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HUMAN RESOURCES EXPENSES AND ITS EFFECT ON FINANCIAL PERFORMANCE OF INDIAN CORPORATE GIANTS: AN EMPIRICAL STUDY

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ABSTRACT

The paper talks about the relationship between financial performance and HR expenses of recent ten years of large cap organisations of India representing various sectors. The study has used financial data of last ten years (2008-2017) of 30 companies that come under NIFTY FIFTY. It is established that there is a significant relationship between HR expenses as input and Net Profit as output, and it is of relevance for both practising HR managers and business schools in India.

KEYWORDS

indian large cap companies, financial performance, HR expenses.

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1. INTRODUCTION

Last ten years between 2007 to 2017 Indian economy emerged very strongly at the global level. It is slowly marching towards top 5 economies of the world today from double digit rank in 2007. Indian corporate is one of the main driving force for this economic resurgence. Awareness about higher education and other skill building frontiers provided multiple opportunities for human resources in India. In order to test the relationship between quality of human resources and performance of Indian corporate the present paper explores a quantitative relationship. The findings of this paper may provide useful insights for practising HR managers and business leaders.

Organisations have traditionally treated employees (its human resources) a cost and 'investment' done on developing the intellectual capital as 'expenses'. To add, "...most economic and financial models treat employees - the prime carriers of knowledge - as a cost and not as a resource." (Pulic, 2004).

Drucker in 1954 opined that the future belongs to knowledge society and knowledge workers. We have long since embarked on this journey and yet have ignored employees as resources and all expenses related to maintaining the HR as investments for present and future growth. "The treatment of employees as investment is the beginning and the end of knowledge based economy". (Pulic, 2004). This becomes the vantage point, which this study decided to explore further.

The existing literature suggests that the relative significance of intangible assets such as, human capital, customer relations, brand name, corporate reputation, intellectual property, and patents have increased in knowledge economy. (Vishnu and Gupta, 2013). Hence, it is impertinent that organisations not only measure but also manage their human capital.

We have seen shifts in the domain of HR, where Personnel Management became Human Resources Management, and then BPHR (Business partners). The fact is - balance sheets in India still find salaries and training as expenses, and not as investments for growth. In order to get HR its rightful status, this paper started with a premise that the main driver of any organisation's progress – its people – must be seen under the view of Intellectual Capital.

Many approaches and methods have been discussed in the past two and a half decades; say since 1990s, in the era of knowledge revolution. To name a few – Balanced scorecard, HR scorecard, 360 degree feedback, EVA (Economic Value Added), etc. have been popular for studies.

STRUCTURE OF THE PAPER IS AS FOLLOWS

Section 2 comprises of survey of literature and gap in literature, which needed to be addressed. Section 3 comprises of research problem, research objectives and hypothesis. Section 4 discusses research methodology in detail, whereas, section 5 elaborates on results and related discussion. Section 6 consists of implications of this research, policy recommendations, conclusions, and limitations along with scope for further research.

2. REVIEW OF LITERATURE

Human Capital, HR Expenses/Investments, Intellectual capital (IC), Intangible benefits, Human Assets, Manpower expenses, etc. have been used by various studies to understand the concept of contribution of employees towards the financial performance of any organisation. Researchers have worked heavily towards conceptualising Intellectual capital and Human capital. Typologies have been provided by researchers (Seetharaman et al, 2004), (Pulic, 2004) to understand the interrelated concepts. Roos and Roos (1997) conceptualise IC as sum of the hidden assets of the company not fully captured on the balance sheet.

Studies concerning the impact of human/intellectual capital on firm performance have been conducted around the globe on various sectors, such as, pharmaceuticals (Kamath, 2008).

