ORIGINAL ARTICLE

HUMAN RESOURCE ACCOUNTING: DISCLOSURE OF INDIAN COMPANIES

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Abstract:

　　Human resource accounting (HRA) is a new and developing branch of accounting. It should be widely concerned by human beings with the development of modern accounting. The human resource accounting studies the human resource cost plus confirming, calculating, recording and reporting of information of the value etc. It provides the information of the human resource accounting. This paper is intended to make examine the disclosure practice of mandatory and voluntary items in the annual reports of Indian companies during period under study. The disclosure index method was used for measuring the level of disclosure of the annual reports. We found that though the level of disclosure of human resource accounting was not so high, this was appreciable that selected companies were adopting more or less human resource accounting practice and public sector was following better human resource accounting disclosure practices than private sector.

KEYWORDS:

Human Resource Accounting, Human Resource Cost, Human Resource value Accounting.

INTRODUCTION

Financial reporting provides information about business enterprises that is useful for the decisions of individuals and groups external to businesses, including investors, creditors, suppliers, customers, labour unions, financial analysts, and regulatory authorities (Financial Accounting Standards Board, 1978). The types of information included in financial reports, as well as accounting methods used to generate this information, are governed by bodies such as the Securities and Exchange Commission and the Financial Accounting Standards Board. Although the information is primarily historical, its main purpose is to help decision makers predict future cash flows that will be generated by a business. Thus, financial reporting provides information for "risky" decision making, i.e., decisions in which outcomes are not known with certainty.

Since the 1960s, accounting researchers have used theories and methods from cognitive psychology, particularly the judgment and decision–making literature, to examine decision–making issues in financial reporting. Studies in this area have individuals make judgments and decisions about businesses using accounting information. Some studies employ an experimental method in which one or more variables, such as the amount of information, differ between groups of subjects to determine the effect of these variables on judgments and decisions. Other studies provide all subjects with identical information and either model subjects' judgments or study the process by which judgments are made.

Human resource accounting is the process of identifying, measuring data about human resources and communicating this information to interested parties the major objects of the study is to highlight the major characteristics of HRA along with the practical benefits and difficulties in implementations.

Human Resource Accounting is a new branch of accounting . It follows the traditional concept that all expenditure on human capital formation is taken as a charge against the revenue of the period as it does not create any physical asset. Modern view is that cost incurred on any asset as human resources need to be capitalized as it provides benefits measureable in monetary terms. Measurement of cost and value of the people to organizations is highly important, costs incurred in recruitment, selection, hiring, training and development of employees along with their economic values are very much relevant for HRA.

The efficient functioning of capital markets is dependent upon information flows between companies and investors, either directly or indirectly through financial intermediaries e.g. analysts. Information reduces investors' perceived risk when predicting a company's future performance. Information asymmetry will always be present to some extent, as investors never have the same information as the top management team in a company. However, but good information disclosure practices have been shown to be advantageous both from investor and company perspectives. In the last couple decades it has been hypothesized that accounting information is, although probably still the most important information, insufficient for investors and analysts when they are seeking to value companies. Furthermore, it has been indicated that this insufficiency is especially problematic when a company is unknown to the investor, i.e. not previously been publically traded. The ability to attract capital is vital for many industrial sectors today. Information disclosure can reduce the perceived risk of the investors.

Effectiveness is best measured by comparing inputs with the desired output. This gives a direct and positive measure of effectiveness as well as it provides comparative information to show how effectiveness has changed over a period of time. It requires a common base for measuring inputs and outputs. Measurement is the process of representing the properties or qualities of objects in numerical terms. In our control systems, measurement has a dual function: It provides information that can be used for evaluating performance, and to make corrections in goal directed behaviour. This is the Informational function of measurement. The accounting system, with its measures of financial and managerial performance, is a part of overall measurement system that contributes to the informational function. The informational function also draws on non- financial measures of performance such as product quality and organisational climate. It may be noted that the very act of measuring something has an effect on people's behaviour because people tend to pay more attention to the various aspects of jobs or performance that are measured.

