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The impact of human resource information on managerial decision

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Abstract

Purpose: The need to meet the increasing business opportunities of future, and simultaneously maintain or improve upon the current level of performance, has made companies to look consciously into the human resources (HR) as the future leverage for success. There is enough empirical evidence to show that HR related disclosures help management in taking improved HR related decisions, thereby improving company's performance. The present study is aimed at finding out current practices relating to the effect of HR information on managerial decisions and Relevant HR information used by managers while making decisions through a survey questionnaire. The data is collected from managers at different levels in the listed companies.

The study findings reveals that influence of HR information on managerial decisions is moderate. The result of analysis established that managers' decision to use HR information in their managerial decisions is affected by their educational qualification, department, level of management and the experience. The managers consider performance indicators (profit/ sales per employee), average employee demographics (age/ experience/ education qualification), employee strength, and attrition/turnover rate to be most important while making decisions as compared to other information. The findings can be used by accounting bodies and company regulators while deciding about standards about HR disclosures.

However, it is a generalised work regarding the use of HR information in managerial decisions. In future, work can be undertaken to examine important HR variables for different decisions by managers in different departments.

Keywords: HR disclosures, management decisions, HR indicators, financial performance

1. Introduction

Traditionally capital (money) and natural resources are assumed to be the main factors of production leading a company to the path of growth and prosperity. These are shown as important assets in a company's balance sheet and labour is not given much significance. Rather amount spent on them is written off as expenditure. But with the emergence of knowledge economy, focus has been shifted to labour now reincarnated as human resources or human capital. The management world has woken up to the powers of human resources. Infact human resources are the only active agents among all resources who accumulate capital, exploit natural resources, build social and economic organisations and carry forward the task of development of companies, industries and economy. The human resources are the most strategic and critical factors among all key resource factors. Hence today's management is confronted with the important task of building up of human resources. Human resources represent the energies, skills, talents and knowledge of people which are or can potentially be applied for production of goods or rendering of services in a company. Many research studies show that HRA may be used as a managerial tool to help in making decisions that will benefit the long term strategic goals and profitability of the company. Various researchers like Moore (2007) ^[13], Johanson and Mabon (1998) ^[14], and Sharma, A. (2012) ^[21] have suggested that availability of information about various aspects of human resources allows management to draw plans for long term business strategy and improving company's performance. Therefore, present study is aimed at finding out

1. Current practices relating to utilisation and effect of HR information on managerial decisions
2. Relevant HR information used by managers while making decisions.

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2. Literature Review

Many studies suggest that management and reporting of human resources is positively correlated with performance and value of companies (Edvinsson and Sullivan, (1996) ^[15], Bontis, (2003) ^[16] and Anam *et al.*, (2011) ^[22]. Garcia-Ayuso *et al.*, (2007) concluded that investors have higher (lower) expectations on the future earning growth of firms with higher (lower) quality human resources. Huang *et al.*, (2008) ^[17] found that investors particularly institutional investors like fund managers and financial analysts seek information on company management and human capital but most disclosures are qualitative and not uniform which requires them to rely on alternative sources to get the desired information- a costly process for private shareholders. Thus human resource disclosures help the users in understanding the company's competitive advantage over others. Skoog (2003) found a positive correlation between profit in the long run and reported human resources. In present study, an attempt is being made to examine utilisation and effect of HR related information on managerial decisions. The study aims to identify important HR related indicators used by managers while making decisions.

3. Research methodology

The research is based on questionnaire survey research design.

3.1 Questionnaire Design

Survey questionnaire research design has been selected for the study. Questionnaire has two parts.

Part 1: To examine the current scenario regarding the use of HR related information by the investors in their managerial decisions, managers have been asked to tick their status with regard to the use and effect of such information in their managerial decisions out of the given options:

- Always - To a great extent
- Sometimes- Moderate extent
- Sometimes- Minor influence
- Rarely- No Influence
- Never- No influence

In addition, managers' perceptions regarding importance of HR information for internal management decisions is studied on 5 point Likert's scale. Points considered in this category are

1. Having adequate information about HR value (measured value) provide better input for strategic business decisions such as diversification, acquisition, mergers etc.

2. Estimating the value of current HR allows the company to draw plans for long term business strategy.
3. Company's investment in adding value to HR would be reflected in the financial results of the company.
4. HR Valuation helps to identify real cause of any low ROI (such as underutilisation of HR).
5. Monetary valuation instead of philosophical approach towards HR management will yield better results for the company.
6. Systems to valuate HR regularly enables management to take well informed decisions thereby improving efficiency.

