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**INTERNATIONAL JOURNAL OF  
 ADVANCED RESEARCH (IJAR)**

Article DOI: 10.21474/IJAR01/2616  
 DOI URL: <http://dx.doi.org/10.21474/IJAR01/2616>



### RESEARCH ARTICLE

#### DISCLOSURE PRACTICES AND INVESTOR'S PERCEPTION REGARDING HUMAN RESOURCE ACCOUNTING IN INDIAN CORPORATE SECTOR: A SURVEY.

Dr. Hitendra Shukla and Dr. Kirti Singh.

Department of Accountancy & Law Faculty of Commerce Ishan Institute of management and technology Greater Noida, (U.P.) India.

#### Manuscript Info

##### Manuscript History

Received: 30 October 2016  
 Final Accepted: 29 November 2016  
 Published: December 2016

##### Key words:-

Accounting, Human, HRA, Disclosures.

#### Abstract

**Introduction/ background:-** This paper portrays an overview of human resource accounting in India, discusses the disclosure practices, perception of shareholders and banks (investors) regarding human resource accounting.

**Methodology/ Materials & Methods/ experimental-** for the purpose of study, the top fifty companies (as per the Economic Times rating for 2011-12 based on total capital employed) were selected, and these companies divided into ten sectors (Auto mobile, Banking, Information technology, Oil, Pharmaceuticals, Refineries, Cement, Telecommunication, Power, steel sector). These companies have been selected on the assumption that human-resource accounting being an emerging field in accounting in Indian among large organizations.

For 2nd objective, structured questionnaire were prepared through google forms, which was e-mailed to twenty four organizations who are presently disclosing HRA information in their annual report and another who recently started HRA system. Those investors failed to reply through the mailed questionnaires were contacted personally to seek their response. Through mail and personal contact, a total number of 300 responses have been able to collect for analysis out of which be 250 responses were selected for the study.

**Result & Discussion:-** The result of study showing that refinery industry has got the first rank because it display 77.2% HRA items in their annual reports, then oil industry disclosed 59.08% and subsequently power industry disclosed 54.54% HR items in last three years and pharmaceutical industry has been displaying the least HR items in their annual reports. This simply clears that pharmaceutical industry is doing very less expenditure on their human resource. investors {banks} are aware regarding the benefits of Human resource accounting while shareholder are not prepare for HRA investment decision and they are not aware about that.

**Conclusion:-** Finally we can say that the output of HRA system can be used to take a variety of decisions in the area of human resource management and But the number of organizations that have adopted HRA system in India is quite less as it is not compulsory for the Indian organizations to value human resources. There are certain problems associated with the system also as per the survey conducted

**Corresponding Author:- Dr. Hitendra Shukla.**

Address:- Department of Accountancy & Law Faculty of Commerce Ishan Institute of management and technology Greater Noida, (U.P.) India

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### **Human Resource Accounting: An Introduction:-**

Many authors state that human resource is the most important assets of organization. Often a researcher seen in the director's report **"our employee is our greatest assets for being a fantastic success of our company. We have to retain them at any cost"** in this statement director does not merely speak of the contribution to the employees in terms of money, but it talks about the human support which is very important assets for every organization. Not only, the directors report talks about human assets but also auditor's report of the companies in their statement given by an auditor is **"the Human-Resource Accounting is also an orderly official process, which is planned to inspect the policies, strategies, processes, documentation, structure, systems and practices with respect to the organization's human-resource management. It scientifically and systematically measures the strengths, limitations, and changing requirements of the current human resources from the superior point of view of enhancing organizational performance."** In this statement, auditor gives his audit report regarding human resource.

Wealth maximization, value maximization, growth in market share, efficiency of good management, vision, mission, achievement of goal, corporate image, supply-chain management, reputation, developed research and development, value management, time management continuity for the success all depends upon human talents.

