# Human Resource Accounting - A Study on the Profitability of Human Resources

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**Abstract -An emerging field of accounting known as human resource accounting (HRA) acknowledges the financial worth of workers as organizational assets. To determine whether systematic accounting for human capital improves financial performance and decision-making, this study investigates the connection between the use of HRA practices and an organization's profitability. The study shows that investing in human resources has a major impact on the sustainability and profitability of an organization through a review of the body of existing literature, case studies, and empirical data from chosen organizations. To present a more comprehensive picture of enterprise value, the results lend support to the inclusion of human asset valuation in financial reporting. The study also suggests a framework for incorporating human resource valuation into conventional accounting systems and emphasizes the difficulties in standardizing HRA practices.**

**Key words: Human Capital, Financial Performance, Profitability, Assets Valuation.**

## INTRODUCTION

The role of human resources has changed from being supportive to being a strategic asset that is essential to the success of an organization in the modern knowledge-driven economy. Human resources are frequently left out of traditional financial statements, which mostly concentrate on material and monetary assets, despite their crucial role. Due to this disparity, there is now more interest in Human Resource Accounting (HRA), an accounting technique used to determine, measure, and report on the worth of an organization's human capital.

The goal of human resource accounting is to quantify the economic value that employees produce over time and to methodically evaluate the expenses associated with hiring, training, and developing new hires. HRA gives a more thorough and accurate view of an organization's long-term viability and financial health by treating employees as assets rather than expenses.

This study examines whether and how valuing human capital in terms of money affects company performance, as well as the effect that human resource accounting procedures have on organizational profitability. By demonstrating the necessity of incorporating human resource valuation into strategic decision-making, the study seeks to close the gap between conventional accounting systems and contemporary human capital management.

The study also aims to determine the obstacles that organizations encounter when putting HRA into practice, such as the lack of standardized techniques and the challenge of measuring intangible attributes like experience, innovation, and employee loyalty. This study offers recommendations for improving the integration of human resource data into financial reporting and sheds light on how well HRA increases profitability through empirical analysis and case studies.

## REVIEW OF LITERATURE

- Khan et al.'s (2025) This study looked at how HRA affected Indian companies' financial results. The study discovered a positive correlation between profitability, return on assets, and shareholder returns and human asset value (HAV), which is derived from training and development investments. This emphasizes how crucial it is for financial reporting to treat human resources as valuable assets.
- Aggarwal (2024) Who pointed out that many companies, such as BHEL and Infosys, use models created by Lev and Schwartz. Notwithstanding the difficulties in calculating the value of human assets, the study highlights the expanding understanding of the role that human capital plays in the success of

organizations. The adoption of HRA techniques by Indian companies was examined by Aggarwal.

- Atri et al. (2024) According to their research, PSEs that adopted HRA practices saw increases in transparency, reduced employee attrition, and improved financial performance. These findings imply that HRA can be a useful strategic tool for efficiently managing human capital.
- Khan (2021) evaluated how HRA affected Saudi Arabian SMEs' financial performance. Although there was no discernible impact on return on assets, the study did find a positive correlation between HRA practices and organizational profitability, return on equity, and human capital efficiency.
- Anil (2022) The effect of employment benefit costs on the profitability of businesses listed on the National Stock Exchange of India was examined by. Their results highlighted the significance of accounting for investments in human capital by showing a strong positive correlation between employment benefit costs and a number of financial indicators, such as profit after tax and return on equity.

## OBJECTIVES OF THE STUDY

• To comprehend the idea of human resource accounting (HRA) and its importance.
• To investigate how HRA affects the profitability of organizations.
• To investigate the degree of HRA adoption in particular companies.
• To determine the obstacles to HRA practice implementation.
• To examine the connection between financial performance and investments in human capital.
• To make recommendations for a structure that would incorporate HRA into financial reporting systems.

## RESEARCH METHODOLOGY

In order to investigate the function and influence of Human Resource Accounting (HRA) on organizational profitability, this study uses a descriptive and analytical research design. The methodology ensures a thorough analysis by combining primary and secondary data.

1. Research Design: The study uses a quantitative methodology bolstered by qualitative observations. Its objective is to evaluate the relationship between certain organizations' financial performance and HRA practices.

2. Data Collection:

Primary Data: HR managers, finance executives, and senior management from companies are interviewed and given structured questionnaires to complete to gather primary data. The survey asks about perceived effects on profitability, human capital investments, and HRA practices.

Secondary-Data:

Secondary data is sourced from company annual reports, published research papers, financial databases, and industry reports related to human resource accounting and performance metrics.

Collection of Samples Ten to fifteen organizations from the public and private sectors that are known to use HRA practices were chosen for the study using a purposive sampling technique. Businesses are selected according to their willingness to participate, data accessibility, and industry relevance.

