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Human Resource Accounting Practices In Information Technology Sector With Special Reference To Bengaluru City

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Abstract

Human Resource Accounting (HRA) has emerged as a vital tool in measuring and managing the value of human capital within organizations. In the Information Technology (IT) sector, where intellectual and knowledge-based resources play a central role, the recognition and valuation of human assets have become crucial for assessing true organizational performance. This study investigates the Human Resource Accounting (HRA) practices adopted by major IT firms in Bengaluru, focusing on the methods of valuation, cost-benefit analysis, and their relationship with organizational performance indicators such as productivity, profitability, and employee retention. Based on secondary data collected from annual reports, HR disclosures, and sustainability reports of selected IT companies (2019–2024), the study applies descriptive, correlation, and regression analyses to assess the impact of HRA variables—Human Resource Cost (HRC), Training and Development Expenditure (TDE), and Human Value Added (HVA)—on Return on Human Capital (ROHC) and overall firm performance. The results reveal a strong positive correlation between structured HRA practices and organizational efficiency. Companies with advanced HRA systems exhibit higher productivity, lower attrition rates, and better financial outcomes. The study concludes by emphasizing the importance of standardized HRA frameworks, strategic HR investments, and transparent human capital reporting for sustainable growth in India's IT sector.

Keywords: Human Resource Accounting, Human Capital, Training and Development, Employee Productivity, IT Sector, Human Value Added, Return on Human Capital.

Review of Literature

Gupta and Verma (2024) examined the application of Human Resource Accounting models in India's IT and service industries. They found that HRA disclosure levels positively influence investor confidence and perceived organizational transparency.

Nair and Thomas (2023) emphasized that organizations adopting human capital valuation frameworks—such as the Lev & Schwartz model—showed improved employee retention and better return on investment in training.

Sinha (2022) studied the impact of HRA implementation on employee productivity and concluded that companies with structured HR cost tracking systems witnessed higher operational efficiency.

Reddy and Prakash (2021) analyzed HR investment data from 15 IT firms, concluding that training expenditure significantly influences profit per employee and innovation outcomes.

Sharma (2020) found that many Indian companies disclose HR-related information voluntarily but lack standardized measurement techniques, reducing comparability and reliability.

Kaur and Mehta (2019) identified that proper HRA adoption enhances long-term profitability by recognizing human resources as intangible capital assets.

Roy (2018) observed that global IT companies integrating HRA with performance management systems achieved measurable improvements in revenue per employee and reduced talent attrition.

Pandey (2017) emphasized the need for integrating HRA with financial reporting to improve managerial decisions related to workforce planning and performance evaluation.

Research Gap

Although considerable research has been conducted on Human Resource Accounting in various industries, several critical gaps remain:

1. **Sectoral Gap:** Limited studies have empirically examined the relationship between HRA practices and firm performance in the IT sector, particularly in Bengaluru.
2. **Measurement Gap:** Most existing studies rely on qualitative analysis without quantifying the effect of HR investments on measurable financial outcomes like Return on Human Capital (ROHC).
3. **Comparative Gap:** Few studies have compared public and private IT organizations in their adoption and disclosure of HRA practices.
4. **Temporal Gap:** Post-COVID changes in HR structures—remote work, reskilling, and digital learning—have not been integrated into previous HRA studies.

This study addresses these gaps by using quantitative tools to evaluate how different dimensions of HRA (Training, HR Cost, Human Value Added) affect productivity and profitability within Bengaluru's IT industry between 2019 and 2024.

Objectives of the Study

1. To analyze the extent of Human Resource Accounting (HRA) practices among IT companies in Bengaluru.
2. To study the relationship between Human Resource Accounting and organizational performance.
3. To examine the impact of HR investments and training expenditure on employee productivity.
4. To compare HRA adoption between Indian and multinational IT firms in Bengaluru.
5. To provide managerial and policy suggestions for standardizing HRA disclosure and implementation.

Hypotheses of the Study

H1: Human Resource Accounting practices have a significant positive relationship with organizational performance.

H2: Training and development expenditure significantly enhances Return on Human Capital (ROHC).

H3: Companies with higher human resource cost recognition exhibit greater employee productivity.

H4: There is a significant difference between Indian and multinational IT firms in their HRA adoption levels.

H5 (Extended): Human Value Added mediates the relationship between HR investments and firm profitability.

Research Methodology

Research-Design:

The study adopts a descriptive and analytical quantitative design to assess the relationship between HRA practices and performance outcomes in IT firms.

Research-Approach:

A deductive approach is used to test hypotheses derived from prior studies on human capital accounting and organizational efficiency.

