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“Human Resource Cost Accounting and Financial Performance of Indian IT Services & Consulting companies: A Rational Analysis”

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ABSTRACT:

In the present research an attempt has been made by the researcher to study Human Resource Cost Accounting and Financial Performance of Selected Indian IT Services & Consulting companies. The main aim behind this research is to scrutinize the relationship between Human Resource Cost and Financial Performance (Net Profit) impact of Human Resource Cost on Financial Performance (Net Profit). In that direction researcher had selected nine Indian IT Services & Consulting companies and further their Human Resource Cost and Net Profit has been analyzed. The research covers five years from 2017 to 2021. Justifying the objective mentioned above researcher applied Correlation which showed there was perfectly positive relation between Human Resource Cost and Net Profit further than applied Regression analysis, in that Human Resource Cost is considered as Independent variable while Net Profit is Considered as Dependent Variable the result of which signposted P- Value of 0.0231 which less than 0.05, hence the null hypothesis was not accepted at 5 % significance level hence there is significant effect of HR cost on Net Profit of the Selected Indian IT Services & Consulting Companies during the research period.

Key Words: IT Services & Consulting, Human Resource Cost Accounting, Net Profit, Graph, Regression

INTRODUCTION:

Human resource accounting is one of the emerging areas, it is being widely accepted worldwide and is gradually accepted and adopted by Indian corporate units too. Human resource accounting is alienated into two segments; one is Human Resource Cost Accounting and other is Human Resource Value Accounting. There is one saying that “Expenditure incurred on Human Resources of any company is one of the investment activities that leads towards increase in financial performance of the company. The strategic module of Human Resource Accounting is to Assess and Evaluate Human Resource costs. Conventionally, the human resource department in a company has been observed as a cost burner; that is the main reason why lots of emphasis has been led down for reducing cost within Human Resources; this way Human Resource costing come into existence.



Definition of Human Resource Cost Accounting:

“Cost is a sacrifice incurred to obtain some anticipated benefit or service. This means that all cost has an ‘expense’ and an ‘asset’ component. This is what Human Resources accounting is all about: measuring the expenses and asset components of cost.”

- Flamholtz (1999)

LITERATURE REVIEW:

(**Olajumoke , 2020**) had conducted research on “Human Resource Costs’ Influence On Financial Performance of Nigerian Consumer Goods Company”. The main aim here was to identify how far investment made in human resource had impact over financial performance selected consumer goods Company trading on Stock Exchange in Nigeria during the research period of 10 years from 2009 to 2018. Statistical tests like Pooled Ordinary Least Square \ Estimator, Fixed Effect Model, Random Effect Model, Post Estimation Test were used. There are variety of components of HRC, these includes: salary and wages, directors’ emolument, pension cost, and gratuity cost while In this study ROA is used as measures of firm’s financial performance. Researchers concluded that human resource cost influenced positively and improved financial performance.

(**Leyira , Clifford , & John , 2012**) had researched on “Firms Financial Performance and Human Resource Accounting Disclosure in Nigeria”. Researchers tried to study relationship between Financial Performance and Human Resource Accounting Disclosure during the 2005 to 2009 considering 52 companies; moreover the data related to Return on Equity and HRA disclosure are been analyzed using Descriptive, correlation and regression statistical techniques. Researchers arrive at a conclusion that information about human resource accounting is very noteworthy aspect for decision maker.

(**Soshte , 2017**) had made an article on “Human Resource Accounting (HRA) in India: A new Dimension”. In which researcher focuses on the aims and procedure of HRA in the Indian context; furthermore, researcher tried to ascertain the issues and challenges in regards to human resource accounting in India. At end researcher concluded that notion of HRA in India is a latest phenomenon & struggling for its acceptance.



