The Journal of ARSYM

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The Journal of ARSYM (JARSYM) is a refereed journal published bi-annually by the Faculty of Business Studies & Finance, Wayamba University of Sri Lanka. The aim of the JARSYM is to disseminate high-quality research findings on a variety of timely topics generated by the undergraduate and postgraduate researchers in the Wayamba University of Sri Lanka. Furthermore, it opens up avenues for the undergraduates involved in the industry to share their inventions, state-of-the-art discoveries and novel ideas. The main philosophy behind the JARSYM is to enhance the research culture within the faculty, thereby within the Wayamba University. All research articles submitted are double blind reviewed prior to publishing. Views expressed in the research articles are not the views of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka or the Editorial Board.

Aims and Scope

The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publish undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The aim of the JARSYM is to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high quality and unique research papers.

Core Principles

- ➢ Publication in the Journal of ARSYM is based upon the editorial criteria cited and the evaluation of the reviewers (each manuscript will be sent two reviewers).
- ➢ Priority is given for novelty, originality, and to the extent of contribution that would make to the particular field.

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- Banking
- Business strategies and innovations in crisis
- Disaster and crisis management
- E-commerce & business communication
- Economics
- Entrepreneurship and small business
- Finance
- Human resource management and organizational behavior
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The Impact of Human Resource Accounting on the Firm Performance; Evidence from Listed Companies in Sri Lanka

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ABSTRACT

The influence of Human Resource Accounting practices on corporate performance was the study's main concern. This study is based on secondary data gathered from annual reports of listed businesses on the Colombo Stock Exchange over two financial years, from 2019 to 2020, data was collected from 50 companies listed under 19 different sectors. Independent variable of the study was the human resource accounting practice which was measured through a Human Resource Accounting Disclosure Index (HRADI). Firm's financial performance and market performance were considered under firm performance. Financial performance was measured through Return On Assets (ROA), Return On Equity (ROE) and Earning Per Share (EPS) while the market value was measured through market value of the shares and Tobin's Q ratio. Statistical package E -Views 8 was used to analyses the data. Findings of this research revealed that there is a significant positive relationship between ROA and the Human Recourse Accounting Disclosure Index indicating that human resource accounting practices are positively impact on the firm financial performance. However, there is no relationship between human resource accounting practices and firm market performance. Findings of this study makes a significant contribution while providing empirical evidences to the human resource accounting literature which is limited in the Sri Lankan context.

Keywords: **Financial Performance, Human Resource Accounting Disclosure Index, Human Resource Accounting, Market Performance,**

1. INTRODUCTION

Human Resource Accounting (HRA) information of an organization is one of the important factors to decision-makers in an era of a knowledge-based economy. As a result, each organization takes a serious attempt to disclose its HRA information to inside and outside decision-makers (Micah et al., 2012). Organizational overall performance depended on the efficiency and effectiveness of the human capital. Accordingly, it is important to retain talented and skillful human assets in the organization. To retain talented employees in the organization, they have to spend on human resources. But without proper plan spending on human capital is worthless. Thus, Human Resource Accounting is important to identify information about the cost and value of the human resource.

There are some empirical findings on human resource accounting. Omodero et al. (2016) found that the positive effect of Personnel Benefit Costs on Profitability affirms that progressive growth in Human Resource development could have strong positive trade-off effects on the financial performance of firms. However, Chathurika & De Silva (2019) found that the overall financial performance and human resource accounting disclosure have a negative relationship and the reason may be the lower level of practicing human resource accounting. According to Chathurika & De Silva (2019) although there are much research studies in accounting filed in Sri Lanka, there is a huge research gap in human resource accounting field compared to the world. Therefore, the objective of this study is to identify the impact of human resource accounting on firms' financial and market performance of Sri Lankan listed companies. Human Resource Accounting Disclosure Index (HRADI) has been used to measure the human resource accounting disclosures. Findings of the study will help to enhance the knowledge of importance of the human resource accounting regarding firm's financial and market performance. Finally, it will lead to motivate organizations to active participation and involvement in this field of human resource accounting.

2. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Agency Theory

According to agency theory, one of the most important responsibilities of human resource accounting is to coordinate agents' remuneration with the needs of the principal. The principal owner employs the agent or manager to provide a service on behalf of the principal under a contract defining pay for accomplishing desired objectives. The agent was given work by the principal because the agent possesses specialized knowledge and abilities, and the principal expects the agent to execute in a way that maximizes stockholder wealth and satisfaction. On the other hand, management of other people's money cannot be expected to protect it with the same zeal as the owner. Then, if both partners are utility maximizers, there's a significant chance the agent will not always act in the principal's best interests. It is assumed that the agent is opportunistic and pursues personal interests that are unlikely to be identical to, and frequently incompatible with, those of the principal. When the interests, objectives, and risk preferences of agents and principals vary, the outcome is the so-called agency problem, as well as the necessary expenditures to solve it, which are referred to as agency costs. The agency dilemma arises because the principal and the agent have opposed goals and the principal is unable to assess if the agent has performed appropriately. Because the principal has imperfect data with which to evaluate the agent, there is asymmetric information in this scenario. In other words, the agent has far more information than the principal regarding the principal's attributes, judgments, and actions, making it easier for him to act in his interests at the expense of the investors (Vokic, 2016).

2.1.2. Concept of Human Resource Accounting

According to the American Accounting Association's Committee on Human Resource Accounting, Human Resource Accounting is nothing but "the process

of identifying and measuring data related to human resource and communicating this information to interested parties". From this definition, we could recognize that HRA is not only involved in the measurement of data related to placement, training and development of employees but also involved in the evaluation of the financial condition of people in an organization (Cherian & Farouq, 2013).

Human Resource Accounting has three main roles; to provide organizations with information about the cost and value of human resources, to provide a framework to guide human resource decision making and to motivate decision-makers to adopt a human resources perspective (Bullen , 2010). The historical cost of human resources is the investment in human resources which has both Revenue (expense) and Capital (asset) components. This cost may be classified as Acquisition Cost; Training (Development) Cost; Welfare Cost; and Health and Safety Costs. Except that the capital employed efficiency has a significantly positive effect on the market value of firms, their empirical results failed to find any strong association between the three-value added efficiency components and the three dependent variables. Their empirical results, however, merit more research on the role of intellectual capital in emerging economies, because different technological advances across areas of emerging economies may have different IC and firms' market value implications for intellectual capital in creating firm value and enhancing financial performance (Chen et al., 2005).

2.2 Empirical Review

Maditinos et al. (2011) investigated how intellectual capital affects a company's market worth and financial performance using data of 96 Greek companies listed in the Athens Stock Exchange (ASE) for the period 2006 to 2008. Findings of the study confirms a statistically significant link between human capital efficiency and financial performance. (Maditinos et al., 2011). Khan (2021) investigated the iimpact of human resource accounting on organizations' financial performance in the context of SMEs based on SME firms in Saudi Arabia. Researcher has identified various elements of organizations' financial aspects, such as human capital efficiency, organization profitability, return on asset, and return on equity. Results has revealed that successful human resource accounting implementation and practices result in significant positive changes in financial performance of firms.

Michael (2013) comparatively analyzes the Human Resource Accounting Disclosure Practices in Nigerian Financial Service and Manufacturing companies. A human resource accounting disclosure index was developed. The study found that banking companies' human resource accounting disclosure index is higher than manufacturing companies, however the difference is not statistically significant. Furthermore, there is a positive relationship between human resource accounting disclosure and the size of the organization. Oladele et al. (2016) investigated the impact of human resource accounting disclosure on the financial performance of selected Nigerian listed companies. An index was used to measure the human resource accounting disclosure. Financial performance was proxies by company profitability, firm size, financial leverage, and industry type. Study's population consists of 188 manufacturing and non-manufacturing firms listed in the Nigerian Stock Exchange. Study

suggested that listed companies adopt a culture of capitalizing and disclosing all human resource expenditures to increase their efficiency. Yetunde Sylvi et al. (2019) analyzed the influence of human resource accounting on the performance of Nigerian firms for the period 2012–2016. Results indicate that both gross employee costs and training and development costs have a significant positive impact on oil and gas company performance in Nigeria, although health and safety costs have no significant impact on company performance. This study concluded human resource accounting had a positive significant impact on firms' performance and as a result of this research, it was recommended that firms invest more in employee training and development and that a unified standard for identifying and measuring human capital assets be established.

