

Human Resource Accounting Practices in Indian Banks

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## Human Resource Accounting Practices in Indian Banks

### **Chapter 1: Introduction**

Human resource accounting is become an essential element of the business. Quality of human resource is become an essential element of for achieving success in in terms of growth for companies. The purpose of human resource accounting is to evaluate value of employees that supports management for making business decision and improve efficiency and effectiveness of an enterprises. The purpose of this report is to discuss human resource accounting practices in various banks of India. Additionally, the impact of these practices on decision making and various business activities. This research paper is based on identifying various accounting practices and with evaluating its impact on employees of different banks. For this purpose complete banking sector of India is analyzed on the basis of application human resource accounting practices.

The modern concept of human resource view employees as crucial assets of the organization. However, cost and benefits of human capital is rarely analyzed. The intention of measuring human capital of an organization is to quantify important human capital component at different level. For instance, benefits to employees or companies for developing quality of human capital. Initially the concept of measuring human capital cost and benefits was developed by economists which developed attention of accountants towards this concept. This concern of economists results in development of the technique of Human resource accounting. The American Accounting Association defines the concept of accounting in relation to human capital as the process recognizing and calculating various components of human resource of an organization for presenting this data to different stakeholders (Andrade and Sotomay, 2013).

Business growth of any business is rely on the quality of workers which is recognized internationally. In the current technological era, businesses are owning variety of financial assets and equipped with developed instrument but without the efficient human capital it is difficult for the company to manage all business activities. Another issue is that most of the companies in India did not recognize the worth of human capital and its contribution for growth and development of businesses. The major contribution of human resource accounting is in internal and external decision making at managerial level.

### **Background**

The most valuable asset of an organization is its human resource. Achieving efficiency and effectiveness in business activities for managing tangible and monetary assets of an organization is highly dependent quality of human resource. The profitability of the business cannot be achieved with development of different technologies in operational activities until it has personnel to operate it. As Reeta (2015), define human resource accounting as procedure which involve identifying and measuring all the data of human resources. The system of human resource accounting provides useful information to the management about changes in human capital of an organization. It is universally accepted that 21st century is the era of human demand, which developed the demand of those countries which have high quality of labor. The innovative technological developed countries like china and Japan, which leads to efficient performance of workforce. In short the importance of human capital is identified as the best investment for business to achieving success and growth in business operations. Human resource accounting requires application of financial skills and observed capability of different personnel for resolving various issues. As the concept of financial resources this concepts defines financial expertise with understanding of business reality (Kaur, Raman & Singhania, 2014). Furthermore,

this concept implies that human resource accountant requires not only require financial skill in management but also this system controls internal operations along with implementation rules and regulations with various interpersonal skills.

As similar to different emerging economies, India did not much considered various issues of human resource accounting. This concept is not applies widely in Indian Human resource system. Even the reporting act for Indian corporations does not require to report about personnel cost and benefits in annual report. With this, reporting of human resource trend is become increasing from the last decade in India (Kaur, Raman & Singhania, 2014). The importance of human resource in an organization is recognized for achieving success of businesses. According to Dhanabhakyam and Muflilha (2016), human resource accounting involves measuring complete cost that is associated with hiring and working of an organization which include recruitment, hiring, training and development of human assets. In addition to this, HRA include evaluation of economic value of developing human staff for the organization. With this, reporting of human resource trend is become increasing from the last decade in India (Kaur, Raman & Singhania, 2014). The importance of human resource in an organization is recognized for achieving success of businesses. According to Dhanabhakyam and Muflilha (2016), human resource accounting involves measuring complete cost that is associated with hiring and working of an organization which include recruitment, hiring, training and development of human assets. In addition to this, HRA include evaluation of economic value of developing human staff for the organization. Moreover, human resource accounting provide measureable data about human resource of the organization which is not only important for management but also provides data to analyst and employees. This system is an essential element for supporting different human resource practices

for conserving human resources, allocating financial resources and developing good employment relationship with development of strong organizational culture.