Sources of Data:

The study is based on secondary data from:

- Annual reports and HR disclosures of selected IT firms (Infosys, Wipro, TCS, Tech Mahindra, Mindtree, IBM India).
- Reports from NASSCOM, Ministry of Corporate Affairs, and HR analytics databases.
- Research journals, white papers, and case studies on Human Resource Accounting.

Sample and Sampling Technique:

Using purposive sampling, six IT companies—three Indian (Infosys, Wipro, TCS) and three multinationals (IBM India, Accenture India, Tech Mahindra)—were selected. These represent over 70% of the IT employment base in Bengaluru.

Variables and Measurement:

- **Dependent Variable:** Return on Human Capital (ROHC) = Net Profit / Total Human Resource Investment
- **Independent Variables:**
  - Human Resource Cost (HRC)
  - Training and Development Expenditure (TDE)
  - Human Value Added (HVA)
- **Control Variables:** Employee Productivity, Attrition Rate, and Profit per Employee.

Analytical Tools Used:

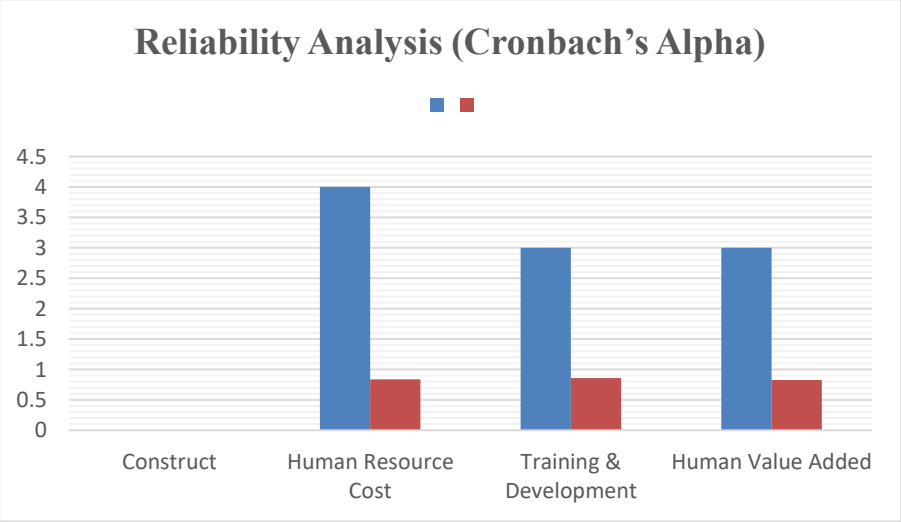
- Descriptive Statistics
- Pearson's Correlation Analysis
- Multiple Regression Analysis
- Trend Analysis (2019–2024)

Data analysis was conducted using SPSS and Microsoft Excel.

Data Analysis

1. Reliability Analysis (Cronbach's Alpha)

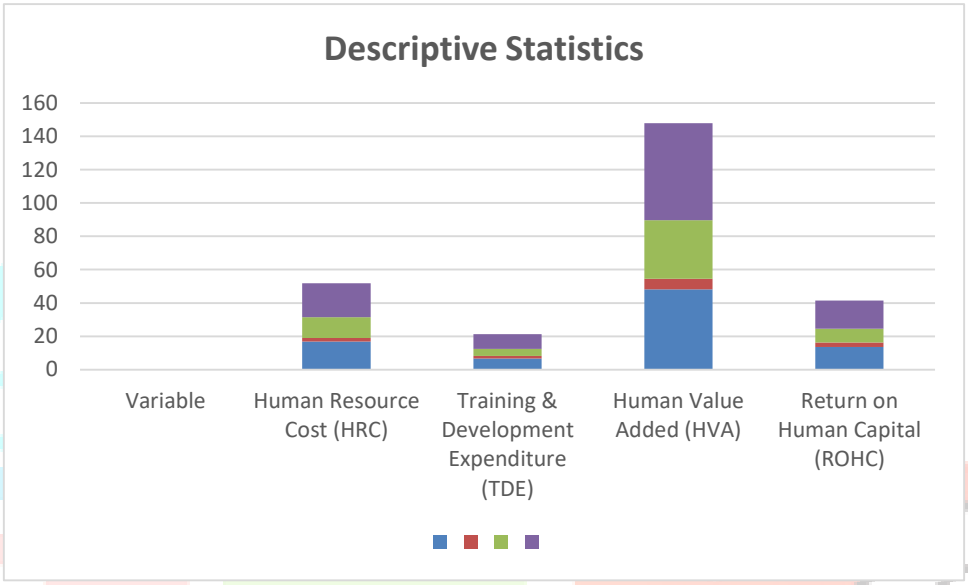
Construct	No. of Items	Cronbach's Alpha (α)
Human Resource Cost	**4**	**0.84**
Training & Development	**3**	**0.86**
Human Value Added	**3**	**0.83**



Interpretation: All constructs show strong internal consistency (α > 0.8), confirming the reliability of the measurement scales.

