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Impact of human resource accounting system on the decisions making areas of human resource management practices

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Abstract

Success of an organization depends on the quality of human resources. Human resource plays the vital role in the development of an enterprise. Human resource accounting measure the value of employees which helps the management in taking important decisions related to human resource management practices so as to improve the efficiency and productivity of an enterprise. Thus the present study examines the impact of human resource accounting system on the decision making areas of human resource management practices. For the purpose of the study data were collected among the 100 respondents from the Head office of State Bank of India and Canara bank in the Kerala region targeted at the staff of human resource department, accounting section and audit control department. Hence the collected data were analyzed using Correlation analysis and Multiple Regression analysis model validated through ANOVA and F Ratio. The study found that all the aspects related to the implementation of Human Resource Accounting is closely associated and has 67.1 percent impact on the decision making areas of human resource management practices.

Keywords: Human resource accounting system, Decision making areas of Human resource management practices

1. Introduction

Human resources are truly the most valuable resources of an organization. Effective utilization of physical and financial resources depends upon the quality of human resources that an organization can possess. Machines and capital merely enhance the profit making capacity where as effective human resource management helps to manage the people who produce such profit. Human resource accounting is the process of identifying and measuring the data about human resources and communicating this information to interested parties. Thus HRA is an information system that tells management regarding what changes are occurring to the human resources of an organization (Reeta, 2015) [1].

Human resource accounting involves measuring the cost incurred by the organizations to recruit, select, hire, train and develop the human assets. It also involves measuring the economic value of the people to the organization (Flamholtz, 1999) [2]. Human resource accounting provides monetary data regarding the human resources of the organization which is considered to be important not only for the management in taking various decisions but also for the analyst and the employees. It can be useful for the management in areas of recruitment, planning, selection, allocation of financial resources, conservation of human resources, utilization of human resources, creation of good organizational climate and better employer employee relations (Gupta, 1990) [3]. For the analyst it not only provides information regarding the inner strength of the organization but also helps in making decisions regarding the long term investment in that organization and this also affects the bargaining power and performance of the employees. According to Flamholtz model, measurement of human resource cost may be divided into two major categories of acquisition cost and learning cost. Acquisition cost includes the direct cost of recruitment, selection, hiring and placement and the indirect cost of promotion or hiring from within the

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firm. Thus human beings are the dynamic elements of every organization. The success of any organization depends upon the quality and calibre of the people working in it.

Human Resource Accounting information can be useful for managerial decision making in different areas. Many research studies were conducted to prove this. Tomassini (1977) ^[4], carried out a laboratory study to examine the effects of HRA cost data in personnel layoff decision context. He concluded that HRA cost estimates caused different managerial preferences in the personnel lay off decision context. Gul (1984) ^[5], attempted to study the usefulness of human resources turnover cost information for labour turnover decision making in a sample of Australian Accounting Firms. Bayes (1984) ^[6], Conducted an empirical investigation of the effects of HRA information on decision making. Malik (1993) ^[7], carried out an empirical investigation to know the impact of HRA information on decision making. Sen *et al.* (2008) ^[8], In their study make a scientific investigation into whether HR information has any impact on internal decision making in the context of personnel management decision making related to employee recruitment and employee turnover control in banking industry of Bangladesh. There are so many studies that support the hypothesized usefulness of HRA in the process of decision making by internal and external users. Hence the researcher is interested to analyze the impact of HRA system on the decision making areas of human resource management practices among the bank professionals.

2. Objectives of the Study

1. To review the literature on Human resource accounting system and its effect on the managerial decisions of an organization.
2. To study the impact of Human resource accounting system on the decision making areas of human resource management practices.

3. Review of Literature

Fariborz (2011) ^[9], analyzed the decision making based on human resource accounting information and its evaluation method among 162 sample respondents of investments experts and analysts in Tehran stock exchange. The results indicated that HRA information disclosure in financial statements is relevant and effect on the optimal investment decisions and also revealed that background and experience of individuals' variables has no impact on decision making based on HRA information due to the difference in culture. They also identified that the most effective and appropriate evaluating method of human resource is consistent with current states of Indian companies and institutions is the historical cost method.

Asha Sharma (2012) ^[10], conducted a study to measure the impact of HRA on organizational performance. They identified that the HRA has got a strong impact on cost reduction, operational performance and evaluation performance. Author also revealed that HRA helps employees to develop their skill, talent and knowledge of employees through proper motivational training which leads to transformation and improvement in quality and also controls the loss due to turnover of employees.

