1.1 Theoretical background of the topic

Man, money and material are three basic factors of production for any business enterprise. Management consistently tries to raise its profitability by reducing costs and raising the productivity of these three components of production. Lately, it has become quite challenging owing to the intensifying competitive situation around the world. At a strategic level, there are numerous mergers and acquisitions, mobilisation of funds through innovative instruments, diversification of product portfolios and territory and all other possible measures to synergize capabilities. At the operational level, a persistent nurturing of these factors of production leads to superior results.

1.1.1 Meaning of HR

Human resource management encompasses recruitment and selection of employee, arranging proper orientation and induction, arranging proper training and skill development, assessing the employee (performance appraisal), rewarding the employee with proper compensation and benefits, motivating and maintaining proper relations with labour and trade unions, ensuring the employee’s safety, welfare and health by complying with the labour laws of the state concerned or country concerned.

Every product or service results from a combination of human mind, effort and man hours (working hours). No product or service can be generated without human involvement and support. Human being is the fundamental resource that is indispensable to make or construct anything. Today, many experts claim that machines and technology are replacing the human resource and minimising the role of human resource or minimising the effort required on the part of the human resource. But even machines and technology, it should be acknowledged, have been conceptualised, designed, constructed and manufactured by the human resource. Additionally, businesses have been ceaselessly scouting around all the time for talented, skilled and qualified professionals to modernise and update machines and technology. It thus emerges that such modernisation has to be achieved only with the help of human resource. In sum, human resource management is all about proper utilisation of the scarce but precious skilled workforce. The main persistence of human resource management is to optimally
exploit the existing human resource in the organisation. Every organisation wants to boast of skilled and competent people on its rolls in order to gain an advantage over its competitors. Humans represent a very important asset for the organisation – as important as, if not more important than, land and buildings, at times. In the absence of employees (humans) no activity in the organisation can be carried out. Machines are meant to churn out quality goods but they have to be operated by humans alone!

1.1.2 HR in service sector

In service sector companies, the HR function plays a more important role. This is because human resources represent the main source of competitive advantage in such companies. In service sector companies, like those which are into financial services and technology services, the brand value is deemed as a function of the intellectual capital the said companies boast of. In other words, the brand value of such companies is driven by the intellectual contribution of the human resources the companies have on their rolls.

Further, for the service sector, human resources represent the fulcrum of its operations while for the manufacturing sector, machines represent the fulcrum of its operations. This implies that the HR function in the service sector has to ensure that its human resources are appropriately equipped to realise their potential. With RBV or Resource Based View gaining ground all over the world, treating human resources as central to the functioning of companies has become indispensable. In the circumstances, the service sector has to use different methods and procedures to fulfil this requirement.

1.1.3 HRA: Introduction

Human is the buzzword in the modern knowledge based society. It is the most vital input on which the success & failure of the organization very much depend upon. Starting from the classical economist to modern human capital economist such development is considered to be a continuous process. It is one of the most important 'M' associated, which is considered while taken care of 4M's associated with any organization and they are money, machines, materials and men. But the most interesting thing is that the first three are recognized and find a place in the assets side of the Balance sheet of the organization. But in case of fourth one ambiguity prevails among the accountant. In spite of its usefulness has been acclaimed in various literature over the
decades but its application still remain a susceptible issue, have not been able to formulate any specific accounting standard for measurement & reporting of such valuable elements.

The assets of an organization could be broadly classified into tangible and intangible assets. Tangible assets referred to all the physical assets which could be presented in the balance sheet including plant and machinery, investments in securities, inventories, cash, cash equivalents and bank balance, marketable securities, accounts and notes receivables, finance receivables, equipment on operating leases, etc.

Intangible assets included the goodwill, brand value and human assets of a company. The human assets involved the capabilities, knowledge, skills and talents of employees in an organization.

1.1.4 Approach to human resources accounting (HRA)

Leading management scholar, Flamholtz (1979) interprets the human resource accounting model as a "psycho-technical systems" (PTS) approach to organizational measurement. This approach implies that the two functions of measurement are process functions in the process of measurement and numerical information from the numbers themselves. Grojer and Johansson aver that human resource accounting is a political tool used to demonstrate the mismanagement of human resource. It represents a pedagogical instrument that is used for analysing and structuring. It is a decision-making aid to ensure that decisions on HR are more rational from the management’s perspective. In the human resource accounting approach, expenditures associated with human resources are reported as assets on the balance sheet as against the conventional accounting approach where costs related to a company's human resources are expensed in the income statement, leading to a fall in profit. Human resource audit is a tool which gauges the effectiveness of human resource functions of an organization.

