

Impact of Measuring and Reporting Human Resource on Investment Decisions in Sri Lanka

Ahesha Perera⁺

Faculty of Commerce, Lincoln University
Canterbury, New Zealand

Abstract. The success or failure of every organization is based on effective utilization of the enterprise's resources. Since employees are one of the most important assets of any organization, measuring and reporting information about employees in financial statements will be beneficial to the external users of such statements. This study attempts to examine the effect of measuring and reporting human resource information (MRHRI) on investors' share acquisition and disposal decisions. This study was carried out among 37 corporate investors who invest in commercial banks registered under CSE by using the random sampling method. A self-administered questionnaire was used for collecting data from the corporate investors. The findings revealed that there is significance difference between MRHRI and corporate investor's stock acquisition decisions (0.000) and disposal decisions (0.024).

Keywords: Human Assets, Human Resource Information, Financial, Non-Financial, Knowledge, Investment Decision

1. Introduction

In current globalized and competitive business world, it has been identified that a skilled workforce is paramount to the success of an organization. They bringing the ideas and concepts which leads value creation through strategic innovations (Edvinsson & Sullivan, 1996). But, accounting did not pay much attention to obtaining and reporting information about human assets until mid-1970s (Report of the committee on Accounting for Human Resources, 1974; Tomassini, 1977). According to the traditional point of view, human assets are excluded by users of financial statements because of various reasons. The Committee on Accounting for Human Resource (CAHR) has pointed out that '*While valuable assets exist in the form of human organization, many believe that the nature of these assets is such that any attempt to quantify them may be unreliable, costly or fruitless*' (Report of the committee on Accounting for Human Resources 1973, p. 171). In contrast, there were several studies that examined the need to measure and report human assets via financial statement of companies. (Likert, 1961 & 1967, Hermanson, 1964, Hekimian and Jones, 1967, Brummet, Flamholtz, 1969 & 1971, Lev and Schwartz 1971 as cited in Hendricks, 1976, p. 295).

External parties have been demanding information on financial statements before they make decisions. Disclose each and every item in financial statements will be an additional advantage to the decision maker. Since, human assets are one of the most important assets in an organization, measuring and including information about that asset in the financial statements will be likely to be beneficial to users of financial statements. For example, because it has found that there is a positive correlation between a firm's investment in human assets and its future profitability (Brummet, Flamholtz, & Pyle, 1968), the ratio of human assets to total assets may be useful for investors to predict the future profitability of an organization. In addition, external users may gain knowledge relating to employee morale, customer satisfaction, product quality, and reputation of an organization.

2. Measuring and Reporting Human Resources and Investors decisions

In any organization human element is the most important input. The success or failure of an organization depends on its human assets. At present more than ever before, the processes of human resource management are facing a complex and rapidly changing environment (Tang, 2005). In order to reflect the true value of an organization and to make the standard accounting ratios more meaningful, there is a need to

⁺ Ahesha Perera- 00640220637270
ahesha.perera@lincolnuni.ac.nz

represent the asset value of intangibles (Sheedy-Gohil, 1996). Human resource is considered as one such intangible asset that required to be measured and reported (Johanson et al., 1998). “Reporting about the value of an organization is more and more attached to the value of the personnel resources (human resources/human assets) (Gebauer, 2003). At the same time, measuring and reporting HRI is also a scaling tool that generates and reports quantitative control information about the contribution of human assets for promoting industrial productivity. It can help management by taking many vital decisions relating to selection, lay-offs, transfers, training, promotion etc. (Batra, 1996). Organizational psychologists such as Rensis Likert (1967) assumed that people are a valuable organizational resource and he proposed that the financial utility of different activities in the field of Human Resource Management which ought to be measured (Flamholtz et al. 2002, Grojer and Johanson 1998b).

Measuring and reporting HRI can relate to two perspectives i.e. Management control and Capital market. (Johanson, U., & Grojer, E.,1998). As mentioned by Johanson & Grojer in 1998, MRHRI contribute significant higher value to the capital market presently than ten years back. According to the efficient market hypotheses even if a changing accounting procedures and figures should not affect investor decisions (share prices), new information changing judge risk and future cash flow ought to do it. But Hanson in 1997 compared share prices of high dependent companies (knowledge intensive companies) with companies which are less dependent on human capital. According to his study, Hanson revealed that an increasing dependence on human resources is followed by a rise in abnormal returns. Finally, he suggests that investors need accounting information on human assets to help improve investment decisions. Hanson, 1997; cited by Johanson, U., & Grojer, E.,1998) Thus, it can be assumed that HRI will have a significant impact on stock market decisions.