Part 2: This part of questionnaire is aimed at identifying important HR related indicators used by managers in decision making. On the basis of the study done in this respect like Petterson and Rylme, (2003) ^[23]; Verma and Dewe (2008) ^[18]; Alam and Deb, (2010) ^[19]; and Ragini (2012) ^[20] fourteen topmost indicators have been included namely Training cost, employee Turnover rate, Employee Cost, Management: Staff Ratio, Absenteeism Rate, Overtime Cost, Employee Welfare costs, ESOP/ EVA, Bonus, Intellectual capital, Average Age/ Experience, Per capita productivity, Revenue/ output per employee, Cost per hire. Respondents are asked to specify use of these in their decisions.

Apart from this, background variables relating to managers are asked namely age, gender, educational qualification, department, level of management, work experience in total and in present company and industry affiliation.

3.2 Sample Selection, Data Collection and Technique of Analysis

Sample consists of managers of the companies listed on stock exchanges of India have been selected. Data collected has been analysed using mean, standard deviation, and frequencies. The current practices of the managers regarding use of available human resources related information has been analysed using descriptive methods, correlation and regression analysis to arrive at meaningful conclusions.

4. Analysis and Findings

In all 500 copies were distributed, of which 272 were returned. Of these 27 responses were rejected due to insufficient information supplied. Thus 245 responses were complete.

4.1 Respondent Analysis

The information relating to background variables is presented in the following table 1.

Table 1: Respondents Analysis

Variables	Frequency	%age
Age		
21-30	91	37.1
31-40	91	37.1
41-50	55	22.4
51+	8	3.3
Gender		
Female	54	22
Male	191	78
Educational Qualification		
Graduate	108	44.1
Post Graduate	75	30.6
Professional	62	25.3

Department		
General Manager	133	54.3
Accounting and Finance Manager	34	13.9
Human Resource Manager	51	20.8
Marketing Manager	27	11.0
Level of Management		
Senior Level Manager	29	11.8
Middle Level Manager	118	48.2
Lower Level Manager	98	40
Total Work Experience		
Less than 5 years	60	24.5
5-10 years	64	26.1
More than 10 years	121	49.4
Work Experience in Present Company		
Less than 5 years	84	34.3
5-10 years	74	30.2
More than 10 years	87	35.5
Industry Classification		
Non service	138	56.3
Service	107	43.7
Total	245	100

Results reveal that maximum numbers of participants are from younger age group. Majority of respondents (78%) are male. Majority of respondents (44.1%) are graduates whereas 30.6% are post graduates or above. Majority of respondents are general managers. Majority of respondents (48.2%) are middle level managers. It reveals that 43.7% of the responses are from service sector companies and remaining 56.3% are from non service sector.

4.2 Utilisation of HR related indicators in managerial Decisions

The study (Table 2) reveals that influence of human resources information on managerial decisions to be moderate to minor. Majority of respondents (31.4%) revealed the influence of human resources information on their managerial decisions to be moderate. 8.2% of the respondents reported that their decisions are always influenced by the available human resources information. However 34.7% respondents revealed that human resources information rarely/ never influences their decisions.

Table 2: Effect of Human Resources Information on Managerial Decisions

Effect of human resources information	Frequency	%age	Cum. %age
Always- To a great extent	20	8.2	8.2
Sometimes- Moderate extent	77	31.4	39.6
Sometimes- Minor influence	64	26.1	65.7
Rarely- No influence	45	18.4	84.1
Never- No influence	39	15.9	100.0
Total	245	100.0	

4.2.1 Managements perception regarding importance of HR Information in Internal Management

The survey (Table 3) has revealed that majority of the managers (72.65% of the managers surveyed) are of the opinion that HRA disclosures will certainly help in improving the management of the affairs of the company. According to their survey, the topmost reason for this is that having adequate information about HR value (measured value) provides better input for strategic business decisions such as diversification, acquisition, mergers etc. It becomes easier to draw objective plans for the long run of the company as the managers know the strength and weaknesses of their important business resource that is human resources. Thus estimating the value of current HR allows the company to draw plans for long term business strategy as agreed by 62.72% of the managers surveyed. Most of the managers (53.67%) agreed that company's investment in adding value to HR would be reflected in the financial results of the company. Not only this, HRA disclosures will help managers identify an important cause of low return on investments such as underutilisation of human resources as agreed by 61.63% of the managers. The survey results also confirmed another important proposition of HRA that monetary valuation instead of philosophical approach towards HR management will yield better results for the company as agreed by 55.10%. Majority of the managers (64.08%) also agreed that systems to value HR regularly enable management to take well informed decisions thereby improving efficiency. Thus in nutshell it can be stated that HRA system in the companies will result in improved performance as the managers get quantitative information about the human resources that the company has. They can take long term and strategic decisions of the company more effectively.

