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MANAGERIAL USES OF HUMAN RESOURCE ACCOUNTING: A SURVEY

REETA
ASST. PROFESSOR
DEPARTMENT OF COMMERCE
ZAKIR HUSAIN DELHI COLLEGE
UNIVERSITY OF DELHI
DELHI

UPASNA JOSHI
ASSOCIATE PROFESSOR
PUNJAB SCHOOL OF MANAGEMENT STUDIES
PUNJABI UNIVERSITY REGIONAL CENTER FOR IT & MANAGEMENT
MOHALI

ABSTRACT

Human resources are truly the most valuable resources a firm can possess because effective utilization of physical and financial resources depends upon quality of human resources. Effective Human Resource Management is important as people produce profit whereas machines and capital merely enhance the profit making capability. Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. Basically HRA is an information system that tells management what changes over time are occurring to the human resources of the organization. The present paper summarizes the result of the survey conducted to know the perception of managers regarding utility of human resource accounting in their different managerial decisions.

KEYWORDS

Decision-Making, Human Resources, Human Resource Accounting, Human Resource Management.

1. INTRODUCTION

Human Resource Accounting is accounting for people as an organizational resource. It involves measuring the cost incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to the organization. Human resource accounting provides monetary data regarding the human resources of the organization that helps the management in taking various decisions. It can be useful in areas of recruitment planning, selection (Flamholtz 1971), allocation of financial resources, conservation of human resources, utilization of human resources (Gupta 1990), creation of a conducive organizational climate and better employee- employer relations etc.

2. REVIEW OF LITERATURE

Human Resource Accounting information can be useful for managerial decision making in different areas. Many research studies were conducted to prove this. Tomassini (1977) 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) 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) conducted an empirical investigation of the effects of HRA information on decision-making. Malik (1993) carried out an empirical investigation to know the impact of HRA information on decision-making. Sen et.al (2008) in their study make a scientific investigation into whether HR information has any impact on internal decision-making i.e. 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. There has also been an increasing recognition of the concept of HRA, evidenced by the flow of literature on various aspects of HRA. But there are very few organizations involved in the systematic measurement and reporting of HRA information. Though the users of the information are interested and they welcome HRA reporting but they fail to throw light on this vacuum created by the resistance of the organizations to adopt a system of human resource accounting. It is very important to know the perceptions of the management about the specific uses to which HRA information can be put. Because it is the management to decide regarding adoption of system of HRA and in what form it should be made available to the internal and external users. The proposed work is a step forward in that direction.

3. OBJECTIVES OF THE STUDY

Human Resource Accounting helps the management in various decisions. Keeping this in mind the present paper is prepared with the objective to understand the perception of the management regarding utility of human resource accounting in decision making.

4. RESEARCH METHODOLOGY

For the present study, the top one hundred companies from public sector and the same number of organizations from the private sector (as per the Economic Times rating for 2007-08 on the basis of total capital employed) were selected. These organizations have been selected on the assumption that human resource accounting being an emerging field in accounting in India large organizations might introduce it in their annual reports. The annual reports of two hundred organizations were accessed from the web sites of the respective companies as well as the Stock Exchange. These reports were scanned to identify the companies reporting human resource accounting. It was found that many organizations include in their annual reports some information about human resources like costs incurred on hiring, training human resources, employee compensation etc. However only ten organizations, seven in public sector and four in the private sector, report human resource accounting in their annual reports. To understand the perception of managers regarding the utility and problem areas a questionnaire was mailed to twenty four organizations that are presently disclosing HRA information in their annual reports and others that started HRA system but had now stopped disclosure in their annual reports with a request that only those managers should respond who have knowledge of the human resource accounting system and were associated with the designing of such system. Those companies that failed to respond to the mailed questionnaire were contacted in person to seek their response to the questionnaire. Through mail and personal contact a total of nineteen responses could be collected for analysis that worked out to be 79.16 percent of the 24 companies selected for the study.

5. RESEARCH TECHNIQUE APPLIED

Likert Five-Point scale was applied in order to analyze the results. The percentage response for each category was calculated and the various weights assigned to different opinions as per Likert Five Point scale i.e. Strongly agree =5, Agree = 4, Neutral = 3, Disagree = 2, Strongly disagree = 1. The mean scores and standard deviation scores were calculated for the same. The result of the study is summarized in Table 1.