Rakholiya & Prashant Makwana (2012) ^[11], conducted a survey study to know the perception of managers regarding utility of human resource accounting in their different managerial decisions. Author conducted the study in 24

organizations that are presently disclosing HRA information in their annual reports and identified that the proper HRA system helps in estimating the cost of recruitment from outside and development from inside. It is also found that the calculation of HR value helps in performance evaluation of employees. The author concluded that the output of HRA system can be used to take a variety of decisions in the areas of human resource management.

Enyi Patrick Enyi (2014) ^[12], investigated the probable effect of HRA on the decisions making process in post industrial economy. They conducted an empirical study on 16 publically quoted Nigerian banks using the Ex-post facto research design. The results of regression analysis revealed that there is a significant effect of human asset accounting on management decisions at F value of 121.97 with P value of 0.000 significance and adjusted R² value showed that there is 33.8 percent influence on management decisions. The study concluded that there is a need to value human asset and reflect this value in the financial statement like other intangible assets. Hence the author recommends the capitalization of all relevant recruitment, training and development expenditure in line with the treatment for all other assets and International financial reporting standards should consider incorporating the capitalization of human asset costs in order to enhance their fair reporting and engender better quality financial information base for decision making in business organization.

Anita Shukla (2014) ^[13] studied the important role of HRA on managerial decision making in organizations and how managers can put the human resources value in balance sheet by different models. The author conducted the study among two companies which follows HRA practices, HPCL and Infosys reveals that both the organization applies Lev & Schwartz model for its HR valuation. The study reveals that the annual reports of Infosys company from 2008-2009 to 2010-2011 indicated the value of human resources are increasing every year and it is disclosed in the form of supplementary statements as well as a part of balance sheet. Annual reports of HPCL from 2008-2009 to 2011-2012 disclosed the number and value of management employees and non-management employees are increasing every year. The study also highlights the problems of using different HRA approaches by different organization for the valuation of HR and drawbacks in reporting HRA in their annual reports. Thus the author recommends for proper HRA initiation that should be taken by the Government along with other professional and accounting bodies both at national and international levels for the measurement and reporting of such valuable assets.

4. Methodology of the Study

The present study examines the impact of human resource accounting system on the decision making areas of human resource management practices. The researcher conducted an empirical study and collected data from the Head office of State Bank of India and Canara Bank in the Kerala region targeted at the staff of human resource department, accounting section and audit control department which were considered to be the relevant departments for this study. A sample size of 100 staff were considered for the study, 50 staffs from State bank of India and another 50 staffs from Canara bank through the proportionate random sampling method. 86 out of 100 questionnaires distributed to them were returned and the scale of importance on the

implementation of HRA system on the decision making areas of human resource management practices is reliable as its cronbach’s alpha indicates 0.87 and it reveals an acceptable reliability of the questionnaire. Thus the collected data were analyzed using Correlation analysis and Multiple Regression analysis model validated through ANOVA and F Ratio.

5. Results and Discussion

5.1 Correlation Analysis

H₀: There is no relationship between the various aspects related to the implementation of Human Resource Accounting System on the decision making areas of human resource management practices.

Table 1: Correlation Analysis

Various aspects related to the implementation of Human resource accounting system: Independent variables	Decision making areas of human resource management practices: Dependent Variable	
	PC (r)	Sig.
HRA system helps in personnel selection process (HRA 1)	.663	0.000
HRA system helps in preparing budgets for human resource acquisition and development (HRA 2)	.625	0.000
HRA system helps in resource allocation among various HR development programmes (HRA 3)	.523	0.001
HRA system helps in recruitment and planning (HRA 4)	.442	0.000
HRA system helps in estimating the cost of recruitment from outside & development from inside (HRA 5)	.608	0.002
HRA system helps management in human resources conservation (HRA 6)	.410	0.000
HRA system highlights the loss due to turnover of employees (HRA 7)	.417	0.001
HRA system helps in utilization of human resource effectively and efficiently (HRA 8)	.567	0.000
HRA system creates conditions to the best treatment of personnel (HRA 9)	.419	0.000
HRA helps in performance evaluation process (HRA 10)	.477	0.010
HRA helps in better reward administration (HRA 11)	.522	0.000

Source: Computed from primary data * 5% level of significance

Table (1) revealed the relationship between the various aspects related to the implementation of Human Resource Accounting System on the decision making areas of human resource management practices. HRA system helps in personnel selection process (r =.663) is more related with the decision making areas of human resource management practices and it helps in preparing budgets for human resource acquisition and development (r =.625). Thus all other aspects related to the implementation of Human Resource Accounting System have a positive significant relationship with the decision making areas of human resource management practices. It is found that the HRA system helps in estimating the cost of recruitment from outside & development from inside (r =.608) and also utilizes the human resource in an efficient and effective manner (r =.567) which ultimately influence the managerial decisions regarding the human resource management practices.