### **Aim and Objectives of the Research**

The aim of this study is to identify adaptation of human resource accounting such as increasing salary of staff, after retirement benefits, increments and bonuses in banking industry of India. In addition to this, the main focus is on the impact of these practices on profitability of banks operations. Specifically, the objective of the study is discussed in the following;

- To analyze the impact of Human resource accounting system in managerial decision of different banks.
- To analyze human resource and organizational climate in different banks of India.
- To identify outcome of human resource accounting practices in different stakeholders of banks which include private and public banks.
- To identify current human resource accounting practices in various banks of India.
- To determine the value of human resource in Indian Banks and its impact on profitability.

### **Research Questions**

RQ1. What effect does human resource accounting have on the managerial decision making in banks of India?

RQ2. How well incorporated are the human resource accounting practices in the banks of India?

## Chapter 2: Literature Review

### Objectives of Human Resource Accounting

The purpose of human resource accounting is to recognize the value of different resources which are employed in an organization. Additionally, this process emphasize on managing human resources that is directly affect quality of goods and services produced in an organization. Objectives of implementing Human resource accounting is widely expand with different benefits to the organization (Gatewood, Field & Barrick, 2015). The application of human resource accounting develop cost value information for developing an efficient management system for evaluating cost of acquisition and developing human capital by achieving effective cost structure which is the prime objective of all business. According to Agarwal (2015) which indicates that in banking sector of India, implementation of HRA is essential to monitor working of human resources. The analysis of human capital is done is based on viewing personnel as an assets of the organization. Apart from this, Kaur, Raman & Singhania (2014), specifies the purpose of HRA is to develop various management principles for reporting and classifying business elements for classifying financial consequences of various practices. Furthermore, this report evaluation of different employees in books of account for communicating different information. Decision making practices of various business is supported by this system implementation at various business level.

### Impact of Human Resource Accounting

Human resource accounting is an important application for developing countries. One of the government report of India states that 73% of national income is invested for compensating employees (Asika, John-Akamelu and Chelichi, 2017). Furthermore, almost all of the organizations that are operating in India making investment of considerable amount in its human

capital. The purpose of developing this system in banking sector of India is to overcome various issues that are arise during valuation of various intangible assets. In addition to this there is general view that organization tends to avoid providing this information publicly for reporting this in its annual report, HRA is a devise eliminate different issues. HRA system provides support an organization for improving image of the country (Shaheen, Noor & Sultana, 2016). Information that is provided from this system results in important managerial decision related to core human resource practices. It is important for the companies to implement various innovative techniques for achieving economies of scale instead of shrinking structure of the organization. In addition to this, human resource accounting for making investment decision and replacement cost of human capital.

