



A Study On Evaluating Role Of Human Resource Accounting (HRA) In Private Sector Firms

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ARTICLE INFO	ABSTRACT
	Human resource accounting (HRA) is crucial for firms to enable strategic decision-making since it measures the value of human capital. Ultimately, it helps maintain a competitive advantage and long-term viability in the fast-paced business environment by enhancing the accuracy of financial reporting, promoting employee development, and optimizing resource allocation. The purpose of conducting this research is to evaluate the role of Human Resource Accounting in private-sector firms. The technique used in this study is one sample t-test. The findings of the study indicated that Increases productivity, motivates employees, enhances employee morale and scope for future advancement, helps to formulate HR policy, High returns, Helps recruit the best manpower, helps to design training and development, increases market value of a share, Proper utilization of human resources are the significant role of human resource accounting (HRA) in private sector firms.
	Keywords: <i>Human Resource Accounting, Private sector, One Sample t-test.</i>

Introduction:

Definition of HRA

“Human Resource Accounting is an attempt to identify and report investments made in human resources of an organisation that are presently not accounted for in conventional accounting practice. Basically, it is an information system that tells the management what changes over time are occurring to the human resource in the business.” -Woodruff

“A term used to describe a variety of proposals that seek to report and emphasize the importance of human resources – knowledgeable, trained and loyal employees in a company earning process and total assets.” - Davidson and Roman L Weel

The identification and reporting of investments made in an organization's human resources—which are typically not taken into account by regular accounting procedures—is the focus of human resource accounting. It helps businesses appropriately record their assets by measuring the worth of human resources by extending traditional accounting concepts. It is regarded as the most important component in the 4M framework, which consists of Money, Machines, Materials, and Men, where Men stands for human resources. Despite their significance, human assets—unlike money, machines, and materials—do not show up on the asset side of an organization's balance sheet. Unlike tangible assets, human resources do not deteriorate with time. Rather, people frequently improve their work performance via training, development programmes, and life experience, which raises the value of human capital. Regrettably, while a company's balance sheet is being prepared, this rise is usually ignored. Human resource-related expenses, such those for hiring, screening, onboarding, training, and development, are often deducted from revenue for a given accounting period. To create a truer picture on the balance sheet, human resource accounting proponents contend that these expenses ought to be capitalised and amortised throughout the course of an employee's employment. (Shadwani, et al. 2020).

The goal of human resource accounting is to quantify an organization's human resource costs as well as benefits. It presents human resources as a human resource balance sheet, seeing them as assets as opposed to costs. This method makes clear the organization's commitment to its workers and how their worth evolves over time. The fundamentals of financial accounting are in line with the Indian notion of human resource accounting. Human resource accounting values organisational human resources and tells interested parties of this information, much like financial accounting does when it comes to representing the cost of physical assets like buildings and machines. Moreover, human resource accounting urges managers to embrace a long-term

view on the value of people, moving away from a short-term, profit-centric vision that may miss the relevance of human resources. (Shadwani, et al. 2020). The notion of human resource accounting originated in the 1972–1973 fiscal year at Bharat Heavy Electrical Ltd. (BHEL). In the years that followed, a number of notable public and commercial sector organisations also embraced the idea of human resource accounting.

Enhancing organizational performance in private sector enterprises requires an understanding of the relevance of Human Resource Accounting (HRA). HRA becomes a useful instrument for precisely evaluating the investments made in personnel and measuring their influence on the company's overall success as private firms increasingly recognise the crucial relevance of their human capital. The purpose of this study is to clarify the precise ways in which sound HRA procedures may improve financial reporting, decision-making, and long-term viability in the private industry. For private companies looking to use their people resources as strategic assets for long-term growth and competitive advantage, the results should offer practical advice.

