

Human Resources Accounting and Reporting Practices in Infosys Technologies Ltd: An Empirical Study

Dr. Ram Dhan Saini

Lecturer, Department of ABST Government Girls College, Chomu (Jaipur)

ABSTRACT

Human Resource Accounting is one of the latest concepts adopted by Indian companies in recent times. Most of the enterprises which follow Human Resource Accounting spare a separate section in their annual reports for a detailed account of their human resources. Success of corporate undertakings purely depends upon the quality of human resources. Human Resource Accounting is the measurement of the cost and value of people to the organization. It involves measuring costs incurred by the organizations to recruit, select, hire, train and develop employees and judge their economic value to the organization. The investments directed to raise knowledge; skills and aptitudes of the work force of the organization are the investments in human resource. Human Resource Accounting is a must to improve human resource management, to overcome problems arising from the valuation of intangible assets and to overcome the difficulties in providing sufficient information to investors in traditional balance sheets. This paper throws light on the concept and importance of human resources accounting, Measurement of Human Resources, Lev and Schwartz Model of Human Resources Accounting, accounting and disclosure practices for human resource in Infosys Technologies Limited and lastly concludes with suggestions for improvement in the field.

Keywords: Human resource, Measurements, accounting, accounting models, reporting for human resource.

Human Resources Accounting and Reporting Practices in Infosys Technologies Ltd: An Empirical Study

The concept of considering the human beings as an asset is an old one. The importance which Emperor Akbar gave to the nine jewels (courtiers) is a strong evidence for the same. The history of our freedom movement will not be complete without mentioning the names of distinguished freedom fighters such as Shri Motilal Nehru, Mahatma Gandhi, Sardar Vallabh Bhai Patel and several others but no effort was made to assign any monetary value to such individuals in the Balance Sheet of the Nation. The concept of human resource accounting was first developed by Sir William Petty in the year 1691. But research into true human resource accounting began in the 1960 by Renis Likert. Prof. Flamholtz defines human resource accounting as accounting for people as an organizational resource.

Human elements are becoming more important input for the success of any corporate enterprise. It helps the management to frame policies for human resources. Human resource is an asset whose value gets appreciated over the period of time provided placed, applied and developed in the right direction. Human Resource Accounting is the measurement of the cost and value of people to the organization. It involves measuring costs incurred by the organizations to recruit, select, hire, train and develop employees and judge their economic value to the organization. Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms. In every business concern physical assets as well as human resources are required for its success. Physical assets like plants, machinery, building etc. are unproductive without human resources.

Keeping these theoretical backgrounds in view, a modest attempt has been made to make an in-depth study in respect of human resources accounting of Infosys Technologies Limited, a leading information technology company of India. The study covers a period of ten years i.e. from financial year 2001-02 to 2010-11.

Company Profile- Infosys Technologies Ltd.:

Infosys Technologies Ltd. which was established in 1991 is a leading consulting and an IT Service Solution Provider in India and abroad. It has ten subsidiary companies as on March 31, 2013. The turnover of the Company during 2012-13 was Rs.40352 crores with a post tax profit of Rs.9421 crores. Business IT services contributed 62.9 % of total revenue. Out of the total revenue, 62.2% revenue came from North America, 23.1 % from Europe, 2.1% from India and 12.6 % from the rest of the world. Infosys defines design and delivers technology enabled business solutions that help Global 2000 companies win in a Flat World. It also provides a complete range of services by leveraging its domain and business expertise and strategic alliances with leading technology providers. Infosys' service offerings span business and technology

consulting, application services, systems integration, product engineering, custom software development, maintenance, re-engineering, independent testing and validation services, IT infrastructure services and business process outsourcing.

Objectives of the Study

This study had the following objectives:

- To compute the value of human resource and identify and quantify the investments made in human resource by Infosys Technologies Limited.
- To measure and evaluate the efficiency of human resource accounting by using the ratio analysis.
- To furnish cost value information for making proper and effective management decisions about acquiring, allocating developing and maintaining human resources in order to achieve cost effective organizational objectives.
- To helps the management in Employment and utilization of Human Resources.
- To have an analysis of the Human Asset, i.e. whether such assets are conserved, depleted or appreciated.

Limitation of the Study

This study had the following limitations:

- The study is limited to ten years only i.e. from the year 2001-02 to 2010-11.
- The study used the secondary data for analysis and interpretations collected from the published annual reports of the company.
- Apart from few statistical analyses, the study has been carried out mainly by employing ratio analysis technique.
- The study was limited to one company.