Quite a few researchers, in recent past, have tried to establish a linkage between the *quality of human resources* and the *financial performance* of an organisation. While majority of these studies have been conclusive, at times there were contradictions and/or insufficient evidence to establishing a direct relationship between the two. Some studies have reported a weak or negative relationship between Intellectual capital and firm performance (Firer and Williams, 2003), while some have reported explainable relationship (Vishnu and Kumar, 2014).

A useful method for studying the impact of intellectual capital on corporate performance is Value Added Intellectual Coefficient (VAIC) model proposed by Ante Pulic in 1993. The present study considers Pulic's conceptualisation, but, in the context of large cap Indian organisations. It also limits itself in studying the relationship between HR Expenses and Net Profit only.

3. THE RESEARCH PROBLEM, OBJECTIVES & HYPOTHESIS

How to study the impact of expenses on human resources as input and financial performance of the company as output?

Here, HR Expenses is a sum of total salaries and wages paid to employees, training costs, benefits such as PF and Gratuity, employee self-learning initiatives, and all welfare activities an organisation engages into for its people.

An objective measure of Financial Performance is Net Profit and this is the dependant variable of the study.

RESEARCH OBJECTIVES

Expenses on human resources is supposed to be a measure of either quantity or quality or both of human resources. It is one of the vital input for production or service delivery in an organisation. To measure the impact of HR expenses on financial performance will be essential for better decision making for the organisation. This study tries to find the relationship between HR expenses as input and Net Profit as output in the context of 30 major Indian companies, of various sectors, belonging to NIFTY FIFTY.

HYPOTHESIS

Formulation of null hypothesis and alternate hypothesis-

H_0 : There is no significant impact of HR expenses on net profit of major Indian companies

H_1 : There is significant impact of HR expenses on net profit of major Indian companies

4. RESEARCH METHODOLOGY

The secondary data is collected from database ACE EQUITY and simple linear regression method of quantitative research methodology is adopted to explore the nature of relationship between the independent variable (HR Expenses) and dependent variable (Net Profit).

TABLE 1: AVERAGE HR EXPENSES AND NET PROFIT OF (30) MAJOR NIFTY FIFTY COMPANIES

S. No	Company Name	HR Expenses (avg of 10 years; ₹ in millions)	Net Profit (avg of 10 years; ₹ in millions)	S. No	Company Name	HR Expenses (avg of 10 years; ₹ in millions)	Net Profit (avg of 10 years; ₹ in millions)
1	Adani Ports and Special Economic Zone Ltd.	1482.84	15726.55	16	ICICI Bank Ltd.	54018.15	82610.45
2	Asian Paints	6445.3	11218.97	17	Indian Oil Corporation Ltd.	67532.19	82560.32
3	Axis Bank Ltd.	25205.02	44229.45	18	Infosys Ltd.	218632	92365
4	Bajaj Auto Ltd.	6150.32	26253.51	19	ITC Ltd.	21186.34	68278.48
5	Bharat Petroleum Corporation Ltd.	25965.45	34322.55	20	Kotak Mahindra Bank Ltd.	20675.69	22519.56
6	Bharti Airtel Ltd.	34178.68	52562.11	21	Mahindra & Mahindra Ltd.	60789.01	28816.8
7	Bharti Infratel Ltd.	2617.03	8994.46	22	Maruti Suzuki India Ltd.	11566.9	31260.2
8	Coal India Ltd.	246358.5	111802.9	23	NTPC Ltd.	32707.39	98273.73
9	Eicher Motors Ltd.	3561.87	35146.36	24	Oil & Natural Gas Corporation Ltd.	54868.49	212322.97
10	GAIL (India) Ltd.	118055.8	39761.57	25	Reliance Industries Ltd.	48481.47	224526.13
11	HDFC Bank Ltd.	41249.13	70637.92	26	State Bank Of India	236184.69	122091.37
12	Hindalco Industries Ltd.	65438.53	19721.2	27	Sun Pharmaceutical Industries Ltd.	20756.44	36066.02
13	Hindustan Petroleum Corporation Ltd.	20084.49	18194.14	28	Tata Motors Ltd.	161351.31	80280.12
14	Hindustan Unilever Ltd.	13250.26	32269.74	29	Tata Steel Ltd.	184544.48	16637.92
15	Housing Development Finance Corporation Ltd.	5130.25	50493.91	30	Tata Consultancy Services Ltd.	324726.68	141338.92

All the figures are in *million rupees* and ten years' average value for both HR Expenses and Net Profit are considered for regression. Ms-Excel is used as a software to run the regression.

