

## HUMAN RESOURCES ACCOUNTING SYSTEM IN IT AND MANUFACTURING SECTOR-A STUDY

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### **Abstract**

*This is the one of the challenges facing in today's IT & Manufacturing sector the performance & profitability can be consider the expenses spend on the human resource & this can be taken consider as Human Resources Accounting to evaluate the profitability and expenses done on human resource.*

*Now the problem is how to manage these assets is the challenge that the IT and Manufacturing sector is facing, it is not a capital or finance or marketing management that gives the competitive edge but rather how well one is able to manage the human resource whose intellectual applications driven the business.*

*This leads to the fact to understand the Concept which involves investment in people and their replacement costs and also the economic value of people in the organization for employees. Which is considering as most important assets [Report of the committee on Human Resources Accounting]. How they are able to manage these assets in I T industry and manufacturing industry which is facing a challenge in today's business. Percentage analysis refers to a specific kind of ratio used in making the comparison between two or more series of data. Percentage is*

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used to describe relationship and can also be used to compare the relative terms, the distribution of two or more series in data. Percentage of respondent = (no. of respondent/ total no. of respondent)\* 100

**Keywords:** Human, Resource, Accounting, IT.Manufacturing, Investment

**“Our main asset is our people!”**

## 1. INTRODUCTION

Human resource accounting is not a new issue in economics. Economists consider human capital as a production factor, and they explore different ways of measuring its investment in education, health, and other areas [Bowers, 1973]. An accountant has recognized the value of human assets for at least 70 years. Research into true human resource accounting began in the [Rensis Likert. 1960].

We are living in a competitive world where the industry is going towards boom which has brought its own set of challenges to organization, how to strategize, compete with the globalization. Research into true human resource accounting began in the 1960s by Rensis Likert [Bowers, 1973]. Likert defends long-term planning by strong pressure on human resources' qualitative variables, resulting in greater benefits in the long run...

How true is this oft-repeated statement made by the management of all knowledge-driven companies? [Academy of management journal 1996]. The problem in fact starts when it comes to assessing the real value of human assets. While most organizations can readily give detailed information about their tangible assets like plant and machinery, land and buildings, transport and office equipment, there is no formal record of investment in employees. Human assets accounting or human resource accounting (HRA), which stands for measurement and reporting of the cost and value of people as organizational resources, is still to become an accepted trend in the Indian IT industry.[De Angelo 1975].

This analysis is made from the points of view of external and internal (or managerial) accounting. Human resources are an old field of research in economics, as reflected by accounting treatments and from historical costs and opportunity costs. Finally, no unique solution to this problem is given, but all possible alternatives are evaluated and open for discussion [Rensis Likert. 1960].

It is true that worldwide, knowledge has become the key determinant for economic and business success, but Indian companies focus on 'Return on Investment' (RoI), with very few concrete steps being taken to track 'Return on Knowledge'. [Ministerio de Economía. Y. Hacienda, 1990]. What is needed is measurement of abilities of all employees in a company, at every level, to produce value from their knowledge and capability. [P.K Gupta /JSTOR links] "Human Resource Accounting (HRA) is basically an information system that tells management what changes are occurring over time to the human resources of the business. HRA also involves accounting for investment in people and their replacement costs, and also the economic value of people in an organization," [P K Gupta 1973]. By this study the research is going on to find how human resources accounting system is done in both IT and manufacturing sector.

The IT industry is a service industry whereas manufacturing industry is the goods producing industry. The performance and profitability of the organization will depend on the quality of service offered to individuals. This leads to give important on human resource where human resources is treated has the main assets of the organization.

This is the one of the challenges facing in today's IT & Manufacturing sector the performance & profitability can be consider the expenses spend on the human resource & this can be taken consider as Human Resources Accounting to evaluate the profitability and expenses done on human resource.

Now the problem is how to manage these assets is the challenge that the IT and Manufacturing sector is facing, it is not a capital or finance or marketing management that gives the competitive edge but rather how well one is able to manage the human resource whose intellectual applications driven the business.

In a high performance driven industry like IT and manufacturing sector becomes all the more important. Some of the challenges that the industry facing are investment in people, replacement costs, economic value of people, contribution & earned on them & methods implement to calculate all above this.

During the research it was found that IT and Manufacturing sector some have implemented the HRA system and some have not done it. It has to take initiative on Human Resource Accounting which should treat that also as one of the main assets in the organization and such other initiative.

