

Human Resource Accounting Disclosure Practices In Indian Companies

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ABSTRACT

Human resources with their innate pool of knowledge, skill, leadership, creativity and talent assist companies in achieving their goals. However, the current accounting system is not able to provide the value of human resources. We find human resource accounting (HRA) disclosures to be very low in Indian companies with only five companies reporting HRA in their annual report that is just 1 per cent of the sample set of companies. Furthermore, HRA disclosures that are made by companies are unstructured and inconsistent, and incomparable across companies and industries. Therefore, we examine the extent of HRA measurement and reporting practices of selected Indian companies among the National Stock Exchange S&P CNX 500 companies. We critically analyze these and rank the companies on the basis of the extent of disclosure of HRA information in annual reports of companies.

Human Resource holds strategic position in the present era. The experience, knowledge and skills possessed by the employees are the real capital, especially for the knowledge based industry indeed banking industry. It is the main determinant for the productivity, profitability and sustainability, and forms basis for decision making to the investors all over the world. Disclosure of such an important element of the organization is important for information asymmetry. Considering the importance of Banking Industry in Indian economy and the importance of HR and HR Disclosure in this sector, the research paper aims to study present position of HR Disclosure Practices prevailing in Indian Banking Sector, and comparison of HR Disclosure Practices of Public, Private and Foreign Commercial Banks in India. It comprises study of 11 prominent commercial banks of India.

1. Introduction

The success of any organization depends on the quality and efficiency of its human resources (HR) apart from other critical parameters. Intense market-driven competition has led many organizations to increasingly appreciate the role of their people and HR policies. In any organization, the most important input is the human element and nothing meaningful is possible without human intervention. The greater the efficiency of HR, the greater is the profit earning capacity of a business enterprise. Generally corporate performance depends on the behaviour

of HR it acquires. But this is not reflected as per the conventional accountingsystem. The factors that determine the capacity of a business enterprise for development and growth can be classified into two—passive factors of production (capital and natural resources) and the active factors (HR who accumulate capital, exploit the natural resources, build economic organization and carry forward the department). In this way, HR is the most fundamental of all available resources. Non-HR can be made useful only through HR. This certainly places HR at a higher level than non- HR. Likert (1967) stated that every aspect of a firm's activities is determined by the competence, motivation and general effectiveness of human organization. However, conventional corporate financial reports contain details of physical and financial assets only; investment in HR may be reported in a very limited way by some companies in annual reports. So far, the accountants in the past have not given due consideration to this important asset working in the enterprise. Companies spend a lot of money on training and development, strategies to retain and motivate

their employees in order to increase their performance and efficiency.

Human Resources are the energies, skills, talents and knowledge of people which are, or which potentially can be applied to the production of goods or rendering useful services (Syed, 2009). It is fixed input which enables a firm to perform a particular task (Rubin 1973). In the new economic setup intellectual and human capital are identified as major determinant of organizational value over other physical capital. The knowledge, skill and experience possessed by a person are defined as human capital. Investments in firm-specific HR practices such as training in firm-specific skills, on-the-job experience, coaching and mentoring can qualitatively differentiate a firm's employees from those of other firms and can make Human Capital less imitable (Huselid, 1995). Human Resource being considered as strategic capital, its accounting and reporting aspects are becoming crucial for the organizational success (Imtiaz & Suman 2010). Specially, for service industries like banks, insurance companies, software, call centers, consultancies, etc, these intangible are its real capital. Banks play an important role in the nation building process. Banking industries are also commercial entities engaged in financial intermediation by pooling the surplus and channelizing the savings to the deficit sector (Kainth & Agnihotri). The disclosure practices in the Indian Banking Sector are governed by the Banking Regulation Act, 1949 and RBI. Though there are complete set of provisions for the financial disclosures, non-financial disclosures are still voluntary. Realizing the importance of the non-financial disclosures, RBI is encouraging the banks to adopt non-

financial disclosures apart from their financial disclosures (Chakrabarty, 2011). In the changing time, management of risk and human resource has emerged as two key challenges faced by the banking sector. Management of risk is possible only with an efficient and skilled manpower. Banking industry being a service industry, human resources are its most profitable asset. Thus Human Resource Disclosures is essential for a better insight in the profitability, sustainability and performance of the concerned bank and the economy as a whole.