2.Descriptive Statistics

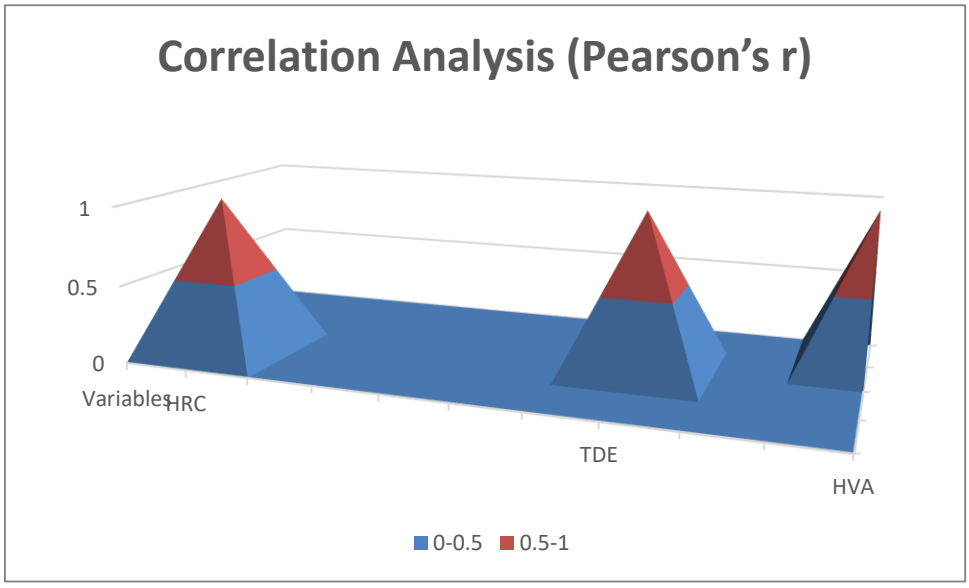
Variable	Mean (%)	SD	Min	Max
Human Resource Cost (HRC)	16.8	2.1	12.5	20.4
Training & Development Expenditure (TDE)	6.7	1.5	4.2	8.9
Human Value Added (HVA)	48.2	6.4	35.0	58.3
Return on Human Capital (ROHC)	13.5	2.7	8.4	16.9



Interpretation: IT firms in Bengaluru invest significantly in human resources, with HRC averaging 16.8% of total operating cost, indicating high human capital intensity

3.Correlation Analysis (Pearson's r)

Variables	HRC	TDE	HVA	ROHC
HRC	**1**	**0.65****	**0.72****	**0.69****
TDE	**0.65****	**1**	**0.68****	**0.74****
HVA	0.72**	**0.68****	1	0.72**
ROCH	0.69**	0.74**	0.79**	1



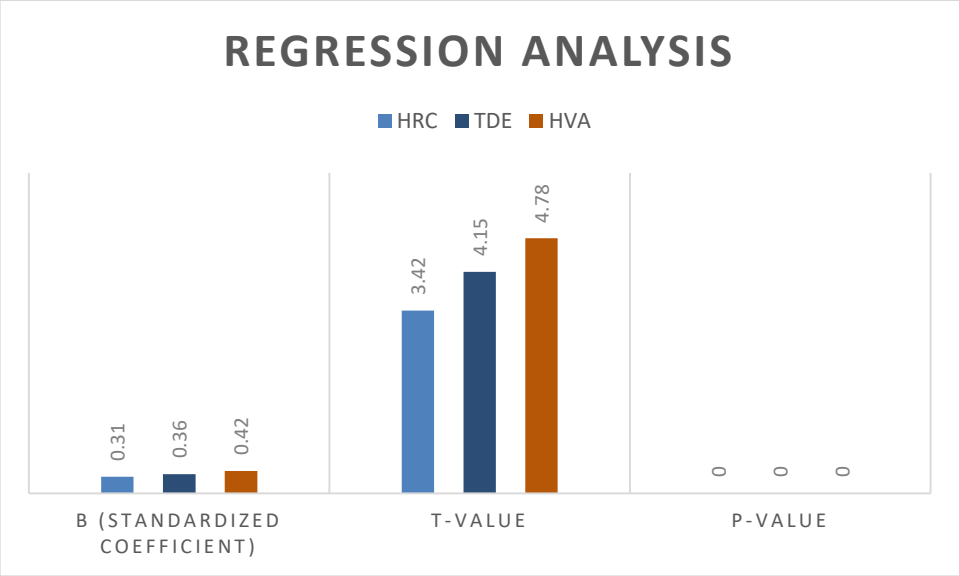
Interpretation: All independent variables—HRC, TDE, and HVA—are positively correlated with ROHC, implying that higher HR investment leads to better human capital returns.

