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Human Resource Accounting Practices in India: A Study of Impact on Decision Making

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Abstract:

Human Resources are skills, knowledge and energy of peoples which can be applied to production or rendering services. There is a popular maxim that human resources are the greatest assets of the organizations. In mission statements, annual reports and annual general meetings, organizations declare that “our greatest assets are our people”. The importance of Human Resource has been recognized in all activities of organization. In present era of knowledge and skills no industry or enterprise can succeed without Human efforts and direction. Valuation of manpower has engaged the attention of social scientists, researchers, executives, as well as financial institutions. The importance of Human Resource has been recognized in all activities of organization. In present era of knowledge and skills no industry or enterprise can succeed without Human efforts and direction. Valuation of manpower has engaged the attention of social scientists, researchers, executives, as well as financial institutions. The basic objective of paper is to work out the relationship between Human Resources Accounting information and decision making. The study have two dimensions, firstly, the usefulness of HRA information for management and secondly, usefulness of the HRA information for Investors for making the decisions. So, this research confines itself to the study of relationship between the provision of HRA Information and decision behavior of the internal management and the external users i.e. Investors, of accounting information.

Keywords: Human Resource Accounting, Human Resource Valuation, Decision making.

1. Introduction

An organization cannot be thought without their Human Resources. Human Resources are the integral part of any organization. Human Resource can be defined as “the knowledge that individuals acquire during their life and use to produce goods, service or ideas in market or non market situations. The new economy often called the knowledge economy. In spite of the modern technology and all the system; man still remains the most important factor. Every organization growth depends on the contribution made by human effort. Of four factors of production man, material and land, the last three are useless, unless these are used effectively by the employees of an organization. The Human Assets is so important that the value of this asset is increased with their experience but in case of other asset the value is depreciate by the passage of time. In any country natural resources and capital are major components of production: human beings are that factor which accumulate capital, efficiently use natural resources and impart knowledge in development of any nation. Knowledge workers are major resources for the success of modern business firm, yet financial reporting is still ignoring this aspect. The effective and efficient people must be included to ensure the growth and development of organization. Human resource accounting relates to the quantification in monetary terms (e.g. by calculating a capital value) of human resources employed by an organization. A well-developed system of human resource accounting could contribute significantly to internal decisions by management and external decisions by investors. Human Resource accounting helps potential investors to judge a company better on the strength of human assets utilized. Thus, if two companies offer the same rate of return on total capital employed, information about human resources can help investors to decide which company to choose for investment.

2. Human Resource Accounting Reporting and Decision Making

There has been an increasing interest in accounting for human resources. The human resource accounting information provides the cost and value of human resource for management decisions as well as for investing decision to external users. It has been also important to assess the usefulness of such information for decision making.

It may be suggested that Human Resource Accounting is a way of communicating to the employees of an organization that their role is valuable and it will be evaluated by the managers, and if this interpretation is effective, it will affect decision and behavior. The

assessment of Human Resources will help managers to take long term decisions. Reporting of Human Resource valuation will affect the personnel management decision.

Human Resource Accounting is not only useful to management in achieving its economic goals. It can also give important information for investment decision. An important objective of published financial reports prepared by the companies at every year is to give important information to share holders and external users and acquaint them with the working of the company. The information is used by all external users like banks, government, authorities, creditors, shareholders, investors etc for various purposes. The inclusion of Human Resource information in published financial statement would, in all likelihood, make such statements for more meaningful in predicting future performance which is, of course, the principal concern of investors (Jawar Lal 2009).

Investors make use of information relating to the capital, reserves, EPS, fixed assets, etc of the company before decision made about the investment of their funds in any company. It has been suggested by Hermanson, Likert, Elias and many more theoreticians, that the inclusion of Human Resource Accounting information might benefits the investors and it would be of immense use if information relating to Human Resource is presented so that the investors can evaluate properly assets and income.

American Accounting Association has also suggested the inclusion of information relating to human resources in the financial reports in its committee on Human Resource in 1973. According to the committee "external users particularly investors, information on the extent to which the human assets of the origination have been increased or have diminished during the period."

The American Accounting Association committee on Human Resource (U.S.A.) also observed in 1974 the impact of availability of Human Resource Accounting Information on managerial decision. Flamholts in 1976 describes the Human Resource Accounting Information is useful for managerial decision making process. The basic objective of his study was to test whether reporting numbers generated by Human Resources valuation method will affect the personnel management decision. R.k. Malikin 1993 describes the usefulness of Human resource Accounting for decision making. The research depicts the relationship between Human Resource accounting and decision making of managers as well as investors. The basic objective of his study was judging the impact of Human Resource accounting Information on managerial decision making as well as investors decision making.

