Human Resource Accounting Practices in Corporate Disclosures

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Abstract

For any organization to ensure growth and development, the efficacy of people must be augmented in the right perspective. The corporate's human assets as a resource rather than simply an expense variable in its intermittent reports gives a supportable upper hand in acquiring better solicitation esteem. This paper audits different hypothetical over-simplifications and writing relating to Human Resource Accounting and to suggest measures for improving performance of oranisation through Human Resource Accounting Practices in Corporate Disclosures,

Keywords: Human Resource Accounting, Corporate Disclosures, Market value, Sustainability, Human Capital.

Introduction

Supportability and productivity are two wanted parts of any association. A feasible business doesn't occur unintentionally. To be feasible a technique to acquire the full certainty of its partners and investors is required. That requires an association with the monetary strength of an organization which could be achieved through its straightforward corporate divulgences either compulsory or willful. The resources required for an organization are the materials, machines, money, methods, and humans. Every resource should have accountability. These assets are comprehensively characterized into two classes, energize and lifeless (human and physical) assets. People, also called the HR, are quicken assets. Others, to be specific, materials, machines, cash, and techniques are viewed as lifeless or actual assets.

There is no industry that completely works without animate resources but could work with compromised inanimate resources. To guarantee the development and advancement of any association, the proficiency of individuals should be increased in the right viewpoint. Without HR, different assets can't be functionally successful. The power and wellbeing of the association is demonstrated by the human conduct factors, similar to dedication of the human asset bunch, ability, inspiration, and limit with regards to viable connection, correspondence, and independent direction.

Corporate disclosure can be defined as the transmission of information by people inside of the organization with people outside the organization. The main goal of corporate disclosure is "to communicate firm performance and governance to outside investors" (Haley and Palepu, 2001). The disclosures are not only called for by shareholders and investors to evaluate and analyze the value of their investments but also by the other stakeholders, particularly for information about the corporate social and environmental policies.

Corporate disclosure is a predominant issue in the present days. Reporting is the communication of information of an organization/ enterprise to external sources or the world. The philosophy is that fully enlightened consumers would be more likely to make better decisions. Annual reports of the corporates or organizations are considered as the most effective means of communication to various consumer/user groups which give relevant financial and non-financial information about the organization performance. As a medium for communicating information annual reports mainly includes two categories i.e., mandatory and voluntary disclosures. In any country, mandatory disclosures are those which are required as per the law, like in the Republic of India mandatory disclosures are those required as per the provisions of the companies Act of 2013. Voluntary disclosures are those which are disclosed by the organizations voluntarily or without any compulsion by the law. Corporate disclosure practices are of great importance both in practical and theory. Full disclosure and transparency are the forces that drive the businesses sustainability, performance, and success.

Need for the Study

The idea of disclosure has significant importance to the accomplishment of objectives of reporting in any organization. The HR of an association are its most significant resources on the grounds that without these different variables of creation can't be used. Hence, this component of the human resource places vivify resources at a preferable level over the lifeless resources. Therefore, the investment in human resources has become a crucial thing in business accounting as a human capital input. The investment in human resources is considered as only revenue investment (expenditure) and not as a cost. Understanding this slightest difference between the investment vs cost is the key strategic point. Hence, the quantity invested in human resources isn't shown within the record alongside other assets. However, the net returns will reflect in the market value of the company. This deficiency is often rectified through the concept of Human Resource Accounting (HRA) and its disclosures in the corporate’s annual reports.

Significance of the Study

- It outfits cost/esteem data for settling on administration choices about bookkeeping, allotting, creating and keeping human asset in control to accomplish cost – adequacy.
- It permits the board work force to adequately screen the utilization of Human Resources.
- It gives a sound and successful premise of human resources control that is whether the resources are valued, drained or preserved.

Objectives of the study

- To study the objectives of Human Resource Accounting.
- To study the main concepts of corporate disclosure practices.
- To explore the importance of HRA in corporate disclosures.

Methodology of the study

Since the purpose of the study is confined theoretically, desktop study and review of various literature, previous research studies are undertaken, and analysis of the understanding is presented subsequently.

Literature Review

Paton (1952) in his book "Accounting Theory", referred to people as assets. He stated that within the commercial enterprise well-organized and constant personnel could also be more important "assets" than a stock of merchandise. At least there seems to be no way of measuring such factors in terms of the dollar they cannot be recognized as specific economic assets. But let’s not accordingly admit the serious limitation of the conventional balance sheet as a statement of financial condition.

