

HUMAN RESOURCE ACCOUNTING PRACTICES LEADS FIRM PERFORMANCE

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ABSTRACT

Purpose: The purpose of this research effort is to understand various effects of human resource accounting practices on firm performance through retention.

Design/Methodology/Approach: A questionnaire-based field survey was conducted to collect data from 103 owner/managers from a random sample of Auto sector located at 4 cities of Punjab state of India. The multiple correlation and regression statistical test were used to analyze the derived 5 hypotheses in conjunction with SPSS 16 software to evaluate the findings.

Findings: This research finds detailed significance of human resources accounting practices on firm performance which mediate via decision making planning capabilities. It covers 4 aspects mainly include, employee valuation planning capabilities, employee performance planning capabilities, employee productivity planning capabilities and employee retention planning capabilities. Simply study emphasis from beginning to end of all applied human resource management practices effects on firm performance. It has tried to understand human resource valuation effects on employee performance and later outcomes on firm profitability through employee productivity. Study also indicates decision making capabilities effects on employee retention a HR term in financial performance point of view.

Research Limitations/Implications: This quantitative study is exploring an analysis of service sector particular at selected Auto sector and suggests antecedents to understand impact of HRA practices on firm performance. Used variables have been selected as per best available sources of literature and based on researcher's knowledge. Further study is also required to identify other critical areas to evaluate different effects. Here limitations of practicality and opportunism in the sampling also acknowledged.

Practical Implication: Certainly findings of the study indicate to undertake more research efforts to justify the effects of decision making capabilities on firm performance which also leads various consequences at later stage due to less productivity and employee dissatisfaction.

Originality/Value: Present paper contributes to the understanding how HR retention in volume of firm performance often faces issues which is actually a gape of Human resource accounting applications. A combination of few selected constructs which is designated as decision making capabilities in the study are essentially require to implement for getting sound financial performance.

KEYWORDS: Human Resource Accounting, Decision Making Capabilities, Employee Valuation, Employee Performance, Retention, Firm Performance

INTRODUCTION

Human Capital, term used for the people working in the organization, earlier considered as manpower, work force, human resources etc. etc. Various factors have made the organization realized that human resource are now required to be recognized as their Human Capital; as this is the prime factor, who is responsible for controlling all other functions.

In this era, where our economy is predominant by the service sector, the market demands highly sensitive customer orientation, knowledgeable & intellectual workforce whose focus is to deliver customer sustainable functions and services. Organization required “Human Capital Orientation”; requisite is to be receptive & directed towards the well grounded practices of HR whose core is to invest in human capital for their progression. Numerous practitioners are in pursuit of a viable instrument which attract, motivate and retain human capital. HR experts also need a tool to identify workforce, who is a liability on the organization so as to make right investment decisions.

Human resource accounting elucidates and investigates about precise and appropriate way to select the right people, whom organization consider indispensable and are responsible for overall growth. Furthermore if an organization is investing in the correct human capital they are proven to be human asset, and are accountable for the unstoppable advancement and growth of the organization.

This paper is going to focus on the various Human Resource Accounting practices along with decision making capabilities and the relative influence on the firm’s performance (Retention) in Automobile Industry. According to recent reports of society of Indian automobile manufactures, India is set to overtake Brazil to become the sixth largest passenger vehicle producer in the world, growing 16 to 18 per cent to sell around three million units in the course of 2011-12, whereas currently it is growing at the rate of 10 to 12 per cent.

Annual vehicle sales are projected to increase to 5 million by 2015 and more than 9 million by 2020. By 2050, the country is expected to top the world in car volumes with approximately 611 million vehicles on the nation's roads. As the heat of the hour, organizations should realize that it is the human capital and their meticulous efforts which result in the organization’s overall profitability.

Human Resource Accounting and Employee Valuation

Business organization does not pay value to human capital for strategic decisions and managerial planning and also do not realize the need to measure and mention their (human capital) valuation in the annual reports. HRA simply advise the internal management of a business firm to measure the value of human resources and certainly it will help the external users to contribute in the market valuation and wealth maximization of an organization. (Jan Bratton, 2003). Ripoll and Labatut, 1994 argued about the substantial causes for valuing the human resources with the help of accounting. Human are the valuable resources and their quantified contribution increases the productivity and moreover their credibility create the organizational HR value for long run.

