

Effect of Human Resource Accounting Cues on Stock Investment Decisions: an Experimental Study



Management

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Rathi Nandkumar

Dr. Babasaheb Ambedkar Marathwada University, Aurangabad

Rolla Krishna Priya

Dr. Babasaheb Ambedkar Marathwada University, Aurangabad

ABSTRACT

Human Resource Accounting as a subject and a science has been speculative and controversial during the past seven decades; yet has been an ambitious initiative with very few studies on the theme. The current study brings to light the results of an experimental intervention, which mapped the impact of Human Resource Accounting Data on investment decisions of prospective Stock Investors. The controlled group research study has been a multi-stage experiment, wherein the HRA Data has been provided in sets, and the responses have been recorded. The study involved a stage-wise pattern of providing data. The analysis of the subject's feedback is indicative of association between HRA Cost data on investment decisions of the respondents.

INTRODUCTION

Accounting since time immemorial, and Accountancy as a practice has been primarily to keep records of the goods, and later graduated to ascertaining the worth of the valuable goods in a common index of quantification – to which the cave-carvings are a testimony. Later a specialized function of keeping scribes were in practice; who used to besides doing many other tasks, were involved in maintaining accounts. The Royal Scribes were held in high esteem as they were one of those rarest species that were literate and educated. As times passed, these specialized functionaries were also needed to keep a record of the soldiers, army-personnel, spies and like; in order to ascertain the might of the kingdom, especially during war and confrontation (Chatfield, 1974). The research in the past few decades has endeavored to validate HRA as a specialized domain of managerial functioning (Likert R. , 1958). The revolution that was ignited in the late 1960s and early 70s, withered in event of lack of empirical research and almost negligible significant on-field application of HRA models.

Very few firms spend energy in ascertaining the worth of human resources of an organization, the investments involved in it (which if reported, are mentioned as an expenditure); and finally reporting it in the Annual Report. Hence, the study makes an intervention to understand the prospective investor-psyche, on the significance of Human Resources as an indicator to organizational progress.

RESEARCH PRECEDENTS

Adam Smith, one of the early economists and proponents of Labour-led economy, asserts that the human work has to be the real measure of ascertaining the value of a commodity. At the same time Smith also supports with a statement that, though labour should be a real measure of the exchangeable value of the real commodities, yet its not the common element of estimating the value. It has been asserted that as it is challenging to compare two quantities of labour, hence for practical reasons pseudo or quasi indicators are considered to compute cost of a commodity (Smith, 2003).. An intervention of American Accounting Association was two-fold – besides conceptualizing the definition of Human Resource Accounting as ‘*the process of identifying and measuring data about human resources and communicating information to interested parties*’ (American Accounting Association, 1966), also demystified the ambiguities that prevailed on the theme; besides interstitially validating the novel concept. A recent study makes a comparative analysis of Costs of Stockholding, vide a Staff Surplus Matrix and Staff Deficit Matrix, and brings to conclusion that it shall be of added advantage to have a simulation analysis instead of crude mathematical computation – analysis of the same. A recent study in Nigeria, indicated a positive relationship between HRA reporting practices on Re-

turn on Assets (ROA) & Return on Equity (ROE) in selected organizations (Micah & Okpara, 2012); contrary to which a study criticized on almost no impact of human resources on financial indices (Wambsganss, 1985).

RESEARCH METHODS

The study intended to gather on-field evidence, on the impact of the HRA information on their investment patterns. Subjects with perceived knowledge of stock investment were selected – for which the duration of their association with stock investment(s), was taken as an indicator. The step-wise information stimuli was administered to this randomized group, followed by observations and recording of responses, during the current laboratory experiment.

Hypothesis

H_{10} – *There is no impact of HRA information on stock investment decisions.*

H_{20} – *There is no impact of data on Employee Training & Development expenditures on stock investment decisions.*

Research Design

The study included randomized segregation of the subjects into two groups – the Control Group and the Treated Group. The Control Group had to undergo the pre-test and the post-test, with data provided – was a hypothetical Annual Report of an anonymous organization; whereas the Treated Group had to record its pre-test & post-test responses, between which there were two sets of ‘treatments’ i.e. information at two-levels were shared with them. The two sets of treatments were the data on HRA and the data on Employee Training Development Expenditures, respectively. The Experimental Group were furnished information on different aspects of Organizational Accounting – Financial and HRA Data, were furnished in installments of three; and their responses for each of these stimuli were recorded. The post-test research