Human Resource Accounting

HRA, as an approach, originally evolved as a process of identifying, measuring and reporting the HR of an organization not presently accounted for under conventional accounting practices. It is an information system that records the changes over time that occurs to the corporate HR and periodic reporting of these to the management. The Committee on HRA of American Accounting

Association (AAA, 1973) defines HRA as *the process of identifying and measuring data about human resources and communicating this information to interested parties.*

An examination of the above definitions reveals that HRA involves processes such as the identification of data on investment in the HR, measurement and valuation of the economic results of such investment, and presentation of the above valuation in the annual financial statements. In this way, HRA can be defined as the art of identifying, valuing, recording and presenting systematically the worth of HR in books of accounts of an organization. HRA may be defined as an information system that tells the management what changes are accruing to HR of the company. It is an art of evaluating the worth of HR of an organization in a systematic manner as a whole to the organization and to the society and recording them for presenting the information in a significant manner to communicate their worth with changes over a period of time and results obtained for their utilization to the users of financial statements.

2. Review of Literature

The concept of human resource valuation was introduced by Flamholtz (1960) as a part of goodwill, which was followed by a series of researches on Human Resource, its validity and valuation in the enterprises. Further Conner L. (1991) in resource theory identified Human Resource or Personnel as 'specific assets' of the enterprise, having interdependent knowledge influencing the productivity. Sveiby (1997) advocated that since the HR are acquired by the organizations with a view to generate future revenues thus, HR must be considered as Capital and expenses on them should be capitalized while computing the value of the organization instead of treating them as expenses. According to Jaggi and Lau (1974) The stock market analysts feel that human resource accounting is an investor friendly disclosure as well as assuring the various stakeholders that the business has the right human asset to meet future requirement. On the other hand Subhash (2008) identifies the idiosyncrasies of individuals' knowledge, skills and capabilities, HRM practices and organizational culture as constituents of Human Capital, which convey information to the capital market. Lee and Siddiq (2012), reveals that HR disclosure it has an impact on the decisions of the investors, clients and potential staff of the organization.

Ulrich, Geller & Desouza (1984) discovered a positive correlation between HR Disclosure Practice and business Performance. Michel (2013) did not find any significant difference in the Nigerian financial and manufacturing companies. He identified was the lack of legislation for human resource disclosure as one of the reason for inadequate HR disclosure practice. Sharma & Kumar (2014) finds that the HR disclosure practice of public sector banks better than the private sector banks in India. Based on the importance of HR Disclosure Practices and the Commercial Banks in economy, the present study identifies the present state of HR Disclosure practice in present time. The literature on HRA, as far as measuring and reporting

HR is concerned, can be classified in three categories, consistent with Abheyskara and Guthrie (2004). The *first* category attempts to formulate different methods for measuring and reporting HR value (HRV). Various techniques have been evolved by researchers using cost, value and other components of HR as the basis.

However, these methods have got little acceptance due to the subjectivity involved in the process of HRA except for the Lev and Schwartz model as proposed by Lev and Schwartz (1971). This method is followed by most companies for HR valuation with some modification to suit individual needs. The *second* category attempts to analyze the effect of HRA on investors and management's decisions. Various studies undertaken to understand behavioural implications of HRA disclosures on investors, managers and employees also come under this category. The *third* category of research attempts to explore the various ways in which HR and HRA information is being measured and reported by companies through various means such as annual reports, company newsletters and websites, with the content analysis of annual reports being the highly explored source. The research studies here seek to investigate current HRA measurement, reporting practices and trends among companies across industries and countries affecting the reporting practices and attempts to identify the factors/explanatory variables affecting the disclosure practices. Our study falls in the third category where an attempt has been made to analyze the extent of disclosures of the HRA information of the Indian companies through the content analysis of annual reports. After constructing the HRA disclosure index (HRADI), the study aims to find out whether the companies differ significantly in respect of HRA disclosures or not.