RATIONAL OF THE STUDY:

After doing literature it is been observed that since it is an emerging topic in India henceforth no research is being done considering quantitative aspect of human resource Cost accounting in India which furnished an extensive opportunity to conduct research on “Human Resource Cost Accounting and financial Performance of Indian IT Services & Consulting: companies A Rational Analysis”

OBJECTIVES:

According to saying “Cost incurred on Human Resources are the Investment not Expenses”. The Cost incurred on Human Resource is one of the vital inputs for service delivery in the company. Researcher tried to answer following questions.

- Whether Human Resource Costs and Financial performance (Net Profit) of the company are related with each other?
- Whether Human Resource costs have significant impact over the financial performance (Net Profit) of the company?

HYPOTHESIS:

H₀₁: There is no significant relationship between Human Resource Cost and Net Profit Margin of selected Indian IT Services & Consulting companies during the study Period.

H_{a1}: There is significant relationship between Human Resource Cost and Net Profit Margin of selected Indian IT Services & Consulting companies during the study Period.

H₀₂: There is no significant impact of Human Resource Cost on Net Profit Margin of selected Indian IT Services & Consulting companies during the study Period.

H_{a2}: There is significant impact of Human Resource Cost on Net Profit Margin of selected Indian IT Services & Consulting companies during the study Period.



RESEARCH METHODOLOGY:

Universe of the Study:

All Indian IT Services & Consulting companies listed in NIFTY

Nature of the Study:

In this research, the researcher tries to explore one of the emerging topic in accounting field which is Human Resource Accounting furthermore impact of Human Resource Cost on the Financial Performance is also been inspected with the help of quantitative data. Henceforward the research is exploratory and quantitative in nature.

Sampling Technique:

The Indian IT Services & Consulting companies are been selected considering market capitalization and selected only those companies which are in business of IT Services & Consulting. At this juncture convenience sampling technique is used.

Sample of the study:

In this research researcher has selected Nine Indian IT Services & Consulting companies.

Table 1: Market Capitalization

Company Name	Market Cap (Rs. Crore.)
COFORGE Limited Ltd.	20,467.49
HCL Technologies Ltd.	250,145.65
Infosys Ltd.	566,220.52
Larsen & Toubro InfoTech Ltd.	62,316.94
Mind Tree Ltd.	34,245.24



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Mphasis Ltd.	32,959.10
Tata Consultancy Services Ltd.	1,127,988.73
Tech Mahindra Ltd.	92,368.79
Wipro Ltd.	274,395.39

Source: Money Control on 5/17/2021 at 1:35:00 PM

Collection of Data:

In order to rationalize the research, here secondary data source is been used in collection of pertinent data and the same are collected from Annual Report, Different Websites and especially from Money control site.

Period of the Study:

Research rationed up to five years from the year **2017 to 2021**.

TOOLS AND TECHNIQUES:

Variable Analysis: In research mainly Two Variables are been assessed – one is Human Resource Cost and other is Net Profit (as a core element to understand financial Performance) of selected Indian IT Services & Consulting companies during the study Period.

Mean: Mean is been exercised to ascertain the average Human Resource Cost and average Net Profit of selected Indian IT Services & Consulting companies during the study Period.

Graph: Line Graph is inserted in order to prove trend of Human Resource costs and Net Profit during the study Period.

Correlation Analysis: Pearson's Correlation matrix is calculated using Microsoft Excel in order to prove whether or not Human Resource Costs and Net Profit of the company are related with each other in selected Indian IT Services & Consulting companies during the study Period.



