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**"EMPLOYEE'S PERCEPTION TOWARDS HUMAN ACCOUNTING IN
INFORMATION TECHNOLOGY FIRMS"**

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Abstract

Human capital is an indispensable part of any organization and information technology companies are not an exemption to this. Human intellectual capital is the active factor to animate all the inanimate servers in any company. Human resource accounting can be defined as a systematic manner of valuation of human resources of an organization and recognizing them as an asset in the financial statements. The research attempts to gauge the perception of employees towards the human resources accounting practices expected to be followed by the organizations. Primary data was collected by questionnaire through Google forms. Likert scale was used to determine the opinion of employees on a scale of 1 to 5. T-test sampling test assuming unequal variances was used to compare the perception of employees of two organizations.

1. Introduction -

The Human intellectual is the crucial aspect for any information technology company. One cannot underestimate the fact that all the computers and servers are inanimate objects with the most active capital factor in the organization being the employees. Hence there is a dire need of recognizing the true worth of the human capital of an organization. Human resource accounting is the most ignored aspect in all information technology companies. American Accounting Society defines HRA as "*Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.*" On the other hand, woodruff defines HRA as "*Human Resource Accounting is an attempt to identify and report investments made in human resources of an organization that is presently not accounted for in conventional*

accounting practice. Basically, it is an information system that tells the management what changes over time are occurring to the human resource in the business.” The whole concept of HRA in short can be defined in the words of Eric Flamholtz as *“Human resource accounting is the measurement of the cost and value of the people for the organization.”*

However, the HRA scenario in India is a sorry state of affairs. Few companies such as Infosys, Rolta Ltd, and Satyam did disclose an additional supplement on HR valuation and other parameters such as employee contribution, sales generated per employee, and so on. These companies followed it a great deal of enthusiasm in the last decade of the 19th century. However, post-2000 most of these companies gradually discontinued the HRA disclosure. No specific reasons were ever disclosed by any of these companies for discontinuance. Hence it's imperative to understand the perception of employees of an organization towards the HRA.

2. Significance of the study

An organization may get automated up to 100% but then one cannot ignore the human factor in an organization. I.T. companies such as Infosys, Mahindra Satyam (earlier Satyam Infoways), Cummins India Ltd (KPIT) did undertake the HRA disclosure policies in their annual financial statements. No research has been made a comparative analysis of employee's perception towards HRA. Most of the research articles are one-sided and insists on employer recognizing the human resources as an asset in the financial statements. However, past empirical research has failed to focus on the viewpoint of the employees who are under the hammer for valuation. Therefore the research aims to make a comparative analysis of employee's perception towards HRA disclosure policies. One needs to look at this perspective as well to understand why HRA is not widely followed practice by Indian I.T. companies. The utility of HRA in human resource function is not verified convincingly. The study would enable answering the problems mentioned above. It also helps an organization to confirm the perception that people are our most valuable assets into a reality.

3. Review of related studies

As per *Hermason*, it is logical to consider human resources as an asset. *Hermason* pointed out that though the human resource is not legally owned one needs to understand that there is operational ownership of the HR with the employer. On the other hand, *Wright (1960)* firmly believed that regarding the human as an asset can make the managers more selective in the process of recruitment and training and development of the employee.

Otter argued that the human factor in an organization needs to be capitalized as an asset and included in the financial statements but only after confirming the concept of HRA and the valuation process. *Otter* also opined that an advanced definition of human resources and appropriate valuation needs to be compiled to make the HRA more acceptable.

Hermanson on the other hand puts forward the economic perspective of HRA in his study entitled “Accounting for Human Assets”. He firmly believes that human resources should be looked upon as a factor of production which generates some benefits. Hence they should be valued just like other inanimate factors of

production.

Accountants have realized that human resources should be recorded as an asset under special cases such as accounting for the players in a football league. (Szymanski and Kuyper's 1999). Raju, Kumar, and Geeta (2004) rightly pointed out that the real problem is not arguing the human being as an asset. Everyone accepts it that human resource is an asset. The crux of the problem lies in how to value the human factor in an organization. An accounting like formulae or method to value human capital is the need of the hour.

4. Objectives of the study

- 1) To understand the employee's perception towards HRA.
- 2) To analyse the reasons for failure to report HRA in the financial statements.
- 3) To compare the employee's perception towards HRA between two information technology firms.

