



Human Resource Accounting: Exploring the phenomena of HRA in Bengaluru Information Technology (IT) Industries

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ABSTRACT

This paper reviews the literature available on the perception of human resource accounting. As per the study Human Resource Accounting Practice In information technology (IT) emphasizes the fact that human resources should be treated as assets like physical and financial assets because the quality and calibre of the people working in an organization are the real assets of a firm. The information on human capital not only helps the companies to retain the best employees but also helps the companies to move in the right direction of its potentiality. The economy of many nations is driven by knowledge-based sectors. The information on human capital in IT sector not only helps the companies to retain the best employees but also helps the companies to move in the right direction of its potentiality.

Key Words: Human Resource Accounting, Information Technology, Software, Physical Asset.

1.1 Introduction:

“Human Resource Accounting” is of recent origin and is striving for acceptance. Human resources accounting is an accounting analysis system and in the last decade a large body of literature has been published for setting the various procedures for analysis. HRA is a management tool which is designed to assist senior management in understanding the long-term cost and benefit implication of their HR decision so that better business decision can be taken. (Rani 2016).

Meaning and definition: According to American Accounting Association's committee as “The process of identifying & measuring data about human resources & communicating this information to interested parties”. Stephen Knauf defined HRA as “The measurement & quantification of human organizational inputs such as recruiting, training, experience & commitment”.

According to Eric. G Flamholtz, “HRA represents accounting for people as an organizational resource. It is the measurement of the cost & value of people for the organization”.(Shukuhian, Ashraf 2017). Human resource accounting is basically an information system that tells management what changes are occurring over time to the human resources of the business When service sector started major contribution to a country's economy the significance of human assets got prominence. Knowledge sectors like Information Technology (IT), Banking, Tele services and others the intangible asset especially humans contributed highly to the building of shareholder value. Intellectual power of employees only major input to these sectors. Employees are the most valuable resources of comparison in the services (Software, Banking, Management Consultancy, etc) sectors. (Rao, Bhasha, Rajashekar 2013). Accounting from the very beginning is confined to record only those business transactions which can be expressed in monetary terms. It was not a problematic issue till business meant dealing in tangible items. Gradually with the passage of time business shifted from production of goods to providing services to the customer. It was the time when it was felt that the most important asset of a company is human beings. (Kaur 2019). Accounting is termed as “Business Language”. The Information about business is communicated to the stake holders through the medium of accounting. With the advent of technology and emergence of growth firms (Particularly Information Technology Companies), The success of every organization comes out of its human capital. Human resources constitute as an imperative asset in an organization. The earlier two decades have seen a global changeover from production to knowledge-oriented industries. (Ganesh 2018). Managers today are experiencing an era where

human capital is the real capital of organizations. In other words, the leading organizations can just overtake the other organization by the help of smart and knowledge creator humans in the area of their upcoming competitions and challenges (Haji Karimi, & Rahimi, 2011). Human resource is an asset whose value gets appreciated over the period of time provided placed, applied and developed in the right direction. Till the recent past, organizations took few efforts to assign monetary value to human resource in its accounting practice. They were against the conventional accounting practice for its failure to value the human resource of an organization along with physical resources. (Sonbhadra 2013). Human resources accounting is the process of identifying and reporting the investment made in the human resources of an organization to the interested parties. The main concept behind Human Resources Accounting is the investment made on each employee and the value generated by them. In this context, it is immense difficult to account the resources of institutions in which profits and productivity heavily depends on intangible assets. (Ingride, Amaladas 2014). The world economy is moving rapidly towards a knowledge-based economy. Indeed, one of the distinctive features of the knowledge-based economy refers to the human capital (including knowledge, skills and experience of individuals) that is more important than the physical capital. (Mahamoodi, Barbei, Mahamade 2013).

1.12 Review of literature:

Rao, Bhasha et al (2013)., Study revealed human resources appear to be important to Indian organizations, most organizations do not value their human resources and plans to implement valuation of human resources are at a very early stage. Despite the interest in valuation there will be little or moderate progress in the area over the next five to ten years. In order to show greater progress, more needs to be done at both the theoretical and practical level.

Usha (2013)., According to this paper traditional accounting is going to be replaced gradually by modern accounting where International Financial Reporting Standard proposes and encourages alternative measurement and reporting standard which also includes Human Resource Accounting. Certainly, the recognition of human resource as an asset and other developments in the field of modern accounting is going to present true and fair information in financial statement.

Mahamoodi, Bharbie et al (2013)., Study said that the impediments pertaining to the process of collecting human capital data for the report, the weak points and failings of the current accounting systems, and the absence of a comprehensive model for appraising human resources are the major influential factors obstructing the implementation of human resource accounting. Human resources accounting includes useful and effective functions to users of reports and financial statements in order to provide adequate and reliable information about the value of human resources of the company.