## 2. REVIEW OF LITERATURE

The purpose of the literature review is to identify the problem statement, understand the secondary data that has been gathered in the field of study and to make new findings on the problem statement. The concept of the Human Resource Accounting system has grown in popularity in the literature on industries and organization. Early studies on HRA system viewed the concept as a many6 dimensions, based on that the few dimensions are like

Human resource accounting policies and practices according to this theory, human resources play the most important part in the development of an enterprise. Human resource accounting (HRA) helps to measure the value of employees, which helps management, take the vital decisions related to human resources in order to increase production. It requires the measurement of the performances of an organization and the optimum use of the resources under its direct and indirect control. HRA has been analyzed for a profit making heavy engineering public sector company [David A].

Another perspective on HRA system is Report of the committee on accounting for human resources This article mush contain of the early work on accounting for human resources focused primarily on getting measurements of human resources into reports used by manager and investors. In retrospect this emphasis appears narrow and naive. Accounting for human resources is better viewed as apart of the process foe managing people in the organization potentially it may provide framework for human resources management for paradigms. The goal is not merely to account but to improve the way people contribute to organization, society and economic. [Richard S. Savich (Jan., 1975)]

Another perspective on Unrecorded Human Assets: A Survey of Accounting Firms' Training Programs This article presents the findings of a survey of the training directors of the Big Eight public accounting firms and their perceptions of the extent of specific training offered by their firms. A previous article by the authors argued that specific training was a necessary (but not a sufficient) condition for the existence of unrecorded human assets. Our survey results suggest that the bulk of the training provided by the Big Eight firms is perceived to be general rather than specific. [Juris and Lawrence Revsine (Oct., 1980)]

Another perspective on HRA system is The Role of Behavioral Measures in Accounting for Human Resources. This article is important of behavioral factor in achieving organizational goals has already been noted by accountants. This has led to several suggested uses of behavioral

measures in accounting in human resources. One use of behavioral variables is to determining the amortization rate of investment related to the development and maintenance of the condition of the human organization. [Jacob P. Siegel (Jan., 1974)]

Organizations can actually find out how much they can earn from an individual, as the intellectual assets of a company are often worth three or four times the tangible book value. Human capital also provides expert services such as consulting, financial planning and assurance services, which are valuable, and very much in demand.

Basically HRA can be tracked through two methods—cost-based analysis and value-based analysis. The cost-based approach focuses on the cost parameters, which may relate to historical cost, replacement cost, or opportunity cost. The value-based approach suggests that the value of human resources depends upon their capacity to generate revenue. This approach can be further sub-divided into two broad categories: non-monetary and monetary. [Rochester 1998]

### 3. STATEMENT OF THE PROBLEM

The IT industry is the service industry and the manufacturing industry is the goods producing sector. The performance and motivation of the employees in the organization depends upon the Human Resources Accounting. This leads to the fact to understand the Concept which involves investment in people and their replacement costs and also the economic value of people in the organization for employees. Which is consider as most important assets [Report of the committee on Human Resources Accounting]. How they are able to manage these assets in I T industry and manufacturing industry which is facing a challenge in today's business.

### 4. OBJECTIVES OF THE STUDY

This study is positioned as an exploratory study to understand human resources accounting in IT and manufacturing sector

- To identify importance given to HRA system on companies.
- To do the Comparative study in both I T and manufacturing sector relating to Human Resource Accounting.
- To give suitable suggestion and recommendation.

## 5. DATA COLLECTION

An exploratory research study is conducted and a sample method is done. Study conducted on the basis of the sample drawn from the population, and inferences are drawn about the impact of the accountancy practiced on human resource. Data is collected in two ways that is through primary and secondary.

### Sample size

Large, medium and small organization both in IT and manufacturing sector especially for the managers who operates with the human resources accounting system. Hence, the study will cover totally 5 organizations (totally 50 employees) Percentage Analysis: Percentage analysis refers to a specific kind of ratio used in making the comparison between two or more series of data. Percentage is used to describe relationship and can also be used to compare the relative terms, the distribution of two or more series in data. Percentage of respondent = (no. of respondent/ total no. of respondent)\* 100

### Hypothesis analysis

Hypothesis statement:

Human Resources Accounting system how effectively affects on managing the human asset in I T and Manufacturing industry.

