HUMAN RESOURCE ACCOUNTING PRACTICES IN INFOSYS TECHNOLOGIES LTD. – AN EVALUATION

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Abstract
In the era of knowledge and technology, only those organizations can survive which have adequate information about the value and performance of their Human Resources. The greatest asset of an organization is its human assets- its people. But the money spent to recruit, hire, train and develop people has traditionally been treated as an expense, not as an investment in valued resources. Human resource accounting is an accounting technology of identifying, measuring, classifying, summarizing and reporting the data about human resources to the stakeholders for effective decision-making regarding the human resources of an organization. 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 known as human resource accounting (HRA).

An attempt has been made in this article to evaluate the HRA practices of Infosys Technology Limited (ITL) as well as its usefulness in HR decision. Some useful suggestions have also been provided to improve the HRA practices of Infosys, which will ultimately contribute to ensure the bright future of HRA in India.

Keywords:Human Resource Accounting, Accounting History, Valuation and Reporting.

1. Introduction

In the present age of knowledge-based economy the most important asset of an organization are its human resources. Human resources are the key players in the production process. An organization having huge physical and financial resources may find itself unable to achieve organizational objectives if it is not utilizing its human resources efficiently and effectively. The serious limitation of traditional accounting system was noticed in the late 1950's by the economists, behavioral scientists 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). According to the American Accounting Association's Committee on HRA, human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. Eric G. Flamholtz defines HRA as "Human Resource Accounting involves measuring the cost incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to organizations. In brief, it involves accounting for people as organizational resources for managerial as well as financial accounting purposes."

2. Evolution of Human Resource Accounting

For the first time HRA was implemented by R.G.Barry Corporation, Ohio (USA) in 1967 under the guidance of Dr. Likert and Pyle. Some special efforts had been made for the development of HRA by Schultz (1960), William C Pyle (1967), Flamholtz (1971, 1972 and 1975), Morse (1973), Lev and Schwartz (1971), Jaggi and Lau (1974) etc. Various models and methods had developed by those scholars, broadly classified as monetary measurement methods (cost based and value based methods), non-monetary measurement methods and statistical methods.

In India, several researches on HRA have been conducted by various scholars. HRA has not been introduced so far as a system in India. The Indian Companies Act, 2013, which governs the preparation of financial statements of companies in India. It is silent about the incorporation of human resources accounting in such statements and annual reports. Moreover, The Accounting Standard Board (ASB) of The Institute of Chartered Accountants of India (ICAI) neither formulated nor made mandatory any accounting standard regarding HRA. However, few companies in India have voluntarily begun to include a statement of HRA in their annual reports. A leading public enterprise Bharat Heavy Electricals Ltd. (BHEL) had introduced HRA in its annual reports of the financial year 1974-75 for the first time in India. In the subsequent years, some public sector enterprises such as Steel Authority of India Ltd. (SAIL), Oil and Natural Gas Commission (ONGC), MMTC, IOL etc. and private companies like TELCO, ACC, ITL adopted HRA practice. Recently, GAIL and HPCL had adopted this practice. The present value of future earnings model or the Lev and Schwartz model is most popular model over the other models in India. This model has been widely adopted by Indian companies, such as BHEL and Infosys.

For the computation of the value of human resource of an organization, Lev and Schwartz suggested following formula; which is widely used by most of the Indian Companies:

Where, V_T = human capital value of a person T years old.

I (t) = Person's annual earnings up to retirement.
r = discount rate specific to person.
T = retirement age

$$V_T = \sum_{t=T}^{T} \frac{I(t)}{(1+r)^{t-T}}$$

As per this formula, the value of a person can be computed only after his retirement. Moreover, it ignores the possibility of death occurring prior to retirement age. So the refined formula is stated as below:

$$E(V_T) = \sum_{t=T}^{T} P_T (t+1) \sum_{i=T}^{T} \frac{I(i)}{(1+r)^{t-T}}$$

Where E (V_T) is the expected value of a person human capital and $P_T(t)$ is the probability of a person's dying at age t and I(i) = value of a person's each possible service state or future annual earnings.

Before applying formula, all the employees of an organization are divided in accordance with the age group of employees such as unskilled, managerial staff etc. Average earning stream for different age group separately and present value for the human capital is ascertained .An assumption that employees will not make role changes during their services in the enterprise is also followed in this model.

The merit of this model is its objectivity in valuing HR value, because it depends upon the present value of future earning capacity of an employee. There are some limitations of this model. It is unrealistic assumption that employees will not change their role. Moreover, it also ignores the possibility that employees may leave the organization for reasons other than retirement and death.

3. Objectives of the Study
This study is an attempt to achieve the following objectives:
1. To evaluate the HRA practices adopted by Infosys Technology Limited (ITL).
2. To make analysis of the HRA data provided by Infosys for evaluating its usefulness in HR decision.

4. 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 Infosys for five years under four heads namely method of disclosure of HRA, method of valuation, form of presentation and usefulness in human resource decision. This study is based on secondary data collection from the annual reports and websites of Infosys for accounting year 2009-10 to 2013-14. The findings of the analysis have been abstracted with the help of mathematics. Finally, some suggestions have been made to improve the HRA practices of Infosys. The present study will be helpful for some interested groups as well as to improve the HRA practices of Infosys. The major limitation of this study is the lack of adequate corporate disclosure practices in India.

