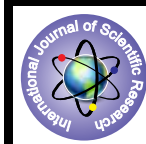


## Evaluation of Human Resource Accounting Practices in Infosys



## Accounting

**KEYWORDS:** Evaluation, Human Resource Accounting, Disclosures and Annual Reports

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### ABSTRACT

*In the era of knowledge and technology, only those organisations can survive and succeed which have adequate information about the cost, value and performance of their human resources. This information is the basis of effective management of human elements in any organisation. With a view to provide significant information about effective human resource management, a new and specialized branch of accounting has been deliberately developed by the scholars popularity known as human resource accounting (HRA). An attempt has been made in this paper to evaluate the HRA practices of Infosys technology limited (ITL) as well as its usefulness in HR decision. The evaluation of Human Assets of Infosys is based on the present value of the future earnings of the employees. The data used in the study has been collected from the annual reports of Infosys for the years 2002-03 to 2011-12. The study will ultimately contribute to ensure the bright future of HRA in India.*

### Introduction

In the present age of knowledge driven economy the most important asset of an organisation are its human resources. Human resources are the key players in the process of production. An organization having vast physical and financial resources may find itself unable to achieve organisational objectives if it is not utilising its human resources effectively and efficiently. The success of any enterprise to a great extent depends upon the quality, caliber and character of human resource working in it.

Traditional accounting system provides information about the physical and financial resources only and not about the human elements of an organisation, which resulted into the false and unfair presentation of financial statements. This serious limitation of traditional accounting system was noticed in the late 1950s by behavioural scientists, economists and various scholars in the area of accountancy. The collective efforts of these scholars have evolved a new branch of accounting popularly known as human resource accounting (HRA).

Human Resource Accounting is defined as "the process of identifying and measuring data about human resources and communicating this information to interested parties". HRA process involves the measurement of cost incurred by companies to recruit, select, train and develop human resources.

The first attempt to value human beings in monetary terms was made by Sir William Petty (1623-1687). He treated human being as an element of Wealth. However, origin of human resource accounting is found in the work of Rensis Likert who was the first person to use the term 'human asset' in the late 1950s. This term was replaced by the term human resources by the scholars. Various methods and models developed by these scholars are broadly classified as monetary measurement methods (cost based and value based methods), non-monetary measurement methods and statistical methods.

### OBJECTIVES OF THE STUDY

- To evaluate the HRA practices adopted by Infosys Technologies Limited (ITL).
- To make analysis of the HRA data provided by ITL for evaluating its usefulness in HR decision.
- To enlist the items of human resource information which are disclosed by Infosys Technologies Limited.

### Scope of the Study

The present study is undertaken to study on Human Resource Accounting Practices in ITL. For this purpose, HRA practices followed by ITL have been examined for the financial year 2002-03 to 2011-12.

### Research Methodology

With a view to achieve the aforesaid objectives the scope of the present study is restricted to the analysis of the HRA practices of ITL for the last 10 years under four heads namely method of valuation, disclosure of HRA, form of presentation and usefulness in human resource decision. This study is based on the secondary data collected from the annual reports and websites of ITL for the accounting year 2002-03 to 2011-12. The present study will be helpful to develop the insight of HRA in various interest groups as well as to improve the HRA practices of ITL. The major limitation of this study is the lack of adequate corporate disclosure practices in India.

### Human Resource Accounting – Indian Experience

The concept of HRA was first pioneered by Public sector giant BHEL in India during the year 1974-75. The study reveals that many public and private sector enterprises are reporting HRA information in their financial statements.

Infosys technology was the first software company to value HR in India, followed by DSR software Ltd., Satyam Computers and many other leading software companies. Now a day's many other public and private sector companies are reporting HRA information in their financial statements. They are (SAIL), (ONGC), (HPCL), (CCI), (KRL), (MMTC), (NTPC), (EIL), (OIL), (HSL), (HZL), (INFOSYS).

### INFOSYS TECHNOLOGIES LIMITED

Infosys was established in 1981 by seven people with US \$ 250. In the journey of over 35 years, it has catalyzed some of the major changes that have led to India's emergence as the global destination for software service talent. Infosys has a global footprint with offices in 23 countries.

Infosys provides additional information to the shareholders in the form of Balance sheet including intangible assets, economic value added statement, human resources accounting, brand valuation, intangible asset scorecard, value added statement, and risk management report.

### Human Resource Valuation Model Adopted at Infosys

The Company follows the Lev and Schwartz model for valuing its human capital. Infosys' HRA model is based on the present value of the employee's future earnings based on the assumption that an employee's salary package included all benefits, whether direct or otherwise, earned both in India and abroad. Thus, the human resources are valued at the present value of the future earnings of the employees, discounted by the appropriate rate which the company considers equal to the cost of capital.