Null hypothesis:

*Ho: Human Resource Accounting system is not effective in managing the human assets in I T and Manufacturing industry.*

Alternative hypothesis:

*H1: Human Resource Accounting system is effective in managing the human assets in I T and Manufacturing industry.*

## 6. LIMITATIONS OF THE STUDY

- The study refers only to the IT and Manufacturing sector and it is limited to Bangalore.
- The study is only an attempt to investigate the Human Resource Accounting Systems in IT and Manufacturing sector and it does not necessarily reflect all the accounting system.
- Since the period of study is limited, the researcher could not make an in-depth study.
- The study is only an amateur's view and does intend to study any such subject which is quite confidential to the company.

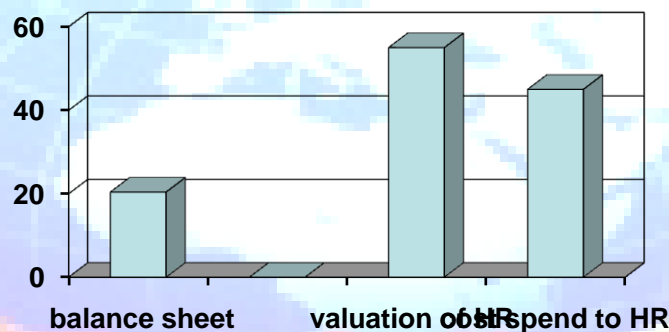
- The results have been drawn based on the options of the sample taken as filled in the questionnaire; the results could vary if a combination of samples were to be involved.

## 7. ANALYSIS OF DATA AND RESULTS

**Table 9: Showing Events Significant Impact On The HRA**

Particulars	Percentage
Balance sheet	Nil
Valuation of human resources	55
Cost spend to human resources	45

**Graph 9: Showing events significant impact on the HRA**



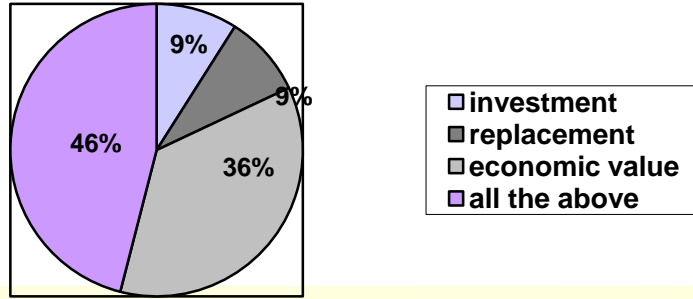
(Source: Field survey)

The above chart clearly indicates that 0% of them says HRA system have significant impact on balance sheet, while 55% of them says HRA system have impact on valuation of HR, while 45% of them says HRA system have significant impact on cost spend to HR

**Table 11: Showing where HRA represents:**

Particulars	Percentage
Investments in people	9
Replacement costs	9
Economic value of people	36
All the above	46

**Graph 11: Showing where HRA represents**



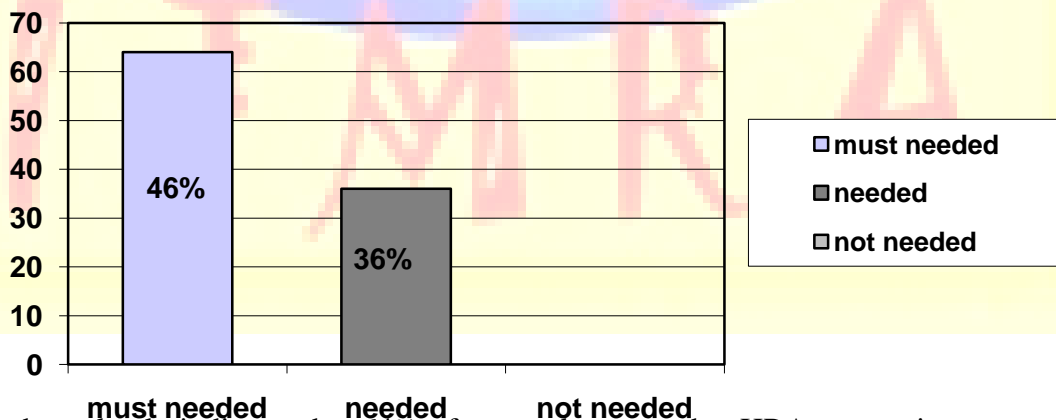
(Source: Field survey)

9% agrees that investment on people represent in HRA system, while 9% agrees that replacement costs represent in HRA system, while 36% agree that economic value of people represents in HRA system.

