

**International Journal of**  
Engineering Research and Science & Technology



**ISSN : 2319-5991**

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## Human Resource Accounting and Its Importance in Managerial Decision -making :A Study

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**Abstract:** In order for an organization to fulfill its goals, it relies heavily on the talents, skills, and abilities of its employees. To put it simply, human resource accounting is all about making sure that the value of a company's human capital is properly documented. For analyzing human resources, models for human resource accounting, and disclosures of human resource accounting, there has been a considerable corpus of theoretical and empirical study. As a management tool, human resource accounting helps the company make better choices. In this research, the primary goal is to determine how the HR departments of selected public and private sector firms perceive human resource accounting's significance to management decision-making. For the research, primary and secondary sources were employed to gather data. Human resource accounting was shown to have a vital part in both public and private sector firms' decision-making processes.

**Keywords:** Public and private companies as well as non-profit organizations are included in this category.

### INTRODUCTION

Organizational success depends on being able to keep pace with the winds of change blowing across the corporate landscape. This includes technological advancements, new economic trends, and shifting competitive forces, all of which have a direct impact on how organizations should best utilize their human resources. When it comes to global power, it's all about the quality of human resources paired with cutting-edge technology. The world has now come to recognize that human resources are the true investment in a company. HR accounting is a

decision-making tool that aids management in making choices about the long-term costs and benefits of human resources. Only detecting and measuring data relating to human resources, as well as conveying this information to relevant parties, constitutes Human Resource Accounting. Measurement and reporting of organizational resource's economic worth is referred to as HRA (Flamholtz, 1971). The practice of accounting for human resources is widespread, not just in other nations but also in India. Both public

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and private sector Indian firms, such as ACC Limited, SPIC, KPIT Technologies, CCI, HPCL, HCL, NTPC, and MMTC, use human resource cost accounting and human resource value accounting methodologies. Human resource accounting is now gaining traction in the business sector. Even Nevertheless, the corporate world must be aware of the importance of HRA in their management decisions and in accomplishing the company's goals and revenues.

## 1. REVIEW OF LITERATURE

Bowman(2005)For dynamic applications of capital and growth accounting, a research analyzed how human resources were handled. National accounting practices were discovered to be skewed, and the time was right to experiment with metrics that may rectify such biases and give a more accurate basis for assessing long-term economic performance and prospects....

Dalvedi (2010) analyzed the HR accounting methods of a few governmental and private sector organizations. As part of the research, purposive sampling was employed to choose participants from four companies: two public sector ones (BHEL and SAIL) as well as two private sector ones (INFOSYS and ACC). For this study, secondary sources were employed to gather information. From 2003-04 to 2007-08, the research was conducted. The research indicated that the average disclosures of chosen organizations varies significantly.

Flamholtz et al. (2002) Human resource accounting has been studied extensively in an effort to promote both academic research and corporate applicability. Research into the history of HRA revealed how intellectual conception and empirical testing settings might fulfill the demands of industry in practice, and many businesses were discovered to use the HRA method.

Ratti(2012)calculated the value of human resources at various organizational levels via a research. Primary data served as the study's foundation. Surveys from fifteen firms were used to acquire primary data for the research. The research made use of a method known as convenient sampling. Human resource value was shown to be independent of the number

of people employed, leading to the conclusion that calculating human resource value is difficult due to the high cost involved.

Rahaman et al. (2013) analyzed the strengths and weaknesses of the human resource accounting concept. The research included descriptive and content analysis methods. Human resource accounting conceptualization has been shown to be useful for accounting, according to the findings of this study. Researchers also came up with an accounting-compliant option that standard-setters may use.

Rao(2014)geared towards treating human resources in the same way as other components are in accounting. Human resources were also considered as an expense and an investment in the financial records and reports studied. The study relied heavily on secondary resources, such as books, journal articles, research papers, websites, and previously unpublished data, to gather its data. "Human Resource Financial Accounting" has been decided upon as the new term for financial accounting in the future.

## OBJECTIVE OF THE STUDY

The primary goal of this research is to examine how human resource managers in both public and private sector organizations in India see the role that accounting for human resources plays in making management decisions.