Argyris (1953) in his article entitled, “Human Problems with Budgets”, has concluded that the progress of the enterprise itself is the product of human activity. He has also pointed out that most of the company failures are because of the otherwise performance of people who constitute the enterprise.

Sharma (1979)' in his paper entitled, "Need for Developing Human Resource Accounting'", highlighted, that HRA is extremely significant in India because on one hand, the human resources are in abundance while on the other hand there is an acute shortage of skilled and technically qualified people. In the technology-oriented society, that India is emerging, human resources cannot be ignored. They need to be groomed and trained for being effective and efficient to achieve sustained growth of production and productivity. So that, an imperative need is now felt for human resource accounting.

Ravishankar and Mishra (1985)' in their study titled, "Management of Human Resources in Public Enterprise", provided an understanding of the system of H.R.M. rather than merely the activities assigned to those who provide various personnel services for effective public enterprise management. They also gave a balanced and comprehensive grasp of the concept, problem, approaches, and methods of HRM.

Shukla (2002)" in his book entitled, "Advanced Accounting", explained that human resource occupies the key position in the organization. All the process of the organization is operated by HR; hence valuation of this resource is very important in providing information about human resource valuation to the investors and management etc. through financial statements.

"Human Resource Accounting in India", by Chandran (2003)' addressed the foremost important assets of the corporate i.e., human resource and its valuation. In past, less importance was given by organizations to value their human assets, moreover, it was also considered difficult to value them as there were no parameters of valuation. The importance and value of the human asset were recognized in the early 1990s and 1995-96, Infosys technologies became the first software company to value its human resources. According to him, the employees are the most valuable resource like any other resource of the company.

Analysis and Interpretation

Human Resource Accounting (HRA) is the method involved with recognizing and announcing ventures made in the HR of an association that are by and by unaccounted for in the regular bookkeeping practice. It is an augmentation of standard bookkeeping standards. Estimating the worth of the HR can help associations in precisely archiving their resources. At the end of the day, human asset bookkeeping is a course of estimating the expense brought about by the association to enroll, select, train, and foster human resources.

The concept of HRA implies:

a. Valuation of human resources as organizational assets.
b. Recording the valuation in the books of accounts; and
c. Presenting the information in the financial statements that can be used while making decisions.

Though the physical assets get value once they are combined with human resources, the accountants haven't recognized the human assets as the prime asset of the organization. Yet the highest managements always remark consciously or unconsciously that, ‘the people are our most vital assets”.

While small items like furniture are valued and placed on the record, the acquisition and development cost of human resources go unnoticed. An enterprise is investing large sums of money in developing the human resources, but this is not reflected in the balance sheet. The only resource of a business which is not presented in monetary terms in human resources which includes acquisition cost, training cost and the cost concerned with developing the capability, morale, and productivity of the employee. If accounting is to provide a meaningful information about the situation of a company, it must develop standards to measure the value of human resources for aiding managerial decision making.

HRA is proposed by its advocates as a logical and significant extension of the scope of enterprise accounting. It is the process of measuring and reporting the human dynamics of an organization. It is the assessment of the condition of human resources within an organization and the measurement of the change in this condition through time that matters a lot not only for the management and the employees but for the society as a whole. HRA is the process of providing information about individuals and groups of individuals within an organization to decision-makers both inside and outside the organization. It involves the concept of human resources as assets, determines invested costs and related cost expiration, and in some instances estimates and provides surveillance over the economic value of the human organization.

Though the significance of human resources in an organization or at the enterprise level has been recognized in accounting literature throughout history, the accounting process has been limited largely to financial and physical resources. It was not until the early 1960s those specific suggestions started to appear for inclusion of human resource representation in routine assessments of enterprise condition or within the structure of accounting systems of enterprises. The objectives of human resource accounting can be summarized as in Figure 1.

Figure 1- Objectives of HRA

During the past two decades emphasis on recruiting, training, employee motivation, and work environment, and on the use of employee attitude and perception surveys, attest to the increasing, recognition of the role of human resources in organizational effectiveness.

Corporate Disclosures

High-profile scandals that happened during the early 1990s across the globe especially in the USA (Ex: AIG Insurance, Lehman Brothers, Arthur Anderson, Enron, Xerox, Tyco, etc.) raised concerns among the regulatory authorities to evolve mechanisms to protect the interests of the investors.

In the Indian setting, to spur the corporates to act all the more viably and expertly, the Chamber of Indian Industries (CII) took an institutional drive in 1996 and 1998 proposed Corporate Governance. As indicated by the CII meaning of Corporate Governance (CG)- corporate administration oversees laws, strategies, rehearses, and comprehended rules that choose an association's ability to take regulatory decisions explicitly its financial backers, banks, customers, the State, and the delegates.