5. RESULTS AND FINDINGS

The output summary of regression is being provided here in table 2 and table 3.

TABLE 2: REGRESSION SUMMARY

Regression Statistics	
Multiple R	0.413753324
R Square	0.171191813
Adjusted R Square	0.141591521
Standard Error	50774.45639
Observations	30

Adjusted R^2 here implies that 14% explanation is being provided by the human resource expenses in the net profit. This may be interesting to practising managers and decision makers as HR expenses may better be treated rather as investments for growth of a company.

TABLE 3: t-STAT AND p VALUE

ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	14909996953	14909996953	5.783450063	0.023034525			
Residual	28	72185271796	2578045421					
Total	29	87095268750						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	45209.94587	12046.12464	3.753069741	0.000811394	20534.57814	69885.3136	20534.57814	69885.3136
HR Expenses (avg of 10 years; in millions)	0.260166104	0.108182551	2.404880467	0.023034525	0.038564194	0.481768014	0.038564194	0.481768014

Here, the p value is less than 0.05, hence the null hypothesis is rejected. This means that there is a significant impact of HR Expenses on Net Profit of an organisation. Both the tables presented here clearly suggests the importance of spending right amount on both quantity and quality of human resource, which can cause impetus in the growth of net profit.

DISCUSSION

Giant Indian companies often invest in modernisation of technology and fund management. The findings of this paper have deeper implications for practising HR managers, as, some of the companies in the given data show much lesser net profit than their HR expenses. These companies should introspect and adopt the practice of benchmarking to match the performance of the industry leader in their segment. This study emphasise not only on hiring right amount of workforce but also recruiting quality manpower and avoid overcompensation so as to achieve the optimum financial output for the given manpower costs.

It should also be noted that HR expenses usually outnumber financial performance during lean period (between 2007 and 2012) whereas the same manpower can deliver higher returns during the boom period (between 2013 and 2017). There is an interesting perspective which can be explored in future with the help of primary data that the skills and knowledge imparted by academic and other types of skill building institutions can have significant impact on the financial performance of Indian corporate.

6. LIMITATIONS AND FUTURE SCOPE OF THE STUDY

This study was performed only on 30 Indian companies (taken from NIFTY FIFTY and/or BSE) and can have different output if the sample size would have been more than 200. This would include some good mid-cap companies also, which the present study did not include. Only the major NIFTY FIFTY companies were studied whose data for minimum ten years was available. In future, a similar analysis will be of interest if performed on 300-500 Indian companies.

7. CONCLUSION

HR expenses is somewhat lesser are of concern for Indian corporate from the point of view of financial performance. During the slowdown or recession, companies prefer cost cutting and resort to practices such as lay-offs, VRS, pay-cut, no perks, etc. but when there is a boom period they prefer to modernisation, production capacity enhancement, automation, R&D, expansion of distribution channel for better penetration, etc.

The output of this paper is to give dollar value of HR expenses on financial performance of Indian firms. In any future time of recession or slowdown we would not be worried had we invested more on developing people.

One interesting conclusion is for the trade unions, which negotiate on various benefits for workers, including wage hikes. They would be better off if the discussion happens with such data, which establishes positive relationship between wages paid and financial performance of the company.

8. ACKNOWLEDGEMENTS

The author wishes to acknowledge the support received from his colleagues at Jaipuria Indore. The author would also like to thank his family and teachers for their continued faith and support.

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