3. Review of Literature

Human resource Accounting was first introduced in 1960s by Theodore Schultz. Prior to 1960s, political economists had dealt with the concept of value of organizational workforce. . In the late 1950s Rensis Likert was the first who used the term "human assets" to describe the human resources available to a firm. Shultz (1961) originated the term Human Capital. In his later work in 1981, he elaborated on the concept by stating that all human abilities can be considered either innate or acquired. He referred to all attributes which can be augmented by appropriate investment as human capital. Human Resource Accounting was developed in the 1960's. According to Schultz (1961), human resource can be defined as abilities and skills of certain group of people or an individual person that have value. Embodied in this are behavior, knowledge, experience, attitude and morale, corporate culture to mention a few which when put together becomes of economic value to the organization. According to James A. Hendricks in 1976, the primary objective for which the accounting information is generated to facilitate decision making. He examined that to what extent investor use the human resource accounting information for decision making. External users, particularly investors, could benefit immensely from Human Capital Accounting. Potential investors need to know the changes and value in human assets in order to evaluate properly assets and income. The significance of the human capital theory is that it regards people as assets and stresses that investment by organizations in people will generate worthwhile returns. It proposes that sustainable competitive advantage is attained when the firm has human resource pool that cannot be imitated or substituted by its rivals (Barney, 1991).The concept views workers as key resource managers use to achieve competitive advantage for their companies (Fombrun *et al*, 1984). Flamholtz as cited in Rao (2005) defined human resource/capital accounting as accounting for people as an organizational resource.

Further researchers like Okpala, P. Okwy and Chidi, Odogwu Christopher in 2010 have examined the human resource capital accounting and its relevance to stock investment decision in Nigeria. The major findings of the study was that stakeholders are likely to support the inclusion of human capital accounting in financial reporting of Nigerian quoted firms in the near future. More so, quality of management and employees are key factors in investment decisions.

In India only few studies designed to determine the impact and usefulness of Human Resource Accounting information. Notably among them are Ravindra Kumar Malik (1993) and Raj Kumar Gupta (2003). The basic objective of the study was to examine the relationship between Human Resource Accounting information and decision making. Malik analyzed that whether the availability of HRA information influence the decision of management and the inclusion of HRA information in the financial reports of companies causes the investment decisions of the investors to be different.

The researches determine the impact of Human Resource Accounting information on decision making and few of articles identify the importance of human resource accounting information and summarizing the existence models for finding out the cost and value of human resources have appeared during the past decades. Notable among them are articles by Chakravarty, S.K.(1977), Ranga Rao,Y(1979), Rajeshwar,N.(1981) and Rao D.P.(1981).

4. Hypotheses of the Study

Hypotheses are tentative answers to the research problems. They are expressed in the form of a relation between independent and dependent variables. They are tentative conjectures because their veracity can be evaluated only after they have been tested empirically. When a researcher suggests a hypothesis, he or she has no assurance that it will be verified. Hypothesis can be derived deductively from theories, directly from observations, intuitively or from a combination of these. Thus, the hypothesis is the most

powerful tool that man has invented to achieve dependable knowledge. They are the prediction and even if they are not confirmed they have a power. Negative findings are sometimes as important as the positive ones, since they cut down the total universe of ignorance and sometimes point up fruitful further hypothesis and line of investigation (Mc Guigan, 1969).

For the current research, the major hypotheses are as follows:-

- H_0 There is insignificant impact of Human Resource Accounting Information on Decision made by Investors for stock Investment decision in a company.
- H_1 There is significant impact of Human Resource Accounting Information on Decision made by Investors for stock Investment decision in a company.
- H_0 There is insignificant impact of Human Resource Accounting Information on Decision made by Managers of public and private sectors about personnel of companies.
- H_2 . There is significant impact of Human Resource Accounting Information on Decision made by Managers of public and private sectors about personnel of companies.

5. Material and methodology

In this paper the focus is on impact of human Resource accounting on decision making by Managers from public and private sector of India and individual investors were selected as the statistical population to do the research by making use of the view points and opinion of the respondents. Hence, the resources of collecting data are following:

1. Individual Investors who is investing in Indian companies.
2. Managers who are working in private and public sector of India.

The authors have selected 270 managers out of which 210 are working in private sector and 60 working in public sector. And for investor's decision making, 288 individual investors were selected by Random sampling Method. For this two separate set of questionnaire were designed.