1.1.5 Adoption of human resources accounting (HRA) in India

In India, the concept of HRA was introduced by BHEL in 1974. Mostly companies managed by the government adopted HRA, given their need to be socially responsive. Some such companies are: Minerals and Metals Trading Corporation of India (MMTC), Oil and Natural Gas Corporation (ONGC), Neyveli Lignite Corporation (NLC), Cement Corporation of India (CCI), PEC Ltd, Engineers India Limited, Hindustan Shipyard Limited, Steel Authority of India Limited (SAIL) and Oil India Limited.
In the last two decades, the private sector companies have also been adopting HRA, thanks to the rising attention being paid to corporate governance. Infosys is the pioneer among the private sector companies that adopt HRA. Tata Iron and Steel Company (TISCO), Southern Petrochemicals Industries Corporation (SPIC), Tata Motors, DSQ Software and Reliance Industries are among others that adopt HRA. But the focus is on keeping the public informed of the various aspects of the valuation of the human resources of the company through their annual reports. But one is not sure that the HRA-practising companies, in particular the private sector companies among them, keep their stakeholders informed of the valuation of their human resources through their annual reports. Even in cases where they do, one is not sure that such information is furnished fully. Going by the experience of various researchers, including this researcher, they make only a passing reference to the HRA-related information in their annual reports. However, one thing is for sure: most of the companies in India follow the Lev and Schwartz Model while computing the human asset value.

1.2 Statement of the problem
Organisations pay uninterrupted and constant attention to the various factors of production presumably because the said factors which are in their possession, have to be exploited over a period of time. In accounting, money (in terms of capital and debt) and material (in terms of inventory and assets) are projected in the balance sheet, thereby fulfilling the going concern concept. But the cost of human resources expensed in the financial statements implies that human resources are not viewed as an asset item, thereby denying them their due. This implies that the various stakeholders associated with the organisation concerned perceive HRA variously. But one should realise that the organisation concerned need not be necessarily into manufacturing alone. It could be into provision of services or into trading. In some service industries like those in the knowledge management segment, human resources perhaps constitute the single most valuable asset of the organisation, in all senses of the world trading companies too increasingly exploit human resources given the relevance of innovation to their operations in the highly-competitive market and what their human resources can contribute to such innovation. In this backdrop, the contribution of HR to the organisation concerned and hence the value it adds to the organisation is much more than what appears on the surface. This in turn implies that HRA can be perceived in even more ways than commonly believed.
Given the various ways in which it can be perceived, it is but natural for the modus operandi of HRA to differ in line with the different perceptions particularly in service-based industries, for reasons explained in a previous paragraph. After all, perceptions have a bearing on the valuation of human resources. Since HRA arises from the assumption that HR adds value to the organisation concerned, one should also examine whether such value addition benefits any of the stakeholders associated with the organisation and if so, to what extent. But a perfect HR base is as imaginary as a perfect world – HR and by extension HRA should have its limitations too, which again could be perceived differently across stakeholder categories. Hence it is necessary to isolate the limitations of HRA.

Lastly, one has to find solutions to the issues / problems that confront HRA, more so in the case of service-based industries where human resources constitute the most valuable component of the organisation. Ascertaining how HRA is perceived, ascertaining how HR is valued, identifying the benefits accruing from HRA and isolating the limitations of HRA are no doubt valuable exercises but they represent only half the task entrusted. One has to come out with a HRA model that addresses these issues / problems as effectively as possible in the Indian context. It is these problems that the present study, namely, “EMPLOYEE PRODUCTIVITY AND REVENUE-BASED MODEL IN HUMAN RESOURCE ACCOUNTING: AN EMPIRICAL STUDY IN SERVICE BASED INDUSTRIES” seeks to address.

