade of employees is calculated and that calculated value is nothing but Value of human resource.

Example: Salary of Govt sector employees etc.

Major limitation of this method:

- Determining the Standard cost of each grade of employees is a difficult task.



II) Considering the Present Value:

The Methods which are explained above ignore the present value concept, but we know when it comes to monetary matters present value concept is much important because of todays rupee is worthy than tomorrow's. so by overcoming that limitation the following methods are presented.

1) Present Value of Future Earnings Method:

In this method value of a human capital is calculated in the following manner:

- Calculate the Average annual salary of employees
- Find out the total amount of salary that they receive in their remaining service period
- Now multiply the total that we find out in step-2 with Present value factor at cost of capital
- Now the total that arrived in step-3 is the Value or Worth of human capital.

Example: if employee A has 35 yrs of service left and receiving 50000 as monthly salary and firms cost of capital is 10% therefore value of A according to this method is "50000×12=600000×35×PVAF@35yrs,10% = XXXXX".

Major Limitation of the Method:

1. This method assumes average monthly salary of an employee is Constant but it is not possible in real because salary is increasing generally due to experience.
2. This method measures the value in terms of salary but in reality it is more than that.

2) Reward valuation method:

This Method is an advancement or improvement of earlier model i.e., present value of future earnings method, i.e., this method considers the variations in job roles and recognizes the increments in salary depends upon the role and the rest is the same as we did in earlier model.

Example: In case of A Person join as assistant professor in university having 35 yrs of service then his value would be –
For first 5 years (Assistant Professor) = 50000×12=600000×5×PVAF@5yrs,10%
Next 10 years (Associate Professor) = 100000×12=1200000×10×PVAF@10yrs,10%
Remaining 20 years (Professor) =
150000×12=1800000×20×PVAF@20yrs,10%
Major Limitation of the Method:

1. This method measures the value in terms of salary but in reality, it is more than that.

3) Net Benefit Method:

This method considers the limitations of above two models. In financial accounting net profit considers the both revenues & expenditure and then results the net benefit. In the same manner here also value of human capital is calculated by considering both benefits from employees and costs incurred on recruiting, selecting, training, and developing the human capital. The net benefit so arrived is multiplied with present value factor at a required cost of capital to derive the Value of Human capital in this method.

The Procedure is as follows:

- Calculate the Future value of services rendered by employees
- Calculate the Future Cost of payments incurred on employees on their training & development etc.
- Now calculate the net benefit based on step-1 and step-2.
- Then Multiply the figure obtained in step-3 with the present value factor at a required cost of capital to obtain the value of human capital.

Major Limitation of the Method:

1. This method is not accurate because it doesn't consider the certainty factor to prove that the obtained figures are true and fair.

4) Certainty Equivalent Net Benefit Method:

This Method is an improvement of Net Benefit Method i.e., all procedure that we are done in net benefit method is same except few points that are discussed below:

- Calculate the Future value of services rendered by employees
- Calculate the Future Cost of payments incurred on employees on their training & development etc.
- Now calculate the net benefit based on step-1 and step-2.
- Then Multiply the figure obtained in step-3 with the present value factor at a required cost of capital.
- Finally Multiply the value that obtained in step-4 with certainty factor to get accurate value of human capital.

Major Limitation of the Method:

1. This method is difficult to calculate and interpret.

5) Aggregate payment method:

This method is also like the present value of the future earnings model with only one exception i.e., here instead of individual valuation group valuation is done. Remaining procedure is same as above.

- Divide the Employees into different groups i.e., Managerial and Non-Managerial.
- Calculate the Average annual salary of employees in each group
- Find out the total amount of salary that they received by each group in their remaining service period
- Now multiply the total that we find out in step-2 with Present value factor at cost of capital
- Now the total that arrived in step-3 is the Value or Worth of human capital.

Non – Monetary Methods:

Behavioural scientists have developed some non-monetary methods in HRA in response to changes in the effectiveness of individuals, groups, and organisations over time**.**

The important one is discussed here:

1. Expected Realisable Value Method:

This approach uses behavioural measurements to assess the components of an employee's expected realisable value. For instance, objective indices and managerial evaluation can be used to gauge an employee's productivity. Employee transferability and promote ability can be assessed using both objective and subjective methods. Surveys of attitudes can also be used to gauge employee motivation, contentment, and other factors.

Observations of the Study:

1) There are Four methods of valuing human capital without considering the present value factor.
2) There are Five methods of valuing human capital with considering the present value factor.
3) Each method has its own limitations and the following methods rectifies those mistakes.
4) There is only one method of valuing the human capital by Indian authors and the remaining eight are discussed by foreign authors.
5) The methods of valuation of human capital without considering the present value are like the valuation of physical assets in financial accounting.

Conclusions:

Finally, after studying this paper, we can answer the following questions i.e., 1) Is there any method there for valuation of human capital and the answer is yes and it is human resource accounting, 2) what is the procedure for valuing the human capital and the answer is, the procedure is been discussed in the nine methods that we have seen in earlier pages, 3) what are the various limitations of different methods and how the following one overcome those limitations. And finally, how it should help to know whether the value is at par or above/below par according to their services, and the alternative course of action taken by the managers.

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