## 2. RESEARCH METHODOLOGY

The methodology of research which has been used in the present study is defined as following:

### 4.1 Sources of Data Collection

4.2 The current research is both descriptive and exploratory in its approach. There are both primary and secondary data sources employed in the research. A questionnaire was used to gather primary data. Various books, journals, dissertations, annual reports, and websites were used to gather secondary data.

### 4.3 Sampling Design and Size

4.4 To gather information from the human resources and finance departments, convenience sampling was used to construct a

questionnaire. 70 people participated in the survey, including 40 from five public sector enterprises and 30 from five private sector businesses. Techniques used for Data Analysis Data Editor SPSS 20.0 (Statistical package for social sciences) version has been used for the analysis of the data. Factor analysis and an independent t-test have been used to analyse the data.

#### 4.5 Hypothesis of the Study

The following hypothesis has been proposed in light of the study's goals:

A comparison of public and private sector organizations' views on the relevance of human resource accounting in management decision making yields the same result, according to Hypothesis (1).

HR accounting's relevance in management decision-making is seen quite differently by public and private sector organizations, as shown by Hypothesis (1).

#### ANALYSIS OF IMPORTANCE OF HUMAN RESOURCE ACCOUNTING IN MANAGERIAL DECISION-MAKING

Factor analysis was used to identify the factors that are considered important by the human resources department in making managerial decisions at selected public and private sector companies after verifying the scale's reliability and testing the data's appropriateness (Cronbach's alpha, KMO and Bartlett's Test of Sphericity). The Varimax Rotation Method was used in conjunction with the Principal Component Method for this task.

Table-1 reveals that the KMO statistic value was discovered to be 0.614 (which is larger than 0.6), which indicates that factor analysis may be used. Sphericity testing by Bartlett yields an estimated Chi-square statistic of 172.246 at 55 degrees of freedom, which indicates that the data may be used for factor analysis. Cronbach's Alpha was discovered to be 0.699, which falls between 0 and

1.

Table-1

KMO and Bartlett's Test

|                                                 |                    |         |
|-------------------------------------------------|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy |                    | 0.614   |
| Bartlett's Test of Sphericity                   | Approx. Chi-Square | 172.246 |
|                                                 | df                 | 55      |
|                                                 | Sig.               | 0.000   |
| Cronbach's Alpha                                |                    | 0.699   |
| No. of items                                    |                    | 11      |

Source: Primary Data. Data processed through SPSS 20.0.

The following table-

2 shows that through Principal Component Analysis method by using Varimax rotation, the Eigenvalue which is greater than 1.0 (default option) results in extraction of four factors.

Table-2

Total Variance Explained

| Components | Rotation Sum of Squared Loadings |               |                          |
|------------|----------------------------------|---------------|--------------------------|
|            | Eigen Values                     | % of Variance | Cumulative % of Variance |
| 1          | 1.936                            | 17.599        | 17.599                   |
| 2          | 1.697                            | 15.427        | 33.026                   |
| 3          | 1.543                            | 14.025        | 47.051                   |
| 4          | 1.505                            | 13.679        | 60.730                   |

Extraction Method: Principal Component Analysis.

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The data which has given in the following table-3 presents the extraction of communalities and factor loadings for each variable.