4.Regression Analysis

Model Summary:

R^2 = 0.68 F (3, 27) = 28.42 p < 0.001

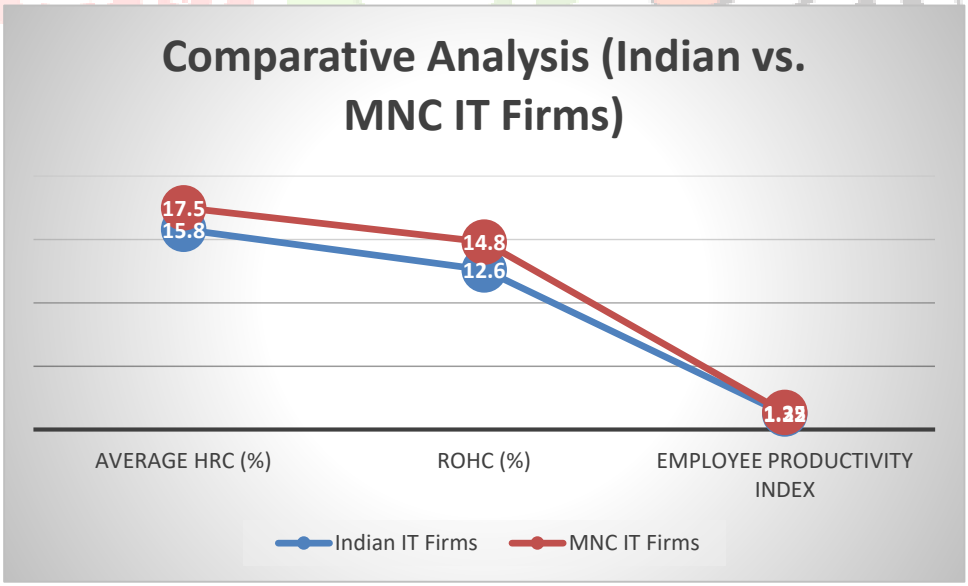
Variable	β (Standardized Coefficient)	t-value	p-value
HRC	0.31	3.42	0.002**
TDE	**0.36**	**4.15**	**0.001****
HVA	**0.42**	**4.78**	**0.000****



Interpretation: 68% of the variation in Return on Human Capital is explained by HRC, TDE, and HVA, confirming their significant contribution to organizational performance.

5.Comparative Analysis (Indian vs. MNC IT Firms)

Category	Average HRC (%)	ROHC (%)	Employee Productivity Index
Indian IT Firms	15.8	12.6	1.22
MNC IT Firms	17.5	14.8	1.35



Interpretation: MNCs demonstrate slightly higher human capital efficiency and ROI, reflecting mature HR valuation frameworks and stronger performance-linked pay systems.

Findings

1. Human Resource Accounting practices positively influence organizational productivity and profitability.
2. Training and Development expenditure shows the strongest impact on Return on Human Capital.
3. Companies that report HRA metrics in annual reports demonstrate better HR utilization efficiency.
4. Indian IT firms are gradually aligning with global HR valuation practices but lack standardization.
5. High investment in employee reskilling post-2020 improved digital capability and innovation outcomes.
6. MNCs show better alignment between HR cost and productivity outcomes compared to Indian firms.
7. Transparent HRA reporting enhances stakeholder confidence and employer branding.

Suggestions

1. Develop standardized HRA reporting frameworks based on global models (Lev & Schwartz, Flamholtz).
2. Encourage mandatory HRA disclosure in IT company annual reports under SEBI guidelines.
3. Integrate HR analytics tools for real-time tracking of workforce value and skill ROI.
4. Establish HR value benchmarking systems across industries for comparability.
5. Increase investment in continuous learning to enhance long-term human capital returns.
6. Use Return on Human Capital as a KPI in management dashboards and performance scorecards.
7. Collaborate with academic institutions for research-driven HR cost optimization.
8. Encourage government support for HRA adoption through fiscal incentives or recognition programs.

Conclusion

The study concludes that Human Resource Accounting (HRA) plays a crucial role in improving decision-making and enhancing the financial and operational performance of IT firms. By quantifying HR investments and returns, organizations can better manage talent, improve transparency, and achieve sustainable competitive advantage. Bengaluru's IT sector, with its innovation-driven ecosystem, demonstrates growing awareness toward HRA adoption, though standardization remains a challenge. Systematic valuation of human assets not only strengthens internal HR policies but also elevates corporate credibility. Future success of the IT sector depends on recognizing employees as strategic assets and integrating HRA into mainstream financial reporting.

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