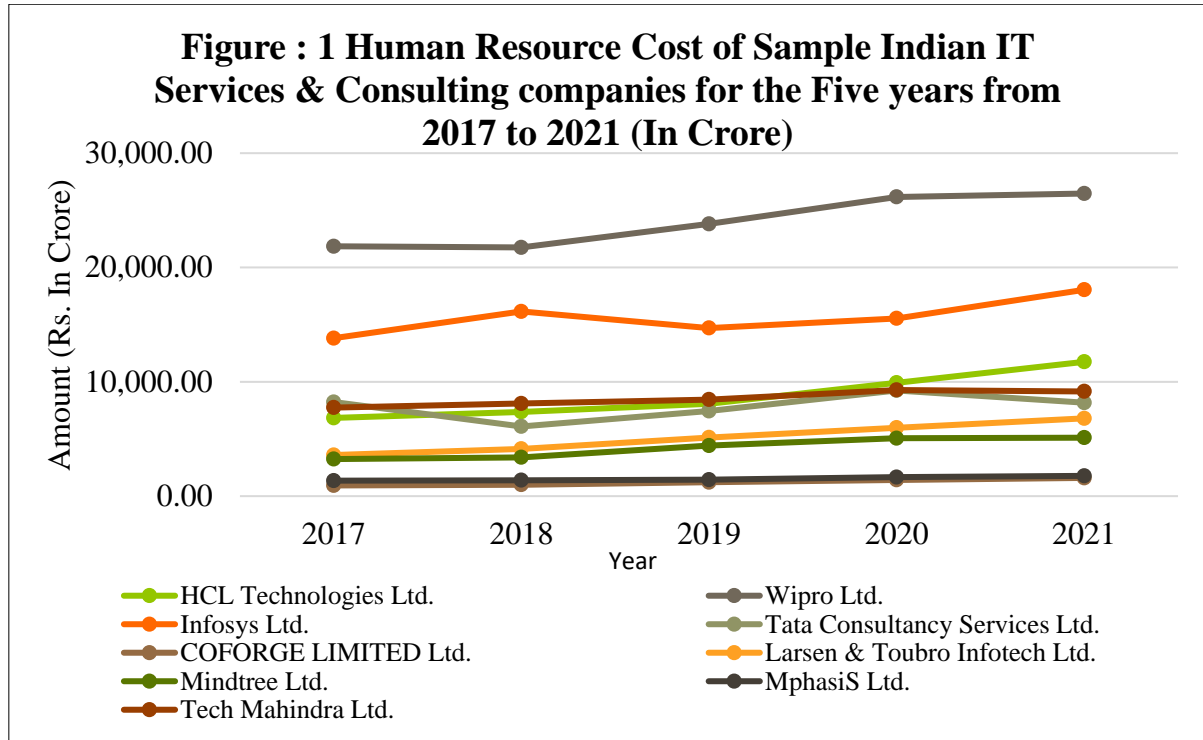
Regression Analysis: Regression matrix is calculated using Microsoft Excel in order to prove whether or not Human Resource costs have significant impact over the financial performance (Net Profit) of the selected Indian IT Services & Consulting companies during the study Period. Here Human Resource Cost is considered as Independent Variable while Net Profit is considered as Dependent Variable.

DATA ANALYSIS:

Table: 2 Human Resource Cost of Sample Indian IT Services & Consulting companies for the Five years from 2017 to 2021 (In Crore)

Sample Company	2017	2018	2019	2020	2021	Mean
HCLTL	6,844.00	7,365.00	8,079.00	9,916.00	11,749.00	8,790.60
WL	21,854.40	21,756.20	23,808.50	26,171.80	26,467.30	24,011.64
IL	13,818	16,155	14,702	15,543	18,048	15,653.20
TCSL	8,227	6,096	7,448	9,242	8,174	7,837.40
CL	936.5	994.6	1,214.60	1,417.50	1,594.10	1,231.46
L& T ITL	3,597.50	4,134.80	5,128.70	5,982.80	6,803.80	5,129.52
MTL	3,243.80	3,394.90	4,421.10	5,064.70	5,113.20	4,247.54
MSL	1,356.50	1,391.55	1,441.14	1,662.11	1,774.54	1,525.17
TML	7,744.40	8,106.50	8,444.00	9,282.70	9,162.60	8,548.04
Mean	7,513.57	7,710.51	8,298.56	9,364.73	9,876.28	8,552.73

