

HUMAN RESOURCE ACCOUNTING AND DISCLOSURE PRACTICES IN INDIAN CORPORATE SECTOR

RENU SINDHU*
Research Scholar,
Deptt. of Commerce, Chaudhary Devi Lal University, Sirsa.

SILENDER SINGH**
Assistant Professor,

ABSTRACT

In the new economic setup, intellectual and human capital is identified as major determinant of performance in Indian corporate sector. To focus on it, the present study has tried to find out the relationship between the average disclosure of human resource accounting and intervene variables, i.e. age of company, networth, PAT, ROTA, RONW, MCP and compensation. The data have collected from 2005 to 2015 of seventy companies of public and private sector. The technique for analyzing data has been used descriptive statistics, correlation and simple linear regression of seven different variables. This study concluded that compensation is positively and significantly associated.

Keywords: HRA, compensation

INTRODUCTION

In this age of globalization, human resources are increasingly important parts of an organization's total wealth. The identifying, measuring and communicating information about human resource in financial terms now becoming integral part to aid human resource planning(HRP) and control, this process is called human resource accounting (HRA). It also finds out the present economic value of its employees and managers, after measuring the cost its employees. A report is also made on human resource and shown to the top-level management, employees and outside parties.

Eric Flamholtz(1971), 'Accounting for people as an organizational resource. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people in the organization'. According to behavioral scientists, under conventional accounting no information is made available about the human resources employed in an organization. Still, without people the financial and physical resources cannot be operating effectively. It is needed that the measurement of abilities at every level all employees in a company, to produce value from their knowledge and

capability. In the developed countries, it is very common phenomenon that companies have formal HRA reporting aspect in their annual report. But, the concept of human resource accounting is in the early stage of development in developing countries like India. Human resource accounting was first used in public sector by Bharat Heavy Electrical Ltd (BHEL) in fiscal year 1972-73. Later other organization both in public and private organization started to furnish HRA information in their annual report. So, this study to know which factor effects the HRA disclosure in annual reports of the companies.

2. REVIEW

Review examined prevailing methodologies and gaps in earlier studies in this area. Throughout the literature the terms human resource, human assets, human capital, intangible assets and intellectual capital are used synonymously and interchangeably.

Table 1- Classification of Variables Concerned with HR Disclosure Practice:

Sr. No.	Study	Country	Sample	Dependent and Independent variables	Test used	Result
1	Meshack, Binglar, Etyale (2002)	Nigerian	10 commercial Banks quoted in the Nigerian Stock Exchange	Dependent variable -human resource capital Independent variable- goodwill, measured by (Return on Investment, Return on Equity and Earnings per Share)	ANOVA	Significant positive
2	Vergauwen, Bollen and Oirbans (2007)	Copenhagen	60 firms of Copenhagen Stock Exchange	Dependent variable - intellectual capital disclosure, and Independent variables human capital indicators, intellectual capital indicators	Correlation model	Significant positive
3	Singh and Kansal (2011)	India	20 companies in pharmaceutical sector in the year 2009	Dependent variable- intellectual capital (IC) independent variables- intellectual capital (IC) disclosures	Chi- squares, Karl Pearson's correlation and Student's t-test	Significant Negative
4	Dominguez (2012)	Madrid	IGBM (Madrid Stock Exchange index) for 2004	Dependent variables--human resource disclosure Independent variables are size of the company, Debt, Profitability	Correlation	Significant positive
5	Micah and Ihendinihu (2012)	Nigeria	52 companies data from 2005-09	Dependent variables -human resource accounting disclosure index Independent variable- financial performance	Correlation and Regression	Significant positive
6	Jindal and Kumar (2012)	India	97 listed firms	Dependent variables- human capital disclosure Independent variables - industry, size, age, profitability, globalization, ownership concentration, structural complexity,	Ordinary Least Square (OLS), Poisson regression	Significant negative

				leverage, auditor type, employee expenses		
7	Ullah and Karim (2015)	Bangladesh	30 listed banking companies enlisted in Dhaka Stock Exchange (DSE)	Dependent variable- human resource disclosure Independent variables- size of the bank, age of the bank, profitability, amount of human resource cost and capital adequacy ratio	Average, standard deviation, coefficient of variation, percentage and correlation	Significant negative

3. RESEARCH METHODOLOGY

Data collection: Secondary data has collected from seventy public and private companies which are following measurement and reporting practices of HRD form 2005-06 to 2014-15. These data were collected from annual reports of companies downloaded of respective companies and additional help were taken from prowess with Panjab University, Chandigarh (PUC).

Independent variables- company age, market capitalizations, return on total assets, return on net worth, net worth, profit after tax, compensation to employees.