3. Aims and Objectives

A 1: To examine the effect of measuring and reporting of HRI on investment decisions.

A 2: To examine the effect of knowledge towards MRHRI on investment decisions.

This study answered for following research questions to achieve above aims.

RQ 1: Does MRHRI influence the decisions of investors who invest in shares of commercial banks in Sri Lanka?

RQ 2: Does knowledge towards MRHRI influence on investment decisions.

4. Significance of the research

It has appears to be widespread interest in developing concepts and systems for measuring and reporting human resources especially in globally. But a broader discussion on effect of measuring and reporting human resource information on investment decisions is deficient in developing nation like Sri Lanka. Especially, knowledge towards measuring and reporting human resource information is largely ignored by prior research. Further, studies on focusing financial and non-financial classification of human resource information also deficient in prior studies. Therefore, this study fills the gap in theory being an original contribution to the field of HRA.

Traditional thinking pattern of the investors was to analyze the financial performance of the company using information in published financial statements. Perhaps, it may not contain all relevant information such as management changes, skills of the employees, employee turnover etc. Therefore, findings of the study will give an insight as to what extent measuring and reporting of human resource information influence on investment decision. Hence, investors could be able to see beyond the traditional measurers of firm financial performances.

5. Research method

5.1. Conceptual Framework

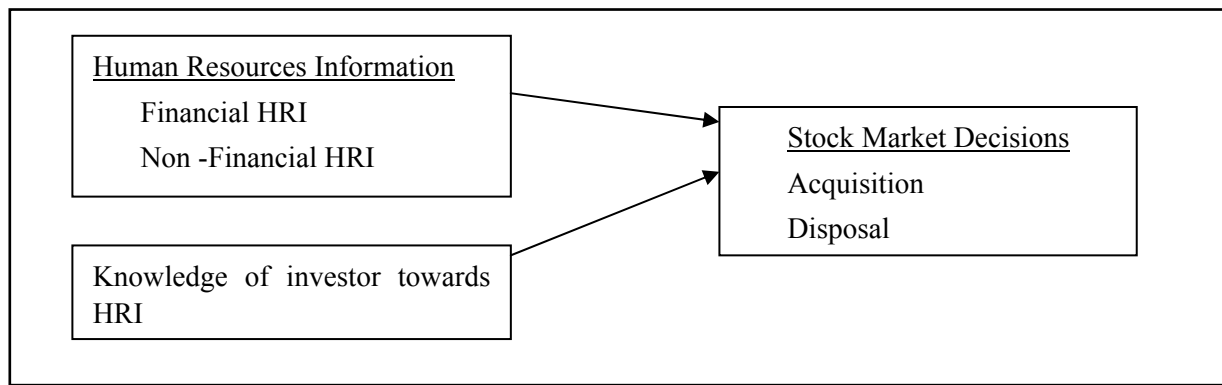


Fig. 5.1: Conceptual framework

5.2. Hypotheses

- $H1_A$. There is a significant relationship between measuring & reporting human resource information and corporate investor's stock acquisition decisions.
 1. There is a significant relationship between measuring & reporting FHRI and corporate investor's stock acquisition decisions.
 2. There is a significant relationship between measuring & reporting NFHRI and corporate investor's stock acquisition decisions.
- $H2_A$. There is a significant relationship between measuring and reporting human resources information and corporate investor's stock disposals decisions.
 1. There is a significant relationship between measuring & reporting FHRI and corporate investor's stock disposal decisions.
 2. There is a significant relationship between measuring & reporting NFHRI and corporate investor's stock disposal decisions.
- $H3_A$. There is a significant relationship between knowledge towards measuring and reporting HRI and corporate investor's stock acquisition decisions.
- $H4_A$. There is a significant relationship between knowledge towards measuring and reporting HRI and corporate investor's stock disposals decisions.
- $H5_A$. There is a significant relationship between measuring and reporting HRI, knowledge towards measuring and reporting HRI and corporate investor's stock acquisition decisions.
- $H6_A$. There is a significant relationship between measuring and reporting HRI, knowledge towards measuring and reporting HRI and corporate investor's stock disposals decisions.