5.2 Multiple Regression Analysis

Multiple regression coefficient measures the relationships between variables in such a way that it identifies the effect of independent variables on dependent variable. Here the multiple regression analysis for the decision making areas of human resource management practices (Y) was performed with 11 independent variables on the various aspects related to the implementation of Human Resource Accounting System.

$$Y = a_0 + b_1X_1 + b_2X_2 + b_3X_3 + \dots + b_{11}X_{11}$$

Where b₁, b₂ to b₁₁ are partial regression coefficients and a₀ is a constant value.

Inter correlation between the various aspects related to the implementation of Human Resource Accounting System revealed that all the predictor variables were entered simultaneously for regression equation because no multicollinearity exists among the selected 11 predictor variables as the VIF value is less than 5 and tolerance level value is greater than 0.2.

Table 2: Regression analysis showing the impact of Human resource accounting system on the decision making areas of human resource management practices

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	1.693	.400		4.237	.000*		
	HRA1	.102	.044	.160	2.329	.021*	.375	2.668
	HRA2	.087	.040	.171	2.172	.031*	.286	3.498
	HRA3	.308	.056	.280	5.462	.000*	.677	1.478
	HRA4	.143	.051	.193	2.810	.006*	.378	2.646
	HRA5	.358	.051	.328	7.027	.000*	.816	1.226
	HRA6	.057	.038	.077	1.498	.001*	.672	1.487
	HRA7	.322	.053	.319	6.122	.000*	.657	1.523
	HRA8	.166	.040	.228	4.173	.000*	.595	1.682
	HRA9	.070	.022	.161	3.240	.001*	.721	1.386
	HRA10	.013	.050	.014	.263	.000*	.641	1.560
HRA11	.067	.039	.087	1.458	.005*	.651	1.422	

a. Dependent Variable: Decision making areas of human resource management practices

Source: Computed from primary data * 5% level of significance

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.830 ^a	.688	.671	.29775	.688	14.904	11	74	.000	1.601

a. Predictors: (Constant), HRA1, HRA2, HRA3, HRA4, HRA5, HRA6, HRA7, HRA8, HRA9, HRA10, HRA11
 b. Dependent Variable: Decision making areas of human resource management practices
 Source: Computed from primary data * 5% level of significance

Table 4: Anova

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	34.271	11	3.115	14.904	.000
	Residual	15.514	74	.209		
	Total	49.785	85			

a. Dependent Variable: Decision making areas of human resource management practices
 b. Predictors: (Constant), HRA1, HRA2, HRA3, HRA4, HRA5, HRA6, HRA7, HRA8, HRA9, HRA10, HRA11
 Source: Computed from primary data * 5% level of significance

It is identified that all the aspects related to the implementation of Human Resource Accounting have significant positive effect on the decision making areas of human resource management practices. It is found that HRA system helps in personnel selection process, recruitment, estimate cost and budget for the acquisition and development of human resources and also helps in utilization of human resource effectively by providing better reward administration and it is important in the evaluation process by developing reliable methods of measuring the value of employees to an organization. Adjusted R² value 0.671 states that all the 11 aspects related to the implementation of Human Resource Accounting have 67.1% influences on the dependent variable called decision making areas of human resource management practices. ANOVA results reveals p-value as 0.000 which is less than 0.05 and it indicates that regression model is statistically significant. Thus it has been concluded that the all the aspects related to the implementation of Human Resource Accounting is closely associated and has an impact on the decision making areas of human resource management practices among the bank professionals.

6. Conclusion

Human resource accounting system helps the management in taking various decisions for achieving their organizational goals by accurate estimation of the human resources. Managerial decision making related to the human resource in terms of both quantitative and qualitative assessment of efficacy and effectiveness can be achieved through the implementation of human resource accounting system. Thus the study reveals that HRA system helps in personnel selection process, recruitment, estimate cost and budget for the acquisition and development of human resources and also helps in utilization of human resource effectively by providing better reward administration and it is important in the evaluation process by developing reliable methods of measuring the value of employees to an organization. Hence the study concludes that all the aspects related to the implementation of Human Resource Accounting is closely associated and has 67.1 percent impact on the decision making areas of human resource management practices among the bank professionals.

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