Dependent variables- dependent variables have been measured by constructing an index comprising of sixteen discretionary human resource disclosure (HRD) consecutively includes (1) No of employees (2) cost of per employees (3) Age of retirement (4) Efficiency factor (5) HRV to total resource (6) Loans and advances to employee's (7) All direct and indirect compensation (8) Human capital employed (9) Group according to skills and education (10) Pensions and retirement benefits (11) Turnover per employees (12) Value added per employees (13) Human capital investment ratio (14) Average salary of employees (15) Discount rate applied (16) Valuation model used

Measurement Scale: In examining each HRD 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 variable for each year and "0" otherwise. The score of each company was totaled find the net score of the company. The HRDI was then computed by using the following formula:

$$\text{HRDI} = \frac{\text{Total score of individual company} \times 100}{\text{Maximum possible obtainable}}$$

4. ANALYSIS AND INTERPRETATION

Table 2- Descriptive statistic of 70 companies

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic

HRDI	70	9.00	1.00	10.00	3.5000	1.97631	3.906	1.218	1.452
Age	70	8.00	2.00	10.00	5.3143	2.47036	6.103	.523	-.810
PAT	70	10.00	.00	10.00	2.4143	2.41068	5.811	1.840	2.731
Networth	70	10.00	.00	10.00	6.0143	3.98727	15.898	-.197	-1.805
Compensation	70	10.00	.00	10.00	2.8143	2.63913	6.965	1.546	1.444
ROTA	70	9.00	1.00	10.00	4.0714	3.04232	9.256	.757	-.602
RONW	70	10.00	.00	10.00	3.9714	2.18673	4.782	.731	1.206
MCP	70	10.00	.00	10.00	3.6714	3.53337	12.485	.670	-.929
Valid N (listwise)	70								

Source: secondary data processed through SPSS.

Table no 2 indicates that PAT value of the kurtosis of 2.731 is near the expected value of 3. But mean =2.4143 of it is very low. Where mean of networth, 6.0143 is the highest among all the variables. But kurtosis shows the platykurtic and while skewness shows negative side consideration of data, so pattern of data differ each other.

Table 3 - Pearson's correlation matrix for all variables with sample size of seventy

Pearson's correlation matrix		HRDI
HRDI	Pearson	1
	Sig. (2-tailed)	
Age	Pearson	-.068
	Sig. (2-tailed)	.574
PAT	Pearson	.306*
	Sig. (2-tailed)	.010
Networth	Pearson	.133
	Sig. (2-tailed)	.271
Compensation	Pearson	.371**
	Sig. (2-tailed)	.002
ROTA	Pearson	.119
	Sig. (2-tailed)	.325
RONW	Pearson	.047
	Sig. (2-tailed)	.700
MCP	Pearson	.296*
	Sig. (2-tailed)	.013

Source: secondary data processed through SPSS.

Table no 3 reveals that:

i. The correlation between the human resource accounting disclosure and PAT is 0.352 with a corresponding p-value of significant of .010 which is less than 0.05. So, there is a significant positive relationship between the human resource disclosure and profit after tax.

- ii. The correlation between the human resource accounting disclosure and compensation is .371** with a corresponding p- value of significant of .002 which is less than 0.05. Therefore, there is a significant positive relationship between the human resource disclosure in the annual report and compensation to employees.
- iii. The correlation between the human resource accounting disclosure and market capitalization .296 * with a corresponding p- value of significant of .013. Consequently, there is a positive significant relationship between the human resource disclosure and market capitalization of companies.
- iv. But, there are weak correlation between human resource accounting disclosure and age of companies (-.068), net worth (.133), ROTA (.119), RONW (.047).

Multiple Regression Analysis

This study has also tried to develop prediction model on the human resource:

$$\text{HRADs} = a + \text{MCP } X_1 + \text{ROTA } X_2 + \text{Age} X_3 + \text{RONW } X_4 + \text{Compensation } X_5 + \text{Net worth } X_6 + \text{PAT } X_7 + e$$

Where

HRADs = Human resource accounting disclosure

MCP=Market capitalization of companies

ROTA = Return on total assets

Age = Companies age

RONW= Return on net worth

Compensation = Direct and non -direct compensation

Net worth = working capital

a = Intercept

e = Error term

Table 4 - Descriptive statistics of dependent and independent variables of companies

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.459 ^a	.210	.121	1.85262

a. Predictors: (Constant), MCP, ROTA, Age, RONW, Compensation, Networth, PAT

Source: secondary data processed through SPSS.

Table no 4 shows that the multiple correlation coefficient, $R=0.459$. The R^2 explain that 21% variation of the total variance of HRDI is explained by MCP, ROTA, Age, NONW and compensation. Field (2005) suggested that value of R^2 below 0.2 is considered weak, between 0.2 to 0.4 moderate and above 0.4 is strong. Adjusted R^2 modifies the value of R^2 in an attempt to better estimate the true population value. Further, the standard error of the estimate of 1.85262 indicates the degree to which the independent variables were unable to predict scores on the dependent variable of 1.85 points on average which is quite a low estimation.