When we are talking about the position of human talent in accounting term in India then researches finds that human-resource accounting is not a new concept in India. Human-resource accounting was introduced by public sector companies like BHEL, SAIL way back in the 1970s. However, the concept did not gain much popularity. Basically, HRA is the management tool for decision making, and HRA helps the management in taking decision, which provides monetary data. It can be useful in areas of recruitment planning & selection.

### **Review of Previous Studies:-**

The theory of human capital is not a most recent discussion. It was an origin in 17th century when economist, sir william petty first attempted to estimate the monetary value of population of England in (1681),<sup>1</sup> he stated that employee as the father of wealth and stressed that it should be included in the estimate of total national wealth. The credit is gone to **Paton (1962)**<sup>2</sup> for recognizing the value of the human resources as an asset. **Morse (1973)**<sup>3</sup> stated that talent value was equal to the present value of the gross value of services to be rendered by human being. **Flamholtz (1976)**<sup>4</sup> carried out an experimental study on the impact of human-resource valuation on management decision making. He found significant difference in decisions taken by those who used traditional trait evaluation relative to those who used two of HRA data. In (1977), **Tomassine**<sup>5</sup> carried out a laboratory study to examine the effects of HRA cost data in personnel layoff decision context He stated that human-resource accounting cost estimates caused different managerial preference in the personnel layoff decision context In (1984), **Gul**<sup>6</sup> attempted to study the usefulness of human-resource turnover cost information for the employee turnover decision making in a sample of Australian Accounting firm. He stated that human-resource turnover cost information significantly reduced accountant level of uncertainty their level of relevance and sufficiency. **Gupta in (1990), Bhatia and singh in 1992, Rao in 1993, Batra and Bhatta in 1994, Prakash in 1997, Varma in 1999, Sonara and Patel in 2009**<sup>7</sup> found the current status of human resource accounting in India context. All these studies were found out the current practices followed by the Indian organization for HRA.

For the purpose of this study the disclosure level of human resource accounting of the several Indian corporate sectors and perception of the management regarding of HRA in decision making is considered.

### **Research Gap:-**

After analysing some research studies, researchers find that the Human resource accounting in public and private sector companies has lot more potential to study. Furthermore, many researchers work on it but still the HRA is not as much focused earlier. So this is the main starvation of the research.

**Objective of the Study:-**

- 1 To rank the industries based on level of disclosure of human resource accounting information in their annual reports.
- 2 To study perceptions of shareholder and banks (investors) about human resource accounting.

**Research Methodology & Design:-****Hypothesis:-**

**H<sub>0</sub>:** There is no significant association in investor's perception regarding Human Resource Accounting

**Sample Selection:-**

For the first objective, the top fifty companies (as per the Economic Times rating for 2011-12 based on total capital employed) were selected, and these companies divided into ten sectors (Auto mobile, Banking, Information technology, Oil, Pharmaceuticals, Refineries, Cement, Telecommunication, Power, steel sector). These organizations have been selected on the assumption that human-resource accounting being an emerging field in accounting in Indian large organizations.

For 2<sup>nd</sup> objective, structured questionnaire were prepared into the google forms, and that was e-mailed to twenty four organizations who are presently disclosing HRA information in their annual report and another who recently started HRA system. Those investors failed to reply through the mailed questionnaires were contacted personally to seek their response. Through mail and personal contact, a total number of 300 responses have been able to collect for analysis that worked out to be 250 companies selected for the study.

**Method of Data collection:-**

For the study purpose both secondary and primary data have been considered. A well define structured questionnaire is used in the research as a primary data collection source. The secondary data will be collected from the annual reports (Auto mobile, Banking, Information technology, Oil, Pharmaceuticals, Refineries, Cement, Telecommunication, Power, steel sector companies) journals (INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT September 2012), newspapers, reports and the different website of the concerned area.

**Period of the study:-**

The data was examined for the last three year financial year that is from 2010-11 to 2012-13.