5. Hypothesis of the study

The following hypotheses were formulated to meet the objectives of the study:

Hypothesis 1

H₀: There is no significant difference in the perception towards human resource accounting by employees of both firms.

H₁: There is a significant difference in the perception towards human resource accounting by employees of both firms.

Hypothesis 2

H₀: ICAI should implement accounting standards based on human resource accounting.

H₁: ICAI should not implement accounting standards based on human resource accounting.

Hypothesis 3

H₀: Valuation of Human resource accounting is a complicated activity.

H₁: Valuation of Human resource accounting is not a complicated activity.

6. Population and sample

6.1 Sampling method

Since the non-parametric tests are to be conducted judgmental sampling method was used to conduct the sample test.

6.2 Sampling size

A sample size of 21 employees from each firm was selected by using the judgmental sampling method. The employees with a lack of accounting knowledge were excluded from the sample to reduce the error in the data collection.

6.3 Data collection

The research is based on primary data collected through two information technology firms Excellent Info media and Piotech Information Technology in the Thane district of Maharashtra. A questionnaire was sent to 120 employees from both the organization which covered almost 50% of the population under research study. A reliability test was conducted on the questionnaire using Cronbach's alpha test. Cronbach's alpha value was calculated at 0.73 which was accepted as it was within an acceptable range of 0.70 to 0.79.

6.4 Statistical techniques used in the study

Cronbach's alpha test was used to check the reliability of data collected. since the data was non-parametric hypothesis testing was done using a t-test assuming two samples with unequal variances were conducted to interpret the data using Microsoft excel 2016.

6.5 Data analysis & Interpretation

Q.1. Human resource is the most significant aspect of the intangible capital of an I.T. firm.

| | <i>Variable 1</i> | <i>Variable 2</i> |
|------------------------------|-------------------|-------------------|
| Mean | 4.047619 | 4.428571 |
| Variance | 0.847619 | 0.657143 |
| Observations | 21 | 21 |
| Hypothesized Mean Difference | 0 | |
| Df | 39 | |
| t Stat | -1.42314 | |
| t Critical two-tail | 2.022691 | |

Interpretation: The calculated t – value is less than the table value. This indicates that all employees agreed that human resources/employees are the most valuable and significant asset of an organization.

Q.2. An I.T. Company/firm should maintain a Human resource accounting system

| | <i>Variable 1</i> | <i>Variable 2</i> |
|------------------------------|-------------------|-------------------|
| Mean | 4.095238 | 4.095238 |
| Variance | 0.590476 | 0.990476 |
| Observations | 21 | 21 |
| Hypothesized Mean Difference | 0 | |
| Df | 38 | |
| t Stat | 0 | |

| | | |
|---------------------|----------|--|
| t Critical two-tail | 2.024394 | |
|---------------------|----------|--|

Interpretation: It can be observed from the above table that the calculated t-value is 0 as compared to the table value of 2.02. Hence it can be interpreted that all employees unanimously agreed to the maintenance of a human resource accounting system.

Q.3. HRA is not adopted due to a lack of awareness among stakeholders.

| | <i>Variable 1</i> | <i>Variable 2</i> |
|------------------------------|-------------------|-------------------|
| Mean | 3.285714 | 3.809524 |
| Variance | 0.714286 | 0.961905 |
| Observations | 21 | 21 |
| Hypothesized Mean Difference | 0 | |
| Df | 39 | |
| t Stat | -1.85405 | |
| t Critical two-tail | 2.022691 | |

Interpretation: The critical value of the t-test is more than the calculated value of t. this means the employees of the I.T. firms agree that there is a lack of serious awareness among the stakeholders about the human resource accounting system.

Q.4. HRA is not adopted due to a lack of statutory requirements for the same

| | <i>Variable 1</i> | <i>Variable 2</i> |
|------------------------------|-------------------|-------------------|
| Mean | 3.142857 | 4.190476 |
| Variance | 1.028571 | 0.561905 |
| Observations | 21 | 21 |
| Hypothesized Mean Difference | 0 | |
| Df | 37 | |
| t Stat | -3.80671 | |
| t Critical two-tail | 2.026192 | |

Interpretation: The above table indicates very clearly that the calculated t-value is much less than the critical value. Hence it can be interpreted that most of the I.T. firms fail to adopt HRA practices as there is no legal requirement of this.