**REVIEW OF LITERATURE**

**EMPLOYEE PRODUCTIVITY:**

1. Productivity concerns itself with measuring inputs. But it does so in relation to output. It can be computed as the volume and value of output generated in a predefined period of time. The following simple productivity equation is thus deducible:

   \[ \text{Productivity} = \frac{\text{Output generated by the process}}{\text{Inputs consumed in the process}} \]

2. Other definitions of productivity obtain too. According to one such definition, productivity represents how well a system exploits its resources to fulfil a goal. Towards this end, other factors are reckoned to get the overall picture of organizational
productivity. An organisation that exploits employee training and development to improve the knowledge, skills and abilities of its workforce serves as a good example. The focus under this approach is not as much on ‘hard’ outcomes of productivity as it is on the aims an individual is pursuing.

3. The most encompassing measures of productivity focus on employee efficiency and employee effectiveness. In other words, the measures demonstrate how well the employees convert inputs into outputs. They demonstrate how effectively the employees can achieve their goals too. Leveraging subjective as well as objective assessments of productivity is also advised if organisations are to gain a superior insight into overall productivity.

**HUMAN RESOURCE ACCOUNTING**

1. According to Dutta, the standard method of estimation of HRA is still in an evolving stage (Dutta, 2008). Accounting bodies across the world have not accepted any model of HRA as the benchmark for HRA. In India’s knowledge-based IT sector, the Lev and Schwartz model with some customizations are considered for HRA.

2. Even though the accounting systems reckon human asset as expenses, in future the human asset will generate benefits (Sonbhadra, 2013). Managers can use human capital as a tool to achieve optimisation in the organisation’s expenditure on human capital.

3. Gupta remarks that the present accounting system does not assign a specific value to the knowledge of the employees (Sonbhadra, 2013). This in the long run affects the cost incurred to train and recruit manpower.

4. According to Anastassova and Purcell, the management in every service industry has recognized that it is the human element of the service product that provides the key competitive advantage in the marketplace (Lal, 2008).

5. According to Rosen Petkov, a disclosure-only approach represents a better way of incorporating human capital information into financial statements (Rosen, 2010). The main intention of financial notes is to facilitate an informed assessment of a company’s operations, its financial health and future business strategies and prospects. The researcher demonstrates that under IFRS in general and IAS 1 in particular it is possible to incorporate the element of human capital into the financial statements through notes.
The researcher also isolates the key indicators that organizations have to mandatorily disclose in their financials through notes. Among the indicators are the short and long term strategies pertaining to human capital, information on acquisition and retention and learning and development. Organizations need to furnish information on the effectiveness of the human capital management policies and practices they have put in place. Quantitative as well as qualitative data is to be exploited for the purpose of reporting.

6. Madhumalathi R, Lina George and Madhumathi TK point out that in the decades gone by, one has seen several countries transitioning from manufacturing-based economies to service-based economies (Madhumalathi, George, & Madhumathi, 2014). The two formats differ in terms of the very nature of their assets. While physical assets stand out in manufacturing-based economies, intellectual assets stand out in the case of service-based economies. Obviously, the knowledge and attitudes of the employees are of great relevance to service-based economies. The success of businesses in such economies is determined by the quality of human resource, in terms of its knowledge, its skill sets and its competence, among other things. In the circumstances it is imperative that the human resources, being an integral part of the organization, be accorded top priority. The researchers set out to identify the various objectives of human resource accounting (HRA), the various HRA models in vogue to value human resources and the application of HRA in India Inc in general and the IT bellwether, Infosys Ltd, in particular.

7. Shaheen I, Noor A and Sultana A maintain that ever since globalization embraced businesses, the human element became a prominent input for their success (Shaheen, Noor, & Sultana, 2016). HRA quantifies the value of the human asset, thereby helping the businesses exploit optimally the skill sets, talent, knowledge and experience of their employees. HRA thus assumes importance from the perspective of the analysts too. HRA, according to the researchers, is now undertaken by medium and large scale businesses in India given that they have now become more conscious of the benefits that accrue from HRA in terms of revenue, productivity and flexibility in skill development. Quantified human resources provide insights into businesses and their future potential. Right valuation of human resources helps businesses minimise the loss a redundant labour can inflict on them. The researchers have tried to evaluate the HRA practices obtaining in Infosys Technologies Limited and BHEL. Further, they try to ascertain the usefulness of HRA in HR decisions.
8. Hossain, MS argues that human resources are now regarded as an asset of a company given that the hard work put in by its human resources and the intellect of the human resources help the company generate profit (Hossain, 2015). Though a reportable investment, presently its disclosure in the annual report of the company is not mandatory. The monetary unit assumption of accounting does not mandate disclosure of the value of the employees in the company’s annual report. After all, valuing HR in monetary units is easier said than done. Though companies are required to reflect their human resources-related expenses in their annual reports, they are in no position to disclose the value of their human capital and the exploitation of the said capital in their annual reports. The auditor certifies that the annual report represents a true and fair picture of the business in question, although it does not reflect the value of the human resources in monetary units. Hence the researcher constructs different models and makes different assumptions that could help in fair valuation and disclosure of human resources in the annual reports of companies.