**Table 12: Showing the opinion of implementing HRA system in companies:**

Particulars	percentage
Must needed	64
Needed	36
Not needed	Nil

**Graph 12: Showing the opinion of implementing HRA system in companies:**

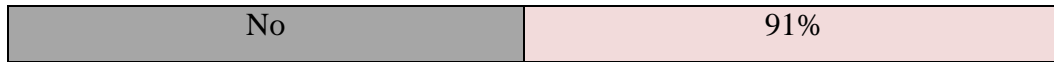


The above chart clearly indicates that 64% of respondents say that HRA system is must needed in the companies, while 36% of respondents says that HRA system is needed for the companies.

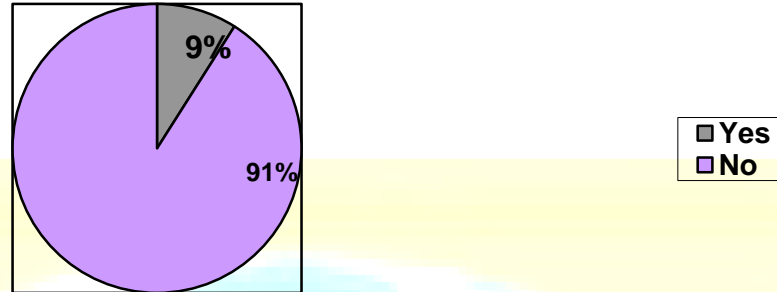
**Table 13: Showing the difficult to follow the HRA system:**

Particulars	Percentage
Yes	9%





**Graph 13: Showing the difficult to follow the HRA system:**



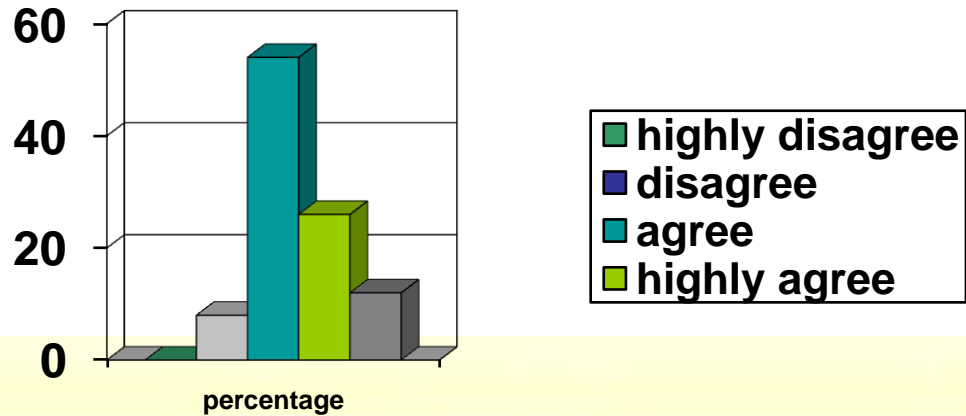
(Source: Field survey)

From the above chart it is observed that 9% of companies find it difficult to follow this system, while 91% of the companies do not face this difficulty.

**Table 14: Showing how HRA systems manage the human assets:**

SL. NO	OPINION	RESPONDENTS	PERCENTAGE
A	Highly disagree	0	0
B	Disagree	4	8
C	Can't say	6	54
D	Agree	27	26
E	Highly agree	13	12

**Graph 14: Showing how HRA systems manage the human assets:**



(Source: Field survey)

The values in the above table show that the percentage of respondents agreeing is highly more than that of those who don't agree. Thus by this above graph its clearly indicates that human resource accounting can manage the human assets.

**HYPOTHESIS STATEMENT:**

Human Resources Accounting system how effectively affects on managing the human asset in IT and Manufacturing industry.

**NULL HYPOTHESIS:**

Ho: Human Resource Accounting system is not effective in managing the human assets in I T and Manufacturing industry.

**ALTERNATIVE HYPOTHESIS:**

H1: Human Resource Accounting system is effective in managing the human assets in I T and Manufacturing industry.