Ingride, Amaladas (2014)., Researcher found this important asset is very crucial to quantify and account. When academic institutions are heavily dependent on human assets than physical assets, who are considered as knowledge assets, they need to be quantified and accounted. Their worth and hard work need to be given a recognition.

Dinesh, Raghuwanshi (2014)., The author finds few challenges in the application of HR accounting. Unlike business organization most of the educational institutions are run as charitable institutions. Absence of profit motive does not encourage management to manage its Human Resource efficiently. Salaries of employees and fee structure is determined by the government.

Rani (2016)., Research study shown that debated various magnitudes related to valuing human resource. For accounting human resources, different models have been developed which are helpful to identify and report investment made in the human resource of an organization that are not presently accounted for under conventional accounting practice. On the behalf of accounting bodies, government agencies and regulatory bodies there is a need to come forward and issue guidelines of accounting in relation to disclosures being more objective and user worthy.

Reetha 2017., Researcher said the growth of the software companies all over the world depend on its human and intellectual resources making retention and maintenance of these a primary aim of all employers. These employees are assets that appreciate in value through the skill, knowledge and experience they acquire while working in the organization. Their departure from the organization makes the business lose an essential element of intellectual capital. The loss becomes greater if such intellectual element is acquired by a rival business concern. This makes the valuation of this asset essential for the success of the company and by reporting it to the public it enhances the image of the company.

Shukuhian, Ashra (2017)., Study found that human asset is an intensive nature of the companies which is critically important for effective management of human resources. Human resources constitute a major element of total operating costs and the ability of management to control these costs is vital in order to long-term business success.

Therefore, it is essential to disclose the value of human resource in annual report of companies. But the problem of HR is that most of the companies in India do not recognize it properly, despite of its significant contribution. HR 's contribution is also significant in human capital efficiency and firms' financial performance.

Ganesh (2018)., Study highlights the trends in human capital and relationship of human capital with skill

level. Though there is no mandatory requirement for implementing HRA, voluntary disclosure of HRA statement enables the companies to cope up with foreign companies in terms of accounting standards. The strong development of International Financial Accounting Standards (IFRS) gives support to the likelihood that in future, financial reports will contain information on measurement of intangible assets.

Kaur (2019)., According to research accounting from the very beginning is confined to record only those business transactions which can be expressed in monetary terms. It was not a problematic issue till business meant dealing in tangible items. Gradually with the passage of time business shifted from production of goods to providing services to the customer. It was the time when it was felt that the most important asset of a company is human beings.

1.13 Objective of the study:

1. To study the importance of Human resource accounting in IT sector.
2. To study IT employees perception regarding HR accounting.

1.14 Importance of HRA in Information Technology sector :

In the financial year 1995-96, Infosys Technologies (Infosys) became the first software company to value its human resources in India. The company used the Lev & Schwartz Model and valued its human resources assets at Rs 1.86 billion. Infosys had always given utmost importance to the role of employees in contributing to the company's success. Analysts felt that human resources accounting (HRA) was a step further in Infosys focus on its employees. Narayana Murthy (Murthy), the then chairman and managing director of Infosys, said: "Comparing this figure over the years will tell us whether the value of our human resources is appreciating or not. For a knowledge intensive company like ours, that is vital information".

1. To develop the management of human resources by increasing the transparency in employee cost such as recruitment, training and development , promotion, retention and retrenchment from organizational perspective.
2. The information provided by HRA is vital for both the internal and external decision makers.
3. HRA enables the organization to view human resources as assets which will help for effective utilization and rewarding
4. To have a complete management information system. (Ganesh 2018).

American Accounting Association (1973) defines Human Resource Accounting as "the process of identifying and measuring data about human resources and communicating this information to the interested parties". Human Resource Accounting is mainly concerned with:

- Identification of data regarding human resources of an organization
- Measurement of the data in terms of cost and value.
- Communicating this information to the interested parties.(Reeta 2017).

Human Resource Accounting provides useful information to the management, financial analysts and employees as stated below :