Source: Money Control Site



Source: Graph Prepared through Excel

Table 2 and Figure 1 depicts Human Resource Cost of Sample Indian IT Services & Consulting companies for the Five years from 2017 to 2021 (In Crore). Human Resource costs are increasing year after year in all the selected companies that mean there is increasing trend in human resource cost during the study period. In HCLTL, WL & IL overall Human Resource Costs are above the average while that of other companies are overall Human Resource Costs are below the average throughout the study period. It demonstrates that all expenditure on Human Resource is been augmented year after year that means they are bestowing huge amount in order to gratify their employees during the study period.

Table :3 Net Profit of Sample Indian IT Services & Consulting companies for the Five years from 2017 to 2021 (In Crore)

Sample Company	2017	2018	2019	2020	2021	Mean
HCLTL	6,873	7,362	8,185	8,969	8,743	8,026
WL	8,161	7,722	7,614	8,680	10,060	8,447



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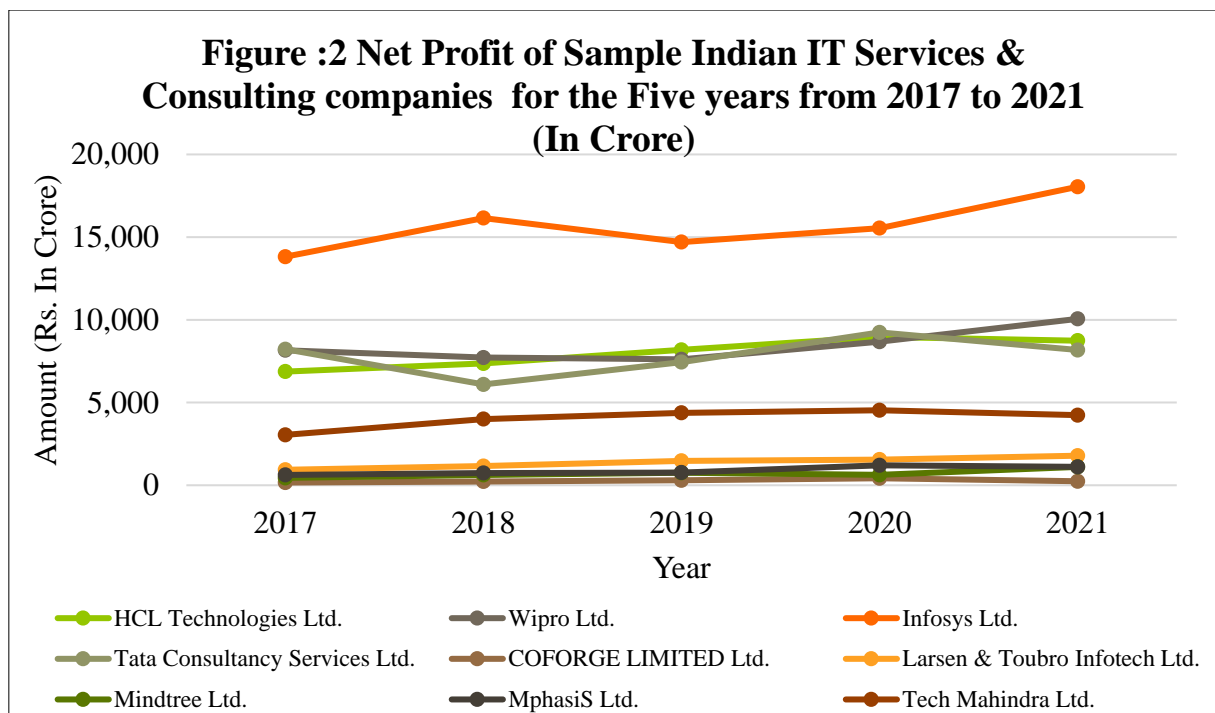