Observed value(o)	Expected value(E)	(O-E)	(O-E) <sup>2</sup>	(O-E)/E
0	10	-10	100	10
4	10	-6	36	3.6
27	10	17	289	28.9
13	10	3	9	00.9

6	10	-4	16	1.6
50				45

Calculated value is 45

$$V = (n-1)$$

$$(5-1)=4$$

Table value for 4 under the 5 degree of freedom is 9.488

Table value is less than calculated value so the null hypothesis is rejected and alternative hypothesis is accepted. Therefore Human Resources Accounting is effective in managing the human assets in IT and Manufacturing sector.

### HYPOTHESIS STATEMENT

Importance given to HRA system in companies.

### NULL HYPOTHESIS:

There is no importance given to HRA system in companies.

### ALTERNATIVE HYPOTHESIS:

There is importance given to HRA system in companies.

O	E	(O-E)	(O-E) <sup>2</sup>	(O-E)/E
24	12.5	11.5	132.25	10.58
21	12.5	8.5	72.25	5.78
3	12.5	-9.5	90.25	7.22
2	12.5	-10.5	110.25	8.83
50			405	32.41

Calculated value is 32.41

$$V = (n-1)$$

$$(4-1)$$

Table value for 3 under the degree of freedom is 8.699

Table value is less than calculated value so the null hypothesis is rejected and alternative hypothesis is accepted. Therefore the companies give importance to the HRA system.

## FINDINGS

Following are the findings from the analysis of the data:

- The results indicate that position of the employer has no impact on HRA system.
- It has been found that gender of the employees has no significant impact on the HRA system.
- There is significant relationship between IT sector and Manufacturing sector.
- It has been found that qualification of the employees has a significant impact on HRA system.
- There is significant difference between IT sector employees and Manufacturing sector.
- Majority of the respondents will look for a food HRA system to implement in the organization.
- Few respondents have respond HRA system is not benefit to the employees.
- Few respondents irrespective of their qualification in HRA were not able to give the detail information regarding HRA system.
- Majority of the respondents have trust in HRA system in motivating the employees.
- Majority of IT sector respondents are satisfied with the HRA system implemented in their company.
- Few of the manufacturing sector respondents are not satisfied with the HRA system has it does not give any benefit to the employees in the organization.
- Majority of the respondents irrespective of the employees are dissatisfied as they are not frequently recognized neither formally nor informally for their work in the HRA system.
- Majority respondents agrees that HRA system is must be implemented in the both IT and Manufacturing sector.
- Majority companies especially IT sector is implemented the HRA system in the organization.
- All respondents agree that HRA system is very necessary to value the human resource.
- Very few respondents were dissatisfied of HRA system by telling it does not give any benefit to the company.
- All respondents like to place the HRA system in monetary terms.
- Majority of the respondents find the HRA is necessary in investing for people, replacement costs and economic value of people.
- Few of the respondents says implementing of HRA system in Manufacturing is very much needed especially in assembly and testing areas of production division.

### RECOMMENDATIONS:

**Following are few recommendations to develop the HRA system in the both IT and Manufacturing sector:**

- Since most of the manufacturing sector employees are dissatisfied with the HRA system which is implemented in their organization as they say it does not concentrate in production division.
- Develop the methods if calculating the HRA system to whole organization,
- Clearly define the like between the HRA system and the human resource at their work.
- Frequently recognize that HRA system is done by covering the process of whole organization.
- Providing the high quality information to employees about the HRA system which is implemented in the organization.
- Treat all the valuation of the people happens in the organization.
- Make easy top understand the concept of HRA system.
- By valuing people in good manner or by giving proper implementation of HRA in IT / service sector and manufacturing sector will definitely increases the profitability of the organization.
- HRA system should be simple and easy to value the people.

### CONCLUSION:

As we go into the future us confront several challenges while managing the HRA system in the organization. In organization it is becoming increasingly cosmopolitan. If a diverse workforce is managed efficiently firms gain competitive advantage. Experts need to create diversity awareness enhance diversity skills and commit top management to diversity. These are only some ways of managing diversity. These developments have their own implication for specialist. Specialist need to take care of these developments.

The conceptual thinking about valuation human resources is still in a developing stage. No model of HR accounting is accepted by the accounting bodies all over the world. In knowledge based sectors where human resources are considered to be the key elements for monitoring the business activities to attend their goals successfully, may not overlooked this side. Hence, considering the great significance of HRA proper initiation should be taken by the government along with that other professional & accounting bodies both at the national & international levels for the measurement & reporting of such valuable assets.

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