Review of Literature:

1. **Acclavio, Matteo. (2022).** The goal of this research was to perform a complete review of human resources accounting, with a special focus on the handling of human capital in financial statements. The results of the analysis's showed that, between 2010 and 2017, banks listed on Borsa Istanbul disclosed human capital in a remarkable trend. The upward trend indicated that these institutions were becoming more cognizant of the value of human capital. The study showed that reporting standards have improved as the new economy focuses more value on intangible assets, especially human capital. The operational reports of banks listed on Borsa Istanbul throughout the analysed period were anticipated to offer greater openness and disclosure for investors, creditors, and shareholders looking for information on a firm's investment in human resources. This increased understanding is a reflection of the financial industry's recognition of the crucial role that human capital plays in a business's overall worth and performance.
2. **Enis, and, Diana (2020).** This seminar paper aimed to examine the connection between a company's financial success and its HR policies. The idea was validated by the seminar paper's findings, which showed a favourable correlation between smart HR practices and businesses' bottom lines. The study used IBM SPSS v.23.0 to evaluate an econometric model and included questionnaires as well as descriptive and comparative approaches. To provide empirical support for the link, the research examined recent works in the field of Human Resource Management (HRM) practices and financial performance. The study contributed to the overall performance and competitiveness of organisations by highlighting the strategic value of good human resource practices and offering insights into the role of HRM in impacting financial results.
3. **Manaswini, Patnaik. (2021).** The purpose of this study was to investigate how Indian businesses disclose information related to human resource accounting (HRA), making a distinction between private and public businesses. The results showed that HRA practices are being adopted by Indian businesses more and more, in both the public and private sectors. Companies demonstrated a tendency of sharing knowledge and expanding HRA practices despite past resistance. Nonetheless, deficiencies in transparency protocols were detected, as certain private enterprises failed to provide clarifications on valuation techniques, while others disregarded measuring value per employee, and still others neglected to conduct regular assessments of teamwork. The study's conclusions highlight the need for scholarly research into HRA models other than the widely used Lev Schwartz model for valuing human capital and provide prospects for better disclosure practices in management.
4. **Md., Mohiuddin, et al. (2017).** The goal of the study was to Investigate Human Resource Accounting (HRA) as a newly-emerging accounting field. The study's conclusions emphasised how Human Resource Accounting (HRA) is a revolutionary discipline. The conventional wisdom of viewing human capital expenses as direct charges against income has changed, with a modern viewpoint supporting the capitalization of human resource costs. As the paper examines, HRA is a useful instrument for calculating the expenses that the public and private sectors bear for different facets of human resource management. HRA gives managers the knowledge they need to make strategic decisions by offering insights into the expenses associated with recruiting, training, development, and recruitment processes as well as by determining the economic worth of each worker to the company. In the changing world of contemporary accounting procedures, the study highlighted HRA's contribution to management choices about hiring, assigning, developing, and retaining human resources. This improves organisational cost-effectiveness.
5. **Ms. Anusha K (2023).** This study aimed to clarify the concept of Human Resource Accounting (HRA), which is also known as Human Asset Accounting. HRA is a method of identifying, quantifying, evaluating, and sharing data pertaining to an organization's human resources. The results emphasised how Human Resource Accounting (HRA) is changing in India and positioned it as a crucial component of organisational management. The government's understanding of the significance of effective human resource implementation and value in businesses was demonstrated by the creation of a specialised Ministry for Human Resource Development. The survey recognised the widespread understanding that, in light of the 21st century's growing technological demands, investing in human resources is critical to the success of business expansion.