3. METHODOLOGY

The study's main objective was to look into the impact of human resource accounting disclosure on a company's financial and market performance. Secondary data was gathered from the annual reports of the 50 companies listed on the Colombo Stock Exchange over two years' period from 2019 to 2020. An index was used to measure the level of human resource accounting disclosures which consists of 30 disclosure criteria. Each of these criteria are evaluated independently and assign them 1 and 0 based on whether it is disclosed or not. If given criteria disclosed successfully it received a score of 1 whereas if no information relating to particular criteria, the undisclosed criteria get value 0. Thereafter the index was calculated by the total score obtained by individual firms multiply by 100 divides by the total score obtainable (Michael, 2013). Return on the asset, return on equity, and earnings per share were used to assess financial performance. Tobin's Q ratio and Share Price were used to assess market performance. Descriptive analysis was performed to explain the variable by displaying the mean, median, minimum and maximum values, as well as the standard deviation of all dependent and independent variables. The influence of human resource accounting on firm performance was then explored using correlation and regression techniques. Using EVIEWS 8 statistical package and Microsoft Excel collected data had been analyzed.

3.2 Conceptual Framework

The conceptual framework demonstrates the connection between the research's primary variables. Human resource accounting was the independent variable and financial performance and market performance were the dependent variables. Financial performance was measured using Return on Asset (ROA), Return on Equity (ROE), and Earnings per Share (EPS), whereas market performance was examined using Tobin's Q and Share Price. Firm size is considered as the control variable. The conceptual framework is illustrated as follows;

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┌─────────────────────┐                    ┌─────────────────────┐
│    INDEPENDENT       │                    │     DEPENDENT        │
│     VARIABLE         │                    │     VARIABLES        │
├─────────────────────┤     ■■■■■▶         ├─────────────────────┤
│      Human           │                    │ Financial Performance│
│     Resource         │                    │      ▪ ROA           │
│    Accounting        │                    │      ▪ ROE           │
└─────────────────────┘                    │      ▪ EPS           │
                                            │                      │
┌─────────────────────┐                    │ Market Performance   │
│     CONTROL          │                    │                      │
│     VARIABLE         │                    │      ▪ Tobin's Q     │
├─────────────────────┤     ■■■■■▶         │      ▪ Share Price   │
│      Firm Size       │                    │                      │
└─────────────────────┘                    └─────────────────────┘
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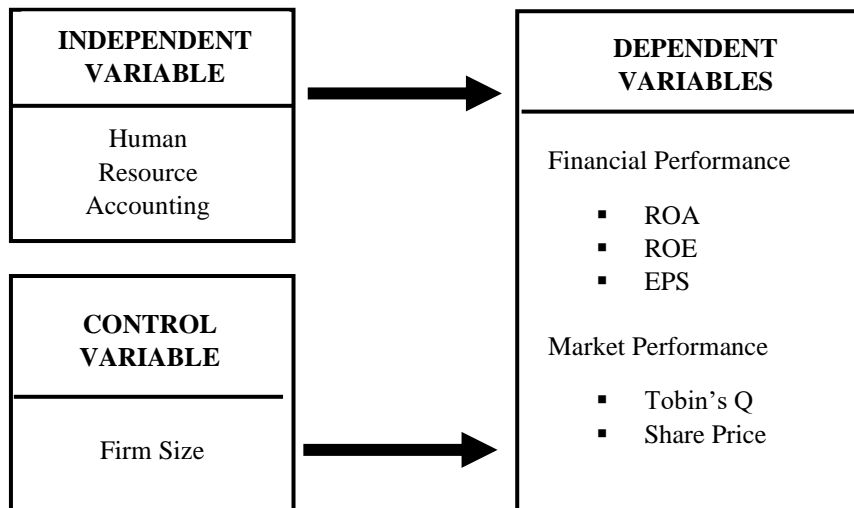
Figure 1: Conceptual Framework

3.4 Hypotheses Development

The hypotheses used for the study are as follows;

H_1: There is a significant relationship between Human Resource Accounting Disclosures and Return on Asset.

H_2: There is a significant relationship between Human Resource Accounting Disclosures and Return on Equity

H_3: There is a significant relationship between Human Resource Accounting Disclosures and Earnings per Share

H_4: There is a significant relationship between Human Resource Accounting Disclosures and Tobin's Q

H_5: There is a significant relationship between Human Resource Accounting Disclosures and Share Price.