Q.5. HRA is not adopted as accounting for human resource valuation is a complicated activity

| | <i>Variable 1</i> | <i>Variable 2</i> |
|------------------------------|-------------------|-------------------|
| Mean | 2.8 | 3.736842 |
| Variance | 0.694737 | 0.538012 |
| Observations | 20 | 19 |
| Hypothesized Mean Difference | 0 | |

| | | |
|---------------------|----------|--|
| Df | 37 | |
| t Stat | -3.73089 | |
| t Critical two-tail | 2.026192 | |

Interpretation: The table indicates that t – value is less than the critical value. The above table conveys the real cause for the lack of enthusiasm towards HRA disclosures by the I.T. firm. The whole process of human resource valuation is complicated and ambiguous. There is a lack of uniformity about HRA practices in the accounting world.

Q.6. HRA enhances the image& reputation of an organization

| | <i>Variable 1</i> | <i>Variable 2</i> |
|------------------------------|-------------------|-------------------|
| Mean | 3.904762 | 4.047619 |
| Variance | 0.390476 | 0.747619 |
| Observations | 21 | 21 |
| Hypothesized Mean Difference | 0 | |
| Df | 36 | |
| t Stat | -0.61365 | |
| t Critical two-tail | 2.028094 | |

Interpretation: The t –value being less than the critical value indicates that HRA practices have their advantages. According to the employees of both firms, HRA creates a positive impact on the goodwill of the firm /companies.

Q.7. HRA enables the users of the financial statements to make a more informed decision.

| | <i>Variable 1</i> | <i>Variable 2</i> |
|------------------------------|-------------------|-------------------|
| Mean | 3.857143 | 3.952381 |
| Variance | 0.828571 | 1.047619 |
| Observations | 21 | 21 |
| Hypothesized Mean Difference | 0 | |
| Df | 39 | |
| t Stat | -0.31863 | |
| t Critical two-tail | 2.022691 | |

Interpretation: the t statistic value is less than the critical value which means that HRA is useful for decision making. It helps the HR department to understand the real value of an employee. This helps in determining the remuneration structure of the employees, incentives system, etc. consequently the attrition rates of employees lower down and creates a positive image of the firm.

Q.8. ICAI should introduce accounting standard for human resource accounting disclosures

| | <i>Variable 1</i> | <i>Variable 2</i> |
|------------------------------|-------------------|-------------------|
| Mean | 3.904762 | 3.952381 |
| Variance | 0.390476 | 1.647619 |
| Observations | 21 | 21 |
| Hypothesized Mean Difference | 0 | |
| Df | 29 | |
| t Stat | -0.15285 | |
| t Critical two-tail | 2.04523 | |

Interpretation: the table above is a clear indicator that the Institute of chartered accountant of India should contemplate a new accounting standard on Human valuation and recognition in the books of the firm. This shows a true and fair reporting of the firm. It shall also give due recognition to the employee valuation.

6.6 Testing of hypothesis based on the above analysis

The calculated statistical values for all the questions in the questionnaire are less than the critical value. Hence all the null hypotheses are accepted.

6.7 Implications of the study

- 1) The study indicates that the employees strongly agree to a valuation of human resource accounting for true and fair accounting in a company.
- 2) However, at the same time, the study highlights concerns regarding the complications involved in this whole process. Man is the most mobile factor and beyond the control of the employer is difficult to value especially in the I.T. industry where attrition rates are quite high.
- 3) It can be also claimed with a fair degree of assurance that most I.T. companies fail to follow HRA disclosures due to a lack of statutory requirements.

7. Suggestions

Based on the above analysis and interpretations following suggestions can be aptly recommended:

- ✓ ICAI should launch new accounting standards based on HRA.
- ✓ Consistent HRA disclosure policies should be followed by all I.T organizations.
- ✓ Certain minimum turnover criteria or specified companies should mandatorily follow the HRA disclosure policies.
- ✓ Annual financial statements should indicate the number of employees, the cost associated with it, and the method of valuation for human capital.
- ✓ Different methods shall be employed for the valuation of human capital based on the type of employee, the overall engagement with the present employer, and the skills and knowledge of the employee.

8. Conclusion

One can conclude that Human resource accounting is an indispensable tool to measure the real capital of an I.T. company. On a positive note, we can expect HRA shall be a common phenomenon in IT companies. Perhaps an accounting standard will clear the ambiguity around the whole arena of HRA. Therefore the companies

should give second thoughts regarding the same and reinstall the scheme of HR Valuation in their annual reports and financial statements.

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