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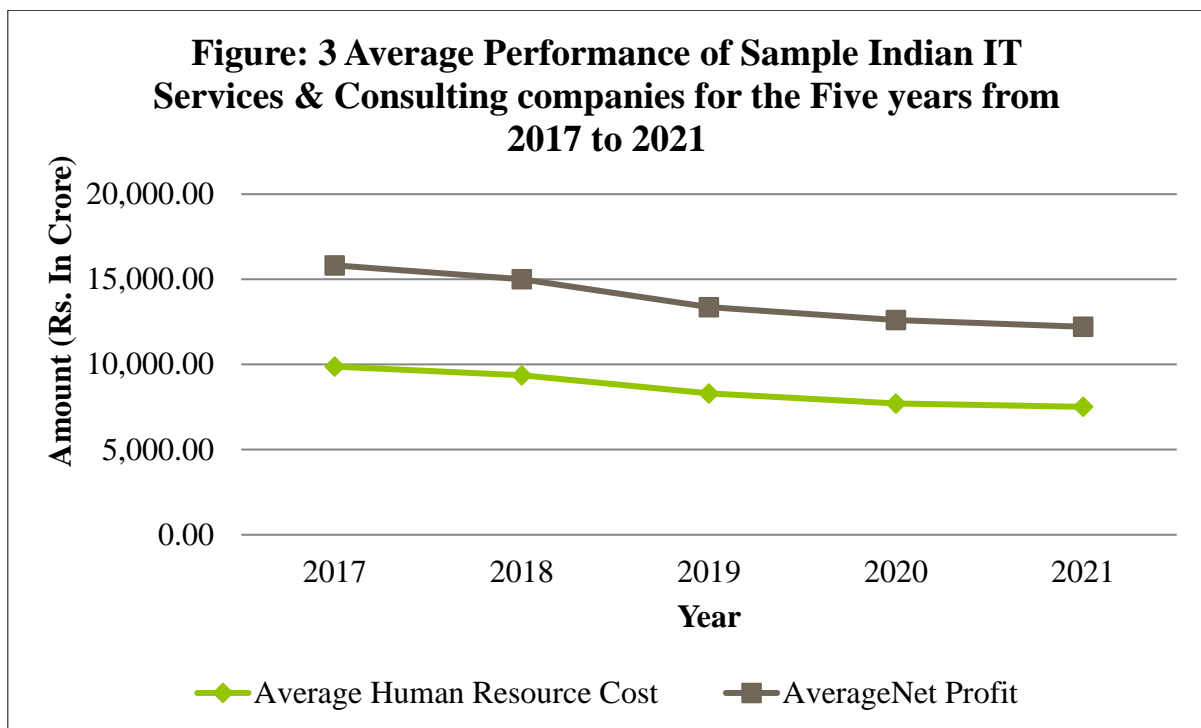
IL	13,818	16,155	14,702	15,543	18,048	15,653
TCSL	8,227	6,096	7,448	9,242	8,174	7,837
CL	164	226	299	422	239	270
L& T ITL	937	1,160	1,475	1,552	1,787	1,382
MTL	446	624	754	630	1,110	713
MSL	625	739	769	1,205	1,110	890
TML	3,047	3,999	4,380	4,534	4,239	4,040
Mean	4,700	4,898	5,070	5,642	5,946	5,251

Source: Money Control Site



Source: Graph Prepared through Excel

Table 3 and **Figure 2** depicts Net Profit of Sample Indian IT Services & Consulting companies for the Five years from 2017 to 2021 (In Crore). Net Profit is increasing year after year in all the selected companies that mean there is increasing trend in net profit during the study period. In HCLTL, WL, IL & TCSL overall Net Profit is above the average while that of other companies are overall Net Profit are below the average throughout the study period. Which demonstrates that the all the sample Indian IT Services & Consulting companies are Financially sound and generating high profitability during the study period.