9. It is imperative today to recruit well-informed and highly motivated people in organizations (DASARI, CHAND, & DEVARAPALLI, 2013). The skill, creativity and ability of human resources cannot be replaced by machines. At all levels and areas of a business, human resource complements machinery. Human resource can function without machinery but the vice versa is not possible. Hence, in industries like advertising and direct marketing, human resource is more valuable than other resources. Obviously, companies must recognize the contribution of their employees. Even as they mobilize capital, entrepreneurs should ensure that they put the right management team in place. Only then they can attract capital, create value and maximise wealth for the shareholders.

10. Surinder Kaur argues that human resources with their inherent pool of knowledge, skill and creativity help businesses achieve their goals (Surinder, 2014). However, the current accounting regime does not mandate them to reflect the value of human resources. Human resource accounting (HRA) disclosures are few and far between in India Inc. Only five companies that accounted for a measly one percent of the sample considered by the researcher, furnished HRA particulars in their annual report. Additionally, the disclosures were arbitrarily structured and lacked consistency. This rendered it impossible to undertake comparison across companies and industries. The researcher, in the circumstances, analysed the extent to which HRA was undertaken by a select group of
Indian companies from the suite of S&P CNX 500 companies of the National Stock Exchange. The researcher ranked the companies in line with the extent of disclosure of HRA information made in their annual reports.

11. According to MamtaRatti, human resource accounting (HRA) has implications not for the management alone (Mamta, 2012). It has implications for analysts and employees too. It helps the management in optimally exploiting the human resources. It also helps in planning and managing the human resources of the organization. There obtains to this day no common pattern or generally accepted method of valuing human resources. This is surprising since HRA has been in vogue for quite some time in the country at least in some corporates. The researcher addresses the issue of the modus operandi of computation of human resources at different levels of an organization. She also attempts to compute the human resource efficiency quotient. She considered a sample of fifteen companies for the purpose. She avers that the computation and incorporation of the value of HR is an expensive exercise. It is not an easy exercise either. Often times, the calculated value of HR is not reflective of the real worth of human resources in monetary units.

12. Yagnesh M Dalvadi recalls that in manufacturing organisations physical assets like plant, machinery and material stand out (Dalvadi, 2010). In a service organization the net worth is represented mainly by the skill levels of the employees and the quality of the services they render. Hence, the organization should document these attributes. Whether the organization is into manufacturing, or trading or provision of services, the human element takes the centre stage. The researcher focuses on the human resource accounting (HRA) practices of select incorporated companies for the purpose. The researcher concludes that the measurement of HRA by the respondents has been subjective since the methodology used by the companies for the purpose varies across the companies. He recommends that the government / regulator define a model for the purpose.

13. Disclosure of intellectual capital (IC) is not mandatory in most of the countries including India (Neerja, 2013). However, designing a tool to measure an intangible asset like IC remains tricky to this day. Human Resource accounting (HRA) helps the organizations to value their intangibles. The researcher points out that even in US, companies do not disclose the metrics concerning non-financial items like the value of human resources thus the various stakeholders associated with the company concerned are kept in the dark.
about the metrics. In India, human resource accounting was first undertaken and disclosed by Bharat Heavy Electrical Ltd (BHEL) in 1973-74. Subsequently, other leading public and private sector organizations followed suit. The researcher avers that Infosys Technologies Ltd (ITL) leads all the companies in proper disclosure of non-financial metrics. It uses a hybrid of the Lev & Schwartz (1974), Lev (2001) and Sveiby (1997) models for the purpose. The researcher concludes that few Indian firms actually understand HRA correctly.