HRA is a way to communicate the employee valuation in the organization and it also affect the personal judgmental view & work behavior of the employees. Finally human resource assessment contributes the encouragement for productivity and it will birth the human capital retention in the organization (Bino Catusus, 2009). HRA assists the organization to achieve economic goals through rational human resource investment decisions & employee valuation and its disclosure in published financial statements, which affects the work force performance and reduces the employee

turnover also (Jawahar Lal, 2009). “The HRA measurement process as a dual function attempts to increase recognition that human capital is paramount to the organization's short and long-term productivity and growth. When managers go through the process of measuring human resources, they are more likely to focus on the human side of the organization and are more likely to consider human resources as valuable organizational resources who should be managed as such” (Sullen, 2007). Davidove & Schroeder (1992) suggested that, various business organization are not using any set accounting ways for valuation of HR which certainly put an impacts on ROI, due to not considering the cost of training investment the HR work involvement is less than work efficiency.

McKenzie & Melling (2001) stated that, human capital valuation can be driven with proper financial planning & efficient budgeting process with implemented human resource accounting system. It will indeed ensure the maximize return and effective human capital performance. Human capital valuations at accounting or published annual reports are essentially required for acquisitions & takeover to impart the strategic decisions for work force to influence the market valuation (Moore 2007). Organization for Economic Co-operation and Development (1999) argued that in an organization mainly there are two types of assets: organizational (“structural”) capital; and human capital; more precisely, Organizational capital includes software and systems, supply channels and procedures & networking; whereas human capital refers to internal & external customers the organization is dealing with. (see, International Federation of Accountants, 1998; International Accounting Standards Committee, 1998).

“Human resource accounting helps to quantify and measure the amount incurred by an organization to recruit, select, hire, train and develop human capital. It also represents the economic value of the people. As this information requires making various beneficial decisions and significantly affects the organization’s operational efficiency. For a business firm following information is required (Guthrie and Petty, 1999):

- Effective system which help to construct, confiscate and diffuse the proficiency of people working
- People’s proficiency result in organizational value and its growth

Petty and Guthrie (2000b) Furthermore the organization efficiency is depended on its people their intellect, problem solving capacity and the valuable contribution they made to enhance the organizational worth. Globally the business firms, HR practitioners and advisors wants to identify measure and record the information in regards to their human capital, as they believed these are essentially contributing to the business firms’ value creation.

Human Resource Accounting Practices and Human Resource Productivity

Human resource management is not only a domain of personnel functions, but it includes various strategic roles; which has great influence on organization’s performance. Traditionally HRM function was to record and maintain all the transactions, compliances and establishes functional policies and procedures whereas now treated as an occupation whose prime role is to maintain & develop the skill inventory, appropriately considered as a cost center (Ulrich and Lake 1990). Organization’s productivity is the outcome of the efforts & intellect the people are occupying along with the kind of work atmosphere, work culture, operational policies & practices the organization is carrying, as these have direct impact on the output (qualitative and quantitative) the people are bringing in. Human resource accounting statement gives a clear picture about the per capita value of human capital and also signifies that the level of productivity the employees are delivering to the organization. Stable human resources expedite firm’s long run receptiveness to success and growth by creating competitive advantage over others. (Ratti 2012)

Intellectual capital management is of utmost importance for effective business administration and this tool assist an organization thoroughly and accurately measure company's value and performance. An organization's wealth creation and its product valuation are purely based upon the acquaintance of their human capital. (Chen, et al., 2004) Intellectual capital measurement is not only beneficial for the external parties (shareholders and investors) as an informative tool, but also of extreme usefulness for the internal parties, to take strategic decisions in regards to business and marketing (Bontis, 2001). As Human capital measurement result in accurate and relevant decision making which ultimately have a direct and positive impact on the productivity of an organization. It is essential for an organization to manage their human capital in such a way that their potency should be maximized and this requires a effective way of managing the people.

Harvey and Lusch, (1999) "IC measurement is significant to IC management, i.e. effective management relies on effective measurement." Brooking (1996) "A Swiss think-tank– the Gottlieb Duttweiler Foundation – undertook studies on IC and found that only 20 percent of knowledge available to an organization is actually used because of lacking a proper IC measurement". So it's evident that to have effective utilization of available human capital an organization has to use human resource accounting i.e. human capital measurement and their effective management. Various economist have recognized human capital as a source of production and also realized that whatever investment an organization is investing in the divers areas like (development, growth and education) needs to be identified and measured Mamun, 2009). For an organization the real asset is the skill inventory that enterprise is holding off as it has a direct reflection and impact on its profitability (Hamel & Prahalad 1994).