Source: Graph Prepared through Excel

Figure: 3 depicts Average Performance of Sample Indian IT Services & Consulting companies for the Five years from 2017 to 2021. From which it can be identified that simultaneously, there is increase in Human Resource Cost as well as Net Profit of Sample Indian IT Services & Consulting companies during the study period. Here we can see that the trend of Net profit and Human Resource Cost is moving in the same direction.



Table 4: Correlation Analysis

	Average Human Resource Cost	Average Net Profit
Average Human Resource Cost	1	
Average Net Profit	0.995513741	1

Source: Calculated through Excel

Table 4: depicts that Correlation Analysis between Human Resource Cost and Net Profit is 0.995513741 of Sample Indian IT Services & Consulting companies hence null hypothesis is not accepted that shows there is perfectly positive relation between them during the study period.

Table 5: Regression Analysis:

Regression Statistics	
Multiple R	0.73820274
R Square	0.544943286
Adjusted R Square	0.479935184
Standard Error	3727.028645
Observations	9

Source: Calculated through Excel

Table 5 depicts regression analysis; the R Square is 0.544943286 which means around 55% of the values fit the model. Further there is Standard Error of 3727.028645, observation shows number of selected nine Indian IT Services & Consulting companies



Table 5A: ANOVA:

ANOVA					
	DF	SS	MS	F	Significance F
Regression	1	116441899.4	116441899.4	8.382698	0.023140927
Residual	7	97235197.64	13890742.52		
Total	8	213677097			

Source: Calculated through Excel

Table 5A depicts Anova test; where the F – Significance value is 0.023 which is less than 0.05 alpha at 5% significance level. Which indicates that Null hypothesis will not be accepted.

Table 5B: t - Test

	Co-Efficient	SE	T - Stat	P- Value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	764.71	1986.1	0.39	0.71	-3932	5460.97	-3931.54	5460.97
HR COST	0.52	0.18	2.90	0.02	0.10	0.95	0.10	0.95

Source: Calculated through Excel

Table 5B depicts t Test; where P – Value is 0.02 which is which is which is less than 0.05 at 5% significance level. Which indicates that Null hypothesis will not be accepted.

Hence from the above all analysis it is been concluded that Null hypothesis will not be accepted that means there is significant impact of Human Resource Cost on Net Profit Margin of selected Indian IT Services & Consulting companies during the study Period.



CONCLUSION:

Steadfastly, with the help of Correlation Matrix, it has been prove that HR Cost and Net Profit has Perfectly Positive Relation which means there is rise in both the selected variables – Human Resource costs and Net Profit and moreover with help of Regression analysis it is been Proved that HR Costs has significant impact on Net Profit of the selected Indian IT Services & Consulting companies during the study Period. Up till it is having good impact it is good.

RECOMMENDATIONS:

It has been observed that all selected Indian IT Services & Consulting companies displays information regarding their HR in their annual report but not in a proper format during the study period. The basically they must adopt Human Resource Accounting and most importantly they must disclose the same in their Annual Report which will ultimately be beneficial to the management of the company in taking wise decision regarding reduction of unnecessary cost and also for adopting different monetary and non – monetary incentives to increase moral of their employees.



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<https://www.moneycontrol.com>

<https://www.analyticsinhr.com>



LIST OF ABBREVIATIONS

TABLE A: ABBREVIATIONS

Full Form	Abbreviations
COFORGE Limited Ltd.	CL
HCL Technologies Ltd.	HCLTL
Infosys Ltd.	IL
Larsen & Toubro InfoTech Ltd.	L& T ITL
Mind Tree Ltd.	MTL
MphasiS Ltd.	MSL
Tata Consultancy Services Ltd.	TCSL
Tech Mahindra Ltd.	TML
Wipro Ltd.	WL
Standard Error	SE
Degree of Freedom	DF
Mean of Square	MS
Sum of Square	SS