3. Research Objective

The objectives of the study are as follows:-

1. To study the degree of HRD (Human Resource Disclosure) by the commercial banks in India.
2. To compare the disclosure practices of public, private and foreign commercial banks in India

4. Research Hypothesis

The research hypothesis is- H₀ : There is no significant difference in the Human Resource 0 disclosure practices of public, private and foreign commercial banks in India.

H₁ : There is significant difference in the Human Resource 1 disclosure practices of public, private and foreign commercial banks in India.

5. Research Methodology

For this purpose, the exploratory research design based on secondary data contained in annual reports of the selected set of companies was chosen. The study was conducted for the period of five years from the financial year 2007–08 to the financial year 2011–12. In the first step, the annual reports of the companies were examined to find out those companies which are actually measuring and reporting HRA information. Then a 20-item HRADI was developed to find out the extent of HRA disclosures and to rank the selected companies on the basis of the disclosure index. The items were chosen on the basis of past empirical work on HRA disclosure practices and the content analysis of annual reports of the selected companies. These indicators were divided into three groups: HRA model specifications and reporting; HR variables forming the base of HRA measurements and HRA-related ratios.

Sample Selection-

Judgment sampling procedure has been applied to select the banks for the study. The banks enlisted in NSE being representative of the Indian commercial banking system has been considered as the examined for the study. Total 12 banks are enlisted in the ind cnx banklist which includes Public Sector, Private Sector and Foreign Banks. Since, IndusInd Bank Ltd. recently merged with Kotak Mahindra is excluded from the study making 11 banks under study. For this purpose, the exploratory research design based on secondary data contained in annual reports of the selected set of companies was chosen. The study was conducted for the period of five years from the financial year 2007–08 to the financial year 2011–12. In the first step, the annual reports of the companies were examined to find out those companies which are actually measuring and reporting HRA information. Then a 20-item HRADI was developed to find out the extent of HRA disclosures and to rank the selected companies on the basis of the disclosure index. The items were chosen on the basis of past empirical work on HRA disclosure practices and the content analysis of annual reports of the selected companies.

6. Conclusion

With so many frauds and scandals propping up in the last decade, there is a pressing need to have not just more disclosures but also to have better rules and practices for the disclosure of information to improve trust in accounting. The accounting bodies and academic communities are also aware of this and the importance of issuing guidelines to improve

financial and non-financial reporting. However, the study has revealed the sorry state of HRA and its

application in Indian companies. The HRA application and disclosures are not only low but also inconsistent, incomparable and unreliable as HRA statements are unaudited. This leaves a lot to be done in respect of HRA disclosures. There is a pressing need on behalf of accounting bodies,

government agencies and regulatory bodies to come forward and issue accounting guidelines in relation to disclosures being more objective and user worthy. The HRADI as constructed in the study can be used as a benchmark by companies to improve their HRA disclosures.

It can also be used by accounting bodies and company regulators while deciding about standards about HRA disclosures. Investors can also use HRA disclosures made by companies as a basis to understand its financial standing and future potentials.

Human Resource has always been a prominent resource in the organization. Even various technological advancement increasing inventions and innovations in the growing time period is unable to replace the role of human being in the organization. The emergence of knowledge based industry has magnified the importance of workforce. In the era of cut throat competition it is sought as a tool for competitive advantage. Thus the disclosure of this eminent capital of the organization is important for the investors and other decision makers associated to the organization. Commercial Bank is major service industry and the base of the economy. So, the paper aims to study the present position of HR Disclosure Practice prevailing in the Indian Commercial Banks. The study reveals HR Disclosure Practice is in its initial stage and is completely voluntary. Moderate level of HR Disclosure Practice prevails in the Indian Commercial Banks. A non-financial disclosures practice is yet to cover a long way to become a prominent part of the bank's balance sheet. Indian Commercial Banks initiative for such practice is commendable, yet there is long way to go. Proper legislation is also required to promote unity in the disclosures. The present study also has some limitations. The study is conducted on annual report and business responsibility report, yet different banks may have used other reports for the disclosure. The study is based on the reports of only one year, thus it does not reveals the trend and the progress in the HR Disclosure Practices of Indian Commercial Banks. These limitations can be used as basis for further research.

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