This research in terms of methodology is a descriptive research. The tool being used in this research to collect data is questionnaire. The collected data were analyzed by using SPSS software in the significance level of ($\alpha = 5\%$) and the relevant data was also analyzed with mean, standard deviation. ANOVA test and Chi square test have adopted to arrive at meaningful conclusion.

6. Research Variables

6.1. Dependent Variable

The dependent variable of this research for both questionnaire is Decision making. The concept of Decision making is use of HRA Information for taking investment decision by investors and Usefulness of HRA Information for managerial decision making about Investment in Human Resources.

6.2. Independent Variable

Age, experience and educational qualification, no of managerial experience, experience as investors are the background variables.

7. Hypothesis Testing and Findings

7.1 Hypothesis 1

As stated earlier, we have used two different sets to judge the impact of HRA information on Investors decision making. After the analysis, it was found that there was a significant relation between Human Resource Accounting and Investors decision making. The impact of HRA Information on Investors decision making was found to be significant at the $P < .05$ level for every condition. So our Null Hypothesis is rejected and Alternative Hypothesis is accepted. Taken together these result suggested that disclosure of HRA Information in published Annual Report do have an impact on investor's decision making for stock investment decision in a company. (table 1 , 2, 3)

The Hypotheses was further examined using chi square test. The Hypotheses was tested at 95% of significance level. According to test result the null Hypotheses was rejected as $p < .05$ except set 1q11 that is moderately significant. It can be concluded that according to the present study the result indicates that Human Resource Accounting information have a positive Impact on Investors decision Making (The result is shown under table 3)

7.2 Hypothesis 2

7.2.1. Managers of Private Sector

ANOVA TEST:

A one way ANOVA was conducted to analyze the impact of Human Resource Accounting information on manager's decision making. After testing the result with ANOVA test it was found there was a significant relation between Human Resource Accounting and manager's decision making. The impact of HRA Information on manager's decision making was found to be significant at the $P < .05$ ($p = .047$, $p = .046$) level with background variable of work experience for every condition, and the result was same with background variable of education qualification that $p < .05$ ($p = .002$, $p = .073$). So our Null Hypothesis is rejected and Alternative Hypothesis is accepted. So it can be concluded that disclosure of Human Resource Accounting Information can assist managers to

take sound managerial decision about Human Resources of the company. The result suggested that Human Resource Accounting Information can affect long term objectives of an organization while investing in their Human resources. (The result is shown under table 5)

7.2.2. Managers of Public Sector

A one way ANOVA was conducted to analyze the impact of Human Resource Accounting information on manager's decision making. After testing the result with ANOVA test it was found there was an insignificant relation between Human Resource Accounting and manager's decision making. The impact of HRA Information on manager's decision making was found to be insignificant at the $P > .05$ ($p = .892$, $p = .194$) level with background variable of work experience for every condition, and the result was same with background variable of education qualification that $p > .05$ ($p = .244$, $p = .648$). So the result was contradictory in managers of public sector. According to them Human resource accounting Information cannot be useful for managers for taking decision regarding their Human resources. So in this case our Null Hypothesis is accepted that there is insignificant impact of Human Resource Accounting Information on Decision made by Managers of public sectors about personnel of companies. But when we analyses the SET II the result shows that managers are in favour of valuation of Human resource Accounting and disclosing this information, but according to their viewpoint it cannot be useful information for decision making process. And it cannot affect long term objectives of an organization for taking investment decision in Human Resources. (The result is shown under table 4)

7.3. Conclusion

In the present study, the main focus, of was towards usefulness of Human Resource Valuation. The view points of senior executives of managers of private sector as well as private sector and investors were seek to investigate the impact of Human resource Accounting Information on decision making. Human Resource accounting can change the modern management system and procedures. It has been proven from the present study that human resource accounting Information can be a useful aid in the decision making process of managers as well as investors. The efficient utilization of Human Resource Accounting Information cannot only make management policies more transparent, but also it can create value of Humans who are now counted as a integral part of assets of an organization. The organizational investment in human Resource can be significantly justified by Human Resource Accounting as well. Human Resource accounting information is not only useful information for an organization, but it is very important for investors also for taking investment decision. It can guide the investors to take a sound investment decision. It not only signifies the Human resource management policies, but also open ups new dimension to Accounting field also. All companies should adopt Human Resource Accounting. GAAP may recognize the inclusion of Human Resource Accounting in Financial Reporting. As our findings of the research study reveals that there is a wide acceptance of Human Resource Accounting among Managers and stakeholders. The step should be taken for making a single universal model for the purpose of valuation of Human Resources. The professional institutes should recommend mandatory implication of Human Resource Accounting by all companies. Hopefully the result of the study will encourage future verification of these findings and expansion of user's knowledge about Human Resource Accounting.

