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Research Article

DISCLOSING HUMAN RESOURCE ACCOUNTING-EFFECT ON STOCK INVESTMENT DECISION

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ABSTRACT

Human Resource Accounting involves accounting for expenditure related to human asset in an organization as opposed to traditional accounting which merely expenses costs and reduces profit which to our mind sub optimise financial reporting. (Akintoye, 2012)

A primary purpose of the accounting information, available in the published annual reports of the companies, is to acquaint the shareholders and other concerned with the working of the companies during the past one year. The published reports of the companies contain wealth of information which is made use of by many people and organizations. This information relates to the turnover, reserves and liabilities, investments and fixed assets, amount of profits distributed/transferred to General reserves, profit/loss ect. Besides, the director's reports also enlighten the members and others about the future growth and potential of the organization. Diversification/expansion plans are also made known to the public through these public through these published annual reports.(Malik, 1993)

Based on the above backdrop the current study has been made to examine the impact of disclosing Human Resource Accounting (HRA) information on Stock Investment decision. The study examines the use of HRA information from the point of view of the external users and is confined to the use of published information only for stock investment decisions.

INTRODUCTION

Human resources are the energies, skills, talents and knowledge of people which are, or which potentially can be, applied to the production of goods or the rendering of useful services. Human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organizations and carry forward national development. Investments in human resources have directly contributed to the growth of an organisation – by promoting the knowledge and application of science and technology to production processes and developing innovations and research.(Malik, 1993)

Human resource accounting provides monetary data regarding the human resources of the organization which is considered to be important not only for the management in taking various decisions but also for the analyst and the employees. For the analyst it not only provides information regarding the inner strength of the organization but also helps in making decisions regarding the long term investment in that organization and this also affects the bargaining power and performance of the employees.(Dhanabhakyam & S, 2016)

HRA will disclose the information regarding the strength and weakness of the organization and helps in deciding the long term investment in that organization. Financial statements are prepared according to the company law in India which does not give scope for showing any significant information about human resources in financial statement except the salaries paid to the employees. But nothing will stop the companies to disclose about the value of the human resources and the outcome of their performances during the accounting period in notes or schedules. (H R & Sinha, 2018)

Literature Review

Hendricks (1976) in his research paper titled "The Impact of Human Resource Accounting Information on Stock Investment Decision: An Empirical Study" has examined the relationship between Human Resource Accounting Information and Stock

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Investment Decision. As per the study it is clear that stock investment decision were affected by the addition of human resource accounting information to conventional accounting information.

A research study by Flamholtz, Sullen, & Hua (2003) has found that employees' participation in a management development program increased the value of the individuals to the firm. This study has also founded that the HRA measures provided upper level management with an alternative accounting system to measure the cost and value of people to an organization.

Herman & John B. (2008) in their research study examined the financial effects of reporting Human Resource information on market valuation and also internal planning. This paper has provided support for the feasibility and need to adopt a human resource liability paradigm for valuing, reporting and managing human resources.

Avazzadehfath & H.Raiashekar (2011) in their research study has explored three factors. Firstly, whether investment decisions are affected by human resource accounting information disclosed in the financial statements or not? Secondly it has explored what factors can interfere in this effect? Thirdly, they have examined which evaluation method of human resources is the most appropriate method consistent with Iranian companies in terms of qualitative characteristics of accounting information? The results indicated that HRA information disclosure in financial statements is relevant and affect on the optimal investment decision.

Perera (2012) in her study attempted to examine the effect of measuring and reporting human resource information on investors' acquisition and disposal decisions. The findings of the study revealed that there is significance difference between measuring and reporting human resource information and corporate investor's stock acquisition decisions and disposal decisions.

Mamoon (2013) in his research work investigated the possible inclusion of human asset into the accounting system and analysed the development of modern accounting approach which can contribute to the new age of human resource management practices and the decision making of stakeholders. It has been proven from the discussion that HRA can be an aid in managerial and external stakeholder's decision making. Utilization of HRA can not only makes the management transparent, but also can create value to the human who are now counted as part of organizational asset.

Singh & GUPTA (2016) in their research work founded that there is a significant impact of human asset valuation information on investor's decision regarding their selection of the company. In their study they also wanted to know whether the investment decision is related to the background variable such as age, experience, educational qualifications, and industrial sector on the company selection. But the study reported that there was no such relationship.

Objective of the study

The objective of the study is to determine if there is a significant difference in the investment decision of individual investors in the presence and absence of human resource accounting information.