### **Impact on Decision Making**

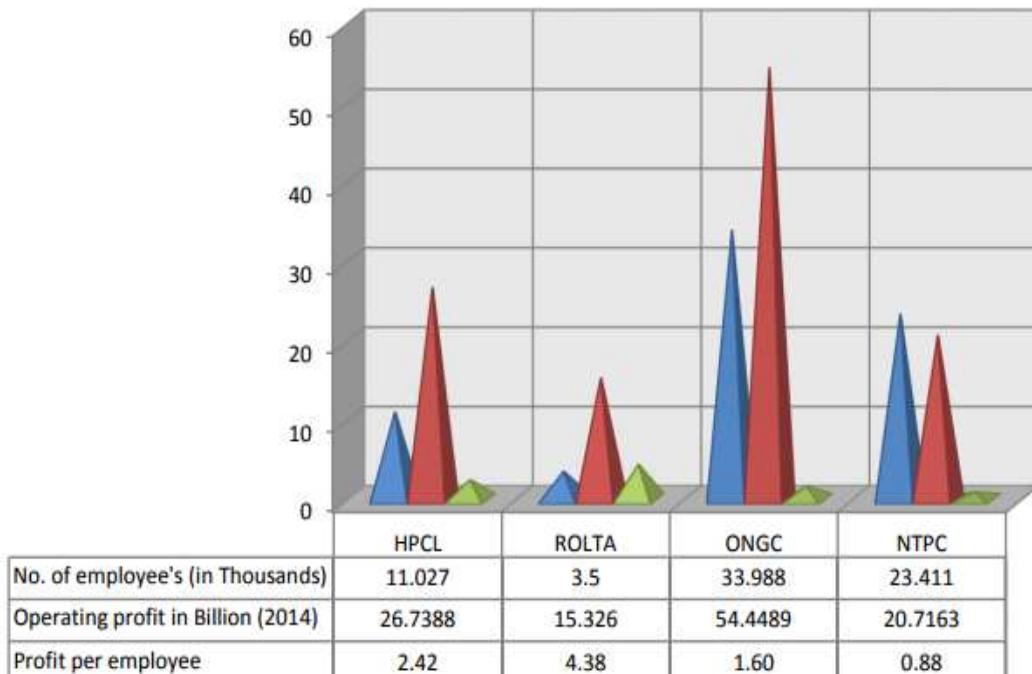
Human resource is an essential element for getting success in business. In relation to human resource accounting it helps to develop specific framework for evaluating and presenting data within the organization. It involves measuring two areas: the first is to measure the costs of developing and maintaining quality of human capital followed by the calculation economic value of staff in an organization (Kaur, Raman & Singhania, 2014). Typically, an application HRA concepts in the accounting system of the company implies information of human capital in a separate section in its annual report. Furthermore, profitability, productivity and efficiency of different organization rely on human resources activities. Human resource reports usually include value of human assets, compensation and policies of human resource.

Due to economic downturn on the global level major sectors are greatly affected. In the last few years most of the companies emphasize more on employees instead of liabilities and asset. In relation to this concept the concept HRA is applied widely on to different problems that

are raised from global recession. As specified by Kaur, Raman, & Singhania (2014), that human resource support all activities of the business. Therefore, valuation of this source is necessary for measuring overall business performance. Different information is communicated to management, investors and general public through annual report of the company (Agarwal, 2015). This tool is developed for providing assistance to executives for understanding values of business decision in terms of cost and return of HR implementation strategy for supporting better decisions. Basically human resource accounting is system which provides information about changes that over time. This provide information about investment and return from human capital which is not generally presented in method of traditional accounting reports (Shaheen, Noor & Sultana, 2016). Importance of human resource accounting practices are increased in the service sector it contribute for major market share into economy.

### **HRA Implementation in India**

Most of the companies in India did not recognize the value of human resource practices. As specifies by Rahaman, Hossain & Akter (2013), companies did not adopt human resource accounting practices due to less information about benefits that is provided by it. This is an important measures for different professionals and organization to improve their performance and earn maximum return from services which they provide. Specifically, Indian economy as comparison to different emerging economy, the overall performance of Indian economy is improving with recognition of human resource importance in a country. India is rich in man power resources, and capture the attention of different developed nations as low cost manpower is available in large quantity.



**Figure 1:** Indian companies that are using HRA

(Source: irdindia.in)

The above figure presenting the data of various Indian companies which have human resource accounting practices in its operations. Additionally, it can be visibly see the impact of human resource accounting system on overall profitability of the company. This importance of the human resource is also recognized by different Indian companies which are start implementing different technical factors in business activities. In addition to this, Singh (2013), specifies that most of the human resource accounting techniques are implemented by public sector of India. Furthermore, accountant professionals In India have shown less interest in implementation of human resources practices along with its disclosure in annual reports. Furthermore, Agarwal (2015), indicates that Indian companies view human resource from different as it is viewed in other parts of the world.