These initiatives of the CII have been amended several times to the current stage of Corporate Disclosure Practices. The first voluntary code of CG in 1998 by CII followed by Securitas Exchange Board of India (SEBI) appointed committees & groups recommendations as listed rules and regulations under Clause 49 of the listing agreement between the company and the stock exchange, Naresh Chandra

Committee (2002), again by SEBI under the name of The N R Narayana Murthy Committee. In 2003, based on the Naresh Chandra Committee and N R Narayana Murthy Committee report's recommendations, SEBI made first revised Clause 49 of the listing agreement. However, there was a gap in the disclosure practices which were not addressed properly on the issue of the private corporates which are a major part of the Indian corporate conglomerate. To plug this by ensuring a more scientific and rational regulatory environment the Government constituted a committee with the main focus on (i) the Companies Act. 1956; and (ii) the Partnership Act, 1932. The result is the further amendment of Clause 49 in 2004. The initiatives and developments up to this stage is classified as Phase-1 (1996 – 2008) of CG practices in India.

Exposure to the Satyam Computers scandal in 2009 put the Indian Government under huge pressure and forced CII to commission a task force to examine the impacts and lessons of the scandal. Review the CG practices, disclosures, accountability, and enforcement mechanisms in place. As a result of that, in addition to CII, the National Association of Software and Services Companies (NASSCOM) formed a Corporate Governance and Ethics Committee under the chairmanship of N.R. Narayana Murthy and issued its recommendations in 2010 resulting in the following legal Framework for Corporate Governance and Disclosures.

Legal Framework for Corporate Disclosures:

1. Companies Act 2013
2. SEBI Guidelines
3. Standard Listing Agreement of Stock Exchanges
4. Accounting Standards Issued by the Institute of Chartered Accountants of India (ICAI)
5. Secretarial Standards issued by the Institute of Company Secretaries of India (ICSI)

Market Value

Market value of the corporate could be analyzed through its corporate disclosures.

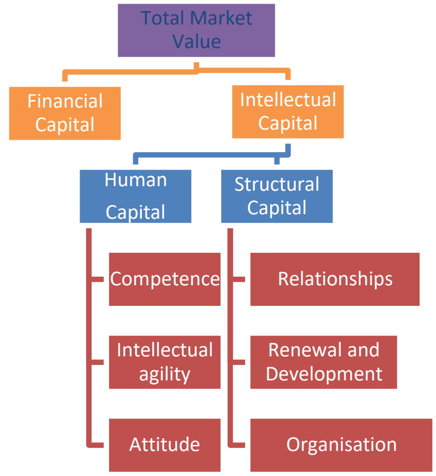

Figure 2: Market Value of a Corporate (source: Roos et. al (1997 p.57))

Human Resource Disclosures

Disclosing the corporate's human resources as an asset rather than just a cost variable in its annual reports gives a sustainable competitive advantage in gaining better market value.

The Human Resource Disclosures should contain the following quantifiable items:

- Employee health and safety
- Employment of minorities or women
- Disabled employee
- Employee training
- Employee assistance/benefits
- Employee remuneration
- Employee profiles
- Employee morale

Findings

- The performance of the human resources has a significant impact on achieving the organizational objectives as it has impact on the market value of the organization.
- The efficiency of the human resources of the organization has impact as the human resources accounting disclosures clearly states the employee efficiency in achieving the organizational objectives.

- The HRA disclosures have a significant impact on the salaries of the employees as various costs are incurred and salary structure are redesigned and revised accordingly.

Suggestions

- We must focus on improving the performance of the individual by investing in the training and development programs so that they improve the market value of the organization.
- The efficiency and productivity of the human resources have to be improved so as to increase the market value of the organization by providing the right working conditions and infrastructure.
- The salaries and incentives have to be restructured and be disclosed in the HRA disclosures so as to show transparency in the organization.

Conclusion

For any organization to ensure growth and development, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. The true health of the organization is indicated by the human behavior variables, like group loyalty, skill, motivation, and capacity for effective interaction, communication, and decision-making. Substantial identifiable outlays in these areas may account, in part, for the increasing consideration of accountant's involvement in this new subject of human resource accounting.

The primary intention of the disclosures is for shareholders, potential investors, and creditors to provide relevant information for aiding in decision-making. Their right decisions based on the company's performance disclosures will raise the relevant resources for attaining the better growth of the corporates which is the outcome of the net market value.

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