FINANCIAL INFORMATION DISCLOSURE OF HRA INFORMATION

At present, the main method of disclosing the HRA is how to integrate the HR capital into the financial statement, and express by currency. For example, beneath the HRA, it arranges all the items of the corporation including total assets, liabilities and so on, according to the relationship of HR assets, material resources, liability, the right of owners, the right of HR and more elements of accounting like that, as well as on the basis of some standards of classification and order.

NON-FINANCIAL INFORMATION DISCLOSURE OF HRA INFORMATION

academic authority of HRA research field, has came up with the idea that non-monetary measurement is useful for the prediction of currency measurement at early times, therefore, from the current research situation, it is particularly important to develop effective non-monetary measurement for HRA.

According to the above, the author takes the idea that the content for the HRA information is various, mainly representing the disclosure of several aspects, including the whole situation of enterprise's human resources, the whole staff performance (including the working performance and resource consumption), staff quality and personnel needs.

In the foregoing definitions one may not find unanimity on what HRA is yet what is emphasised upon by all is the significance of information. Accounting of HRA System requires and produces a great deal of information for an organisation.

LITERATURE REVIEW

studied on recognition and disclosure of accounting methods & techniques. Their study formed mainly the extensive review of related literature based on highly work. The major benefits of such accounting were that it developed effective managerial decision making, quality of management, prevents misuse of human resources, increases human asset productivity, improves morale, job satisfaction and creativity, etc. The constraints involved were that uncertainty of human resources creates uncertainty in

valuation of human resources. Nature of amortization was another difficulty; valuation of human resources, their accounting treatments was also difficult.

investigated the impact of investment in human resource training and development on employees' effectiveness in Steel Authority of India Ltd (SAIL). A quantitative measure published by the Institute of Intellectual Capital Research and approved by the Saratoga Institute database was used to assess human resource effectiveness in SAIL.

(2012) have done a research in order to obtain not only generate statistics but also insight from the executives, professionals and academicians on the valuation and disclosure practices of human resources. Their basic purpose of that empirical analysis was to have a collective opinion from the senior and experiences professionals and executives responsible for decision making related to the personnel, human resources, accounting, finance and related areas. The opinions received from the respondents have been examined in a survey type of method. The empirical analysis has been carried out with the help of the categorical and qualitative opinion collected by circulating the questionnaire. They found out that the majority of the respondents were aware of the term HRA, but surprisingly not many knew as to how it would be practiced. In addition, there was a need to find out the ways to increase the knowledge of HRA in India.

stated that better business decision could be taken by human resource accounting management and the basic objective underlying HRA was to facilitation the effective and efficient management. So, He has done this research in order to find out the disclosure practices of HRA in selected private and public limited companies. For this, the researcher has been taken four Indian companies, viz.; two public sector companies and two private sector companies. For analysis purpose, the study has used content analysis for disclosure practices of HRA by using different methods. The result of the study showed that public sector was following better HRA disclosure practices than private sector.

examined the voluntary Corporate Governance (CG) practices of 50 corporations, over and above the mandatory requirements of Clause 49 of the Listing Agreement. In order to study the voluntary CG disclosure practices, they did a "content analysis", and finally, a "CG Disclosure" Index was prepared. They have used 'secondary' sources of information, both from the 'Report on CG' and the 'Annual Reports' for the financial year 2003-04 and 2004-05. As a part of voluntary CG disclosure, a total of 40 items have been selected from the CG section of the Annual Reports and proxy forms. In order to provide a comparison 'across' industries, corporations had been selected from four industries, viz., software, textiles, sugar and paper. Appropriate statistical tools and techniques had been applied for the analysis. They observed that "corporations were following less than 50 percent of the items of CG Disclosure Index. Moreover, there was no significant difference among the disclosure scores across the four industries'.

investigated on intangible assets disclosure based on a large sample of the companies from India. Their objective was that to determine the extent of intangible asset disclosure by companies in India during the period of 2003-04 and 2007-08 years and based on 243 companies selected from BT-500 companies. The annual reports of these companies were analyzed using content analysis so as to examine the level of disclosure of intangible asset information. Intangible assets disclosure index based on the intangible assets framework as given by Sveiby (1997) and as used and tested by Guthrie and Petty (2000) and many other subsequent studies was modified and used for this study. They found out that external capital was the most disclosed intangible asset category with a disclosure score of 37.90% and 35.83% in the years 2003-04 and 2007-08 respectively. Infosys technologies Ltd. was the company with the highest intangible assets reporting for both the years (2003-04: 68.52%, 2007-08: 81.48%). Further the reporting of intangible assets was unorganized and unsystematic. There was lack of appropriate framework for disclosing intangible assets information in the annual reports.