Human Resource Productivity & Employee Commitment

Employee commitment measures the level of willingness to perform the duties and responsibilities given to the people working in an enterprise. It has a direct and major impact on human capital productivity level, to argue that we get to answer various queries like does the organization's performance get affected by its culture, policies & practices, if yes what type of policies and practices are they. If an organization start measuring and managing their people effectively does the level of willingness to perform the job get positively affected? Job satisfaction is one of the prime determinants which help in developing Organization citizenship behavior, and OCB always keeps an individual motivated to perform and achieve targets on time. As job satisfaction generates high quality motivation along with increased level of working capabilities and its timely implementation (Miller & Monge 1986). It is evident that if an individual's productivity level is optimal it is due to the level of willingness the person is carrying to perform the task and to increase this willingness the human resource professional need to work on the development and implementation of such a work environment that which induce their positive behavior towards the work and organization. Human resource accounting practices indeed will work as a tool which differentiate the human assets and liabilities to assist organization to take optimum investment decisions (training, development, engagement, job enrichment), so as to develop a sense of job satisfaction and its ultimate impact on increased level of productivity. Employee Participation and Job Satisfaction Historically, management theory (Argyris 1957; Bennis 1966; Herzberg 1966, 1968; Likert 1967; Maslow 1954) has explained the relevance of relationship between employee and organization to enhance productivity and develop human capital.

Human Resource Commitment and HR Retention

Retention is an inherent practice of HR management and simply it is strategic analysis of human resource valuation & satisfaction to create the organizational value (Davies, 2001; Solomon, 1999). It is the key driver of success & sustainable competitive edge and it can be achieved with implementation of valuing the human efforts through

accounting practices. (B. Becker & Gerhart, 1996, Pfeffer, 1994, Patrick, Wright & Gary, 1992). There are long lists of internal structure HR issues which create the employee turnover or attrition in the organization. To achieve long term productivity & efficiency all substantial issues needs to be covered in the HR policy and here accounting for all factors are essentially required particular to provide value recognitions and consideration for other factors too (Arthur, 1994; Delaney & Huselid, 1996; Ichniowski, Shaw Prensushi, 1997; MacDuffie, 1995). Pfeffer (1998) argues that retention is the result of HR practices, which makes the organization valuable, unique and difficult to replicate by the competitors and it is the outcome of employee valuation, employee performance and productivity.

“Some people view employee retention as the result of the implementation of policies and processes that assist employees to remain with the company because of the provision of a work environment that meets their needs” (Baer, Fagin & Gordon 1996).

Retention of skilled workforce is always an edge and competitive advantage as it essentially gives the economical and inclusive growth to the organization. Therefore reduction in workforce turnover is the key agenda for HRM and for this effective innovation and scientific models are required to be invented, although valuation of human efforts and equally their recognitions is a mode which is being available through HRA.

Theory and Hypothesis

Hypothesis 1

HRA Leads the Firm Performance and Mediates by Decision Making Capabilities

The social, economic, and environmental factors impacts of organization’s output which can only be controlled effectively only when wise human capital investment decisions are made. The decision making capabilities of an organization pertains the strength to positively achieve the organizational vision, objectives and goals to satisfy the objectives of multiple stakeholders. To sustain in log run, it is must to integrate the organization performance with strong decision making for HR. The key to success is establishing the appropriate link between business decisions, identifying, measuring, and reporting (both internally and externally) the present and future impacts of their human capital, their progression and association with the business firms. HR practitioners are visualizing that effective & forward looking human resource management practices and strategies are highly contributing in organizational performance which is a competitive advantage if incorporated with tactical development (Vedd, Rishma.& Kouhy, Reza.2001).