5.3. Sample of the Study and Data Collection

The population of this study was listed companies in Sri Lanka and currently, there are 284 companies representing 20 business sectors. Out of 284 companies, only six Commercial banks are listed in the CSE. This study considered all Commercial banks such as (1) Commercial Bank of Ceylon Ltd (2) Hatton National Bank Ltd (3) Nations Trust Bank Ltd (4) Pan Asia Banking Corporation Ltd (5) Sampath Bank Ltd and, (6) Seylan Bank Ltd. For select the sample, study has been used corporate investors who selected among 'Top 20 registered shareholders' of six commercial banks registered under CSE. For this purpose, researcher eliminated common corporate investors and individual investors from the list of 'Top 20 registered share holders'. Random sampling was used to select sample elements from the list of 'Top 20 registered share holders' of all commercial banks.

6. Findings of the Study

6.1. Descriptive Data Analysis

According to the findings, only 23% of respondents believed that measuring and reporting HRI is 'Highly important' to make their investment decisions. 42% indicated that it is important and 24% believe that is 'Neutral' factor to the investment decision. Further 9% and 2% of respondents indicated measuring and reporting HRI are 'Not Important' and 'Not Highly Important' in order to make the investment decisions.

Accordingly, more than 60% of respondents prefer to use measured and reported HRI published in the financial statements of companies.

6.2. Hypotheses Testing

Table 6.1: Regression analysis

Hypotheses	R	R ²	Adjusted R ²	Standard error of the estimate	F Value	Significance
H1: 1	.419	.176	.152	.497	7.47	.010(a)
H1 :2	.628	.394	.377	.426	22.76	.000(a)
H2 :1	.357	.127	.103	.685	5.11	.030(a)
H2 :2	.274	.075	.049	.705	2.85	.100(a)
H3	.806	.650	.640	.324	64.96	.000(a)
H4	.436	.190	.167	.660	8.22	.007(a)
H5	.838	.702	.675	.308	25.91	.000(a)
H6	.495	.245	.177	.656	3.57	.024(a)

According to the table 6.1, 15.2%, 37.7% and 64% of the variation in Investors decision to acquire stocks was explained by associate variable of FHRI, NFHRI and KIHRI respectively. At the same time only a small margin of errors, $e = .497, .426$ and $.324$ are involved in the regression lines. Further, F -test revealed a relative magnitude of the regression (explained by the regression) and the residual (unexplained by the regression), $F(1, 35) = 7.47, 22.76$ and 64.96 . Table 6.1 reveals the significance is 0.010, 0.000 and 0.000 which is lower than 0.05. Accordingly, null hypotheses will be rejected. So it can be said that there are significant relationships between each variables FHRI, NFHRI and KIHRI on corporate investor's stock acquisition decisions at a significant level of 0.05.

According to the table 6.1, 10.3% and 16.7% of the variation in investor's decision to disposal of the stocks was explained by associating the variable with FHRI and KIHRI respectively. At the same time regression lines involved small margin of error that is $e = .685$ and $.660$. Further, F -test revealed a relative magnitude of the regression (explained by the regression) and the residual (unexplained by the regression), $F(1, 35) = 5.11$ and 8.22 . Table 6.1 indicates that the significance is 0.030 and 0.007 which is lower than 0.05. Accordingly, there is a significant relationship between each variable FHRI and KIHRI on corporate investor's stock disposal decisions at a significant level of 0.05.

Only 4.9 % variation in Investors decision to disposal of the stocks was explained by associating the variable with NFHRI. As per the table 1, the significance is 0.100, which is higher than 0.05. Accordingly, it can be said that there is no significant relationship between NFHRI and corporate investor's stock disposal decisions at a significant level of 0.05.

70.2% of the variation in investor's decision to acquire the stocks and 24.5% of the variation in investor's decision to dispose the stocks were explained by all three variables – FHRI, NFHRI and KIHRI. Findings suggested that there is a significant relationship between variables FHRI, NFHRI, KIHRI and corporate investor's stock acquisition decisions (0.000) and stock disposal decisions (0.024).