studied on skilful and specialized human resources as a vital importance for organization just like its physical properties and investments. They wanted to explore firstly, whether investment decisions were affected by HRA information disclosed in the financial statements or not? Secondly what factors can interfere in this effect? Thirdly which evaluation method of human resource was the most appropriate method consistent with Iranian companies in terms of qualitative characteristics of accounting information? They indicated that HRA information disclosure in financial statements was relevant and affecting on the optimal investment decisions. Furthermore, other results stated that the most effective and appropriate evaluating method of human resource consistent with current status of Iranian companies and institutions is the original cost method (Historical cost).

OBJECTIVES

The main objectives of this research have been identified:

To study the practices followed for the disclosure of HRA in selected Indian companies.
To compare between the disclosure variables of HRA followed by Private and Public companies.

NEED FOR HUMAN RESOURCE ACCOUNTING

The need for HRA arose primarily as a result of the growing concern for human relations management- in industry, academic institution, firm's etc. Behavioural scientist concerned with the management of organization pointed out that the failure of accountants to value human resources was a serious handicap for effective management: First, it facilitates the application of accounting to the management of human resource. Second, it furnish cost value of information for making management decisions for planning, acquiring, developing and maintaining human resources in the organization's. Third, it monitors effective use of human resources. Fourth, it remediates informational deficiency by indicating the degree to which human capabilities are being acquired, developed, maintained and utilized. Fifth, it provides a sound basis of control over human assets. Sixth, it improves the quality of human resource decisions, in the area of recruitment, planning, selection and allocation of financial resources among human resources development programs. Seventh, it provides comparative information to all concerned regarding the earning potential of human resources. Eighth, it evaluates the effects programs concerning human resources. Ninth, it develops standards to measure the value of human resources. Last, it makes financial statements more informative, by reflecting the value of human resources.

RESEARCH METHODOLOGY

The data for the study were collected from the annual reports of the selected companies for five years (2007-2011). Besides, other source of data forms in the form of reference to the library and review of previous articles, paper, and earlier studies.

Data

The study was based on secondary data. Data were collected from annual reports of the selected companies, websites, and different books of accounting and personal management.

Sampling Techniques

Purposive sampling technique was used for selection of sample units. Samples are taken from both public and private companies. Sixteen companies from public and sixteen companies from private were taken up for the study. Out of which only two companies from public i.e. ONGC Ltd and BHEL and two companies form private INFOSYS and Reliance Industries Ltd were following HRA and hence four companies were taken for the analysis and to offer suggestions for the improvement of HRA disclosure in Indian companies.

Analysis of data

The collected data have suitably classified and tabulated in the form of table and graph with the appropriate statistical techniques SPSS software has been used for necessary statistical tests. The data analysis and conclusion were drawn on the basis of parametric tests at 5% level of significance.
Data collection from annual report was secondary data. With the nature of secondary data which was readily available, this study covered all possible data available for the organizations listed on Bombu stock exchange. There were a total of 30 organizations listed on BSE but not all annual reports of organizations were available for analysis.
In this study, HRA disclosure index (HRADI) comprising of 16 human resources accounting reporting (HRAD) variables has been constructed by reviewing of relevant literature and what disclosure items the sample companies are reporting. In examining each of these HRAD items, a dichotomous procedure was followed where each company was awarded a score of '1' if the company appears to have disclosed the concerned reporting and '0' otherwise. The score of each company was totalled find the net score of the company An HRADI was then computed by using the following formula:

$$\text{HRADI} = \frac{\text{Total number of items appearing in the annual report} \times 100}{\text{Maximum number of items which should appear in annual reports}}$$

Hypotheses

H0: There are not relationship between disclosure of public and disclosure of private companies.
H2: There are relationship between disclosure of public and disclosure of private companies.
H0: The presentation of HRA information has not information increasing content.
H3: The presentation of HRA information has information increasing content.