## Challenges for Banks in India

Currently, the banking sectors faced various challenges in India as the main focus of the government is to convert all of its human resource in to valuable assets. According to Rahaman, Hossain & Akter (2013), the banks are required to support its human resources by making investment for training and development of employees to meet expectation of required services. In addition to this, attaining satisfaction of employees and keep them motivated towards works is also big challenge for different organizations. In this perspective employees are not only motivated for earning more income but also requires association of employee with the organization. Furthermore, Mustafizur, Amzad & Tabassum, (2013), specifies that higher number of job opportunities are available which make it difficult for HR of the company to find dedicated employees. This situation of job market requires HR to retain all the employees with development of different facilities programs. With operating in high competitive market India requires to maintain its competitive position with domestic and international competitors. The main focus of the companies is to adopt economical technology which restrict HR to developed quality of employees with competitive return for the employees.

The overall economic trend of India has been identified by Kaur, Raman & Singhania (2014), which indicates that HR requires to maintain current employees and carefully hire new employees for the company. Retention of the key employees is crucial for business as they are contributing to long term sustainability and success of the organization. Furthermore, Human resource department of many organizations are facing challenges for developing balance among organizational objectives and personal objectives of its staff. Marchington, Wilkinson, Donnelly and Kynighou, (2016), specifies that globalization has also created challenges for HR personnel to develop appropriate culture which is suitable for diversified nations. In addition to this HR

also need to train employees for working in diversified culture for managing the difference of professional values.

## **Limitations of Human Resource Accounting**

There are various limitations that is applied on human resource accounting concept and its application. Various HR specialist states that it dehumanization to view personnel of the organization as tangible assets. In addition to this, it is perceived that value of people is perceived publicly on the basis of their skills and other characteristics that affect psychological health of different people. Correspondingly, in India main hurdle for implementation HRA is the political concern. Which states that, if the value of skilled labor is recognized so the labor might claim higher rewards and wages level for their capabilities. Specifically Human resource accounting emphasize on evaluating staff on the basis of employees actual worth which also result in higher turnover of employees if they are not paid appropriately.

On the basis of evaluation of complete HRA process, it has been recognized that cost allocation in this process and use of inappropriate management tools. In addition to this, Marchington, Wilkinson, Donnelly and Kynighou (2016), indicates that there is still some ambiguity for reviewing the value of human and its presentation in financial statements. With this HRA system is also criticized due to its problems adaptability and use of the system in an organization. another limitations that has been implied on this system is the legal restriction which criticize human resource accounting that if the humans are viewed as an assets then what will be the application of tax on it. Moreover, this method does not contain any valuation method that makes capability of people questionable as nature of people is qualitative which results in biasness of monetary value of people.

### **Chapter 3: Methodology**

The most important element of the research is its methodology which outlines procedure of the research. It has been stated by different researchers the objective of the research cannot be achieved without research method. The methodology of the research contains various approaches for collecting reliable data and presenting actual findings of the research (Mackey and Gass, 2015). The primary data of the research more reliable and accurate data as for the collection of this data researchers are directly involved in it. The other form data is the secondary data which provides result and data of previous researchers, in which researchers cannot check the accuracy of the collected data. Hence, the research methodology is helpful for identifying Human Resource Accounting Practices in banks that are operating in India.

#### **Research Design**

Design of the research contains various level of the data which include primary and secondary data. In this research the selected data is primary qualitative. This data is initially collected and analyzed for obtaining the actual results of the research. Additionally for discussing the literature of the research secondary data is also used in this research for recognizing practices of human resource accounting in banks. In addition to this, the discussion of the literature review is based on the work of previous researchers or secondary data. The instrument of this research is survey interview which will be taken from the managerial staff of different Indian Banks. For analysis the collected data of the research content analysis tool is used. This analysis is helpful for identifying various concept, themes of the collected data and provide complete elaboration of this data. The research design is develop for achieving research goals and objectives. For collecting primary data of the research various personnel of different banks in India has been selected from HR department in order to take their view about topic and

implement of Human resource Accounting. The impact of HRA is spread across various business elements, but the focus of this research is to evaluate its impact on decision making of Indian banks.