Table 3: Managements perception regarding importance of Measuring the Value of HR (in internal management)

S. No.	Statements	Mean	S.D.	Rank
1	Having adequate information about HR value (measured value) provide better input for strategic business decisions such as diversification, acquisition, mergers etc.	3.99	.958	1
2	Estimating the value of current HR allows the company to draw plans for long term business strategy	3.86	.910	2
3	Company's investment in adding value to HR would be reflected in the financial results of the company	3.73	.966	3
4	HR Valuation helps to identify real cause of any low ROI (such as underutilisation of HR)	3.73	1.022	3
5	Monetary valuation instead of philosophical approach towards HR management will yield better results for the company	3.54	1.065	5
6	Systems to value HR regularly enables management to take well informed decisions thereby improving efficiency	3.71	.997	4

4.2.2 Effect of Independent Variables

In order to test effect of socio demographic variables, T- Test and Analysis of Variance (ANOVA) is used. The test results are given in the following table 4.

1. Age

Results show a clear upward trend in the use of HRA information for decision making. Managers in the higher age bracket give more consideration to the human resources information. ANOVA test results show that there is significant difference in the use of human resources information on managerial decisions, due to age.

2. Gender

The descriptive statistics shows that mean values for male and female groups are 2.99 and 2.93 respectively. The t-statistics has value 0.340. Thus, the use of HRA information in decision making by female respondent managers is not any different as compared to male respondent managers.

3. Educational Qualification

Results show that managers in post graduate qualification bracket give more consideration to human resources information followed by professional managers. ANOVA shows that there is significant difference in the use of human resources information on managerial decisions, due to educational qualification

4. Managerial Department

Results reveal clearly that human resource managers give more consideration to human resources information for decision making, followed by accounting and finance managers. ANOVA test results confirm that there is significant difference in the use of human resources information on managerial decisions by the managers in different departments.

5. Level of management

Results shows that as level of managers increases give more consideration to the human resources information. Senior level manager give maximum consideration to the human resources information in their decision making followed by middle level managers. Therefore, it can be stated that higher a manager on the managerial ladder, more significance he attaches to human resources information while making decisions.

6. Total Work Experience

Mean values shows that as total work experience increases managers give more consideration to human resources information. The results of ANOVA test implies that as managers gain more experience they pay more attention to human resources information while making decisions.

7. Work Experience in Present Company

Results show that as the work experience in the company increase, managers give more consideration to the human resources information. The results of ANOVA test implies that as managers with more experience in the present company pay more attention to human resources information while making decisions.

8. Industry Affiliation

The study has revealed that their mean value is lower for service companies as compared to manufacturing industries. The T- test result shows that industry affiliation does not affect significantly use of HR information in decision making.

Therefore, managers' decision to use human resources information in their managerial decisions is not affected by their gender and the industry affiliation. However it is affected by their educational qualification, department, level of management and the experience level both in total and in present company.

Table 4: Group Statistics

Variables	N	Mean	Std. Deviation
Age			
21-30	91	2.62	1.143
31-40	91	3.15	1.154
41-50	55	3.22	1.301
51+	8	3.38	1.188
F value 4.557* (P value 0.004)			
Gender			
Male	191	2.99	1.24
Female	54	2.93	1.113
T-test value 0.340 (P value 0.734)			
Educational Qualification			
Graduate	108	2.75	1.137
Post Graduate	75	3.27	1.178
Professional	62	3.02	1.312
F value 4.181* (P value 0.016)			
Managerial Department			
General Manager	133	2.75	1.233
Accounting and Finance Manager	34	3.21	1.122
Human Resource Manager	51	3.37	1.216
Marketing Manager	27	3.04	0.98
F value 3.907* (P value 0.009)			
Level of Management			
Senior Level Manager	29	3.86	1.026
Middle Level Manager	118	3.1	1.158
Lower Level Manager	98	2.56	1.158

F value 15.87* (P value 0.000)			
Total Work Experience			
Less than 5 years	60	2.52	1.157
5-10 years	64	3.03	1.038
More than 10 years	121	3.17	1.269
F value 6.250* (P value 0.002)			
Work Experience in Present Company			
Less than 5 years	84	2.57	1.195
5-10 years	74	3.05	1.071
More than 10 years	87	3.3	1.24
F value 8.415* (P value 0.000)			
Industry Affiliation			
Non-Service	138	3.07	1.182
Service	107	2.85	1.242
T-test value 1.426 (P value 0.155)			
Total	245	2.98	1.211

4.2.3 Correlation Analysis

Correlation analysis has been used to examine significance of this relationship. The results of the correlation are given in the following table 5. Results shows that the consideration given by the managers to human resources information is

highly correlated with age, department, level of management, work experience in total and in present company. The correlation is significant at 0.01 level of significance. Thus the results of correlation confirm with the findings of ANOVA.