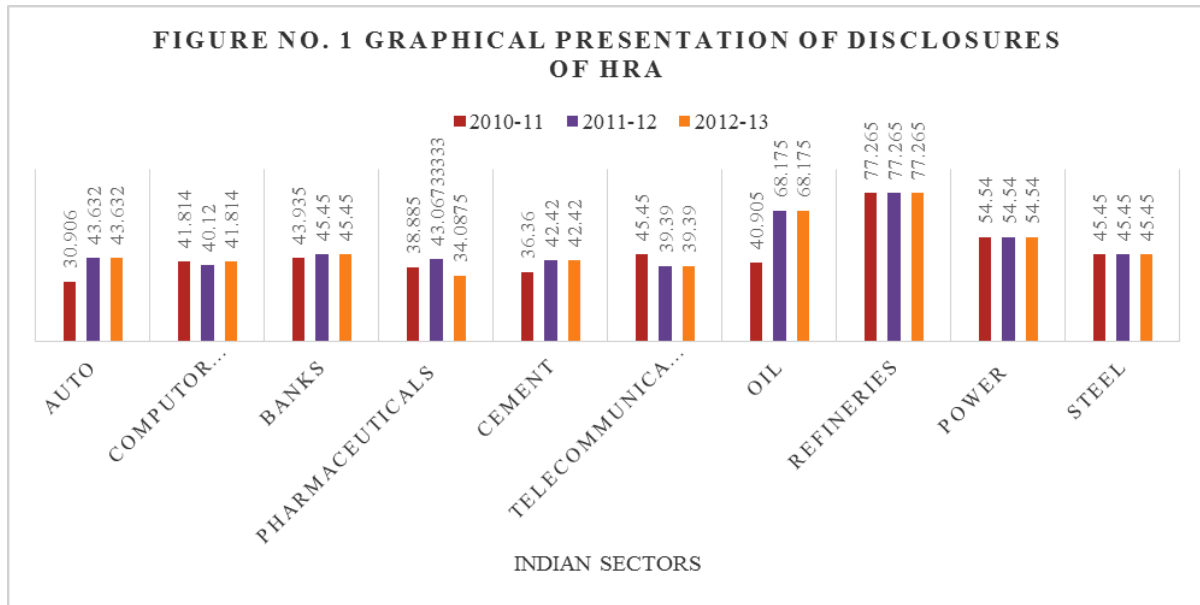
**Analysis of Data:-**

In this study a human resource accounting disclosure index (HRADI) comprising of 11 human resource accounting reporting (HRAD) variables (Separate HRA statement, HR Development fund, Employee categories, retirement benefits, No of employee, value added, value of HR, Value added/employee, Employee cost, valuation method adopted, EVA) 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 industry was totalled find the net score of the industries. On the basic of HRADI rank has been given.

**Analysis of the Study:-**

Table no. 1: Disclosure of human resource accounting of selected industries India					
Industries	2010-11	2011-12	2012-13	Mean	Rank
AUTO	30.90	43.63	43.63	39.39	9
COMPUTOR SOFTWARE	41.8	40.12	41.81	41.24	7
BANKS	43.9	45.45	45.45	44.94	5
PHARMACEUTICALS	38.8	43.06	34.08	38.67	10
OIL	40.9	68.17	68.17	59.08	2
REFINERIES	77.2	77.26	77.26	77.26	1
CEMENT	36.36	42.42	42.42	40.4	8
TELECOMMUNICATION	45.4	39.39	39.39	41.41	6
STEEL	45.4	45.45	45.45	45.45	4
POWER	54.5	54.54	54.54	54.54	3
<b>Average</b>	45.5	49.95	49.22	48.24	

(Source: secondary data from annual reports survey)



According to table no.2 in the given information refinery industry has got the first rank because it display 77.2% HRA items in their annual reports, then oil industry disclosed 59.08% and subsequently power industry disclosed 54.54% HR items in last three years and pharmaceutical industry has been displaying the least HR items in their annual reports. This simply clears that pharmaceutical industry is doing very less expenditure on their human resource.