14. Trivedi, Jigna C and Soni, Bindiya K state that human resource accounting (HRA) is in a nascent stage when viewed from the perspective of its application in the real world (Trivedi & Soni, 2014). The researchers assert that HR should be viewed as a profit centre item and not a cost centre item since employees represent an asset. HRA disclosure should be mandated for corporates across the globe to facilitate comparison and ensure transparency. The researchers examine the levels of HRA disclosure made by select Indian companies through their annual reports. Further, they bring out the differences vis-à-vis the various HRA-related parameters across the sample companies. They find that the valuation ratios of service sector companies were higher than those of their counterparts in sectors like manufacturing. They recommend that a comprehensive list of items be mandated for disclosure in the annual reports of the companies.

15. Human resource accounting (HRA) concerns itself with the human resource cost and the calculation, documentation and reporting of information on the value of HR, among others, according to the researchers (FARZANEH & MAHESH, 2014). The researchers examine the disclosure in the annual reports of the respondent Indian companies during period under review. The items they examined were those which are mandatory as well as recommendatory in nature. The researchers used the disclosure index method to gauge the level of disclosure in the annual reports. They infer that though the level of disclosure vis-à-vis human resource accounting was not significant, the respondent companies by and large had adopted human resource accounting practices. The level of disclosure was higher in public sector companies than in private sector companies.

16. Dr. Samir Mazidbhai Vohra points out that in our country, the concept of valuation of human resources is still in a nascent stage (Samir, 2015). Companies like Infosys Technologies Ltd (ITL) have been into HRA practices in all seriousness and all sincerity. All the same, ITL needs to fine-tune the reporting of compatible data about the human
resource value and HR ratios, according to the researcher. This will help in taking more effective HR-related decisions. Government should take the initiative in conjunction with other professional and accounting bodies at the national and international levels for valuing HR and reporting HRA practices, argues the researcher.

17. Sarkar, Durlav explains that Human Resource Accounting (HRA) values the investment made in the human resources of an enterprise. It is not an easy exercise, though (Sarkar, 2012). Such valuation helps the management in assessing the competence of an employee. The intangible value of an employee may not have a physical form but it can be reflected in monetary units as an intangible asset in the organization’s balance sheet. The researcher, upon vetting the HRA practices of some Indian companies, concludes that few Indian companies follow the right HRA practices. Mostly they disclose a few specific attributes of HRA. They focus on the cost aspect of employees, almost sidelining the HRA attributes that transform into an asset for the company concerned.

18. Vineet Chouhan and Nader Naghshbandi argue that human resource (HR) is the most vital input used in production (Vineet& Nader, 2015). This fact remained largely unacknowledged for a long time from an accounting perspective. The copious availability of unorganised manpower at a relatively low cost had something to do with it, according to the researchers. Professional bodies, like ICAI, ICSI and ICMAI evinced little interest in Human Resource Accounting (HRA). But upon liberalization of our economy in 1991, the relevance of human resources began to be acknowledged. In fact, public sector companies pioneered the disclosure of the value of human resources in their annual reports. Private players followed suit. The researchers analysed the disclosure practice obtaining in five large Indian companies. They analysed the difference in valuation of HRs across the said companies. They attempted to correlate profitability with human resource valuation (HRV) by using predictor tools like net worth, sales and EPS. Application of statistical tools like ANOVA, Tukeys Post Hoc Test and multiple regression analysis led them to conclude that HRV and sales are the predictors of profitability in the respondent companies.

19. Namita Srivastava asserts that in the post-globalization phase of the economy, organizations have been viewing their employees as “Human Capital' (HC). More particularly, HC refers to the following traits in the employees: knowledge, skill, attitude, creativity, aptitude, and commitment to assigned tasks (Namita, 2014). Thus, employees
represent a major factor for organizational success. Organisational success cannot be attributed to material capital alone any more. Instead, it should be attributed to assets of the intangible kind, like human capital, among other things. Machines cannot emulate human resources in areas like skill sets, creativity and ability. Human Resource Accounting (HRA) assesses the cost and value of people to organizations. Hence HRA computes the cost incurred by an organization to recruit, select, hire, train and nurture employees leading to their valuation from the perspective of organizational success. The researcher examines the emerging practices across organizations, global as well as domestic. Quoting Yezdi H. Malegam, managing director of S.B. Billimoria& Company, the researcher asserts that people are now realizing that their intangible assets are worth much more than their tangible assets. Now an attempt is being made to place a value on these intangibles and to bring these hidden values into the books of the organisation.

