

A comparative study of human resource accounting disclosure practices in Indian companies

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ABSTRACT

The human resource element is extremely important, vital and touchy factor of production that success of any organization, to a great extent, relies on the quality and character of the people working on it. Therefore, human assets are the real resource of a company. HRA is a new specialized branch of accounting that is an accounting technology of identifying, measuring, classifying, summarizing and reporting the data about human resources. The basic objective underlying human resource accounting into facilitation the effective and efficient management. Hence an attempt is made to analyze the HRA disclosure in selected Indian companies. 20 companies were selected for the study, out of that only 6 companies (3 Public and 3 Private sector companies) were following HRA, Descriptive Statistics and one sample test were used to find the difference in the disclosure of Human Resource variables in selected Indian companies. The result of the study shows that the public sector is following better HRA disclosure practices than the private sector.

1. Introduction

The human resource element is extremely important, vital and touchy factor of production that success of any organization, to a great extent, relies on the quality and character of the people working on it. Therefore, human assets are the real resource of a company. Knowledge and technology related information about the cost, value and performance of human resources. This information is the basis of effective management of human elements in organization that provide significant information about effective human resource. Human resource accounting is a new specialized branch of accounting that is an accounting technology of identifying, measuring, classifying, summarizing and reporting the data about human resources. The development of HRA came about as a result of an increasing recognition of the importance of human resource in economics, psychology, and management. Human resource accounting involves accounting for people as organizational resources and its development has progressed through several stages. The first stage of development of HRA involved the recognition by academicians that a method to account for HR was needed. The second stage involved development of concepts and models for measuring the cost and value of people as organizational resources. The third stage involved experiments to apply the measurement in actual companies. The fourth stage involved empirical testing of human resource accounting information in a behavioral context. The fifth stage like the third one involved additional experiments to apply human resource accounting technologies to a variety of managerial problems.

Flamholtz (1974), he has defined about HRA, it as follows: "Human resource accounting is accounting for people as an organizational resource. It involves measuring the costs incurred by business firms and other organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people to the organizations". American Accounting Association (1980) has defined human resource accounting as follows:

"Human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties". HRA is the processes of identifying and measuring Human Resources value in organizations that provide for the management the necessary information to manage their human resources efficiently and effectively. It helps the management in better planning, utilization and management of human resources of the organization.

2. Review of literature

Surinder Kaur *et al.* (2014) ^[13] they investigated human resource accounting disclosures in annual reports of five companies in India. Their study concluded that human resource accounting (HRA) disclosures be very low in Indian companies. Farzaneh Rahmanizadeh and Mahesh, R. (2014) ^[4] in their studies selected four companies in India for five years and examined the disclosure practice of mandatory and voluntary items in the annual reports. They used of methods for measuring the level of disclosure of the annual reports. They found out that 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 the private sector.

Kashive (2013) ^[9] He studied the Human Resource Accounting Systems (AHRS) of three Indian companies, namely, BHEL, NTPC and Infosys, and compared it with two foreign companies, namely, Skandia AFS and WM-data AB/Logica CMG, and he put forward that Indian companies in terms of the extent and quality of Intellectual Capital (IC) and the value of human resource measurement, reporting and disclosures are far behind their European and American counterparts.

Augustine, O. Enofe *et al.* (2013) ^[2]. They carried out to ascertain the relationship between firms' financial performance and human resources accounting disclosures on one hand,

and the differences in human resources accounting disclosure reporting level between financial sector and non-financial sector companies quoted in the Nigerian Stock exchange. They found out of the study that financial companies such as banks and insurance companies in Nigeria are disclosing human resources accounting information than non-financial companies.

Pandurangarao, *et al.* (2013) ^[11] they highlighted the significance of Human resource valuation and methods to measure human asset value. The article directly describes the views of the authors and finds out the organizations those have tried to implement HRA. The article depicts the merits of human resource valuation. The finding of this study indicates even valuing human resources appears to be very important to Indian organizations, most organizations do not value their human resources and plans to implement the valuation of human asset is at a most early stage. Despite the benefit in valuation there will be little progress in the area over the next five to ten years.

Joshi and Mahel (2012) ^[7] they examined the human resource accounting disclosure practices of four selected companies using a 15-item index and ranked the companies on the basis of their HRA disclosure scores. The result of the study showed that the measurements were subjective.