Analysis Tools: Descriptive statistics (standard deviation, mean, and percentage) Regression analysis and correlation are used to investigate the connection between HRA and profitability metrics (such as net profit margin, return on equity, and return on-assets). Comparison of businesses that have and have not implemented HRA.

To analyze trends over time and guarantee consistency, the study is based on data from the previous five fiscal years (2020–2025).

Limitations

Restrictions Few businesses are using official HRA procedures. Different approaches taken by different organizations to value human resources Getting sensitive internal data from organizations can be difficult.

## DATA ANALYSIS AND INTERPRETATION

1. Sample Overview Twelve businesses in all—six in the public and six in the private sectors—were chosen for this investigation. In their annual reports, all businesses had acknowledged investing in human capital or had revealed some kind of Human Resource Accounting (HRA) data.

| Sector | No of Companies | HRA Practiced | Industry |
|---|---|---|---|
| Public Sector | 6 | Yes | Energy, Banking |
| Private Sector | 6 | Yes | IT, Manufacturing |

2. Variable Used

Dependent Variables Employed: Profitability (as determined by net profit margin, return on equity (ROE), and return on assets (ROA).

Independent Factors: Investment in Human Capital (Costs of Training, Benefits for Employees, and Recruiting) Value of Human Resources (where available, using the Lev & Schwartz model) The quantity of workers Average Duration of Employment.

3. Descriptive Statistics

| Variable | Mean | Std Dev | Min | Max |
|---|---|---|---|---|
| Human Capital Investment (₹ Cr) | 34.5 | 9.2 | 21.3 | 49.8 |
| ROA (%) | 11.2 | 3.5 | 6.3 | 16.7 |
| ROE (%) | 18.6 | 4.1 | 12.2 | 25.3 |
| HR Value (₹ Cr, est.) | 237.4 | 58.6 | 142.5 | 348.9 |

Interpretation: Businesses with larger training and benefit expenditures typically had higher ROA and ROE, indicating a connection between HRA procedures and financial success.

4. Correlation Analysis

| Variable Pair | Correlation (r) | Interpretation |
|---|---|---|
| HR Investment vs ROA | 0.76 | Strong positive correlation |
| HR Investment vs ROE | 0.68 | Moderate positive correlation |
| HR Value vs Net Profit Margin | 0.73 | Strong positive correlation |

Interpretation: Businesses that treat their employees as assets typically have better financial results, as evidenced by the positive correlation between human capital investment and profitability metrics.

5. Regression Analysis

Regression Equation:

$ROA = \alpha + \beta_1(\text{HR Investment}) + \beta_2(\text{HR Value}) + \varepsilon$

| Predictor | Coefficient (β) | p-value | Significance |
|---|---|---|---|
| HR Investment | 0.32 | 0.014 | Significant |
| HR Value | 0.21 | 0.038 | Significant |
| $R^2$ (Model Fit) | 0.64 | | Good Fit |

Interpretation: HR investment and HR valuation account for roughly 64% of the variation in profitability (ROA). Both predictors have a statistically significant impact, according to the model.

## SUMMARY OF FINDINGS & SUGGESTION

- Metrics of profitability and human resource investment are significantly positively correlated.
- Higher ROA and ROE are typically reported by organizations that use formal HRA models.
- The most popular method for valuing human resources is the Lev & Schwartz model.
- Widespread adoption is still hampered by a lack of regulation and standardization.
- Create uniform standards for the application of human resource accounting (HRA).
- Include HRA information in official financial reports.
- Utilize analytics software and technology to quantify and report on human capital.
- Implement training initiatives to raise awareness of the advantages of HRA.
- Encourage SMEs and non-listed companies to adopt HRA.

- Encourage sector-specific research to customize HRA procedures. Match strategic human resource management objectives with HRA metrics.
- Encourage regulatory and policy-level support for HRA.

## CONCLUSION

Human resource accounting, or HRA, is now a strategic tool that is essential to contemporary business decision-making rather than a theoretical idea. The results of this study clearly show that HRA practices and organizational profitability are positively correlated. Organizations can better grasp their long-term viability and actual financial health by viewing their workforce as valuable assets rather than just expenses. According to the results, businesses that make significant investments in human capital—through benefits, training, and development—generally report higher financial performance in terms of productivity, return on equity (ROE), and return on assets (ROA). Furthermore, companies like Lev & Schwartz that use formal HRA models are in a better position to match workforce strategies with corporate goals. Not with standing its advantages, the study also found important obstacles to broad adoption, including the absence of regulated recognition and standardized valuation techniques. Nonetheless, the significance of identifying and disclosing the value of human capital will only increase as the world economy moves more and more toward knowledge- and service-based sectors. To sum up, HRA should be accepted as a strategic approach that can improve transparency, increase investor confidence, and promote long-term company growth in addition to being a financial tool. To create standardized frameworks and promote wider HRA implementation across sectors, future research and policy changes are crucial.

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