20. PushpaYadav and Priyanka Gite aver that human resource is strategically relevant for businesses in the present-day competitive business world (Pushpa & Priyanka, 2015). The experience, knowledge and skills residing in the employees represent per se the capital of a business. This is truer in the case of banking, which is a knowledge-based industry in nature. The said employee attributes influence the productivity, profitability and sustainability of businesses and help investors, domestic as well as global, in the decision-making task. Disclosure of such an important element of the organization is important to address information asymmetry, if any, that obtains in respect of the organisation. Given the vital role played by the banking industry in the country’s economy and the relevance of HR and HR disclosure to the sector, the researchers sets out to examine the status of HR disclosure practices as the obtain in the banking sector. The researchers also attempt a comparison of HR disclosure practices of public, private and foreign commercial banks operating in the country. The researchers examined a sample of 11 prominent commercial banks in the country for the purpose. They conclude that HR disclosure practice is still in its nascency in the country. It is voluntary. A modest level of HR disclosure practice obtains in commercial banks. Disclosure of the non-financial kind will add value to the financials of banks.

21. Suresh, Sirisetti and Mallesu H clarify that Human Resource Accounting (HRA) treats expenditures related to human resources as assets (Suresh & Mallesu, 2012). On the other hand, traditional accounting treats such expenditures as expenses that cut into profit.
Quantifying the investment in human resources will help organizations to evaluate the changes engendered by investment in human resource in a given time-frame, argue the researchers. HRA cannot be new to business given that economists have for long viewed human capital as a factor of production. After all, economists have been trying to devise different methods of investment of human capital in fields like education and health. Accountants have acknowledged the value of human assets for the last 70 years, at least.

22. Ramesh Kumar maintains that the concept of human resource accounting is yet to gain popularity in India (Ramesh, 2013). For their own welfare, it is necessary that organizations evaluate their human resources systematically. Further, the organizations should document the information for publication in their financial statements. This will ensure that the organizations convey the worth of their human resources periodically to all the users of such information. Emerging economic realities require the human resource function to explain how it can improve the organization’s financial health. The function’s role in optimizing organizational effectiveness is no longer questioned. The HR function is no longer looked upon as a reactive layer of the organization, in terms of the role it is required to play.

23. Anita Shukla and Nader Naghshbandi aver that human resources play a vital role in an organization in conjunction with its physical assets and investments (Anita & Nader, 2014). Managers invest a lot of resources like time, energy and money to educate and train their employees in order to raise the productivity of the organization. Managers should constantly review and evaluate human resource data, failing which the quality of their decision-making will take a hit. The researchers examine the important aspects of human resource accounting and its impact on decision-making in organizations. They eventually examine how managers reflect the value of human resources in the balance sheet with the help of different models. After examining the HRA practices obtaining in the respondent companies, namely, HPCL and Infosys, they conclude that most of the organizations use the Lev and Schwartz model for valuation of their human resources. This model evaluates human resources in terms of the present value of the future earnings of their human resources.

24. R B Sharma and Asha Sharma argue that the success achieved by any organization is a function of the quality of its human resources, whatever be the nature of activity of the organization – manufacturing or provision of services or retailing (Sharma & Asha, 2016).
2013). Physical assets raise the earning capacity of any business; human resources raise productivity, improve earning capacity, wealth, profit, market value and value added of the business concerned. The researchers seek to analyze the HRA practices obtaining in Infosys Ltd. They examine the efficiency of human resources vis-a-vis the fixed assets. They also examine the impact of the ever-rising workforce on the profit earning capacity of the company. The researchers conclude that a company owes its financial health to its human resources. Infosys Ltd manages its human resources the right way.