5. Infosys Technologies Limited
Infosys (Infosys Technologies Limited) has established in 1981 by seven people with US $250. In long 35 years journey, there have major changes that have led to India's emergence as the global destination for software service talent. Infosys service offering span business and technology consulting, application services, system integration, product engineering, custom software development, maintenance, reengineering independent testing and valuation services. Infosys has a global footprint with offices in 23 countries and development centers in India, China, Australia, U.K., Canada and Japan. It has employed 1, 51, 059 highly educated and skilled employees that is why, the HRA has the importance in Infosys.

6. Findings of the Study
With a view to evaluate the HRA practices of Infosys the data collected from the annual reports and website for five years have been analyzed under four major heads namely method of valuation, disclosure of HRA, form of presentation and usefulness in human resource decision-making.
   (a) Method of valuation:

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Infosys has adopted Lev and Schwartz Present Value of Future Earnings Model for valuing its human resources on the basis assumption of the followings:

(i)   The incremental earning based on group/age have been considered
(ii)   Employee compensation includes all direct and indirect benefits earned in India and abroad.
(iii)   Future earnings have been discounted at the cost of capital of 13.4%, 17.0%, 14.7%, 16.3% and 18.7% in the accounting year 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 respectively.

The Lev and Schwartz model adopted by Infosys has the merit of objectivity in the valuation of human resources. However, the limitations of this model adversely affect the correct valuation of HR in Infosys. It is a mathematically proved fact that high rate of discount lends decrease the value of HR while low discount rate present the increased valuation of HR.

(b) Disclosure of HRA:
Infosys has disclosed HR valuation in its annual report in the form of supplementary statement as well as a part of 'balance sheet including intangible assets'. However, Infosys has not got HRA data audited from the auditors.

(c) Form of Presentation:
The number and value of human resources have been shown category wise only and not age-wise. Some useful HR rations have also been shown but the depreciation or appreciation in the HR value has not been reported.

(d) Usefulness in Human Resource Decision:
The HRA data provided by Infosys include the information regarding the number, cost and value of human resources. Besides, some HR ratios have also been provided. An analysis of the information is as under:

1. It was found that in the year 2009-10 the total number of employees was 1,13,800 which increased to 1,60,405 in 2013-14 i.e. an increase of 41%. It is clear that the number of HR in Infosys is continuously increasing.
2. Total employee cost has increased form Rs. 10,610 erase in 2009-10 to Rs. 24,350 crore in 2013-14 while the cost per employee was fount Rs. 0.09 crore, Rs. 0.10 crore Rs. 0.12 crore, Rs. 0.14 crore and Rs. 0.15 crore in the accounting years 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 respectively. It is obvious that though total employee cost has increased by 129.50% during the five years, cost per employee has shown decreasing trend.
3. There is a positive high correlation between total income and total employee cost of Infosys. It indicates that the performance of human resources in Infosys is good.
4. The value of human resources in each category shows continuous increase. However, this increase in HR value, to a large extent, is due to decrease in discount rate used for valuation of HR under Lev and Schwartz model.

In short Infosys provides some useful HRA data regarding the number and cost of its human resources but the change in discount rate in each year makes HR value and HR ratio data incompatible. It misleads in the HR decision adversely.

7. Analysis of hra Practices of Infosys

As at March 31	2009-10	2010-11	2011-12	2012-13	2013-14
Employees (No.)	113800	113796	149994	156688	160405
Rate of discounting future earnings of employees	13.4%	17.0%	14.7%	16.3%	18.7%
Total Assets	22268	24677	29757	43028	52712
Total Income	22742	27501	31254	36765	44341
Net Profit after tax	5755	6443	7984	9116	10194
Value of total Assets per employee	0.196	0.217	0.198	0.275	0.329
Value of total income per employee	0.199	0.242	0.208	0.235	0.276
Value of net profit after tax per employee	0.051	0.057	0.053	0.058	0.064

Compiled from the Annual Reports of Infosys of 2009-10 to 2013-14

8. Suggestions
Some useful suggestions to improve the disclosure of HRA practices of Infosys and its usefulness in HR decision are as under:

1. Infosys should disclose the information regarding some variables like idle time, lockout and strikes, loyalty of employees etc. in the valuation of human resources.
2. Infosys should get HRA information audited so that the trustworthiness of HR data can be ensured.

3. Infosys has not disclosed the elements of employees cost such as training and development cost, induction cost etc. The elements of employee cost should be disclosed separately in various tables.
4. The ASB of the ICAI should suggest the standards for the valuation, accounting and disclosure of human resources. Besides, HRA practices should be made compulsory by the Indian Companies Act, 2013.
5. Initiatives should be taken by the government, professional bodies and scholars to develop and objective models and methods for the valuation of human resources.

9. Conclusion

Indian Companies Act 2013 has developed no legal framework about HRA. Besides, the ASB of the ICAI neither formulated nor made mandatory any standard regarding HRA. But Infosys has voluntarily adopted HRA practices and disclosing HR information regularly in its annual reports. Infosys has needed 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. Infosys may become a role model in the area of HRA practices and may contribute to ensure the bright future of HRA in India.

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