### **Research Approach**

As similar to other elements of the research, it is essential to selected research approach in a way to attain aim and objectives of the research. This study has developed the general idea about the human resource accounting practices in banks of India. The qualitative data of the research is the result of research interview. While for the primary data, literature of different researchers are viewed and analyzed for identifying in depth knowledge about main topic of the research.

### **Data Collection**

Data collection of the research identifies how different data of this research is collected which is interlinked with the topic and help to achieve research objectives. For attaining the main objective of evaluating impact of human capital accounting on Indian banks data has been collected in two different ways. Data collection method are further categorized in the following:

#### **Primary Data Collection Method**

This method emphasize on collected genuine information about the topic. In this research, researcher is directly involved for collecting primary data to identify the actual result of the research. Primary data can be qualitative and quantitative. Primary data of the research is collected through questionnaire, interview, surveys and focus group.

#### **Secondary Data Collection Method**

Secondary data of the research include all the data that has already been collected from the other researchers. As similar to the primary data secondary data can also be qualitative and

quantitative. Secondary data that is used in this report include journal articles, websites and books which expand the basic concept of the research. In this research qualitative approach is applied for identifying human resource accounting practices in banks that are operating in India.

### **Data Analysis Methods**

For analyzing the data of the research there are different methods that are allied for analyzing the collected data of the research. Data analysis enables researcher to identify, evaluate and interpret all the data that has been obtained from various sources. The nature of this research is qualitative on which the quantitative methods such as statistical or regression analysis cannot be applied. In this research studies the qualitative analysis method has been applied for evaluating research data in order to reach at certain outcome.

The qualitative analysis of the data include content analysis method which will be adopted in this research for analyzing the impact of human resource accounting on banks. The content analysis of the data is similar of theoretical analysis which analyzed different concepts, thoughts and current practices that are affecting organizational profitability and returns. In this study, different ideas and thoughts are obtained from employees by taking interview from various employees at managerial level. In this section, the result of different interviews are analyzed for achieving actual objective of the research. The content analysis of the research used to differentiate ideas of participants and linked these ideas with literature review. Beside this in the content analysis literature is also analyzed. In this method of analysis various themes are developed on the basis of literature which is further linked with result of the interviews response. This analysis is helpful for filling the gap of the collated primary and secondary data of the research.

### **Ethical Considerations**

There are many ethical measures which needs to be considered by the researchers while conducting a research. It has been stated by Mackey and Gass (2015), the research study can only be considered as valid if the researcher have followed all the guidelines of ethics. The researcher in this study aims to explore the working conditions of human resource accountants in the banks of India. It is vital for the researcher to maintain all the privacy and confidentiality of the participants who have been participated in this research. Since the researcher aims to conduct interviews from the human resources accountants of the banks of India, therefore, the researcher have ensured that all the personal information of these participants will be kept confidential. Furthermore, all the participants will be sent an informed consent to participate in this study. In addition to that, all of them will be informed about the primary objective of this research as why their opinion has been included in the study. On the other hand, it is also important to ensure that all the work used in this research should be cited. Therefore, the researcher has ensured that all the secondary sources which have been included in the research are appropriately cited in this study.

### **Limitations of the Research**

For production of genuine and reliable data of the research, the best efforts has been put for collecting and analyzing the research data but due to various restriction it is difficult to get complete knowledge about the topic. The main issue with this research is small participants in the research as it is difficult to approach all different managerial staff of bank. Specifically the human resource functions are restricted to the head office which make it difficult to agree these staff for participating in this research. In addition to this, researcher require unique skills for evaluating data that has been collected through interview. In face to face interview other than

provided data expressions and reactions towards different statements are also considerable. The result of the study is limited to only few respondents which can be expand for obtaining more generalized results of the study.

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