3.5 Model development

Financial Performance $= \alpha + \beta_1 \text{ HRADI} + \beta_2 \text{F SIZE} + \varepsilon$

Market Value $= \alpha + \beta_1 \text{ HRADI} + \beta_2 \text{F SIZE} + \varepsilon$

α	=	Intercept
β	=	Regression Correlation
HRADI	=	Human Resource Accounting Disclosure Index
F SIZE	=	Firm Size
ε	=	Error Term

4. RESULTS AND DISCUSSION

The researcher primarily focuses on the impact of human resource accounting disclosures and firm's performance. Descriptive statistics, correlation analysis and regression analysis were performed to achieve the research objectives.

4.1 Descriptive Statistics

In descriptive statistics method assist describe and comprehend the characteristics of a certain data collection by providing summaries of the sample and data measurements. The mean, median are instances of averages, whereas standard deviation is an instance of variability metrics. Furthermore, this descriptive result demonstrates an overall picture of data and information.

Table 1: Descriptive statistic

	HRADI	EPS	ROA	ROE	Tobin's Q	Share price
Mean	0.653	27.670	0.008	0.018	1.444	439.780
Median	0.667	3.920	0.022	0.074	0.662	31.700
Maximum	0.933	999.170	0.243	0.629	18.509	14900.000
Minimum	0.300	-278.630	-1.693	-2.145	-0.068	1.800
Std. Dev.	0.131	125.230	0.186	0.364	2.942	2096.427

The descriptive statistics of collected data was presented in table 1. Human resource accounting index has a 30 percent minimum and a 93 percent maximum. Furthermore, the minimum figure denotes the lowest level of companies who have disclosed human resource information in their annual reports. The maximum value is the greatest amount of human resource accounting data that the company has disclosed. It means that the maximum disclosure value among the 50 companies in the sample is 93 percent. And it shows the average amount of human resource information 66%.

When considering other variables which can be identified as dependent variables has provided an overall picture of the company's data. In EPS, it shows, the mean value of 27.668. The standard deviation is 125.229, according to the data. The minimum value of -278.634 is the lowest EPS recorded within the sample used in this study, while the maximum value of 999.170 represents the highest value among the organizations. Maximum EPS can be determined among the sample companies as the highest income per share. Furthermore, the lowest EPS shows the EPS' lowest value. Based on the average amount of EPS provided by all companies, which is based on statistical data, the average amount of EPS is 3.92.

ROA can be identified as the second main dependent variable of this study. It shows, the mean value of 0.008. The standard deviation of 0.186 and The minimum value of -1.693 denotes the lowest ROA recorded within the sample used in this study, while the maximum value of 0.243 indicates the highest value among the firms. Maximum ROA can be determined among the sample companies with a high return on assets. Furthermore, the smallest amount indicates the ROA's minimum value. Based on the average amount of ROA provided by all companies, which is based on statistical data, the average amount of ROA is 0.022.

The third dependent variable used to evaluate financial success in this study is ROE, which has a mean value of 0.018. The standard deviation of this variable is 0.364. This variable has a maximum value of 0.629. It means that the maximum Return on Equity among out of 50 companies is 0.629. And a minimum value of -2.145, which is a negative number. The average ROE is 0.074.

Tobin's Q, which has a mean value of 1.444, is another key dependent variable used in this study to determine market success. The standard deviation of this variable is 2.942. This variable's average is 0.662. This variable has a maximum value of 18.508 and a minimum value of -0.068, which is a negative number.

The fifth one among the dependent variables is share price. It utilized in this study to assess market success is share price, which has a mean value of 439.780. The value of this variable's standard deviation is 2096.427. It contains an average value of 31.7000. The greatest value stated for this variable is 14900.00, and the minimum value stated for this variable is 1.800.

5.2 Correlation Analysis

Correlation Analysis is a statistical tool for determining whether or not two variables/datasets have a link and how strong that relationship is. In the context of market research, correlation analysis is used to examine quantitative data collected through research methods such as surveys to determine whether there are any noteworthy links, patterns, or trends between the two. Correlation analysis is a technique for detecting trends in data sets. (Flexmr, 2019).