Table 5: Correlations (Pearson R)

Variables	HR Consideration
Age	.209**
Gender	0.022
Education Qualification	0.112
Department	.166**
Level of Management	.338**
Total Work Experience	.211**
Work Experience in the Present Company	.251**
Industry Affiliation	0.091

** and * implies Correlation is significant at 0.01 and 0.05 level respectively.

4.2.4 Regression Analysis

The results of the regression analysis are given in the following table 6. Industry affiliation and department are found to be positively significant at 10% and work experience in present company at 5% and level of management at 1%. However age, gender, educational qualification and work experience in total have been found to be insignificant. R^2 for the model is at 0.158. The value of R^2

is 0.158. Thus, 15.8 % of variation in managers’ responses is explained by independent variables implying the model is not very effective. Thus level of management, work experience in the present company, department and industry affiliation are important variables that explain the managers’ behaviour relating to utilisation of human resources information in managerial decisions.

Table 6: Ordinary Linear Regression Results taking all independent variables

Predictors	B	t	Sig.
(Constant)	1.775	5.125	0.000
Age	0.007	0.054	0.957
Gender	0.053	0.29	0.772
Education Qualification	0.019	0.183	0.855
Department	0.124	1.786***	0.075
Level of Management	0.563	4.077*	0.000
Total Work Experience	0.254	1.436	0.152
Work Experience in the Present Company	0.343	2.355**	0.019
Industry affiliation	0.238	1.620***	0.100

R Square 0.158

F value 5.519

Sig. F change 0.000

*, **, *** shows Coefficient is significant at the 0.01, 0.05 level and 0.10 level.

4.3 Frequency of Use of Human Resources Related Information

The response of managers in respect of HR related indicators used in decision making is given in Table 7. The responses revealed that managers use training cost, employee cost, employee turnover rate, management staff ratio and cost per

hire more frequently. The human resources indicators which are not so frequently used are intellectual capital, EVA and per capita productivity.

Table 7: Frequency of Use of Human Resources Related Information

Human Resources Related Information	Mean	S.D.	Rank
Training cost	3.77	1.127	1
Employee Turnover rate	3.43	1.170	3
Employee Cost	3.66	1.118	2
Management: Staff Ratio	3.32	1.123	4
Absenteeism Rate	3.21	1.142	6
Overtime Cost	3.15	1.165	7
Employee Welfare costs	3.11	1.157	9
ESOP/ EVA	2.85	1.207	13
Bonus	3.02	1.264	11
Intellectual capital	2.80	1.239	14
Average Age/ Experience	3.03	1.217	10
Per capita productivity	2.96	1.240	12
Revenue/ output per employee	3.12	1.254	8
Cost per hire	3.22	1.236	5

5. Summary and Conclusions

The analysis shows that effect of human resources information on managers' decisions is minor to moderate. According to the survey, managers perceive that having adequate information about HR value (measured value) provides better input for strategic business decisions such as diversification, acquisition, mergers etc. It becomes easier to draw objective plans for the long run of the company as the managers know the strength and weaknesses of their important business resource that is human resources. Majority of the managers agreed that systems to value HR regularly enable management to take well informed decisions thereby improving efficiency. As the managers get quantitative information about the human resources that the company has, they can take long term decisions and strategic decisions of the company more effectively.

The use of human resources information in managerial decisions is affected by various socio-demographic variables like age, educational qualification, department, level of management and work experience. The gender and industry affiliation are insignificant variables. The correlation and regression analysis has revealed that Level of management, educational qualification, total work experience and work experience in the present company also seem to be important predictors on empirical grounds. As the level of management rises, managers tend to give more consideration to human resources information in their decision making. Similarly total work experience and work experience in the present company also seem to be important predictors on empirical grounds. Thus managers do consider human resources information while making decisions.

As regard significant HR information affecting managerial decisions, study reveals training cost, employee cost, attrition/turnover rate, management staff ratio and cost per hire are most important. However indicators which are not so frequently used are intellectual capital, EVA and per capita productivity.

6. Limitations

Present work is first of this kind wherein actual managerial practices regarding utilisation and effect of HR related indicators has been mapped for the first time in India. Present set of HR related indicators as constructed in the study can be used as a benchmark by companies to improve their HR disclosures and aid in improved managerial decisions. However, exploratory research design itself has certain limitations. Main limitations of present work are:

1. In questionnaire survey, it is quite common that responses are checked according to the understanding of the questions and perceptions of the persons completing the questionnaire and second, where matters of opinion are involved, the probability of a certain amount of subjectivity creeping into the responses cannot be ruled out.
2. The study has been restricted to the questionnaire responses and personal interviews of higher level management have not been included.
3. In connection with the collection of data relating to the usefulness of HR information on managerial decisions, the sample was chosen from Delhi and its surrounding areas purely on convenient basis.
4. It is a generalised work regarding the use of HR information in managerial decisions. Further work can be undertaken to examine important HR variables for different decisions by managers in different departments.

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