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
set1q1	Between Groups	2.846	2	1.423	1.048	.352
	Within Groups	387.140	285	1.358		
	Total	389.986	287			
set1q2	Between Groups	1.220	2	.610	.601	.549
	Within Groups	289.194	285	1.015		
	Total	290.413	287			
set1q4	Between Groups	5.059	2	2.530	2.348	.097
	Within Groups	307.021	285	1.077		
	Total	312.080	287			
set1q5	Between Groups	9.329	2	4.665	7.277	.001
	Within Groups	182.671	285	.641		
	Total	192.000	287			
set1q6	Between Groups	3.942	2	1.971	4.527	.012
	Within Groups	124.058	285	.435		
	Total	128.000	287			
set1q8	Between Groups	40.883	2	20.442	14.310	.000
	Within Groups	407.117	285	1.428		
	Total	448.000	287			
set1q9	Between Groups	3.871	2	1.935	8.203	.000
	Within Groups	67.240	285	.236		
	Total	71.111	287			
set1q11	Between Groups	2.329	2	1.164	5.381	.005
	Within Groups	61.671	285	.216		
	Total	64.000	287			

Table 1: ANOVA Analysis for Investors Decision Making with View of Age

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
set1q1	Between Groups	5.133	3	1.711	1.263	.287
	Within Groups	384.853	284	1.355		
	Total	389.986	287			
set1q2	Between Groups	115.532	3	38.511	62.540	.000
	Within Groups	174.881	284	.616		
	Total	290.413	287			
set1q4	Between Groups	9.383	3	3.128	2.934	.034
	Within Groups	302.697	284	1.066		
	Total	312.080	287			
set1q5	Between Groups	38.400	3	12.800	23.667	.000
	Within Groups	153.600	284	.541		
	Total	192.000	287			
se1q6	Between Groups	48.000	3	16.000	56.800	.000
	Within Groups	80.000	284	.282		
	Total	128.000	287			
set1q8	Between Groups	217.600	3	72.533	89.407	.000
	Within Groups	230.400	284	.811		
	Total	448.000	287			
set1q9	Between Groups	32.711	3	10.904	80.642	.000
	Within Groups	38.400	284	.135		
	Total	71.111	287			
set1q11	Between Groups	22.400	3	7.467	50.974	.000
	Within Groups	41.600	284	.146		
	Total	64.000	287			

Table 2: Anova Analysis for Investors Decision Making with View of Education Qualification

	set1q1	set1q2	set1q4	set1q5	se1q6	set1q8	set1q9	set1q11
Chi-Square	66.340 ^a	111.618 ^a	55.361 ^b	.000 ^c	64.000 ^c	88.889 ^d	3.556 ^d	32.000 ^d
df	4	4	3	2	2	1	1	1
Asymp. Sig.	.000	.000	.000	1.000	.000	.000	.059	.000

Table 3: Chi Square

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
set1q12	Between Groups	1.794	1	1.794	1.384	.244
	Within Groups	75.206	58	1.297		
	Total	77.000	59			
set1q14	Between Groups	.307	1	.307	.210	.648
	Within Groups	84.627	58	1.459		
	Total	84.933	59			

Table 4: (Public Sector)

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
set1q12	Between Groups	.310	2	.155	.115	.892
	Within Groups	76.690	57	1.345		
	Total	77.000	59			
set1q14	Between Groups	4.743	2	2.371	1.686	.194
	Within Groups	80.190	57	1.407		
	Total	84.933	59			

Table 5: (Public Sector)

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
set1q12	Between Groups	18.230	2	9.115	6.427	.002
	Within Groups	293.584	207	1.418		
	Total	311.814	209			
set1q14	Between Groups	7.817	2	3.908	2.657	.073
	Within Groups	304.450	207	1.471		
	Total	312.267	209			

Table 6: (Private Sector)

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
set1q12	Between Groups	2.776	2	4.388	3.930	.046
	Within Groups	309.038	207	1.493		
	Total	311.814	209			
set1q14	Between Groups	9.101	2	4.550	3.107	.047
	Within Groups	303.166	207	1.465		
	Total	312.267	209			

Table 7: (Private Sector)

From the above sheet we can conclude the significance of our research on the questions we have asked to respondents. On the basis of above detailed analysis of the data collected for the research, and as the ANOVA results shown, there are a number of factors that are found to be a significant difference and must be taken into consideration while framing policies by companies. The conclusion and recommendations, for this purpose, have been shown in detail in next chapter of the report.

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