Methodology of the Study

The study has been confined to only one private public sector company viz. Infosys Technologies Limited. It confines itself to issues relating to the human resource accounting only. A moderately lengthy period was deemed necessary to arrive at meaningful and purposeful inferences. A ten year period beginning at 2001-02 and ending with 2010-11 was adopted for the present study. The data has been collected from the secondary sources comprises of published annual reports of Infosys Technologies Ltd. for the ten year period from 2001-02 to 2010-11, various journals and information from the related websites. The data have been suitably re-arranged, classified and tabulated according to the requirements of the study. In the study the Lev and Schwartz Model has been adopted to measure the human resource value as it was used by Infosys Technologies Limited for human resource accounting. For analyzing the human resource accounting of the Infosys Technologies Limited, the management accounting technique, ratio analysis and statistical techniques like measures of central tendency, measures of dispersion has been used.

Lev and Schwartz Model

Baruch Lev and Abaa Schwartz (1971) proposed an economic valuation of employees based on the present value of future earnings, adjusted for the probability of employees' death/separation/retirement. This method helps in determining what an employee's future contribution is worth today. According to this model, the value of human capital embodied in a person who is 'y' years old, is the present value of his/her future earnings from employment and can be calculated by using the following formula:

$$E(V_y) = \sum_{t=Y}^T \frac{P_y(t+1) \cdot I(t)}{(1+r)^t}$$

Where,

$E(V_y)$ = expected value of a 'y' year old person's human capital

T = the person's retirement age

$P_y(t)$ = probability of the person leaving the organization

$I(t)$ = expected earnings of the person in period I

r = discount rate

Lev and Schwartz ignored the possibility of death prior to retirement age. The model given by Lev and Schwartz can be considered as an improvement over the cost models as it seeks to value the human resources of an organization on the basis of the economic value of employees of total organization. The model suffers from certain deficiencies as it ignores a) the individual's value to an organization depends upon the role in which an individual's is placed in addition to his qualities, traits and skills; b) employees change their roles during their career due to promotion, transfer etc. and c) an individual may leave the organization for reasons other than death and retirement.

The Lev & Schwartz model has been used by Infosys to compute the value of human resources. The evaluation is based on the present value of the future earnings of the employees and on the following assumptions:

- Employee compensation includes all direct and indirect benefits earned both in India and abroad.

- The incremental earnings based on group / age has been considered.
- The future earnings have been discounted at the cost of capital for Infosys.

RESULTS AND DISCUSSION

A picture of the value and strength of human resources and important ratios relating to human resources accounting in Infosys Technologies Ltd from 2001- 02 to 2010-11 have been depicted in table I and II.

Table – 1

Value and Strength of Human Resources in Infosys Technologies Ltd From 2001- 02 to 2010-11

Ratios Years	No of employees (No.)	Total value human resources value (crore ₹)	Total income (crore ₹)	Employee cost (crore ₹)	Value- added (crore ₹)	Net Profit (crore ₹)	Cost of Capital (%)
2001-02	10738	9539	2304	1118	2239	808	17.17
2002-03	15356	10417	3623	1677	3043	958	16.99
2003-04	25634	21140	4853	2451	4185	1244	14.09
2004-05	36750	28334	7130	3539	6053	1846	13.63
2005-06	52715	46637	9521	4801	8030	2478	12.96
2006-07	72241	57452	13893	7112	11879	3861	14.97
2007-08	91187	98821	16692	8878	14820	4659	13.32
2008-09	104850	102133	21693	11405	19073	5988	12.18
2009-10	113796	113287	22742	12093	20935	6219	10.60
2010-11	130820	135105	27501	14856	25031	6823	11.21

Source: Computed from the Annual Reports of Infosys technologies Limited from 2001-02 to 2010-11.

Table –II

Ratios Relating to Human Resources Accounting in Infosys Technologies Ltd From 2001- 02 to 2010-11

Ratios Years	Value of human resources per employee	Total income / human resources value (ratio)	Employee cost / human resources value (%)	Value-added / human resources value (ratio)	Return on human resources value (%)
2001-02	0.89	0.27	11.72	0.23	8.47
2002-03	0.68	0.35	16.10	0.29	9.20
2003-04	0.82	0.23	11.59	0.20	5.88
2004-05	0.77	0.25	12.49	0.21	6.52
2005-06	0.88	0.20	10.30	0.17	5.3
2006-07	0.80	0.24	12.40	0.21	6.7
2007-08	1.08	0.17	9.00	0.15	4.7
2008-09	0.97	0.21	11.20	0.19	5.9
2009-10	1.00	0.20	10.70	0.18	5.5
2010-11	1.03	0.20	11.00	0.19	5.1
Average	0.89	0.23	11.65	0.20	6.33
S.D.	0.12	0.05	1.77	0.04	1.39
C.V.(%)	13.53	20.74	15.22	17.96	21.96

Source: Computed from the Annual Reports of Infosys technologies Limited from 2001-02 to 2010-11.