7. Discussion

According to the hypotheses tested, there is a significant relationship among variables, non-financial human resources information and investor's stock acquisition decisions (0.000) and stock disposals decisions (sig. 0.024). These findings go in line with the findings of the Hendricks (1976), Elias (1972), Okwy & Christopher (2010) and Schwan (1976). Carper (2000) expressed that certain information are important to investor's to make decisions and therefore, need to be included in the annual report of the organizations. However, none of these articles differentiate human resource information into financial and non-financial categories and consider all information under "human resource information".

Knowledge of the investor is paramount in this study, since, no prior studies found in this regard. Certain articles pointed out the back ground variables related to knowledge towards measuring and reporting human resource information. Those variables are familiarity with human assets accounting, business experience, level of education, recency of education, accounting professional courses completed (Elias, 1972) and number of courses completed in accountancy and finance, employment status, the extent to which advising investors or evaluating stock is part of the job, number of stock transaction completed, the number of human assets articles read, and the number of human assets accounting lectures or class meetings attended (Hendricks, 1976). At the same time, importance of studying ‘knowledge regarding measuring and reporting human resource information’ highlighted by Johanson ,1996)

8. Conclusions

This study was carried out to answer the question of “Does measuring and reporting of human resource information influence the decisions of investors who invest in shares of commercial banks in Sri Lanka? Researcher considered two underline independent variables i.e. human resources information, and knowledge of the investor towards measuring and reporting human resources information. Findings of the study revealed that measuring and reporting human resources information influence corporate investor’s for the acquisition and disposal of shares (stocks) of banking sector in Sri Lanka. But, in the case of influence of non-financial human resources information to the corporate investor’s for the disposal of shares (stocks) of the banking sector in Sri Lanka did not imitate same finding. According to the empirical results, measuring and reporting of non-financial human resource information did not influence the corporate investor’s for the disposal of shares (stocks) from the banking sector in Sri Lanka.

9. Reference

- [1] Batra, G. S. (1996). Human resource auditing as a tool of human resource valuation: interface and emerging practices. *Managerial Auditing Journal*, 11(8), 213-230.
- [2] Brummet, R. L., Flamholtz, E. G., & Pyle, W. C. (1968). Human resource management-A challenge for accountants. *The accounting review*, 43(2), 217-224.
- [3] Carper, W. B. (2000). Harmonization of international accounting standards: the urgent need for improved accounting for human resources and the environment. In U. o. Dundee (Chair), Symposium conducted at the meeting of the 5th alternative perspectives on finance conference, Scotland.
- [4] Edvinsson, L., & Sullivan, P. (1996). Developing a Model for Managing Intellectual Capital. *European Management Journal*, 14(4), 356-364.
- [5] Elias, N. (1972). The effects of human asset statements on the investment decision: An experiment. *Journal of accounting research*, 10, 215-233.
- [6] Gebauer, M. (2003). *Human Resource Accounting: Measuring the Value of Human Assets and the Need for Information management*. University of Witten, Germany.
- [7] Gröjer, J. E., & Johanson, U. (1998). Current development in human resource accounting: reality present - researchers absent? *Accounting, Auditing & Accountability Journal*, 11(4), 495-505.
- [8] Hendricks, J. A. (1976). The impact of human resource accounting information on stock investment decisions: An empirical study. *The accounting review*, 51(2), 292-305.
- [9] Johanson, U. (1999). Why the concept of human resource costing and accounting does not work: A lesson from seven Swedish cases. *Personnel Review*, 28(1), 91-107.
- [10] Okwy, O. P., & Christopher, C. O. (2010). Human Capital Accounting and its Relevance to Stock Investment Decisions in Nigeria. *European Journal of Economics, Finance and Administrative Sciences*, 21.
- [11] . *Report of the committee on Accounting for Human Resources* (1973).
- [12] . *Report of the committee on Accounting for Human Resources*. (1974).
- [13] Schwan, E. S. (1976). The effects of human resource accounting data on financial decisions: an empirical test. *Accounting, Organizations and Society*, 1, 219-237.
- [14] Sheedy-Gohil, K. (1996). Putting the asset value of skills on the balance sheet. *Managerial Auditing Journal*, 11(7), 16-20.
- [15] Tang, T. (2005). Human Resource Replacement Cost: Measures and Usefulness. *Cost Engineering*, 47(4), 14-21.
- [16] Tomassini, L. A. (1977). Assessing the impact of human resource accounting: An experimental study of managerial decision preferences. *The accounting review*, 52(4), 904-914.