Our study is to recognize and disclosure of Human Resource Accounting variables of Public sector and Private Sector that selected of companies in India, the study aims to find out whether the companies differ significantly in respect of HRA disclosures or not.

Dr. Nidhi Sharma and Hitendra Shukla (2012) ^[10] they studied to find out the disclosure practices of HRA in selected private and public limited companies that selected two public sector companies and two private sector companies in India. They used of content analysis for disclosure practices of HRA by using different methods. The result of their the study shows that the public sector is following better HRA disclosure practices than the private sector.

Dalvadi. Yagnesh M (2010) ^[3] examined Human Resource Accounting practices in four selected companies in India for five year commencing from 2003-04 to 2007-08 with one sample 't' test and said that there is significant difference between the average disclosure of selected companies. They recommended the government to suggest a specific model of Human Resource Accounting that is acceptable to all companies and suggested that the government should made mandatory to value and disclose Human Asset related information in its annual report.

Syed Abdulla Al Mamun (2009) ^[14], he attempted to shed light on Human Resource Accounting disclosure in Bangladeshi Companies and he used Kolmogorov - Smirnov test to test the normality of the HRA variables. He showed that companies averagely disclose is 25% of the total HRAD items, then he put forward that the companies with higher profitability intended to disclose more human resource accounting information and that Human Resource Accounting is a very important factor to decision makers in the era of knowledge based economy.

3. Human resource accounting practices in the selected Indian companies

BHEL: BHEL had started providing information related to Human Resource Accounting (HRA) in its annual report for 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 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.

ONGC: ONGC in 1981-82s providing information related to Human Resource Accounting (HRA) in its annual report by using Lev and Schwartz Model. ONGC provide's information like income, value added, No. of employee, age wise distribution group wise distribution, gender wise distribution, but turnover per employee and Economic Value Added (EVA) were not disclosed.

CCI: CCI was incorporated as a company wholly owned by Government of India on 18th Jan 1965 and branded human resources as 'Mother Resources' through which other scarce resources viz., machines, material, money are organized, coordinated, directed and controlled. CCI made an attempt to value its human resources by working out the present value of future earnings. The computation has been based on the guidelines and principles enunciated in the economic models developed by Lev & Schwartz, Eric Flamholtz and Jaggi and Lau with appropriate modifications.

Rohta India: It is a multinational software development and services company, established in 1989. The economic approach model, i.e. Lev & Schwartz model is the basis of calculation of human resources of the company. The company considers all direct and indirect benefits earned by employees as a basis for calculation. Average increment is based on the increment paid during last three years. Retirement age is taken as per the company's policy. Based on these assumptions, human resource value was calculated considering different discount rates for different years to arrive at the present value of future earnings.

INFOSYS: Infosys started in year 1995-96, it became the first software company to value its human resources in India by Lev and Schwartz model has been used for the purpose of valuation of human resources of the organization. Infosys provides additional information to the shareholders in the form of Balance sheet including intangible assets, economic value added, human resources accounting, No of Employee, Age wise Distribution and Category wise, Distribution of Employee, Net Worth, EPS, 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.

ACC: ACC started valuing and reporting the information related to human resource from the financial year 1983-84 by using Lev and Schwartz model with adjustments suggested by Flamholtz. It provides the information regarding No of Employee, Basic Earnings per Share, Capital Employed, and Earning per Share, Total Asset and also Employee Cost. The company had not reported the discount rate i.e. rate at which the future expected return was discounted.

4. Objectives of the Study

1. To study the disclosure practices of Human Resource Accounting of Public sector and Private Sector companies in India.
2. To compare between the disclosures variables of HRA followed by Public sector and Private Sector companies in India.
3. To offer suggestions for the improving of HRA disclosure in Indian companies.

5. Statement of the problem

Very few studies have been made in relation to disclosure practices of HRA in companies in India. Therefore the present study is made to attempt and analyze the disclosure of Human Resource Accounting variables in the Public sector and the Private Sector selected of companies in India.

6. Methodology

The purpose of the present research is to do the comparative study of six companies in India to find the status of HRA reporting practices. In the present study, the purposive sampling technique has been used for the selection of the six companies. Three companies from public sector and three from the private sector are selected for the purpose of this study. These companies are presently valuing their human resources and showing in their annual reports.