Research Methodology

For the current study equity investors in Bengaluru city were the respondents. A structured questionnaire intending to measure the variables in the research objective was designed. To achieve this, two hypothetical companies, Company A and Company B were chosen. The Key Financial Parameters for past 5 years formed the basis of the study. Another set of Key Financial Parameters for each of the above companies was constructed which besides the earlier information, also included information relating to human resource of the organization. In the questionnaire, each of the respondent was asked to indicate her/his decision about the investment of Rs. 5,00,000 in either company A or Company B or both. The researcher distributed 500 questionnaires amongequity investors and 401 questionnaires were duly returned. Out of the received questionnaires only 258 questionnaires were valid for further analysis. The responses for the structured questionnaire was analysed with the help of SPSS software. The statistical method used for analysing the data was Mean Value, Standard Deviation and T-test was adopted to arrive at meaningful conclusions.

Hypothesis

H_0: There is no significant difference between the investment decisions of individual investors in absence and presence of HRAI

Analysis

A paired-samples t-test was used to determine whether there was a statistically significant mean difference between investment decisions of individual investors in absence and presence of HRAI. Data are mean ± standard deviation, unless otherwise stated. No outliers were detected that were more than 1.5 box-lengths from the edge of the box in a boxplot. Inspection of their values did not reveal them to be extreme and they were kept in the analysis. T test being a robust test was used although the assumption of normality was violated, as assessed by Shapiro-Wilk's test ($p < 0.005$). Investors invested more when they were presented human resource accounting information for Company B (236124.03±80467.36)as opposed to investment without HRAI (261441.86±81773.47), a statistically significant increase of 25317.82 ±102352.93 Rs, $t(257) = 3.973$, $p < .0005$, $d = 0.247$

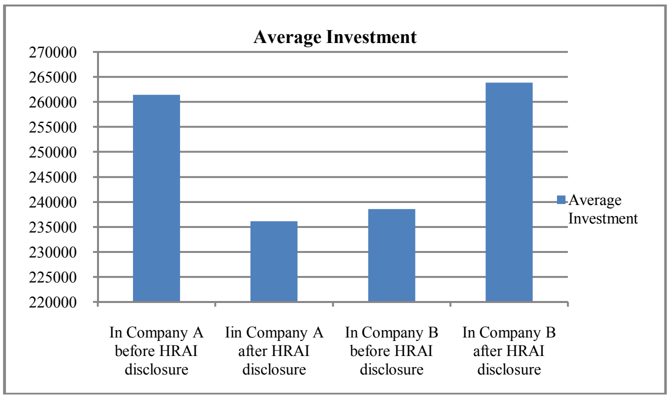
Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	AinvA	236124.031	258	80467.3613	5009.6791
	InvinA before HRAI	261441.861	258	81773.4754	5090.9942
Pair 2	Ainv B	263875.969	258	80467.3613	5009.6791
	Invin B before HRAI	238558.140	258	81773.4754	5090.9942

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 AinvA - invAbeforeHRAI	-25317.8295	102352.93	6372.21	-37866.23	-12769.4234	-3.973	257	.000
Pair 2 AinvB - invBbeforeHRAI	25317.8295	102352.93	6372.21	12769.42	37866.2355	3.973	257	.000

Ainv A: Investment in Company A after disclosing HRA information
Invin A before HRAI: Investment in Company A before disclosing HRA information
Ainv B: Investment in Company B after disclosing HRA information.
Invin B before HRAI: Investment in Company B before disclosing HRA information.



From the above graph it could be interpreted that the average investment in company A before disclosing HRAI is ₹. 260000 and it has come down to ₹. 235000 after disclosing HRAI. It means the investors has shifted to company B after disclosing HRAI. In the case of Company B the average investment before disclosing HRAI was ₹. 239000 and it has increased to ₹. 264000 after the disclosure of HRAI. Thus the null hypothesis is rejected. There is a significant difference between the investment decisions of individual investors in absence and presence of HRAI.

FINDINGS AND CONCLUSIONS

The study shows that disclosing HRAI in financial statements has incremental impact on individuals' decision-making process for stock investment. HRA information can play an important role in internal managerial decision-making also and its measures can be used to show that investments in a company's human resources may result in long-term profit for the company.

The findings of this study are in line with other studies conducted by the researchers in different parts of the world like Hendricks(1976), Flamholtz, Sullen, & Hua, (2003), Herman & John B (2008), Malik(1993), Perera (2012), Avazzadehfath & H.Rajshekhar (2011), Dhanabhakyam & S(2016), Mamoon (2013),Singh &Gupta (2016). Based on the findings it could be concluded that HRAI is very important from the view point of investors.

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