25. Khoda bakhshi Parijan Khadijeh and Naderian Arash believe that non-disclosure of human assets in financial reports may impact stock price (Khodabakhshi & Naderian, 2014). The researchers examine the impact of the value of human resources on the firm’s stock price and financial performance. They vet the annual reports of eight manufacturing companies figuring in the BSE-500 Index for the period 2005-06 to 2011-12, for the purpose. Their findings reveal that human assets did not impact the stock price of the respondent companies. The value of human resources was positively and negatively affected by the financial performance of the respondent companies. A statistically significant relationship between human capital efficiency and the firms’ financial performance came to the fore. The return on asset as a profitability ratio did not have any impact on human value, current ratio and acid ratio. Liquidity ratios shared a negative relationship with human value. Sales revenue and net income shared a positive relationship with human resource value.

26. Vinay Chaitanya Ganta maintain that human resource accounting (HRA) covers all the costs / investments concerning the recruitment, placement, training and development of employees(Vinay & Mangayamma, 2014). Additionally, it quantifies the value of the people in economic terms. HRA conveys the inherent strength of the organization and hence can be reckoned if one wishes to stay invested in the firm in the longer term. With HRA, one can identify the factors that lead a higher staff turnover in the organization and hence can help the organization in putting in place the requisite preventive measures. On their part, with the help of HRA, employees can improve their bargaining power. In short, HRA helps the management in optimally exploiting the employees for organizational growth.

27. Natarajan, P and Bashar Nawaz examine the measurement of human capital for financial reporting and managerial uses after analyzing the HRA practices of Infosys Technologies
Ltd (Natarajan & Bashar, 2012). They conclude that while computing HRA, Infosys should reckon the impact of intra-shifting or transfer of employees from one department to the other. By adopting Lev & Schwartz Model Company need not ignore the security, bargaining power, skill and experience of personnel and The company must consider the possibility and probability of an individual leaving the organisation for reasons other than death or retirement and endeavour to retain them with suitable strategies. Value addition should be regularly monitored and enhanced in an acceptable form.

28. Paul Herman R remarks that when asked to name the most important asset of their organization, CEOs often reply that the people behind their organization are their most important asset (Herman, 2010). But if this is true, it does beg the question why the people are not accounted for in the financial statements, states the researcher sarcastically. Presently, people are reflected as expenses on the income statement and as liabilities on the balance sheet. People are not classified as an investable asset. It follows therefore that when CEOs try to maximise profit, they cut costs, like people, instead of investing in assets, like people, that can appreciate. The researcher wants the CEOs to emulate companies like Infosys and Tata to quantify the value that people add to their organizations. He bluntly says that currently, no prominent U.S. or European companies value the people. Even if they do, they do not communicate it to their people or their investors. An effective and transparent reporting vis-à-vis the assets of a company will evolve into a set of best practices which can be of help in measuring and valuing the intangibles. When this comes to pass, CEOs would be more interested in investing in people rather than laying off people, the core creators of organizational value.

29. Fariborz Avazza dehfath and H. Raiashekar maintain that the human resources accounting system should be exploited for human resources information processing (Fariborz & Raiashekar, 2011). But virtually no organisation in Iran has exploited the human resources accounting system for the purpose. The researchers examine whether investment decisions are influenced by the human resource accounting information disclosed by the organization in their financials. Secondly, they try to identify the factors that prevent the organizations from exploiting the human resources accounting system. Thirdly they try to identify the HR evaluation method that best suits the Iranian companies in terms of the qualitative characteristics of accounting information. Their findings reveal that the disclosed HRA information helps the organizations in optimizing
investment decisions. The ideal evaluation method in the Iranian milieu is the original cost method or the historical cost, conclude the researchers.

30. Md. Azmir Hossain, Nazma Akhter and Nabila Sadia analyze the importance of Human Resource Accounting (HRA) practices from the perspective of corporate financial reporting (Azmirhossain, Nazma, & Nabila, 2014). The researchers base the study on secondary data alone. The researchers remark that few corporations reflect their HRA practices in their accounting and financial reports. According to the researchers, human resources (HR) represent the energies, skills and knowledge of the people. These attributes are applied to produce goods or to render services. The researchers believe that valuation of human resources and disclosure of investments made in human resources should be mandated. Investments made in human resources cover training and development expenses, salaries and other allowances, among others. The magnitude of investments made in HR by the organizations and the impact of such investments on the productivity of HR warrant that they be recognized as assets rather than as expenses. When human resources are valued and reflected as assets in the balance sheet of the organisations, the various users of the balance sheet can access more of qualitative and quantitative information about the organisation. It will enhance the decision-making capabilities of the said users. Reporting HRA will reflect the true and fair value of the organization concerned.