FINDINGS

· Oil and Natural Gas Corporation Limited provided the information of Human Resource .the future earnings have been discounted at 8%, 8%,7%,7%,and 8% in the year 2006;2007,2007-2008,2008-2009,and 20010-2011.ONGC provide information like income, value added, no of employee, age wise distribution, group wise distribution, gender wise distribution, but turnover per employee ,wasn't disclosed.

· BHEL provide the information like income, value added ,No. of employee, Age wise distribution, group wise distribution, gender wise distribution turnover per employee cost but it did not used valuation model for HRA in the year 2006-07 to 2010-11, BHEL provide the information regarding particular of employees under the provision of section 217 (2A) of the companies rules 1975.

· BHEL had started providing information related to HRA in its Annual report from the financial year 1974-75 by using Lev and Schwartz model. It is the first company in India who provided HRA. BHEL also started considering efficiency factor for the purpose of Human Resource Valuation from the year 1980-81.

· BHEL divides total employees of the organization according to group wise, category wise and also as per physically challenged employee. The company followed the 12% as discount rate. Company provide the information regarding particular of employee under section 217(2A) of the companies Act, 1956 with companies rules 1975.BHEL was reporting information like total No of Employee, Value Added, Employee Remuneration and Benefit, Value Added per Employee, Turnover per Employee. It also calculated the different ratio related to Human Resource.

· INFOSYS provide additional information of the firm intangible assets score sheet, HRA and Value- Added statement. INFOSYS provide the information regarding particular of employees under the provision of section 217(2A) of the companies Rules 1975. INFOSYS used the Lev & Schwartz model. The future earnings have been discounted at 14.97%, 13.32%, 12.18%, 10.16% in the year 2006-07, 2007- 08, 2008-09 and 2009-10.INFOSYS provide the information like income, value added, No. of Employees, Age wise distribution , group wise distribution of employee, Net worth, EPS, Economic Value Added, Value of Human Resource, Value of Human Resource per employee and also present the ratio like Value Added/Human Resource value, Return on Human Resource Value in percentage but in 2010-11 INFOSYS was not provide additional information regarding HRA. INFO- SYS was withdrawing Disclosure Practices of HRA.

· Reliance Industries limited provided the information regarding, No of Employee and employee cost, earning per share and total assets. Company had not reported the discount rate, value added, EVA, value added per Employee value model and also turnover per employee.

Table 1: Disclosure of HR related information annual reports from 2006-07 to 2010-11

Disclosure variables	Companies Average disclosure in 5 years				Total
	Public Sector		Private Sector		
	ONGC	BHEL	INFOSYS	RELIANC	
Value added	1	1	0.8	0	2.8
No. Of employee	1	1	1	1	4
EVA	0	1	0.8	0	1.8
Value of HR	1	1	0.8	0	2.8
Value of HR per employee	1	1	0.8	0	2.8
Value of added per employee	1	1	0.8	0	2.8
Valuation model used	1	0	0.8	0	1.8
Discount rate applied	1	0	0.8	0	1.8
Age wise distribution	1	1	0.8	0	2.8
Group wise distribution	1	1	0.8	0	2.8
Gender wise distribution	1	1	0.8	0	2.8
Turnover per employee	0	1	0	0	1
Employee cost	0.2	1	0.8	1	3
Total identified variables	10.2	11	9.8	2	32.8
percentage	78.46	84.61	75.38	15.38	63.45

Table 1 revealed that both of the public sector companies disclose very well information of HRA disclosure practices. In last five year HRA disclosure index (HRADI) of ONGC companies is 78.46% and HRA disclosure index (HRADI) of BHEL is 84.61%. And HRADI of INFOSYS is 75.38% but RELIANCE IN- DUSTRIES LIMITED is not disclosing information of HRA disclosure practices very well. Human resource accounting disclosure index (HRADI) of RELIANCE INDUSTRIES LIMITED is 15.38%.

Table 2: Descriptive Statistics

Disclosure	No. Of sample	Minimum	Maximum	Mean	Std. Deviation
	4	15.38	84.61	63.45750	32.28052

Table 2 disclosure financial of HR related information annual reports from 2006-07 to 2010-2011.