Table 5- Statistical significance of the models

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	56.704	7	8.101	2.360	.033 ^b
	Residual	212.796	62	3.432		
	Total	269.500	69			
a. Dependent Variable: HRDI						
b. Predictors: (Constant), MCP, ROTA, Age, RONW, Compensation, Networth, PAT						

Source: secondary data processed through SPSS.

In this table no 5 show that using ANOVA indicates p-value .033 less than 0.05, So all the independent variables significantly predicts the dependent variable. This leads to the conclusion that the regression equation with the seven independent variables is able to predict significantly the disclosure of human resource in annual report.

Table 6- linear regression analysis of dependent and independent variables

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.375	.755		4.467	.000
	Age	-.092	.099	-.115	-.931	.356
	PAT	-.094	.186	-.115	-.506	.614
	Networth	-.127	.094	-.257	-1.358	.179
	Compensation	.332	.139	.444	2.394	.020
	ROTA	.141	.098	.217	1.437	.156
	RONW	-.130	.131	-.143	-.989	.327
	MCP	.167	.142	.298	1.179	.243

a. Dependent Variable: HRDI

Source: secondary data processed through SPSS.

Table no 6 shows the analysis of the independent variables for significance. The p-value compensation (.020) was less than 0.05. Only one variable accounted for a significant amount of unique variance in the human resource accounting disclosure concept. On the other side, age, PAT, net worth, ROTA, RONW, MCP and disclosure of human resource were not significant since the p-value was more than 0.05.

5. CONCLUSIONS, SUGGESTIONS AND FUTURE RESEARCH

The analysis of this study has excluded only one predictor, compensation ($R^2=0.210$, $P=.020$, $P < 0.05$) which is significantly associated with HRDI, and remaining variables are negatively effected the relationship among characteristics of companies and human resource accounting information disclosure. But, age of companies, profit after tax, market capitalization, return on total assets, return on net worth and net worth have not significant effected the disclosure practices. The overall result of all the variables indicated that their combined effects are significant. The findings of the study are in conformity with other research studies of Jindal, Kumar (2012), Ullah and Karim (2015), Dominquez (2012) and Micah, Ihendinihu (2012).

This study is based on secondary data, which are collected from annual reports of companies and other sources. Future research could be examined in the primary data, more than seven inderpedned variables and other methods may be used for the study.

REFERENCES

- Dominguez, (2011).The impact of human resource disclosure on corporate image. *Journal of Human Resource Costing & Accounting*, 15 (4), 279 – 298.
- Enofe, and Mgbame (2013). Human Resources Accounting Disclosures in Nigeria Quoted Firms. *Research Journal of Finance and Accounting* ISSN 2222-2847, 4(13).
- Enyi and Akindehinde(2014). Human Resource Accounting and Decision Making in Post-Industrial Economy. *American International Journal of Contemporary Research*, 4 (2).
- Meshack, Binglar, Etyale(2002). An Assessment of Human Resource Capital and Goodwill: A Study of Selected Commercial Banks in Nigeria. *Journal of Business & Management* , 2(4), ISSN 2291-1995 E-ISSN 2291.
- Micah , Ofurum and Ihendinihu(2012).Firms Financial Performance and Human Resource Accounting Disclosure in Nigeria. *International Journal of Business and Management*, 7(14) ISSN 1833-3850 E-ISSN 1833-8119.

- Okpako,Atube and.Olufawoye(2014). Human Resource Accounting and Firm Performance. *Global Journal of Commerce and Management Perspective*, 3(4),ISSN-2319-7285.
- Jindal and Kumar, (2012). The determinants of HC disclosures of Indian firms. *Journal ofIntellectual Capital*, 13 (2), 221 – 247.
- Singh and Kansal, (2011). Voluntary disclosures of intellectual capital. *Journal of Intellectual Capital*, 12 (2), 301 – 318.
- Singh and Sindhu, (2017). Human Resource Information Disclosure Practices in Financial Report. *Intercontinental Journal of Human Resource Research Review*, ISSN: 2320-9704, 2347-1662, 5(12).
- Taliyang, Jaffar and Mustafa et.al (2014). Intellectual Capital Disclosure and Market Capitalization. *International Journal of Business and Social Science*, 5(10).
- Ullah and Karim(2015). Human Resource Disclosure in Annual Report of the Listed Banking Companies in Bangladesh. *Global Journal of Quantitative Science*, 2(1),7-19.
- White Gregory, Lee Alinaand Tower Greg (2007). Drivers of voluntary intellectual capital disclosure in listed biotechnology companies. *Journal of intellectual capital*, 8 (3), 517-537.
- WickramasingheVathsala and FonsekaNayana (2012). Human resource measurement and reporting in manufacturing and service sectors in Sri Lanka. *Journal of human resource costing and accounting*, 16 (3), 235-252.
- Williams S. Mitchell (2001). Is intellectual capital performance and disclosure practices related. *Journal of intellectual capital*, 2(3), 192-203.
- Woodcock James and Whiting H. Rosalind (2009). Intellectual capital disclosures by Australian companies. University of Otago, New Zealand, the AFAANZ conference.