6. RESULTS AND DISCUSSION

TABLE 1: PERCEPTIONS OF RESPONDENTS RELATED TO VARIOUS ASPECTS OF MANAGERIAL USES OF HUMAN RESOURCE ACCOUNTING

Sl. No.	Response Questions	5	4	3	2	1	Mean	Standard Deviation	Ranks
1	HRA helps in recruitment and planning	15.79%	84.21%	0.00%	0.00%	0.00%	4.16	0.37	2
2	HRA provides measurements for budgeting human resource acquisition & development	15.79%	73.69%	10.52%	0.00%	0.00%	4.05	0.52	4
3	HRA helps in personnel selection process	5.26%	78.95%	15.79%	0.00%	0.00%	4.00	0.47	5
4	HRA helps in resource allocation among various HR development programmes	15.79%	68.42%	10.53%	5.26%	0.00%	3.95	0.71	6
5	HRA helps in providing estimate the cost of recruitment from outside & development from inside	26.32%	68.42%	5.20%	0.00%	0.00%	4.21	0.53	1
6	HRA helps management in human resources conservation	15.79%	57.89%	26.32%	0.00%	0.00%	3.89	0.66	7
7	HRA highlights the loss due to turnover of employees	10.53%	42.10%	47.37%	0.00%	0.00%	3.63	0.68	12
8	HRA leads to alienation	0.00%	0.00%	42.11%	57.89%	0.00%	2.42	0.51	13
9	HRA helps in utilization of HR's effectively & efficiently	15.79%	73.69%	10.52%	0.00%	0.00%	3.74	0.62	10
10	HRA creates conditions to the best treatment of personnel	15.79%	52.63%	26.32%	5.26%	0.00%	3.79	0.79	9
11	HRA helps in performance evaluation process.	26.32%	57.89%	15.79%	0.00%	0.00%	4.10	0.66	3
12	HRA helps in better reward administration	5.26%	57.89%	36.84%	0.00%	0.00%	3.68	0.58	11
13	HRA helps in evaluation of performance of personnel	5.26%	73.69%	15.79%	5.26%	0.00%	3.79	0.63	8

One of the primary purposes of human resource accounting system is to help management plan and control the use of human resources effectively and efficiently.

6.1 ACQUISITION OF HUMAN RESOURCES

The acquisition of human resources involves recruiting, selecting and hiring people to meet the organization's present and expected workforce needs (Brummet, Flamholtz and Pyle). To understand the perception of managers regarding this view the first question seeks their reaction as to whether HRA helps them in forecasting human resources requirement that is the first step in human resource acquisition. All the respondents agreed with the statement including 15.79 percent of the respondents who strongly agreed. The mean score of this question was 4.16 with the standard deviation of 0.37 percent. None of the respondents disagreed with the statement. The second question was in relation to the help provided by human resource accounting by providing measurements of the standard costs of recruiting, selecting and hiring people that can be used to prepare human resource acquisition budgets. 73.69 percent of the respondents agreed, 15.79 percent strongly agreed and 10.52 percent remained neutral. The mean score of this question was 4.05 and standard deviation was 0.52. The third question was in relation to the acquisition of human resources was to find whether HRA helps management in making personnel selection decisions. Personnel selection is another process in which HRA can play a role by providing monetary measurements of the expected value of people. Dilip Kumar and his associates conducted a study to find the impact of HRA information on internal decision making. The results indicate that employee recruitment decision changed significantly when the personnel executive shifted from using conventional accounting information to conventional accounting information combined with HRA information in deciding whom to recruit between the two. The same conclusions were drawn by Malik's study in this regard. The managers under the study also agreed with this statement. The mean score was 3.79 and the standard deviation 0.63. 15.79 percent of the respondents were neutral whereas all the remaining either agreed or strongly agreed with the same.

6.2 DEVELOPMENT OF HUMAN RESOURCES

The development of human resources involves various forms of trainings designed to enhance people's technical, administrative and interpersonal skills. These skills in turn increase their value to an organization. Development may occur through formal programmes or on-job training (Famholtz 1999).

Human resource Accounting facilitates decisions involving the allocation of resources to human resource development by measuring the expected rate of return on proposed investments. The fourth question seeks the perception of the managers in this regard. 15.79 percent of respondents strongly agreed, 68.42 percent agreed 10.53 percent remained neutral and 5.26 disagreed with the statement. The mean score was 3.95 with a standard deviation 0.71 percent.

At times the management is caught in a dilemma with regard to the recruitment of employees. A decision has to be taken whether it would be in the interest of the organization to recruit employees at entry level and then train them to assume positions of higher responsibility or should directly recruit experienced personnel. Human resource accounting provide estimates of the historical and current costs to acquire and develop people that can be used by the management to assess the cost of recruitment of personnel from outside and development from within. The response to fifth question in this regard was that 95 percent of the respondents agreed with this statement including 26.32 percent respondents strongly agreed and 5 percent remained neutral. The question scored 4.21 mean with 0.53 of standard deviation.

6.3 CONSERVATION OF HUMAN RESOURCES

An organization's human resources may take several forms such as technical capabilities of individuals or that of an effectively functioning management team. Conservation of human resources is a process of maintaining the capabilities of people as individuals and the effectiveness of the human system developed by the organization. The conservation of human resources of an organization is typically a measurement of turnover of rates. The problem of human resource turnover has always been a matter of great concern to the personnel managers of the organization. Most employers have recognized that human resource turnover is a serious problem. They are unhappy with the high rates of personnel turnover and the consequent high costs involved in recruiting and training replacements. Organizations do employ various programmes whereby they can minimize the employee turnover. Human resource accounting helps the management in measuring and reporting the loss to the organization as a result of turnover in quantitative terms.