**Table – 1**  
**Infosys Practices of HRA in India up to March 2012**

Company	HRA Practice Followed From the Year	Valuation Model Adopted	HRA Practice Followed at Present
INFOSYS TECHNOLOGIES LIMITED	1995-96	Lev & Schwartz	Yes

Source: Annual Reports of Infosys Up to March 2012

**Table - 2**  
**Exhibit: HRA Practices of Infosys Technologies Limited during the period from 2002-03 to 2011-12 (In Crores)**

Particulars	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Employees (No.)	15356	25634	36750	52715	72241	91187	104850	113796	130820	149994
Human Resource Value	10417	21140	28334	46637	52452	98821	102133	113287	98147	125717
Discount Rate of Future Earnings of Employees (%)	16.99	14.09	13.63	12.96	14.97	13.32	12.18	10.60	11.21	4
Total Income	3623	4853	7130	9521	13893	16692	21693	22742	27501	33734
Total Employee Cost	1677	2451	3539	4801	7112	8878	11405	12093	14856	16237
Value Added	3043	4185	6053	8027	11879	14820	19073	20937	25031	30960
Net Profit After Tax	958	1243	1859	2421	3777	4470	5819	5755	6443	7986
HR Ratios										
Value of HR per Employee	0.68	0.82	0.77	0.88	0.80	1.08	0.97	1.0	0.75	0.84
Employee Cost/HR Value (%)	16.10	11.59	12.49	10.29	13.56	9.0	11.17	10.67	15.14	12.91
Total Income/HR Value (Ratio)	0.35	0.23	0.25	0.20	0.24	0.17	0.21	0.20	0.28	0.27
Value Added/HR Value (Ratio)	0.29	0.20	0.21	0.17	0.21	0.15	0.19	0.18	0.25	0.25
Return on HR Value (%)	9.20	5.88	6.56	5.19	7.20	4.52	5.70	5.08	6.56	6.35

Source: Annual Reports of Infosys during the period from 2002-03 to 2011- 12

Table – 2 clearly indicates the valuable information disclosed by Infosys Technologies Limited during the period of 10 years that the period from 2002-03 to 2011-12. It further provides the information regarding the HR Ratios disclosed by the company which is helpful to the companies and the investors for their wise decision making.

#### FINDINGS

- First Initiation: One of the first attempts to estimate the value of human resource in monetary terms was made around 1691 by Sir William Petty.
- Initiation in India: In India, the first initiative in the direction of human resource accounting and valuation came from the public sector giant BHEL from the financial year 1974-75 and INFOSYS was the first Software Company to initiate human resource valuation and reporting in India from the financial year 1995-96.
- Valuation Model: There are several models for valuation of human resources. All these models have different backgrounds and different theoretical foundations. IITL had adopted Lev & Schwartz Model.
- Division of Employees: INFOSYS divides its employees into two groups: Software Professionals and Support.
- Variables Disclosed: It was observed that IITL had disclosed

Table -1 indicates that Infosys Technologies Limited had followed HRA Practices from the year 1995-96 onwards. The valuation model adopted for valuing human resources is Lev & Schwartz Model. At present upto March, 2012 the company had followed HRA Practice. It is surprising to know from the further analysis that company had not reported Human Resource Value for the year 2012-13 and 2013-14.

employee numbers, discount rate, human resource value, total income, employee cost, value added, net profit etc. variables.

- Total Number of Employees: It was found that in the year 2002-03 the total number of employees was 15356 which increase to 149994 in 2011-12 i.e. an increase by 876.78% during the last ten years. It is clear that the number of HR in IITL is continuously increasing.
- Discount Rate: The future earnings of the employee is discounted at the cost of capital. This discount rate may be bank rate, rate of investment or cost of capital rate. The discount rate for 2002-03 is 16.99% and for 2011-12 it is 4%. It is found that discount rate is different for all ten years of the study. In the year 2011-12 the discount rate is very low, the reason is not disclosed.
- Human Resource Value: As far as HRV is concerned, it was 10417 crores in 2002-03 and it has increased to 125717 crores in 2011-12 i.e. an increase by 1106.84%. This increase in HR value to a large extent is due to decrease in discount rate used for valuation of HR under Lev & Schwartz model.
- Employee Cost: Total employee cost has increased from 1677 crores in 2002-03 to 16237 crores in 2011-12. Total employee cost has increased by 868.22% during last ten

- years. This indicates fair payment policy of the company.
- Value Added: It has increased from 3043 crores in 2002-03 to 30960 crores in 2011-12. It has increase by 917.42% in last ten years.
  - Ratios Disclosed: ITL has disclosed some human resource ratios. They are Value of HR per Employee, Employee Cost/HR Value, Total Income /HR Value, Value Added/HR Value and Return on HR Value. 2
  - It is observed from the present study that the overall performance of ITL has improved through a system of HR accounting.
  - It is shocking to know that ITL had not disclosed HRA information for the financial year 2012-13 and 2013-14. The reason for non disclosure of this information is not disclosed.

#### LIMITATIONS OF THE STUDY

- The study is limited to only one software company in India.
- This study is mainly based on secondary data from published annual reports, websites and literature. The limitations of secondary data influence the study.
- Large number of human resource valuation models being practiced the world over. However, in India most of the companies have accepted the Lev & Schwartz model for the valuation of human resources.

#### CONCLUSION

In India the conceptual thinking about valuation of human resources is still in a developing stage. It can be said that the ITL has in true sense and with sincere efforts followed HRA practices. In India, Indian companies Act 1956 have not developed any legal framework about HRA. Besides, the ASB of the ICAI neither formulated nor made mandatory any standard regarding HRA. Despite of these facts, ITL has voluntarily adopted HRA practices and disclosing HR information regularly in its annual reports. However, ITL need some more work in the reporting of compatible data about the human resource value and HR ratios so as to make HR decision more effective. ITL may become a role model in the area of HRA practices and contribute to ensure the bright future of HRA in India.

Hence, considering the great significance of HRA proper initiation should be taken by the government along with that other professional & accounting bodies both at the national & international levels for the measurement & reporting of such valuable assets.

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