Table 3: HRA Public and Private companies' disclosure practices

Disclosure	Companies Average disclosure in 5 years				Total
	Public Sector		Private Sector		
	ONGC	BHEL	INFOSYS	RELIANC	
Expenditure on Employee	3223	3980	4265	5898	402055
profit	168325	4562	4497	10650	862480
sales	122939	121000	8194	2884	646774
Total identified variables	294496	129542	16956	87364	1911309
percentage	87.65	71.79	21.7	17.66	54.79

Table 3 revealed that both of the public sector companies disclosure very well information of HRA disclosure practices. In last five year HRA disclosure index of ONGC companies is 87.65% and disclosure index of BHEL is 71.79 And INFOSYS is 21.7 but RELIANCE IN- DUSTRIES LIMITED is not disclosing information of HRA disclosure practices very well. Human resource accounting disclosure index (HRADI) of RELIANCE INDUSTRIES LIMITED is 17.66.

Table 4: One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Disclosure	5.196	3	.014	1.50000	.5813	2.4187

In table 4, one sample t-test was conducted to test the hypothesis. As the p-value of test is 0.014 which is less than 0.05 so there for we accept the alternative hypothesis i.e. there is significant between the public sector and private sector companies. Add so on the null hypothesis has been rejected on this ground.
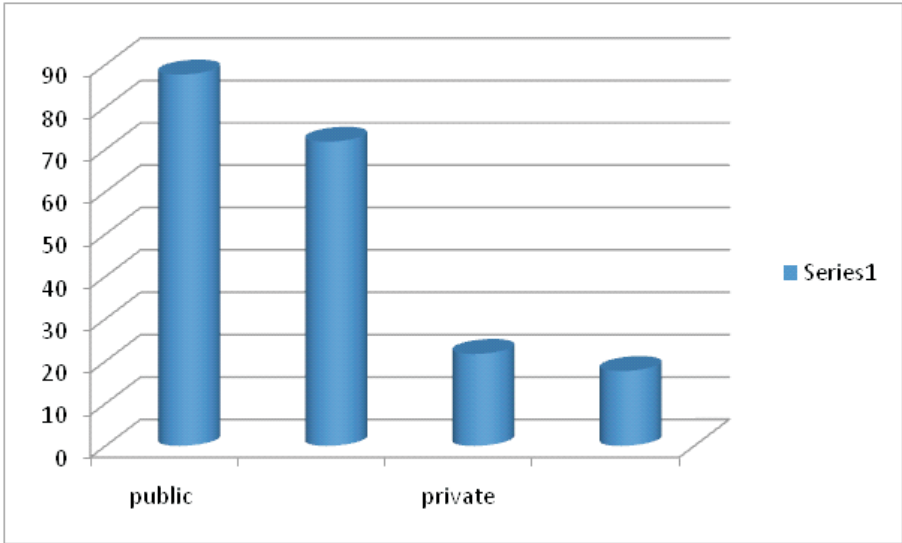

Fig. 1: Difference between the public and private sector companies

There is significant difference between the public sector and private sector companies. And so on the null hypotheses has been rejected on this ground.

SUGGESTIONS

· Reliance Industries limited should provide more information regarding its Human resource. It should include value added, EVA, Value of HR, value added per employee, valuation model, age wise distribution, group wise distribution, gender wise distribution and turnover employee also in annual report. There was no disclosure turnover per employee and EVA by ONGC Ltd in its report so company should disclose clearly for better understanding.

INFOSYS should make consistency in HRA disclosure practices.
BHEL should be used valuation model.

CONCLUSIONS

Human Resource Accounting measures the cost and value of human resources to an organization and presents the information in a significant manner in the financial statements to communicate their value with changes over the period and results obtained from their utilization to the different stakeholders. It mainly caters to the information need of the HR professionals, senior managers and investors for making effective decisions. Different schools of thought in the domain of accounting have developed different methodologies for the valuation of HR, and suggested different approaches for treating the most valuable asset of the organization. But there was no unanimity on the part of the accounting professionals.

However, presently the concept of HRA is being used by the HR professionals as an approach to human capital management. It is also found in the concerned literature that HRA can be used as an effective tool for strategic Human Resource Management (HRM). Despite the difficulties associated with HRA, in India, some giant public sector companies as well as private sector enterprises of international repute have been continuing their HRA practices.

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