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HUMAN RESOURCE ACCOUNTING PRACTICES IN SELECTED COMPANIES IN INDIA

Dr. Yagnesh M Dalvadi

Asst. Professor

P. G. Department of Business Studies

Sardar Patel University

Vallabh Vidyanagar 388 120, Gujarat (India)

Abstract

Recently we witnessed a global transition from manufacturing to service base economies. In manufacturing organisation the physical asset likes plant, machinery, material etc. are of important. In service industry the total worth depends mainly on the skills of its employees and the service they render. The success of these organizations is contingent on the quality of their human resource - its knowledge, skills, competence, motivation and understanding of the organizational culture. Hence, it is imperative for the firm to understand the importance of the human and therefore record it in the books of accounting. In present corporate world whether it belongs to manufacturing, Trading or Service human is at center point. This study focuses on Human Resource Accounting (HRA) Practices of selected private and public limited companies.

INTRODUCTION

HRA is a management tool which is designed to assist senior management in understanding the long term cost and benefit implication of their HR decision so that better business decision can be taken. If such accounting is not there, then the management runs the risk of taking decision that may improve profit in the short run but may also have severe repercussions in future. HRA is an attempt to identify and report investment made in the human resource of an organization that are not presently accounted for under conventional accounting practice.

“Human Resource Accounting is the measurement of the cost and value of the people for the organization” -Eric Flamholtz of University of California, Los Angeles.

“Human Resource Accounting is the process of identifying and measuring data about human resource and communicating this information to interested parties”.

American Accounting Society Committee on HRA

RESEARCH METHODOLOGY

Scope

The Scope of the study title “Human Resource Accounting Practices in Selected Companies in India” limited to Human Resource Accounting Practices of companies for the period of five year commencing from 2003-04 to 2007-08. The research has identified various reporting practices of Human Resource Accounting in its annual report. Reporting Practices of Selected private and Public

companies has been explored. Two companies from private sector and two companies from public sector were taken as sample and comparative study has also done.

Objective of the Study

1. To examine the practices followed by selected companies in India.
2. To compare and contrast human resource valuation methods followed by selected Public and Private Companies in India.
3. To give suggestions for improvement in HRA Practices in Selected companies in India

Sample Selection

Purposive Sampling technique is used for the selection of sample units. Samples are taken from both public and private sector companies. From public sector two companies selected i.e. BHEL and SAIL and two companies from private sector i.e. INFOSYS and ACC. All Companies are taken on the basis of its market capital as on 1.1.2009.

Source of Data

An annual report, websites, different books of management accounting & personal management, previous research findings (Thesis and Dissertations) has been used for source of secondary data.

Analysis of Data

The collected data have suitably classified and tabulated in the form of table and graph with the appropriate statistical techniques S.P.S.S.15 software has used for necessary statistical tests. The data analysis and conclusion were drawn on the basis of parametric tests at 5% level of significance.

DISCLOSURE RELATING TO HUMAN RESOURCE ACCOUNTING

BHEL

BHEL had started providing information related to Human Resource Accounting (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.

SAIL

SAIL started valuation and reporting of its human resource from the financial year 1983-84. SAIL follows the human resource valuation model suggested by Lev and Schwartz by accommodating some adjustments suggested by Flamholtz and Jaggi and Lou. SAIL uses the constant rate of discounting the future expected return at 15%. Company provide the information regarding employee under section 217(2A) of the Companies Act 1956 with Companies Rules 1975. SAIL provides the information regarding No of Employee, as well as Category wise Distribution of Employee. Company also provides the information about Turnover, Value Added, and Capital Employed, EPS, Net worth per Share, Employee Remuneration and Benefit. It also communicate different ratio like PAT/Average Capital Employed.

INFOSYS

Infosys provide additional information of the firm from intangible assets score sheet, Human Resource Accounting 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 earning have been discounted at 14.09 %, 13.63%, 12.96%, 14.97% and 13.32% in the year 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 respectively. Infosys provide the information like Income, value added, No of Employee, Age wise Distribution and Category 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.

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. Company had not reported the discount rate i.e. rate at which the future expected return was discounted.

For the purpose of comparative evaluation, 14 variables has been indentified like disclosure of value added, Economic Value added (EVA) etc.

DISCLOSURE OF SELECTED VARIABLE FOR HR RELATED INFORMATION BY SELECTED COMPANIES.**D= Disclosed ND= Not Disclosed**

Disclosure of Variables	Company				Total
	BHEL	SAIL	INFOSYS	ACC	
Value Added	D	D	D	ND	3
No of Employee	D	D	D	D	4
EVA	D	ND	D	ND	2
Value of HR	ND	ND	D	ND	1
value of HR per Employee	ND	ND	D	ND	1
Value Added per Employee	D	ND	ND	ND	1
Valuation Model Used	D	D	D	ND	3
Discount rate applied	D	D	D	ND	3
Age wise Distribution	ND	ND	D	ND	1
Group Wise Distribution	D	D	D	ND	3
Gender Wise Distribution	ND	ND	D	ND	1
Turnover per Employee	D	ND	ND	ND	1
Employee cost	ND	ND	D	D	2
Total Identified Variables	8	5	11	2	26

Table-1 Disclosure of Various Variables

Table-1 shows the disclosure of identifies variable from the annual reports of selected companies for Human Resource related disclosure.