1.3 Research gap
The reviewed literature has provided valuable insight into the rather complex concept of HRA. The protagonists of HRA can defend HRA as convincingly and as logically as the antagonists of HRA can criticize it. But neither of the two categories has covered HRA as it obtains in India, although HRA is not of recent origin as far as India is concerned. How HRA is perceived by the various associated stakeholders, how HRA is undertaken, how it benefits the associated stakeholders, the limitations it may suffer from and a HRA model appropriate to the Indian milieu are among the features that have not been dealt with adequately by the reviewed literature. It is this gap the present study proposes to bridge.
1.4 Scope of the present study
The study covers service providers operating in the state of Karnataka. Further, HR Consultants, Financial consultants, Finance chief, HR chief associated with the said activities operating are also covered in the study. However the researcher is confident that the study’s findings can be generalised beyond the service providers under investigation and the four categories of respondents associated with said service providers. In fact one can justifiably generalise the study findings to entities which are into manufacturing and trading as well.

1.5 Objectives of the study
The objectives of the study are to:
1. Ascertain how the respondents perceive human resource accounting (HRA)
2. Study the modus operandi of computation of HRA in the respondent organisations
3. Identify the benefits accruing from HRA, from the perspective of the respondents
4. Isolate the limitations of HRA, from the perspective of the respondents
5. Design a HRA model that suits the service industries in the Indian milieu

1.6 Hypotheses proposed to be tested
The study proposes to test the following hypotheses:

1.6.1 CFO respondents
The following hypotheses are proposed to be tested vis-a-vis CFO respondents:
1. HRA representing the investment made by an organization in its people and revealing how the value of these people changes over time is not independent of the respondents being promotees or direct appointees
2. HRA representing the investment made by an organization in its people and revealing how the value of these people changes over time is not independent of the nature of activity of the organization the respondents work for.
3. Hidden costs, yields and values serving as a strong stimulus for implementation of HR accounting in an organization is not independent of the nature of activity of the present organisation.
1.6.2 CHR respondents
The following hypotheses are proposed to be tested vis-a-vis CFO respondents:

1. Proliferation of the knowledge-based industry leading to increased adoption of HRA worldwide is not independent of the respondent being a promotee and a direct appointee.

2. Proliferation of the knowledge-based industry leading to increased adoption of HRA worldwide is not independent of the domestic companies not taking HRA seriously.

3. The need for businesses to exploit workforce data and define human capital metrics to optimise the HRA exercise particularly in the service sector is not independent of the domestic companies not taking HRA seriously.

1.6.3 Financial consultant respondents
The following hypotheses are proposed to be tested vis-a-vis financial consultant respondents:

1. The difficulty in evaluating intellectual capital to the satisfaction of all stake-holders being a major limitation of HRA is not independent of the company categories the respondents advise.

2. Proliferation of the knowledge-based industry leading to increased adoption of HRA worldwide is not independent of the company categories the respondents advise.

3. The need for businesses to exploit workforce data and define human capital metrics to optimise the HRA exercise particularly in the service sector is not independent of the company categories more likely to opt for HRA.

1.6.4 HR consultant respondents
The following hypotheses are proposed to be tested vis-a-vis HR consultant respondents:

1. The need for businesses to exploit workforce data and define human capital metrics to optimise the HRA exercise particularly in the service sector is not independent of the company categories more likely to opt for HRA.
2. The difficulty in evaluating intellectual capital to the satisfaction of all the stakeholders being a major limitation of HRA is not independent of the respondent being a promotee or direct appointee.

3. The need for businesses to exploit workforce data and define human capital metrics to optimise the HRA exercise particularly in the service sector is not independent of the respondent being a promotee or a direct appointee.

1.7 Conclusion

The next chapter, namely Chapter-2, furnishes the design of the study. It explains the methodology embraced by the study. It is followed by the methods of data collection employed. It is in turn followed by an explanation of the sources (from which the data has been collected) and the sampling plan. Further, the data collection instruments used for the study, the field work undertaken by the researcher and the data processing and analysis plan concerning the study have been delineated. The study winds up with a statement of its limitations, after presenting an overview of the study.