Table 1: Aspects of Decision Making Capabilities

Selected Construct	Variable to be Discussed
Employee Valuation	Financial investment on HRM, Volume on training & development, Work contribution via HR, Comparative analysis on contribution / investment.
Job Satisfaction	Compensation equating employee's inputs, employee's career advancements & growth, Succession Planning, job security, overall work environment
Employee Productivity	Competitive work environment, Balance of employee responsibility and authority, Employee morale and satisfaction, Dynamic work assignments
Firm Performance (Retention)	Employee valuation, Job satisfaction, Employee productivity, Skill recognition, Training, Career Development and Replacement cost of employee

Hypothesis 2

HRA Leads the Firm Performance Mediates by Valuation of Employees

Accounting is way of communication of valuation of business transaction. Obviously human resources are

essential and integral part of any organization and their value in terms of assets shall be calculated. But actually organization only estimates HR value in terms of expenditure. Via HRA selected methods can be developed which can create the valuation of human resources likewise other assets and liabilities of any organization. Human valuation can provide 2 solutions; (a) human resource service can be quantified via rational valuation (b) accordingly employment of a person can also be judged. (Ripoll and Labatut, 1994).

Hypothesis 3

HRA Leads the Firm Performance Mediates by Job Performance of Employees

Performance can be unlocked with satisfaction and for it human resources are essentially requires to be fulfilled with their all require pre-requisites. The acceptable way is to understand first HR valuation methodology and accordingly cogent employment approach can be transformed. But it seems not in practice due to invariable HR structure at everywhere.

“Business enterprises often proclaim that their labor force is their most important asset, while at the same time they fail to recognize it in managerial planning, decision-making and in published annual reports. HRA attempts, in most cases, have been directed to an internal, management control perspective. However, the potential usefulness of HRA information would seem to be even greater for the external decision-makers than for the company's management”. (Jan Bratton, 2003).

Hypothesis 4

HRA Leads the Firm Performance Mediates by Firm Productivity

Productivity is term which denotes HR efficiency in financial term. Undoubtedly job performance at any organization will put the employee productivity which will create profitability for any organization.

“Human Resource Accounting involves accounting for expenditure related to human resources as assets as opposed to traditional accounting which treats these costs as expenditures that reduce profit”. Certainly it will produce human resources into main stream to enhance financial profitability (Bullen and Eyler 2010). Actually HRA is a accounting methodology particular to measure the effectiveness of human resources management and human resources utilization in business organization.

Hypothesis 5

HRA Leads the Firm Performance Mediates by Retention

To increase the core competency of the firm an organization it has to concentrate on the various factors responsible for its success and growth, in particular of its basic element i.e. HR. It is also evident that the growing involvement of the HR in the expansion and accomplishment of business strategy will also lead to enhance the effectiveness of the organization and the industry as a whole. The HR practitioner also realized the need to retain the human capital for the unstoppable growth of the organizations; else their survival in this competitive world will be biggest challenge. HR retention provides many benefits such as customers’ contentment, superior service, increased goodwill, growth in market share, higher level of productivity and higher efficiency (Zineldin, 2000). There is no doubt that the HR policies and practices have a direct impact on firm’s performance. Satisfied employees have higher aspirations to perform and grow with their organization, which results in decreased turnover rate. Mark Parrott (2000), Anderson and Sullivan (1993) and Rust and Zahorik (1993) believe that,” there is a straight line linking employee satisfaction and

customer satisfaction". Indeed the organization has to ensure their internal customer (employee) retention to get a strong and retained external customer.

METHODS

Data Sources and Sample

This research study is designed to investigate the affects of HRA and decision making capabilities on the firm performance in Automobile Industry. Accordingly a combination of descriptive & causal research has been opted for this attempt. In this research survey & secondary data methods are used in combination as research design to describe various decision making capabilities of HRA. Questionnaires were designed and directly delivered to various selected dealers of Automobile Industry to collect data related to HR practices and here all items were measured on Likert's 7 point scale.

Data for this study was collected from the Automobile dealers located in the industrial belt of 4 cities (Chandigarh, Mohali, Jalandhar & Ludhiana) of Punjab state. A total of 150 questionnaires were distributed across the selected dealers in the belt and given a week to fill in their responses. We have also explained the importance of the study to the concerned business firms whenever it was required and promised to share the collective findings, in case they were interested. After a week, all units were contacted and filled-in questionnaires were collected. A total of 94 questionnaires were found completed. During pick-up, we requested the remaining selected automobile dealers to complete the questionnaire in one more week. We received another 34 filled-in questionnaires in our final visit. 9 questionnaires were incomplete in some aspects and hence couldn't be used, thus resulting in a total of 119 questionnaires and a response rate of 79.33%.

Instruments

Table 2 provides the correlations among various constructs. As it is clearly evident, Human resource accounting practices are strongly & significantly correlated with various decision making capabilities and with financial performance. Since none of the variables share a correlation of more than .8, there are no major concerns of multi-collinearity. Hence, we proceeded with regression analysis in order to test our proposed hypothesis.