The next question seeks the reaction of the managers regarding that human resource accounting provides an early warning to take care of human resource conservation through monetary measures and reporting socio-psychological indicators of the condition of human organization scored 3.89 on mean scale with standard deviation 0.66. 26 percent of the respondents remain neutral and 74 percent agreed with the statement including 16 percent strongly agreeing. The other question whether human resource accounting highlights the loss due to turnover of employees earned 3.63 mean score with standard deviation of 0.68.

Malik conducted a study to find that whether human resource turnover cost information can have an impact on human resource turnover decision of the personnel managers. The results of the study indicates that the cost aspect of the various alternatives dominate the decision makers for a particular proposal. The majority of respondents changed their decision after the inclusion of HRTC information to traditional HRTC information. Participants of the study not only changed their decision but their level of certainty also increased with the availability of HRTC information.

Levine (1980) has expressed apprehension that human resource accounting lead to alienation as the HRA system may lead the employees to feel that they are being considered as an industrial input commodity. The next question sought the opinion of the managers regarding this issue. 58 percent of the respondents disagreed with the statements and 42 percent remained neutral. The mean score turned out to be 2.42 with standard deviation of 0.51.

6.4 UTILIZATION OF HUMAN RESOURCES

Human resource utilization is the process of using human services to achieve organizational objectives. At present, the management of human resources in organizations is less effective than it might be because it lacks a unifying framework to guide it. Managers have neither a valid criterion to guide decisions affecting people nor a methodology for assessing the anticipated or actual consequences of such decisions. The criteria of productivity and satisfaction, which frequently underline strategies of human resource management, have not been entirely helpful in coping with the problems of managing people. Similarly, since it is exceedingly difficult to measure the productivity and satisfaction or to assess the trade-offs a manager should be willing to make to increase one by decreasing the other. It is frequently impossible to predict the economic consequences of alternative actions with respect to people. The notion of human resource value provides one possible solution to these problems. The human resource accounting can provide a framework to help managers utilize human resources effectively and efficiently. The next question seeks the perception of the managers in this regard. 89.48 percent of the respondents agreed with the statement that human resource accounting helps in utilizations of human resources effectively and efficiently and 10.52 percent remained neutral. The question in this regard was that whether HRA creates conditions for an organizational climate conducive to the best treatment of personnel. The mean score for this question turned out to be 3.79 with standard deviation of 0.79.

6.5 EVALUATION AND REWARD OF HUMAN RESOURCES

Human resource evaluation is the process of assessing the value of people to an organization. It involves measuring the performance and promotability of people (Flamholtz 1979). Human resources are typically evaluated by non monetary methods. These methods cannot be used in most of the human resource acquisition, development, allocation and conservation decisions. For that monetary methods of human resource evaluation are needed.

HRA can be useful in the evaluation process by developing reliable methods of measuring the value of people of an organization. They permit human resource management decisions to be made on a cost-value basis. The question number eleven concerned with this aspect showed that only 15.79 percent of the respondents are neutral and the rest either strongly agree or agree with the statement. The mean score for this question was 4.10 with standard deviation of 0.66.

Human resource accounting will also have an impact on the administration of reward systems. These systems are intended to motivate and reinforce the optimal performance of people in achieving organizational objectives. Rewards include compensation, promotion and symbolic recompense such as performance appraisal. Human resource evaluation permits rewards to be administered in relation to a person's value to an organization. The mean score 3.68 and standard deviation 0.58 shows the favourable reaction of the managers that human resource accounting helps management to base compensation decisions on the value of people of the organizations.

Human resource accounting can be used to evaluate the efficiency of the personnel management by providing the standard costs of acquiring and developing people. 73.69 percent of the respondents agreed with the statement and 5.26 percent strongly agreed. Only 5.26 percent of the respondents disagreed and others remained neutral. The mean score for this aspect was 3.79 with standard deviation of 0.63.

7. CONCLUSION

On the basis of the mean and standard deviation calculated for the various aspects of managerial uses of human resource accounting we can conclude that the usefulness of the human resource accounting in providing the estimates of the cost of recruitment from outside and development from within is perceived to be highest. The second best rating was assigned to the help provided by the human resource accounting information in recruitment planning. The calculation of human resource value helps in performance evaluation of employees got the third highest ranking. The least mean score assigned to the question that human resource accounting leads to alienation. The professionals responded to the question were of the opinion that human resource accounting is not responsible for this problem. Table 1 itself gives the overview of mean and standard deviation based on which we can give the weightage to each question.

Finally we can say that the output of HRA system can be used to take a variety of decisions in the area of human resource management. But the number of organizations that have adopted HRA system in India is low as it is not compulsory for the Indian organizations to value human resources. There are certain problems associated with the system also as per the survey conducted by Dinesh Gupta (1992). Therefore researchers should come forward to provide a feasible solution to those problems to make the concept widely acceptable and practicable.

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