#### Perception of shareholder:-

**Table no.2:-** Shareholders' perception.

S.No.	Options	Mean	SD	Rank
1.	The financial statements of companies reflect the true and fair view of their assets.	4.15	0.83	2.5
2.	Information reported by companies in their annual financial reports is adequate.	4.15	0.83	2.5
3.	Annual financial reports of companies disclose adequate information on the investment in their human resource.	3.85	1.23	10
4.	Annual financial reports of companies disclose relevant information on the quality of their workforce.	3.41	1.05	12
5.	The presence of human resource value in the financial statements of companies can increase the quality of the information contents of the reports.	3.87	0.81	8
6.	Human resource accounting is relevant to and should be applied by companies.	3.88	1.33	6
7.	Existing human resource valuation models can provide a realistic value of human resource for inclusion in the financial statements of companies.	3.87	0.97	8
8.	When reliably measured, the inclusion of human resource value in the financial reports of companies can increase the true and fair view of the reports.	4.02	0.53	5
9.	Users can find the inclusion of human resource value in the financial reports companies is useful for their decision making purposes.	4.41	0.93	1
10.	The inclusion of the value of human resource in the financial reports of companies would reveal their actual value.	3.87	1.11	8
11.	Measurement of human resources gives investors needed information about the value of the business and its potential for future profitability.	3.58	1.26	11
12.	Expenditure incurred for the development and welfare activity of human resource.	4.13	0.64	4

(Source: Primary Survey)

In the first parameter which was related to the financial statements of companies reflect the true and fair view of their assets, 43.33 % respondents say that they strongly agree with this and 28.34 % respondents only agreed and same percentage of respondent were neutral about this. No respondent disagree and strongly disagree with this. The weighted mean and SD score of this parameter is 4.15 and 0.83 which shows that overall 71.67% investors were agree that the financial statement of the companies reflect the true and fair view of their assets.

In the second parameter researcher has asked to the respondents was they confined with the Information reported by companies in their annual financial reports is adequate. In this, 43.33 % respondents said that they strongly agree with this and 28.34 % respondents only agreed and same percentages of respondent were neutral about this. No respondent disagree and strongly disagree. The weighted mean and SD score of this parameter is 4.15 and 0.83 which reveals that overall 71.67% investors were agree that the Information reported by companies in their annual financial reports is adequate.

Next question which was related the annual financial report that is companies disclose adequate information on the investment regarding their human resource. 41.67% respondent was strongly agreed about it and 30% respondents were agreed. However, 28.33 % investors was disagree that Annual financial reports of companies do not disclose adequate information on the investment in their human resource. Mean and SD score of this parameter is 3.85 and 1.23 respectively which reveals that 81.67% investors were agree on this statement.

Next parameter of awareness of HRA was that Annual financial reports of companies disclose relevant information on the quality of their workforce. 28.33 % investors were admitted that annual report of companies disclose relevant information on the quality of their workforce while 56.67 % respondents were neutral about such kind of think. 15% investors were disagreed. Mean and SD score is 3.41 and 1.05 respectively.

One question which was asked to respondents that the presence of human resource value in the financial statements of companies can increase the quality of the information contents of the reports, 13.33 % respondents strongly agreed, 73.33% agreed and only 13.34 % of respondents out of the total were disagreed with this. The weighted average and SD of this statement is 3.87 and 0.81, which reveal that 86.66 % of the respondents out of the total were in favour of this this statement.

Another question related to Human resource accounting is relevant to and should be applied by companies, 43.33% investors were strongly agreed with this statement and 28.33 % respondents were agreed. While only 15% respondents were neutral for this opinion and 13.34 % investors were strongly disagreed. The mean score is 3.88 which is indicate that majority of respondents were agreed with this statement.

Next question related to existing human resource valuation models can provide a realistic value of human resource for inclusion in the financial statements of companies, 28.33% respondents were strongly agreed, 43.33% respondents agreed and 15% respondents were neutral with this type statement. While only 13.34% respondent were disagreed that existing human resource valuation models can provide a realistic value of human resource for inclusion in the financial statements of companies. The mean score is 3.867 and SD 0.9, which is indicate that 71.66 % respondents were agreed.