The results of the human resource accounting in Infosys Technologies Ltd were as under:

(1) Value of Human Resources per Employee:

It may be seen from the table 2 that the ten years average of value of human resource per employee of Infosys Technologies Ltd works out at Rs. 0.89 crore with the coefficient of variation of 13.53%. Both the number of employees and total value of human resources in Infosys Technologies Ltd has showed increasing trend during the study period. The No. of employees increased from 10728 in 2001-02 to 130820 in 2010-11 while the total value of human resource increased from Rs. 9539 crore in 2001-02 to Rs. 135105 crore in 2010-11. The value of human resources per employee fluctuated between Rs. 0.68 crore in 2002-03 and Rs. 1.08 crore in 2007-08.

(2) Total Income / Human Resources Value:

The ratio of total income to human resources value indicates the extent to value of human resource, which has been paid by the company profits. The table reveals that the ratio of total income to human resources value of Infosys Technologies Ltd has shows decreasing trend during the period of study. It was 0.35 times in 2002-03 which was decreased to 0.20 times in 2010-11. The ten years average of value of the ratio of Infosys Technologies Ltd works out at 0.23times with the coefficient of variation of 20.74%.

(3) Employee Cost / Human Resources Value (%):

The employees cost in Infosys Technologies Ltd has showed increasing trend throughout the period of study. It was Rs. 1118 crore in 2001-02 which was increased to Rs. 14856 crore in 2010-11. The percentage of employees cost to human resource value fluctuated between 9 percent and 16.1 percent. The ten years average cost of employees to Infosys Technologies Ltd works out at 11.65 percent with the coefficient of variation of 15.22%.

(4) Value-added / Human Resources Value (ratio):

The table 1 shows that the value added of Infosys Technologies Ltd had also showed increasing trend throughout the period of study. It increased from Rs. 2239 crore in 2001-02 to Rs. 25031 crore in 2010-11. The ratio of value-added to value of human resources ranged between 0.15 times and 0.29 times having an average value of 0.2times.

(5) Return on Human Resources Value (%):

It is observed from the table that the net profit of Infosys Technologies Ltd had showed increasing trend during the period of study. It was Rs. 808 crore in 2001-02 which was increased to Rs. 6823 crore in 2010-11. But the return on human resources value has showed decreasing trend and decreased from 9.2 percent in 2002-03 to 5.1 percent in 2010-11 during the period of study. The ten years average return on human resource value of Infosys Technologies Ltd works out at 6.33 percent with the coefficient of variation of 21.96%.

CONCLUSION

Human resource accounting provides information about the value of human assets, which helps the top management to take decisions regarding the adequacy of human resources. The concept of human resource accounting is yet to gain momentum in India. The Companies Act, 1956 does not explicitly provide for disclosure on human assets in the financial statements of the companies. But sensing the benefits derived from valuing and reporting the human assets, many companies have voluntarily disclosed all relevant information in their books. For the betterment of the organizations, it is necessary to evaluate the worth of human resources in a systematic manner and record the information related to them in the financial statement of the organization to communicate their worth time to time to the users of the financial statement. The HRA concept itself represents a new way of thinking about people as assets. It has a great potential for future organization to understand the value of human forces and the same should mentioned in the financial statements.

REFERENCES

- [1]. Bhat,V.P. (2000, January 13). India: Towards transparency and uniformity. Businessline. Chennai, 1.
- [2]. Brummet, R.L., Flamholtz, E.G. & Pyle, W.C. (1968a, April). Human resource measurement: A challenge for accountants. Accounting Review, 217- 224.
- [3]. Brummet, R.L., Flamholtz, E.G. & Pyle, W.C. (1968b, March). Accounting for human resources. Michigan Business Review, 20-25.
- [4]. Jaggi, B., and S. Lau. (1974, April). Toward a Model for Human Resource Valuation. The Accounting Review, 321- 29.
- [5]. Lev, B., & Schwartz, A. (1971, January): On the Use of the Economic Concept of Human Capital in Financial Statements, Accounting Review, 103-112.

- [6]. Parameswaram R., and Jothi K. (2005). "Human Resource Accounting", Accounting, January pp. 867-874.
- [7]. Patra R., Khatik, S.K., & Kolhe, M. (2003): Human resource accounting policies and practices: A case study of Bharat Heavy Electricals Limited, Bhopal, India.
- [8]. Rensis Likert and David G. Bowers (1969). "Organization Theory and Human Resources Accounting", Psychologist, Vol. 24, pp. 582-592.
- [9]. Schwarz, J.L., & Murphy, R. E. (2008) Human capital metrics: An approach to teaching Using data and metrics to design and evaluate management practices. Journal of Management Education 32 (2), 164.
- [10]. Shalini Sharma and Shukla, R. K. (2010). "Application of Human Resource Accounting in Heavy Industries", S-JPSET: Vol. 1, Issue 2.
- [11]. Singh M. (2008). "Human Resource Accounting Challenge for Accountant, Shodh Samiksha aur Mulyankan, International Research Journal, November.
- [12]. Subbarao, A.V., & Zehgal, D. (1997): Human resources information and disclosure in annual reports: An international comparison. Journal of Human Resource Costing and Accounting, 2 (2), 53-73