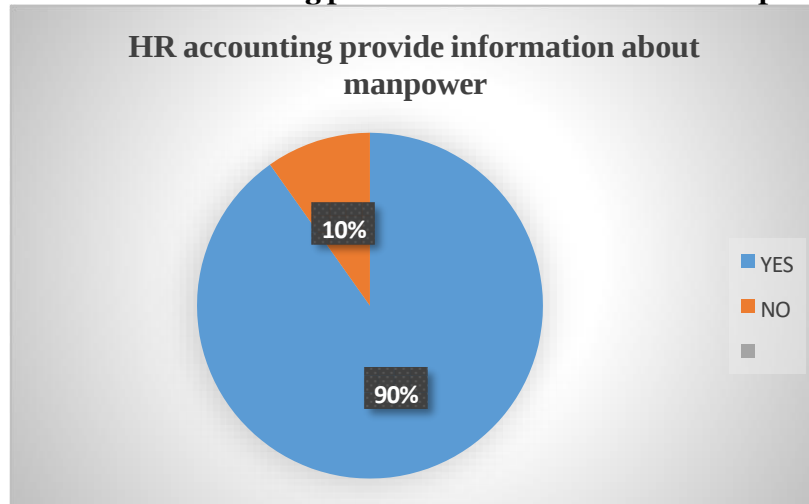
- a) It provides companies with information about the cost and value of its human resources.
- b) It provides companies with a guide for human resource decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost- effectiveness.
- c) It motivates managers and decision makers to look at decisions through a human resource point of view.
- d) It allows management personnel to monitor effectively the use of human resources.
- e) It provides a sound and effective basis of human asset control, that is, whether the asset is appreciated, depleted or conserved. (Bardawil 2012).

1.15 Research methodology:

Data collection: The study is based on primary data information. Structured questionnaire and semi interview has been used as an important tool to collect the primary data from the sample respondents of (Information technology) IT employees in Bengaluru, Karnataka. Primary data were entered using MS-Excel and pie chart. The questionnaire was administered to the random selected IT companies in Bengaluru, Karnataka. A total of 100 questionnaire were distributed and 91 completely filled questionnaire were collected giving an overall response rate of 91 per sent.

1.16 Data analysis and Interpretation:

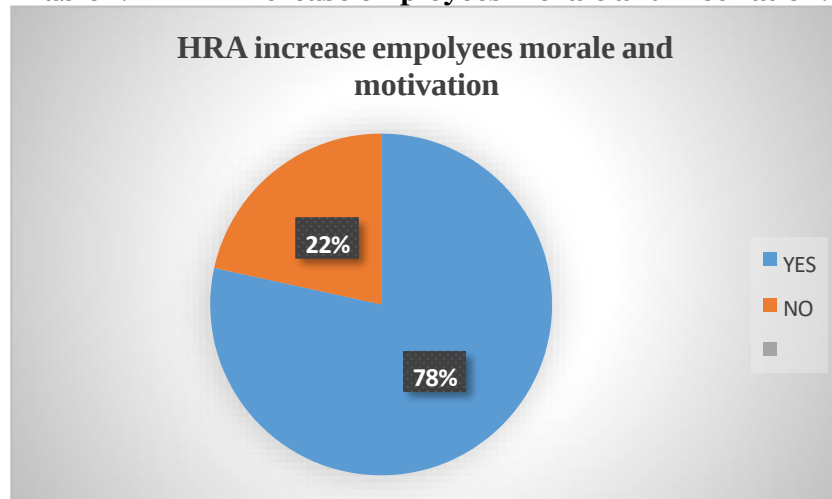
Table 1.11 HR accounting provide information about manpower.



From the above bar chart table 1.11 shows that 81 employees agrees that human resource accounting provide information about manpower in particular organization. and other 10 employees said no for HRA provide information about manpower.

Productivity and profitability of a company largely depends on contribution of human resource assets. The benefits from HRA contributes in some way to accomplishment of the organizational goals.

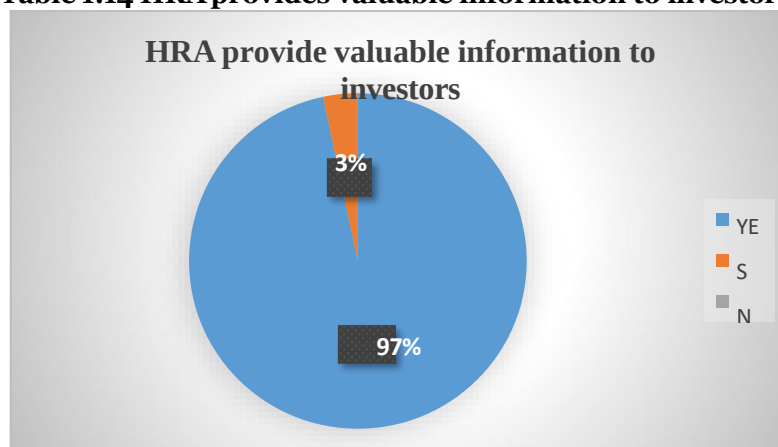
Table 1.12 HRA increase employees morale and motivation.