6. **Saurabh & Kannaujiya. (2015).** This study looked into the disclosure methods for Human Resource Accounting (HRA) in India, with a particular emphasis on how HRA is reported in annual reports, both jointly and individually in the Corporate Social Responsibility (CSR) sections. The study's conclusions showed that while India's general level of Human Resource Accounting (HRA) disclosure was not very high, it was noteworthy that certain businesses were using HRA procedures. Notably, as compared to private sector organisations, public sector companies had superior HRA disclosure policies. According to the study, firm attributes that have an impact on HRA disclosure include greater human resource ratings, listing status, and compliance with GRI rules. Higher HRA ratings were associated with a greater inclination to reveal HRA information, and listed businesses that prepared their corporate social reports following GRI rules showed a stronger commitment to HRA disclosure.
7. **Shadwani, et al. (2020).** The paper attempted to evaluate Infosys Technologies Limited's practice of assessing human capital. The results of the research showed that Infosys Technologies Limited's assessment of its human capital had advanced noticeably. In 1995–1996 the business first implemented the Lev & Schwartz model by the then-dominant procedures. After that, Infosys switched to the “GIST-HCX Model in 2011–12,” which is a more sophisticated method based on present value estimates of the projected rise in workers' future incomes. This shift suggested that the organization's understanding of the value of human capital is changing. The paper emphasised Infosys' innovative role in appreciating and recognising human resources, a behaviour not specifically required by the Companies Act of 1956. A broader awareness of the importance of human capital to organisational performance has resulted from Infosys and other Indian companies' voluntary adoption of such methods, which demonstrated a progressive approach in identifying and disclosing the value of human resources in financial statements.
8. **Willie, T. et al. (2021).** This research aimed to examine the joint function of strategy and HRM practices in small enterprises, specifically concerning their influence on financial outcomes. The study's conclusions demonstrated that strategy and small business financial success are directly correlated. Notably, the impacts of HRM practices were the only ones that could mitigate this link and make it relevant. The findings indicated that close consideration must be paid to the possible effects of human resource management techniques on financial performance if small enterprises are to fully realise the execution of their objectives. In order to attain maximum financial performance, the study underscored the necessity for owner-managers of small businesses to base their strategy on good human resource management techniques. The study added to the body of knowledge by proposing a model that clarifies the linked dynamics that affect small business success and shows how HRM practices mediate the relationship between strategy and financial performance.

Objectives of the Study:

1. To evaluate the significant role of human resource accounting (HRA) in private-sector firms
2. To give appropriate suggestions to implement human resource accounting (HRA) in private sector firms that currently do not practice human resource accounting (HRA) practices.

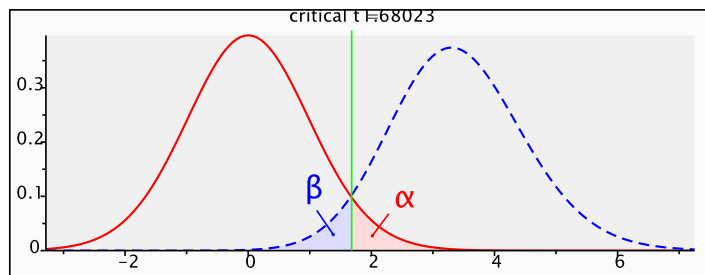
Hypothesis:

H₀: The impact of human resource accounting (HRA) in private sector firms on various parameters is low (Mean score ≤ 3)

H₁: The impact of human resource accounting (HRA) in private sector firms on various parameters is high (Mean score > 3)

Research Methodology:

Descriptive research design is used for the current study. The sample size selected for the study is 65 Top level managers of private sector firms. Sampling techniques used for the current study is non probability purposive sampling. Both primary and secondary data collection sources have been used. Parametric one sample test has been used using R studio software. (As per faul et al minimum required sample to run one sample t-test one tailed=45)



Test family		Statistical test	
t tests		Means: Difference from constant (one sample case)	
Type of power analysis			
A priori: Compute required sample size – given α , power, and effect size			
Input Parameters		Output Parameters	
Determine =>	Tail(s)	One	Noncentrality parameter δ
	Effect size d	0.5	Critical t
	α err prob	0.05	Df
	Power ($1 - \beta$ err prob)	0.95	Total sample size
			Actual power
			0.9512400

Data Analysis and Interpretation:

Table No: 1 One sample t-test

Items	t statistics	P – value	Ha: mean score of the role of human resource accounting (HRA) in private sector firms > 3
Increase productivity	15.87	0.000	Significant
Motivates employees	15.11	0.000	Significant
Enhances employee morale	14.09	0.000	Significant
Scope for future advancement	17.54	0.000	Significant
Helps to formulate HR policy	17.43	0.000	Significant
High returns	16.00	0.000	Significant
Help recruit the best manpower	14.77	0.000	Significant
Helps to design training and development	14.88	0.000	Significant
Increases Market value of share	17.34	0.000	Significant
Proper utilization of human resources	16.35	0.000	Significant

Parametric one sample t – test (one tailed) is applied to examine **role of human resource accounting (HRA) in private sector firms**. It is seen that p – value < 0.05 and t statistics > 1.96 for Increase productivity, motivates employees, enhances employee morale, Scope for future advancement, helps to formulate HR policy, High returns, Help recruit best manpower, helps to design training and development, Increase market value of share, Proper utilization of human resources are significant role of human resource accounting (HRA) in private sector firms.

Conclusion:

The study's conclusion highlights the critical function that Human Resource Accounting (HRA) plays in private sector businesses and highlights the variety of effects it has on organisational dynamics. The functions of HRA that have been discovered, which include improving employee engagement, morale and productivity as well as formulating strategic HR policies and increasing market value of shares, demonstrate the breadth of its relevance. It becomes clear that HRA is more than just a financial instrument; rather, it is a strategic need that smoothly combines human resource management with organizational objectives. Through an understanding of the complex relationship between financial results and human capital, private sector companies may create

a positive synergy that benefits stakeholders over time. Since HRA serves several purposes, it can act as an accelerator for long-term competitive advantage by encouraging flexibility and resilience in the face of a constantly shifting corporate environment. The recommendations made here give private sector companies feasible strategies to fully realise the benefits of HRA and make sure that their people become a source of long-term competitive advantage.

Suggestions

- **Stress Productivity Improvement:** Businesses in the private sector should use HRA to find and use productivity-boosting tactics. This might entail making investments in the training of staff members, streamlining workflows, and coordinating human resources with organizational objectives.
- **Emphasis on Employee Motivation:** Private sector companies have the chance to highlight employee motivation through the implementation of HRA. Employee morale may be raised by praising and thanking them for their accomplishments, which can raise job satisfaction and productivity levels overall.
- **Continuous Employee Improvement:** Private sector companies should make use of HRA insights to keep improving the abilities and output of their workforce. To guarantee a dynamic and skilled staff, this may entail frequent training programs, skill development initiatives, and performance evaluations.
- **Formulation of Strategic HR Policies:** For private sector companies to succeed and flourish over time, human resource strategies should be in line with encompassing company goals.
- **Enhance Hiring Process:** Make use of HRA to enhance hiring procedures and draw in top candidates. Comprehending the fiscal consequences of human resources may assist companies in making well-informed choices throughout the hiring procedure.
- **Invest in Training and Development:** HRA can help with the creation and execution of successful programmes for training and development. Businesses in the private sector should fund programmes for ongoing education to improve the skills and flexibility of their workforce.
- **Boost Market Value:** Understand how HRA and market value are related. By concentrating on human capital management, a company may enhance its market perception and become more competitive in the market, which will boost shareholder value.
- **Assure Appropriate Use of Human Resources:** HRA will assist businesses in the private sector in making the best use of their human resources and maximizing organisational performance, making sure that personnel is deployed effectively and that their talents align with the demands of their jobs.

The bottom line is that up, the use of HRA in private sector companies has a great deal of promise for creating a happy work atmosphere, enhancing financial results, and guaranteeing long-term success. Through the strategic integration of HRA results into HR practices and overall company strategy, private sector organisations may fully use the potential of their people capital, resulting in increased profitability and competitiveness.

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