Next question related to perception of investor for find the inclusion of human resource value in the financial reports companies is useful for their decision making purposes, 41.67 % respondent was strongly agreed and 58.33 % respondents was agreed. The mean score is 4.41 which are reveals that all most 100% respondents find the inclusion of human resource value in the financial reports.

Another question related to the inclusion of the value of human resource in the financial reports of companies would reveal their actual value. 43.33 % respondents were strongly agreed and 13.33% respondents were agreed. While 30% investors were neutral for this statement and only 13.34 % respondents were disagreed that inclusion of the value of human resource in the financial reports of companies would reveal their actual value. The mean score and SD are 3.867 and 1.11 respectively.

Second last question related to Measurement of human resources gives investors needed information about the value of the business and its potential for future profitability. 28.33 % respondents were strongly agreed and same

percentages of respondents were also agreed while 30 % respondents were neutral and only 13.34 % respondents were disagreed with this. The weighted average and SD of this parameter are 3.58 and 1.26.

Last question related to Expenditure incurred for the development and welfare activity of human resource. 28.33 % of investors were strongly agreed and majority of respondents (56.67%) were agreed with that the expenditure incurred for the development and welfare activity of human resource. While only 15 % investors were neutral. The mean score and SD are 4.13 and 0.644 which is indicate that 85 % of respondent agreed with this statement.

**Table no.3:-** Showing the Hypothesise testing with reference to shareholders' regarding HRA awareness.

Questions	Test Statistics						
	Options	Observed	Expected	$\chi^2$ test	df	Asymp. Sig.	Ho
Are you aware of the concept human resource accounting?	Yes	83	83.33	33.75	2	0.000	R
	No	121	83.33				
	Can't Say	46	83.33				
Do you think that the companies should disclose information about their human resources accounting in the annual reports?	Yes	217	125	135.4	1	0.000	R
	No	33	125				
	Can't Say	0	0				
Do you think this kind of disclosure will help the users in investment decision making?	Yes	67	83.33	98.55	2	.000	R
	No	154	83.33				
	Can't Say	29	83.33				
Do you think HRA information reporting will help investors for performance measurement of managers and entire business unit	Yes	225	125	160	1	0.000	R
	No	25	125				
	Can't Say	0	0				
Do you think companies should use several graphs, pictorials etc. in this kind of disclosures to facilitate better understanding for the users?	Yes	217	125	135.4	1	0.000	R
	No	33	125				
	Can't Say	0	0				
Do you think human resource expenditure incurred by companies in India should better be capitalized and reported as assets?	Yes	200	83.33	246.5	2	0.000	R
	No	17	83.33				
	Can't Say	33	83.33				

(Source: Primary Survey)

In case of question 2 & 5, 217 respondents were said that they are aware about the concept of human resource accounting and companies should disclose information about their human resources accounting in their annual reports. Whereas, in question number 3, 67 respondents said yes that the disclosure will help the users in investment decision making while 154 respondents disagree with that & in question 6, 200 respondents said yes and 33 said no that human resource expenditure incurred by companies in India should better be capitalized and reported as assets. While in question no. 4, 90 % (225 responses is yes) respondents are agree that HRA information reporting will help investors for performance measurement of managers and entire business unit.

In table no 3 Researcher has been analysed the awareness level of human resource accounting among the shareholders. For this purpose chi-square test has been applied on above parameters. From the test it is statistically proven that the level of awareness of human resource accounting among the shareholders is not equally distributed. Thus, it can be said that shareholders are not well aware about human resource accounting.

### Conclusion:-

Finally we can say that the output of HRA system can be used to take a variety of decisions in the area of human resource management and But the number of organizations that have adopted HRA system in India is quite less as it is not compulsory for the Indian organizations to value human resources. There are certain problems associated with the system also as per the survey conducted by Dinesh Gupta (1992). Therefore researchers should come forward to

provide a feasible solution to those problems to make the concept widely acceptable and practicable. On the basis of primary analysis we conclude that shareholders are not aware about human resource accounting.

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