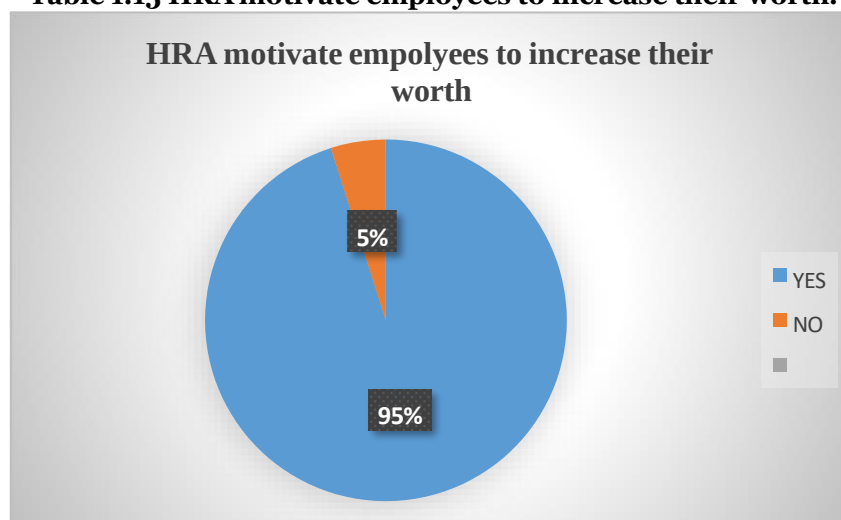
Above the pie chart shows that HRA increase employee morale and motivation. Here 78% of IT employees said yes and they agree that HRA increase employee morale and motivation. And other 22% of employees said no for the statement. Likewise HRA increase employees weakness and strength and that helps to improve morale and motivation. Most of the IT employees agree that human resource accounting provide motivation and encouragement.

Table 1.13 HRA helps to designing training and development program.

Above pie chart table 1.13 shows that HRA helps to designing training and development program. Here 86% of employees from IT companies said yes for above statement. Likewise HRA helps the organization to design a suitable training and development program for its employees. Without training and development financial and physical resources can not be operationally effective.

Table 1.14 HRA provides valuable information to investors.

Above the pie chart table 1.14 shows that all employees agree to the above statement and said yes. HRA provides valuable information to present and future investors. 97% employees agree yes and 3% said no. Information on investment and value of human resource is useful for decision making.

Table 1.15 HRA motivate employees to increase their worth.

Above the pie chart table 1.15 shows that human resource accounting motivates employees to increase their worth. Here 95% of IT employees said yes and agree above the statement but other 5% of employees said no to the statement. These employees are assets that appreciate in value through the skill, knowledge and experience they acquire while working in the organization.

Hypothesis:

Alternative hypothesis(H₁) - There is a significance impact on importance of Human resource accounting in IT sector.

Null hypothesis(H₀) - There is no significance impact importance of Human resource accounting in IT sector.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Do you think HRA provide a basis for man power planning and recruitment	91	1.00	3.00	1.8571	.60684
Do you agree HRA assists in evaluating the expenditure	91	1.00	2.00	1.6154	.48920
Does HRA helps to identify the causes of absenteeism	91	1.00	4.00	1.5714	.76220
Does HRA helps maintain stress management	91	1.00	3.00	1.6484	.67286
Does HRA assist real able human resource management	91	1.00	4.00	1.7692	.89538
Do HRA provide valuable information to investors for making long term investment in the firm.	91	1.00	5.00	2.0000	.97753
Valid N (listwise)	91				

On the above table shows that HRA provide reliable information to investors means is 2.0 and standard deviation is 0.97 likewise, HRA assists in evaluating the expenditure mean 1.61, standard deviation is 0.4, HRA assist real able human resource management mean is 1.76 and standard deviation 0.67, HRA helps maintain stress management mean is 1.7 and standard deviation 0.89. Human resources accounting is the process of identifying and reporting the investment made in the human resources of an organization to the interested parties.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.975 ^a	2	.000
Likelihood Ratio	27.755	2	.000
Linear-by-Linear Association	16.485	1	.000
N of Valid Cases	91		

On applying chi square test this hypothesis were calculated Pearson chi square and likelihood ratio. It was found there is a Pearson chi square 19.97 and (P value was 0.000. P value is greater than 0.05). Which implies that H₀ is accepted and alternative hypothesis is rejected that there is the importance of Human resource accounting in IT sector.

1.17 Findings:

The benefits from HRA contributes in some way to accomplishment of the organizational goals shown in table 1.11 and 1.12. Table 1.13 shows that HRA helps the organization to make the best utilization of human resources by providing proper training and development to employees. Table 1.14 shows that HRA provides valuable information to present and future investors and all 91 IT employees said yes for the statement. Table 1.15 shows that human resource accounting motivates employees to increase their worth.

1.18 Conclusion:

The study reveals that human resource accounting attract best employees and managers to the organization. Human resource accounting productivity and profitability of a company largely depends on contribution of human resource assets. The benefits from HRA contributes in some way to accomplishment of the organizational goals. On the analysis of data revealed that human resource accounting productivity and profitability of a company largely depends on contribution of human resource assets. The growth of the software companies all over the world depend on its human and intellectual resources making retention and maintenance of these a primary aim of all employers.

1.19 Reference:

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