| Sr. No.                                                                                                                                           | Statements                             | Components     |                |                |                | Communalities Extraction |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------|----------------|----------------|----------------|--------------------------|
|                                                                                                                                                   |                                        | F <sub>1</sub> | F <sub>2</sub> | F <sub>3</sub> | F <sub>4</sub> |                          |
| 1                                                                                                                                                 | HRA and new opportunities.             | .843           |                |                |                | .758                     |
| 2                                                                                                                                                 | HRA and value of employees.            | .765           |                |                |                | .658                     |
| 3                                                                                                                                                 | HRA and evaluation of employees.       | .685           |                |                |                | .521                     |
| 4                                                                                                                                                 | HRA and investment decision.           |                | .720           |                |                | .586                     |
| 5                                                                                                                                                 | HRA and replacement cost of employees. |                | .679           |                |                | .682                     |
| 6                                                                                                                                                 | HRA and human resource planning.       |                | .607           |                |                | .558                     |
| 7                                                                                                                                                 | HRA and goodwill.                      |                |                | .721           |                | .676                     |
| 8                                                                                                                                                 | HRA and HR budget.                     |                |                | .623           |                | .445                     |
| 9                                                                                                                                                 | HRA and HR selection.                  |                |                | .599           |                | .506                     |
| 10                                                                                                                                                | HRA and future benefit.                |                |                |                | .806           | .703                     |
| 11                                                                                                                                                | HRA and compensation decision.         |                |                |                | .681           | .608                     |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax with Kaiser Normalization.<br>a. Rotation converged in 6 iterations. |                                        |                |                |                |                |                          |

Table-3  
Rotated Component Matrix a

#### Source: Primary Data. Data processed through SPSS 20.0.

Through factor analysis, the computed factors have been showing high positive factor loadings. The factors are named as 'HRA and valuation of employees', 'HRA and employees cost', 'HRA and decision on HR' and 'HRA and other decisions' with respect to the factor loadings.

**5.1 Comparison of Means: Independent t-test for Analysis of perception of human resource department about importance of human resource accounting in managerial decision making**  
Experiment 4's hypothesis is shown in Table-4. Using factor analysis, managers were able to compare their own perceptions of the

relevance of human resource accounting in making strategic decisions. The independent t-test is based on these parameters.

An independent t-test was used to see whether the assessment of the relevance of human resource accounting in management decision making differed significantly between the mean scores of public and private organizations.

Table-4

Comparison of factors of Perception of human resource department about importance of human resource accounting in managerial decision making

| Factor Name                                      | Public Company (N=40) |      | Private Company (N=30) |       | Independent Sample t-test |       |
|--------------------------------------------------|-----------------------|------|------------------------|-------|---------------------------|-------|
|                                                  | Mean                  | S.D  | Mean                   | S.D   | t                         | Sign. |
| HRA and valuation of employees (F <sub>1</sub> ) | -.063                 | .888 | .077                   | 1.126 | -.698                     | .487  |
| HRA and employees cost (F <sub>2</sub> )         | .141                  | .969 | -.173                  | 1.020 | 1.580                     | .117  |

|                                           |       |       |       |      |        |      |
|-------------------------------------------|-------|-------|-------|------|--------|------|
| HRA and decision on HR (F <sub>3</sub> )  | .036  | 1.110 | -.044 | .855 | .409   | .683 |
| HRA and other decisions (F <sub>4</sub> ) | -.169 | .980  | .207  | .994 | -1.897 | .061 |

Note: 95% confidence interval of the difference  
An independent t-test demonstrates that the difference between the t-values for each of the four components, namely "HRA and employee valuation," "HRA and employee cost," "HRA and decision on HR," and "HRA and other decisions," is not significant at a 95% confidence interval. As a result, when it comes to these four characteristics, the difference between the mean scores of respondents from public and private enterprises has turned out to be minor. No major difference exists between public and private sector organizations when it comes to the role of human resources accounting in management decision making.

3.

#### **FINDINGS AND LIMITATIONS OF THE STUDY**

##### **UDY**

In the research, no difference in the relevance of human resource accounting was discovered across chosen public and private sector organizations. It indicates that both public and private sector businesses have agreed that accounting for human resources is a vital part of management decision-making. There are only 100 participants in this research, drawn from seven governmental and seven private sector organizations.

##### **4. CONCLUSION**

A large body of theoretical as well as empirical researches has been done by many researchers for assessing human resources, models of human resource accounting, and disclosures of human resource accounting.

Human resource accounting has been the subject of controversy in previous research, with the consensus being that it is vital for any organization to account for its employees as an asset and to value them accordingly. For the correct application and acceptance of HRC by accounting and regulatory authorities and government agencies, rules governing the disclosure of HRC must be issued. These standards should be more impartial and worthy of their users.

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