Subjects –

A total of 42 subjects / respondents in the current experiment were students, with background of investing in stocks. Criterion was set to involve only those subjects who have been into stock investing for a minimum of twelve-months [the problems of using Students as surrogate decision makers in accounting research (Abdel-khalik, 1974) (Copeland, Francia, & Strawser, 1973)]. The subjects were randomly segregated into two groups of 21 each, titled as Control Group and Experimental Group respectively. The Study can be pictorially represented as –

Experiment –

The two groups that were segregated, had access to two sets of data –

The Controlled Group had access to the hypothetical Financial Data alone,

Table 1 - Randomized Research Group Control Design

Group	Pre-test Response – Financial Data	Treatment – 1	Treatment - 2	Post-test Response
Controlled Group	√	Financial Data (elaborate)	None	√
Experimental Group	√	HRA Data	T&D Expenditures	√

The Experimental Study had offered two treatments / stimuli to the second group, for to encourage the internal and external validity of the experiment. Students were volunteers, from the same institutions and were randomly segregated into two groups; with every alternate student in the alphabetical order of his 'first' name, was put into experimental group; hence due randomization was ensured in the study.

The experiment was parallel administered at two different venues for the respective groups – Controlled Group and the Experimental Group, respectively. A ten-second cue was administered and their immediate responses were noted (with a two-minute response time). The Controlled Group was to undergo a pre-test and a post-test method; whereas, the Experimental Group in all had to undergo three treatments / cues, following which they had a two-minute response time, for each cue. Subjects had three alternatives, from which, they had to select the most preferred corporate, they would like to invest into – Corporate A, B & C.

Summary Statistics

As noted earlier, the chief reason of the study was to record the responses of the subjects, after the respective cues – and their impact on stock investment options at their disposal. T-Statistic was used, in order to ascertain the differential preferences of the control and the experimental group, respectively. The summary statistics could be illustrated as under in Table-2 –

Table 2 - Decision Preference Data (n = 21 each for Controlled & Exp. Group)

	Alternative	Mean	SD	T-Test	Sig.
Controlled Group	Org. A	0.38	0.27	0.32	0.014
	Org. B	0.57	0.26	3.89	
	Org. C	0.05	0.34	0.25	
Experimental Group	Org. A	0.29	0.36	1.42	0.001
	Org. B	0.71	0.36	3.57	
	Org. C	0.00	0.24	0.00	

It could be observed from the above representation at Table 2, that the preferences of the two-groups are starkly different, at a p value of <0.03. The Experimental Group exhibits higher standard deviation, with a T-test that is almost the representative of the study-group.

The Experimental Group had access to Financial Data, HRA Data and Training and Development Data of the anonymous (hypothetical) organization. Strict measures were taken to keep the data as relevant to real-life statements as possible. No extrapolation of either of the data was encouraged.

Inference –

From the responses received in the experiment, the inferences that could be drawn are –

The subjects of the Control Group, being blind to the people dimension, had responded to the preference of the organization that was financially healthy; whereas, an added information to the Experimental Group, derived a broader perspective and hence involuntary derived the success of the organization as a summation of financial and people policies of the organization,

The recognition of HRA data as a significant contributor to the performance of an organization, is an indicative of the fact that stock investors would also consider people data as an indicative for stock investments,

The stark change in response of the Experimental Group, on providing the Training and Development Data indicates, that the progression of the organization is considered to be a function of learning systems of the organization.

These indicatives are significant to understand that stock investors shall be keen enough to receive Human Resource Accounting Data while processing their investment decisions. Hence, organizations that furnish Human Resource Accounting Data shall be at a strategically advantageous position, when they furnish such data; so also, it shall also appreciate the image of the organization in the perspective of the stock investors.

CONCLUSION

The study finds that HRA data significantly affects the investment patterns of individual investors, besides making them confide into the success of the organizations. If the respondents can be taken as pseudo indicators of the real-life scenario, it can be generalized that organizations shall entail in their financial functioning, the endeavor to study and implement the investment patterns of their investors, when they are furnished HRA Data. Perhaps one of the significant avenues that corporations can strive-for is to include incremental degrees of HRA Data in their Annual Reports. These steps shall aid them to be rated as a progressive entity, besides projecting them as one of the reliable organizations to invest-in. The current study was a humble initiative to transgress in time and determine the significance of HRA data; it has been hence illustrated that even if HRA Data may not be a mandate, but furnishing which aids in decisions making of the investors.

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