The data for the study were collected from the annual reports of the six companies for seven years (2007-2013). Besides, other source of data forms in the form of reference to the library and review of previous articles, paper, and earlier studies.

7. 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.

8. Source of data

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

9. Period of the study

The data was examined for the last five year financial year that is from 2007-08 to 2012-13.

10. Sampling Techniques

A Purposive sampling technique is used for selection of sample units. Samples are taken from both Public and private companies. Ten companies from the public and ten companies from the private were taken up for the study. Out of which only three companies from public (BHEL, ONGC and CCI) and three companies from private (ROLTA, INFOSYS and ACC) were following Human resource Accounting and hence six companies are taken for the analysis.

11. Analysis of Data

The collected data have classified and tabulated in the form of table and graph with the 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 variables and possible data available for the organizations.

12. Disclosure relating to human resource accounting

For the purpose of comparative evaluation, 13 variables has been identified like disclosure of value added, Economic Value added (EVA) etc.

Table 1: Disclosure of human resource accounting variables

	Variables	BHEL	ONGC	CCI	ROLTA	INFOSYS	ACC	
1	Value Added	YES	YES	YES	YES	YES	NO	5
2	No. Of employee	YES	YES	YES	NO	YES	NO	4
3	Economic Value Added (EVA)	YES	NO	NO	YES	YES	YES	4
4	Value of HR	NO	YES	NO	YES	YES	NO	3
5	Value of HR per employee	NO	YES	YES	NO	NO	NO	2
6	Value Added per employee	NO	YES	YES	NO	YES	NO	3
7	Valuation model used	YES	YES	YES	YES	YES	NO	5
8	Discount rate applied	YES	YES	YES	YES	YES	YES	6
9	Age wise distribution	NO	YES	YES	NO	YES	NO	3
10	Groupwise distribution	YES	YES	YES	NO	YES	NO	4
11	Gender wise distribution	NO	YES	NO	NO	YES	NO	2
12	Turnover per employee	YES	NO	NO	NO	NO	YES	2
13	Employee cost	NO	YES	NO	YES	YES	YES	4
	Total	7	11	8	6	11	4	
	Percentage	53.84	84.61	61.53	46.15	84.61	30.76	

Source: Annual Report of respective companies (2007-08 to 2012-13)

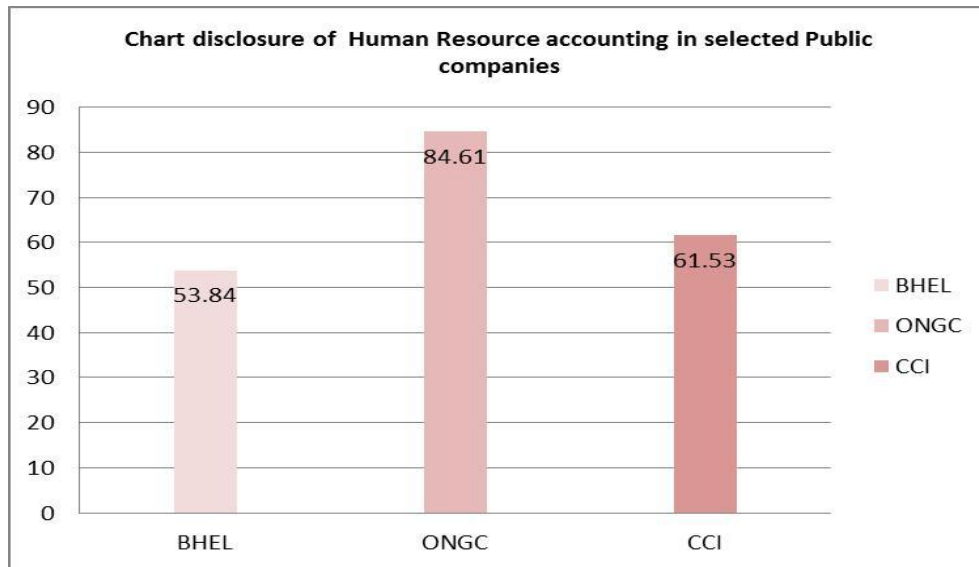


Fig 1: Disclosure of human resource accounting in selected public companies

Fig-1 exhibits Human Resource Accounting disclosure by selected public companies, which are Bharat Heavy Electricals Limited (BHEL), Oil and Natural Gas Corporation Limited (ONGC) and Cement Corporation of India Ltd (CCI). It helps to understand which company provides more information

regarding its HR, that ONGC provided 11 types of information (i.e. 84.61%) out of 13 listed information, CCI disclosed the 8 types of information (i.e. 61.53 %) and BHEL provided 7 types of information (i.e. 53.84%).