Table 2: Correlations

		HRAP	Valuation	Performance	Productivity	Firm Performance (Retention)
HRAP	Pearson Correlation	1	.586*	.433**	.390	.398
Valuation	Pearson Correlation	.586*	1	.392	.340	.400**
Performance	Pearson Correlation	.433**	.392	1	.313	.280
Productivity	Pearson Correlation	.288	.400	.313	1	.309
Firm performance (Retention)	Pearson Correlation	.288	.400**	.280	.309	1
*. Correlation is significant at the 0.05 level (2-tailed).						
**. Correlation is significant at the 0.01 level (2-tailed).						

Findings

Table 3 provides the results of the regression. When we regressed human resource accounting practices on selected firm's performance, we got significant positive relationship between the two. Thus, our hypothesis 1 was

confirmed. However, since human resource accounting practices (HRAP) explained only 30% in the total variance of firm performance, thus it can be expected HARP is not a direct contributor of financial performance but it mediates by other factors. In order to test rest 4 hypotheses, we tested for relationship between Human resource accounting practices (HRAP) and various Decision making capabilities (DMC), namely human resource valuation capabilities, human resource job performance capabilities, firm productivity capabilities. We found significantly strong relationships between human resource accounting practices and all decision making capabilities. Thus, our argument that human resources accounting assists in building decision making capabilities in organizations is validated.

However, in order for our proposed hypotheses to be true, it is imperative that decision making capabilities also contribute significantly towards firm performance. When we regressed various capabilities on firm performance, it was found that employee valuation capabilities were strongly impacted firm performance (retention) while employee performance capabilities and employee productivity capabilities had also partially contributed to firm performance. Interestingly, employee productivity capabilities didn't relate strongly to firm performance. Since the variance of employee valuation capabilities in firm performance is higher (32%) compared to human recourse practices directly (29%). Thus it can be concluded that employee valuation capabilities mediate the relationship between human resource practices and firm performance. Hence, hypothesis 2 is also validated. Similarly, employee performance capabilities, employee productivity capabilities also partially mediate this relationship. Hence, rest all hypotheses 3, 4 and 5 are partially supported because their respective variance was 16% and 9.6%.

Table 3

Relationship	Coefficient †	Adj R-s quare	Model F
HRAP – Firm Performance (Retention)	.398**	.297	13.9**
HRAP – Employee valuation capabilities	.586**	.372	45.4**
HRAP – Employee performance capabilities	.433**	.277	25.6**
HRAP – Employee productivity capabilities	.390**	.263	32.09**
Employee valuation capabilities – Firm Performance (Retention)	.400**	.316	40.37**
Employee performance capabilities – Firm Performance (Retention)	.280*	.160	5.77*
Employee productivity capabilities – Firm Performance (Retention)	.309	.096	2.19

DISCUSSIONS AND CONCLUSIONS

This study provided several insights on the relationship between Human resource accounting practices and firm's performance. Here author argued that this relationship is mediated by various decision making capabilities not straight forward. The research attempt has proposed several hypothesis concerning employees valuation, employees job performance, employees productivity capabilities, and all were empirically validated the same. One reason why employee's valuation capabilities contributed most to the firm performance as typically valuation is not practicing by accounting experts in business organizations. Organization proclaims and even understands HR as important assets of organization but their accounting calculation likewise other transactions don't exists. Simply it terms as equal to payment of expenditure, whereas they build the organization via their skilled contribution. Accordingly organizations don't able to calculate the viable value of employment. HRA simply defines various aspects to calculate the actual value of employees in terms of their cost and their skilled contribution in organization productivity. And this applies a rational approach in the business organization for forecasting firm performance in a long run.

While employee performance capabilities also contributed significantly as expected, but the slight contribution of employee productivity capabilities is beyond belief. This could be significant research finding or an error attributable to scale or measurement. While this is the first attempt to bring in decision making capabilities in the human resource practices literature, further investigation is vital to carry in more clarity to explore these relationships. This research can be extended in multiple directions. Firstly, we only captured four dimensions of human resource accounting, but there are many more. Additionally, we couldn't capture the linkages of various sub-dimensions of human resource accounting practice with different decision making capabilities. A deeper analysis might provide indications on what dimensions of human resource accounting are more relevant for building different decision making capabilities.

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