Table 2: Correlation Analysis

	EPS	ROA	ROE	Tobin's Q	share price	HRADI
EPS	1.000					
ROA	0.146	1.000				
ROE	0.080	0.153	1.000			
Tobin's Q	-0.034	0.108	0.053	1.000		
Share price	0.136	0.019	0.026	0.102	1.000	
HRADI	0.085	0.217	0.069	-0.157	-0.199	1.000

Table 2 represented that, the strength of the relationship between the dependent and independent variables. In this study, HRADI was an independent variable and other variables which are known as EPS, ROA, ROE, Tobin's Q and share price were dependent variables. Here HRADI and EPS represent 0.084 coefficient of correlation and it can be identified as a very weak positive relationship between HRADI and EPS. The value of the correlation varies between +1 and -1 in terms of the strength of the relationship. A value of 1 show that the two variables are perfectly related. There EPS & HRADI have a value less than 1. Because of that, it indicates a weak relationship. Furthermore, ROA represents a 0.217 coefficient of correlation. It has shown a weak positive correlation between HRADI and ROA. Whenever a variable rise, another one generally increases as well, vice versa but in a shaky or unstable way. And also, ROE represents a 0.069 coefficient of correlation and it also can be identified as a very weak positive relationship between HRADI and ROE. Moreover, Tobin's Q ratio and share price represented -0.157, -0.199 correlation values respectively and both values had shown a very weak negative relationship

between Share price, Tobin's Q HRADI. Because of that relationship between two variables in which one variable increases as the other decreases, and vice versa. But in a shaky or unstable way.

5.3 Regression Analysis

Regression analysis is a statistical method for determining the relationship between variables that have a cause and effect relationship. The primary goal of regression analysis is to examine the relationship between a dependent variable and one independent variable and to create a linear relationship equation between them. Because it not only but also explains the trend and strength of a link, but also indicates the relationship's accidental effect (Uyanic & Guler, 2013) In regression analysis, it shows a statistical relationship between independent and dependent variables

5.3.1 Earning Per Share (EPS)

Table 3: Dependent variable EPS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-408.356	133.148	-3.067	0.003
HRADI	44.995	92.262	0.488	0.627
F_SIZE	17.260	5.328	3.239	0.002
R-squared	0.104	F-statistic		5.634
Adjusted R-squared	0.086	Prob(F-statistic)		0.005

EPS = - 408.356 + 44.995 HRADI + 17.260 FSIZE + ε

According to Table 3 indicates that The EPS has a t-statistic of 0.488, which is lower than 2, and a probability of 0.627, which is more than 0.05. This suggests that there is no significant relationship between human resource accounting disclosure and EPS. Furthermore, a positive t-statistic indicates that there is a positive association When HRADI increase ROE also increase and vice versa. Furthermore, when considering firm size has shown a 3.239 t- statistic value and it was greater than 2 and probability of 0.002, which is lower than 0.05. This suggests that there is a significant relationship between firm size and EPS. Furthermore, a positive t-statistic indicates that there is a positive association; when FSIZE rises, so does EPS, and vice versa.

R squared value represents the explanatory power of independent variables and dependent variables. In above table has shown, EPS change by 10% as a result of HRADI.

5.3.2 Return on Assets (ROA)

Table 4: Dependent variable ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.447	0.202	-2.210	0.030
HRADI	0.284	0.140	2.029	0.045
F_SIZE	0.284	0.008	1.412	0.161
R-squared	0.066	F-statistic		3.446
Adjusted R-squared	0.047	Prob(F-statistic)		0.036

ROA = -0.447 + 0.284 HRADI + 0.284 FSIZE + ε

Table 4 indicates that the dependent variable which can be identified as ROA describes 2.029 of t- statistic value and it was greater than 2 and, probability 0.045, which is lower than 0.05. This suggests that there is a significant relationship between human resource accounting disclosure and ROA. Because it was significant at probability value (0.05). Furthermore, a positive t-statistic indicates that there is a positive association; when human resource accounting disclosure rises, so does ROA, and vice versa. Furthermore, when considering firm size has shown a 1.412 t- statistic value and it was lower than 2 and probability of 0.161, which is greater than 0.05. This suggests that there is no significant relationship between firm size and ROA. Furthermore, a positive t-statistic indicates that there is a positive association; when FSIZE increase ROA value also increase vice versa. This is the only significant variable that had been a positive relationship between index and ROA, among other dependent variables.

R squared value represents the explanatory power of independent variables and dependent variables. In above table has shown, ROA changes by 6% as a result of index.