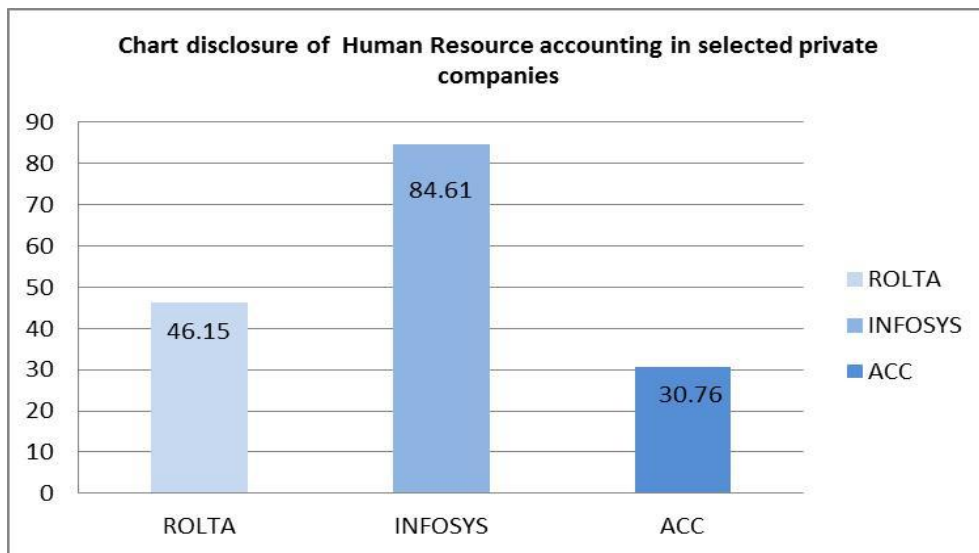


Fig 2: Disclosure of human resource accounting in selected private companies

Fig.2 shows Human Resource accounting disclosure by selected private companies, which are Rolta India Ltd (ROLTA), Infosys and Associated Cement Companies Ltd (ACC), that INFOSYS provided 11 types of information (i.e. 84.61%) out of 13 listed information, ROLTA disclosed 6 types of information (i.e.46.15) and ACC provided 4 types of information (30.76).

Hypotheses

Ho: There is no significant difference between the disclosures of Public sector and Private Sector selected of companies in India.

H1: There is a significant difference between disclosures practices of Public sector and Private Sector selected of companies in India.

Table 2: Descriptive Statistics

	N	Mean (Public)	Mean (Private)	Sum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Disclosure	6	8.66	7	47.00	7.8333	1.13774
						2.78687

Table 3: One-Sample Test

	Test Value = 0					
	T	DF	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Disclosure	6.885	5	.001	7.83333	4.9087	10.7580

One Sample t test was conducted to test the hypothesis. As the p value of the test is 0.001 less than 0.05, therefore we accept the alternative hypothesis. Hence it can be concluded that there is a significant difference between the average disclosures of human resource variables in selected companies, and has been rejected the null hypothesis.

The average value of public companies 8.66 and private companies 7, it is construed that Public companies are superior to private companies in including HRA variables within selected companies.

13. Suggestions

1. BHEL, CCI, ACC Ltd and ROLTA companies should provide more information regarding its accounting of Human Resource.
2. Private companies should concentrate more on disclosure of Human Resource Accounting variables when compared to public companies.
3. The government should suggest a specific model of human resource accounting that is acceptable to all companies for valuation of human resource.
4. The government should provide incentives like Subsidy, Tax exemption for motivating companies of valuation of their Human resources.

14. Limitation

This research is based on secondary data only, collected from annual reports of six companies in India that limited to six

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