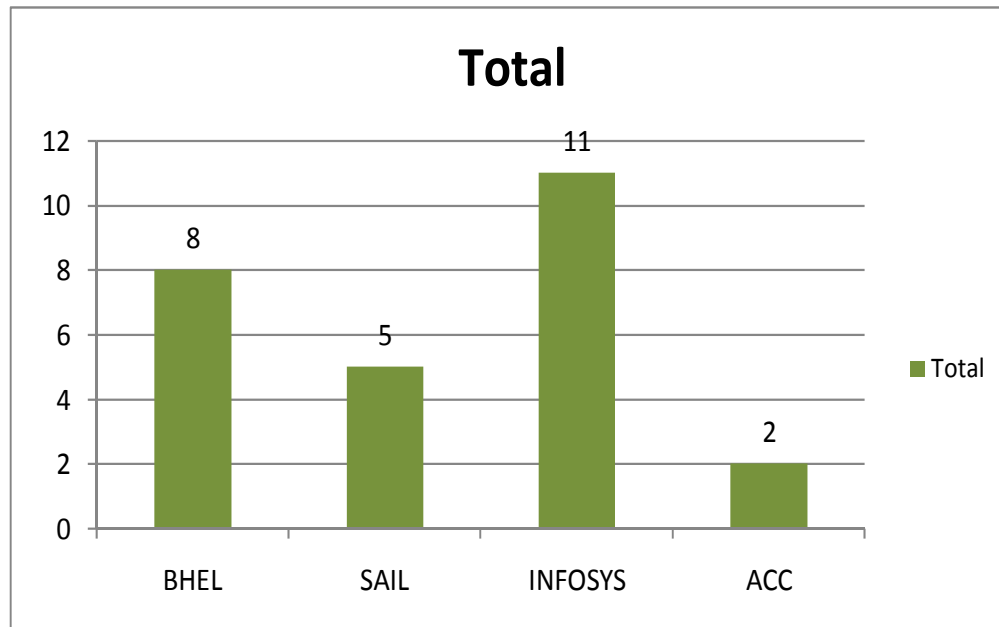


Chart -1 Disclosure of Various Variables

Table-1 and Chart-1 shows Human Resource Accounting disclosure practices by BHEL, SAIL, INFOSYS, and ACC. The table helps to understand which company provides more information regarding its HR. It can be seen that INFOSYS provides 11 type of information (i.e. 84.6%) out of 13 listed information. BHEL disclose the 8 type of information (i.e. 61.53 %), then comes SAIL, it provide the 5 type of information (i.e. 38.46%) and ACC provide only 2 type of information (15.38%).

HYPOTHESIS

Ho: There is no significance difference between average disclosures of selected companies.

H₁: There is significance difference between average disclosures of selected companies

Testing of Hypothesis

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Average Disclosure	4	49.995	29.79099	14.89549

One-Sample Test						
	T	df.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
	Lower	Upper	Lower	Upper	Lower	Upper
Average Disclosure	3.356	3	0.044	49.995	2.5909	97.3991

One Sample t test was conducted to test the hypothesis. As the p value of test is 0.044 (less than 0.05) there for we accept the alternative hypothesis i.e. there is significant difference between the average disclosures of selected companies, and reject the null hypothesis.

SUGGESTIONS

Suggestion to sample companies

1. ACC Ltd. Should provides more information regarding its Human Resource. ACC Ltd. Should include value of HR, Value of HR per Employee, GroupWise Distribution, Gender wise Distribution, Turnover per Employee etc. in its annual report.
2. There is no clarification regarding Human Valuation Model used and discount rate applied by ACC Ltd. in its annual report. So, company should disclose clearly for the better understanding.
3. BHEL and SAIL Ltd. Should also report for Value of HR, Value of HR per Employee, Age and Gender Wise distribution in its annual report.

Suggestion to Government

1. The measurement is subjective as methods for this purpose, so government should suggest specific model that is acceptable to all companies.
2. The government should made mandatory to value and disclose HR related information in its annual report.
3. To motivate companies for HRA, government should provide incentives like Subsidy, Tax exemption.

LIMITATION OF THE STUDY

The following are the limitations of the study.

1. The said study is based on secondary data only, collected from annual reports of companies. The limitation is of secondary data influence the study.

2. The study period of said study is limited to five year only i.e. 2003-04 to 2007-08. Only four companies viz., BHEL, SAIL, INFOSYS and ACC have been considered for the study of Human Resource Accounting Practices.

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Annual Report

Annual report of BHEL (2003-04 to 2007-08)

Annual report of SAIL (2003-04 to 2007-08)

Annual report of INFOSYS (2003-04 to 2007-08)

Annual report of ACC (2003-04 to 2007-08)