5.3.3 Return on Equity (ROE)

Table 5: Dependent variable ROE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.064	0.408	-0.156	0.877
HRADI	-0.064	0.283	0.686	0.494
F_SIZE	-0.002	0.016	-0.118	0.907
R-squared	0.005	F-statistic		0.236
Adjusted R-squared	-0.016	Prob(F-statistic)		0.790

ROE = -0.064 - 0.064 HRADI - 0.002 FSIZE + ε

According to the above table 5 indicates that The ROE has a t-statistic of 0.686, which is lower than 2, and a probability of 0.494, which is more than 0.05. This suggests that there is no significant relationship between human resource accounting disclosure and ROE. Furthermore, a positive t-statistic indicates that there is a positive association; when HRADI rises, so does ROE, and vice versa. Furthermore, when considering firm size has shown -0.118 t- statistic value and it was lower than 2 and probability of 0.907, which is greater than 0.05. This suggests that there is no significant relationship between firm size and ROE. Furthermore, a negative t-statistic indicates that there is a negative association; when FSIZE increase, EPS decrease vice versa.

R squared value represents the explanatory power of independent variables and dependent variables. In above table has shown, ROE changes by 5% as a result of HRADI.

5.3.4 Share Price

Table 6 indicates that the dependent variable which can be identified as Share Price describes -1.862 of t- statistic value and it was lower than 2 and, probability 0.066 which is greater than 0.05. This suggests that there is no significant relationship between human resource accounting disclosure and Share price. Because it was not significant at p-value (0.05). Furthermore, a

negative t-statistic indicates that there is a negative association; when HRADI rises, so does not Share Price, and vice versa. Furthermore, when considering firm size has shown a - 1.206 t- statistic value and it was lower than 2 and probability of 0.231, which is greater than 0.05. This suggests that there is no significant relationship between firm size and Share price. Furthermore, a negative t-statistic indicates that there is a negative association; when FSIZE increase, Share price decrease vice versa.

Table 6: Dependent variable Share Price

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4974.324	2290.483	2.172	0.032
HRADI	-2954.637	1587.144	-1.862	0.066
F_SIZE	-110.537	91.655	-1.206	0.231
R-squared	0.0540	F-statistic		2.767
Adjusted R-squared	0.0345	Prob(F-statistic)		0.068

Share Price = 4974.324 - 2954.637 HRADI - 110.537 FSIZE + ε

R squared value represents the explanatory power of independent variables and dependent variables. In above table has shown, Share Price change by 5% as a result of HRADI.

5.3.5 Tobin's Q ratio

Table 7: Dependent variable Tobin's Q

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.572	3.254	0.483	0.630
HRADI	-3.720	2.255	-1.650	0.102
F_SIZE	0.098	0.130	0.750	0.455
R-squared	0.030	F-statistic		1.516
Adjusted R-squared	0.010	Prob(F-statistic)		0.225

Tobin's Q = 1.572 -3.720 HRADI + 0.098 FSIZE + ε

Table 7 indicates that the dependent variable which can be identified as Tobin's Q Ratio describes -1.650 of t- statistic value and it was lower than 2 and, probability 0.102 which is greater than 0.05. This suggests that there is no significant relationship between human resource accounting disclosure and Tobin's Q Ratio. Because it is not significant at p-value (0.05). Furthermore, a negative t-statistic indicates that there is a negative association; when HRADI rises, so does not Tobin's Q and vice versa. Furthermore, when considering firm size, has shown 0.750 t- statistic value and it was lower than 2 and probability of 0.455, which is greater than 0.05. This suggests that there is no significant relationship between firm size and Tobin's Q. Furthermore, a positive t-statistic indicates that there is a positive association; when FSIZE rises, so does Tobin's Q, and vice versa. R squared value represents the explanatory power of independent variables and dependent variables. In above table has shown, Tobin's Q changes by 3% as a result of HRADI.

6. CONCLUSION

The objective of the present study was to look into the impact of Human Resource Disclosures procedures on a company's performance. The response to this issue is that overall Human Recourse Accounting Disclosures and financial performance have a significant positive relationship. Because the ROA and the Human Recourse Accounting Disclosure Index have a strong positive relationship. As a result, Human Recourse Accounting Disclosures have an impact on the firm's financial performance. However, there is not any significant relationship between HRA Disclosures and market value. As a limitation this study had been used only 50 companies were listed in the CSE. If more data is acquired from the CSE's listed companies, generalizability of findings will increase. In addition, just two years were chosen for data gathering. If the data collection is done over a longer period to ensure that enough data is acquired to accurately determine the connection between variables used in this study.

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